



## ANNUAL REPORT 2015

Pražská plynárenská, a. s.,  
and The Group Pražská plynárenská, a. s.



**PRAŽSKÁ  
PLYNÁRENSKÁ**  
Spojení energií i služeb

# LOOKING THROUGH OTHERS EYES

The gas itself is invisible. That makes us even more interested in how our customers see it. What it brings to them, how it influences their lives. And how a professional photographer would approach GAS as a theme.





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This Annual Report has been prepared in accordance with Act No. 563/1991 Coll., as amended and Act No. 90/2012 Coll., the Act on Corporations as amended.

All documents and materials referred to in this Annual Report may be reviewed at the Company's Head office.

In Prague, 25 February 2016





# **STRENGTHENING OUR POSITION**

Our vision, ability to set clear goals, achieve them and invest our enthusiasm in doing so, commitment and ideas, enabled us to strengthen the position of Pražská plynárenská, a. s., in a very competitive energy market.

# INTRODUCTION

## INTRODUCTORY WORDS BY THE CHAIRMAN OF THE BOARD OF DIRECTORS

Dear ladies and gentlemen,

As I was writing this introductory statement, I naturally asked myself a question: What was the year 2015 like for Pražská plynárenská, a. s.? I quickly concluded that one answer will not be enough. In many aspects, it was indeed a rather atypical year and one needs to use different points of view to assess it.

As a start I am very pleased to say that, overall, the year was indisputably successful for Pražská plynárenská, a. s. The planned financial results have not only been met, but even exceeded. Our good position on the very competitive energy market has not only been defended, but even strengthened. For all of this, a big thanks and recognition can be given to all our employees, because they are the very heart of Pražská plynárenská, a. s. They have been able to face the frequent tough situations throughout the year, and they have done their best for their Company.

This is very important especially given that the past year was, in certain respects, a turning point and it definitely was not an easy year. In fact, it was a year full of expectations and questions: how we, a purely Municipality Company owned by the city of Prague, will fare; and whether we will be able to keep up with the ferocious competition on a highly competitive market. Certain considerations have logically followed this situation, namely whether such a Municipality Company model is viable and meaningful nowadays. Today, in hindsight, we can state that we have passed this difficult test and our good results just confirm it.

In the same breath, it must be said that we are not crossed the finish line yet. If we want to continue being successful, we still have a lot of work to do and we will have to deal with a variety of other tests, confrontations and challenges. The current environment is complex and changes continuously. However, if what does not change are our vision and our ability to set clear goals and to achieve them, and if we invest our passion, commitment and ideas in them, then I believe that the next years will also be successful for us.

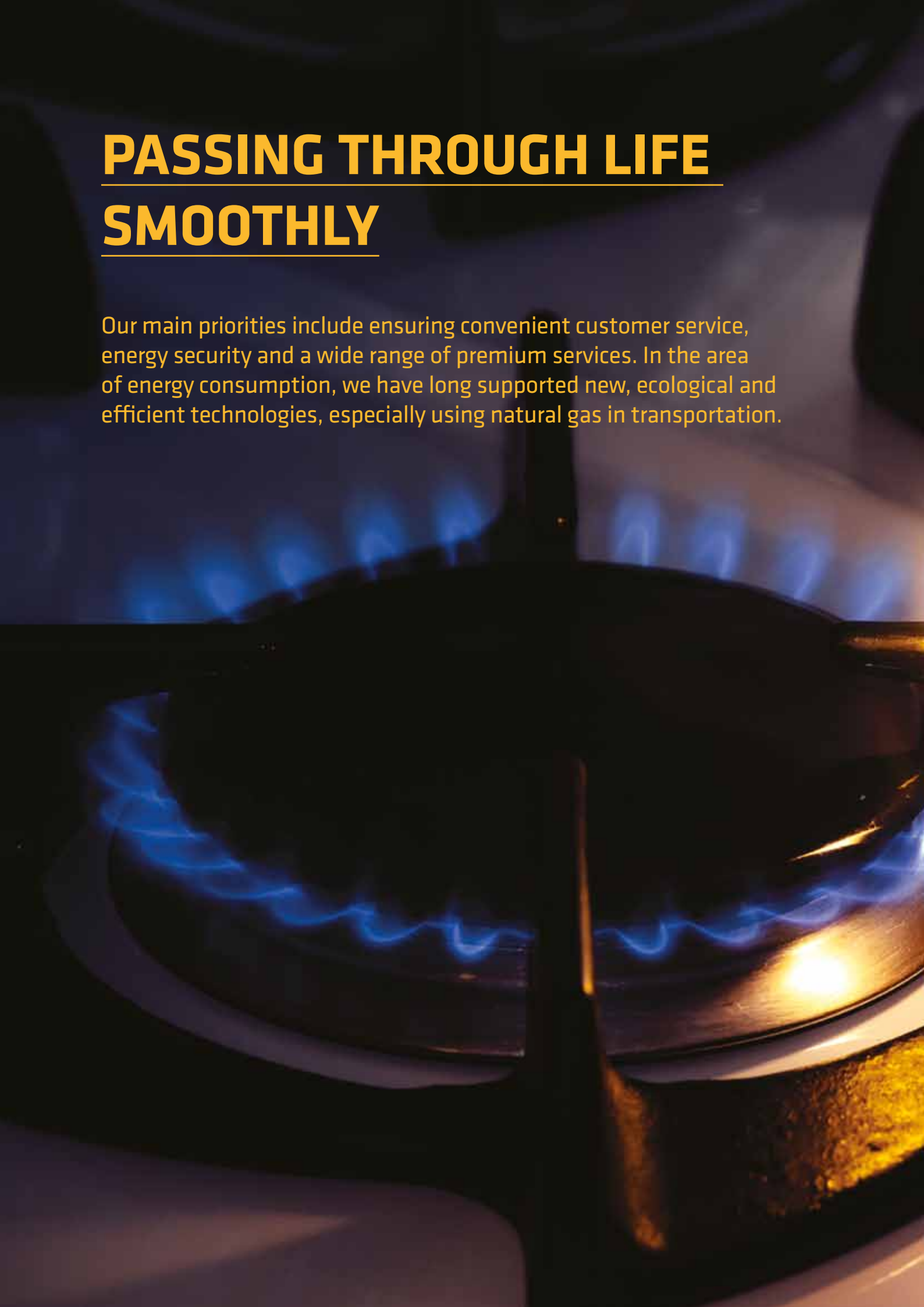


**Ing. Pavel Janeček**

Chairman of the Board of Directors

# **PASSING THROUGH LIFE** **SMOOTHLY**

Our main priorities include ensuring convenient customer service, energy security and a wide range of premium services. In the area of energy consumption, we have long supported new, ecological and efficient technologies, especially using natural gas in transportation.







## SELECTED DATA ON THE COMPANY

The information given in this chapter applies to the non-consolidated financial statements, unless stated otherwise. The standalone financial statements have been prepared in accordance with Generally Accepted Accounting Principles in the Czech Republic.

The average CZK/EUR exchange rate for 2015 was CZK/EUR 27.283 and was used for conversion of all data in the tables, including comparative information.

### BASIC INFORMATION ON THE COMPANY

<b>Business name:</b>	Pražská plynárenská, a. s. ('PP, a. s.' or 'Company')
<b>Registered office:</b>	Prague 1 – Nové Město, Národní 37/38
<b>Post code:</b>	110 00
<b>Company ID No.:</b>	601 93 492
<b>Tax ID No.:</b>	CZ60193492
<b>Entry in the Commercial Register:</b>	Municipal Court in Prague, Section B, file 2337
<b>Bank details:</b>	ČSOB, a. s. – account No.: 916780043/0300
<b>Tel.:</b>	+420 267 171 111
<b>ID data boxes:</b>	au7cgsv
<b>Business offices:</b>	<ul style="list-style-type: none"> <li>• Jungmannova 31, palác Adria, Prague 1</li> <li>• U Plynárny 500, building No. 37, Prague 4</li> <li>• Palackého třída 1931/105, Pardubice</li> </ul>
<b>Web pages:</b>	www.ppas.cz

### THE COMPANY'S PROFILE

Pražská plynárenská, a. s., traditionally belongs to the most important domestic energy suppliers and it has been a reliable energy supplier to approximately 420,000 consumption points all over the Czech Republic. It is a genuine Czech supplier for which ensuring comfortable customer service, energy security and a wide range of premium services, often unique in the Czech Republic, are the main priorities in relation to customers. The Company follows the motto, "always do a bit more than what would be sufficient" and applies it rigorously to all areas of its activities over a long period of time. Thanks to that fact, the brand Pražská plynárenská has become a holder of prestigious award Czech Business Superbrands.

In the area of energy use, the Company supports new, ecologic and effective technologies in a long-term aspect, especially the usage of natural gas in transportation.

### IMPORTANCE OF THE COMPANY AND ITS CONTRIBUTION TO THE REGION

Within the highly competitive and to the customers on the energy market, often not entirely clear and comprehensive environment, Pražská plynárenská, a. s., has been consistently and over a long-term period sharing and pursuing values, such as reliability, fairness, stability and quality of services which were often neglected in the past, and nowadays are becoming more important than ever.

The business success of Pražská plynárenská, a. s., is shared with the general public in a form of traditional and long-term support to various charitable projects and thus the Company has been actively contributing to the positive development of society.

Although today the Company is a reliable energy supplier throughout the Czech Republic, the history of Pražská plynárenská, a. s., is integrally linked to the city of Prague where the predecessor of what is today Pražská plynárenská, a. s., can be found in the form of municipal gasworks since the mid-19<sup>th</sup> century. Today it may be an exaggeration to say that it has closed an imaginary circle. Pražská plynárenská, a. s., as well as its predecessors have been owned by the Capital City of Prague since 2014. The Company has evolved over time, reflecting social changes as well as technological development. It has been repeatedly tested in various difficult circumstances in which the Company has succeeded and therefore gained valuable experience. This contributed to Pražská plynárenská, a. s., being a stable, modern and a prosperous energy company that is able to respond flexibly and rapidly to changing requests of its customers.

We reliably supply energy to almost 420 thousand offtake points all across the Czech Republic.





**BASIC ECONOMIC INDICATORS (2011 – 2015)**

			2011	2012	2013	2014 <sup>6</sup>	2015
<b>Revenues</b>		in CZK'000	9,623,710	9,335,952	8,942,537	14,221,895	15,891,270
		in EUR'000	352,737	342,189	327,770	521,273	582,461
<b>Profit before tax</b>		in CZK'000	688,568	722,292	624,908 <sup>4</sup>	812,636	771,589
		in EUR'000	25,238	26,474	22,905	29,785	28,281
<b>Profit after tax</b>		in CZK'000	659,657	672,963	582,053 <sup>4</sup>	735,471	647,051
		in EUR'000	24,178	24,666	21,334	26,957	23,716
<b>Equity</b>		in CZK'000	3,522,288	3,673,145	6,872,400 <sup>5</sup>	6,823,774	3,878,801
		in EUR'000	129,102	134,631	251,893	250,111	142,169
<b>Share capital</b>		in CZK'000 <sup>1</sup>	1,439,907	1,439,907	1,439,907	1,439,907	431,972 <sup>7</sup>
		In EUR'000	52,777	52,777	52,777	52,777	15,833
<b>Natural gas</b>	Sales <sup>2</sup>	in kWh million	8,720.5	7,354.2	6,620.1	14,380.7	17,933.8
		in m <sup>3</sup> million	825.1	696.9	624.2	1,354.5	1,684.7
	Number of off-take-points as at 31 December		431,383	417,581	403,804	397,073	393,994
<b>Electricity<sup>3</sup></b>	Sales	in kWh million	-	2.0	39.3	82.2	108.3
	Number of off-take-points as at 31 December		-	1,276	15,357	18,267	22,988

<sup>1</sup> Share capital registered in the Commercial Register.

<sup>2</sup> Volumes of natural gas measured in m<sup>3</sup> are converted into kWh using a calorific value coefficient, the value of which is obtained from NET4GAS, s. r. o., based on a monthly hand-over protocol.

<sup>3</sup> Sale of electricity began on 1 January 2012.

<sup>4</sup> In 2014 the correction was recognised in calculation of provisions to overdue receivables based on the decision of Company's management. This correction was also reflected in amounts stated for 2013.

<sup>5</sup> In 2014 the revaluation of shares in subsidiaries and associates was performed using the equity method based on the decision of Company's management. Amounts presented for 2013 were restated as if the revaluation of shares accounted for using the equity method was performed as at 1 January 2013.

<sup>6</sup> In 2014 Pražská plynárenská, a. s., and Pragoplyn, a. s., were merged.

<sup>7</sup> The sole shareholder decided to decrease share capital in amount of CZK 1,007,935,000.

**SECURITIES ISSUED AS AT 31 DECEMBER 2015**

The decrease of share capital of Pražská plynárenská, a. s., was effective on 4 March 2015 upon the registration by the Commercial Register. The share capital was decreased by CZK 1,007,934,900 to the amount of CZK 431,972,100. The reason for reducing the share capital of the Company was to optimise the capital structure in order to release available financial resources to the sole shareholder of the Company.

Type	Ordinary shares	Ordinary shares	Ordinary share
<b>Form</b>	bearer	registered	registered
<b>Nature</b>	booked securities	booked securities	booked securities
<b>Number</b>	950,338	489,568	1
<b>Nominal value</b>	CZK 300	CZK 300	CZK 300
<b>Total issue value</b>	CZK 285,101,400	CZK 146,870,400	CZK 300
<b>ISIN</b>	CZ 0005084350	CZ 0005123190	CZ 0005123208

Registered shares have limited transferability. The owner must get an approval of the Annual General Meeting for the transfer of the shares.

**OWNERSHIP STRUCTURE OF PRAŽSKÁ PLYNÁRENSKÁ, a. s., AS AT 31 DECEMBER 2015**

Pražská plynárenská, a. s., was directly controlled during the whole year 2015 by Pražská plynárenská Holding a. s. ('PPH a. s.') with the registered office: U Plynárny 500/44, Prague 4, post code 140 00, Company ID No.: 264 42 272 and indirectly controlled by the Capital City of Prague with the registered office: Mariánské nám. 2/2, Praha 1, post code 110 01.

## OWNERSHIP INTERESTS

Pražská plynárenská, a. s., has a 100% ownership interest in 5 subsidiaries:

- Pražská plynárenská Distribuce, a. s., member of the Pražská plynárenská, a. s. Group
- Pražská plynárenská Servis distribuce, a. s., member of the Pražská plynárenská, a. s. Group
- Pražská plynárenská Správa majetku, a. s., member of the Pražská plynárenská, a. s. Group
- Prometheus, energetické služby, a. s., member of the Pražská plynárenská, a. s. Group
- Informační služby – energetika, a. s.

### **Pražská plynárenská Distribuce, a. s., member of the Pražská plynárenská, a. s. Group**

Address: U Plynárny 500, Prague 4  
Company ID No.: 274 03 505  
www.ppdistribuce.cz

The joint-stock company Pražská plynárenská Distribuce, a. s., member of the Group Pražská plynárenská, a. s., ('PPD, a. s.') was founded as a subsidiary of Pražská plynárenská, a. s., on 7 December 2005. The unbundling of the gas market in the Czech Republic which became effective on 1 January 2007 was the driver for foundation of the company. Since then, PPD, a. s., possesses and operates its distribution network and offers services in the area of gas distribution as a separate legal entity. These services were provided by Pražská plynárenská, a. s., before.

PPD, a. s., has an experienced team of gas experts who have long-term practical experience with the operating and construction of gas facilities.

### **Pražská plynárenská Servis distribuce, a. s., member of the Pražská plynárenská, a. s. Group**

Address: U Plynárny 1450/2a, Prague 4  
Company ID No.: 471 16 471  
www.ppsd.cz

Pražská plynárenská Servis distribuce, a. s. is a member of the Pražská plynárenská, a. s. Group ('PPSD, a. s.'). The company was established in 2005 by a merger of Praha-Paříž Rekonstrukce, a. s. and Opravy plynárenských zařízení s. r. o. which were both subsidiaries of

Pražská plynárenská, a. s., Praha-Paříž Rekonstrukce, a. s., was the successor company which was renamed to Pražská plynárenská Servis distribuce, a. s., member of the Pražská plynárenská, a. s. Group in 2006. The successor company PPSD, a. s., merged with the yet another dissolved company Měření dodávek plynu, a. s. as at 1 November 2014.

PPSD, a. s., provides complex services in the construction, servicing, repair and maintenance of all gas facilities (pipelines, connections, control stations, measuring devices etc.) and also operates in the area of consumptin gas equipment and industrial pipelines, i.e. gas distribution systems in buildings from major closures to gas appliances. In addition, the Company is also able to ensure continuous operation of gas boilers.

PPSD, a. s., provides gas emergency service on the pipeline equipment, connections and regulating stations, consumption gas equipment and gas pipelines for households.

The Company also furnishes all gas network relating material, including the production and sale of boxes used for placing main gas caps, gas meters and regulating household equipment, respecting various combinations according to the needs of a particular customer.

### **Pražská plynárenská Správa majetku, a. s., member of the Pražská plynárenská, a. s. Group**

Address: U Plynárny 500, Prague 4  
Company ID No.: 274 36 551  
www.ppsm.cz

Pražská plynárenská Správa majetku, a. s., member of the Pražská plynárenská, a. s. Group ('PPSM, a. s.') was founded on 23 November 2005 and registered in the Commercial Register on 15 March 2006 as a limited liability company. During the year 2011, the sole shareholder PP, a. s., decided to change legal form of the company to a joint stock company. It became effective on 19 December 2011.

The main objective of PPSM, a. s., is provision of maintenance services mainly in the area of complex property management, maintenance of buildings and lands, transportation services and fleet maintenance, provision of CNG filling stations, car rental of vehicles using CNG, provision of catering, property

security, mailroom management services, energy services and inspection activities, occupational health and safety, fire protection, ecology and logistics.

### **Prometheus, energetické služby, a. s. member of the Pražská plynárenská, a. s. Group**

Address: U Plynárny 500, Prague 4  
Company ID No.: 630 72 599  
www.prometheusgas.cz

Prometheus, energetické služby, a. s., member of the Group Pražská plynárenská, a. s. ('Prometheus') is the successor company of Prometheus, energetické služby, s. r. o. On 23 August 2011, the Board of Directors of PP, a. s., on behalf of the General Meeting of Prometheus, energetické služby, s. r. o. decided to change legal form of the company.

Prometheus offers complex energy services in the area of production and heat distribution systems, construction of new sources of heat, expertise, and sales of gas appliances to the customers.

### **Informační služby – energetika, a. s.**

Address: U Plynárny 500, Prague 4  
Company ID No.: 264 20 830  
www.ise.cz

On 20 December 2000, Informační služby – energetika, a. s. ('ISE, a. s.') was originally established as a limited liability company. The company was founded by the parent company PP, a. s., to rent hardware and software, automated data processing, providing software, training and consultancy activities in the area of information technology, installation, maintenance and servicing of telecommunications equipment.

The sole shareholder PP, a. s., decided to change the legal form of Informační služby – energetika, s. r. o. to a joint stock company. The resolution of the Municipal Court in Prague on the change became legally effective on 3 January 2005.

The objective of ISE, a. s., is providing a maximum efficiency of operation of information systems while maintaining high standards of service and safety to users.

The company is specializing in complex creation of the infrastructure of information and communication technologies, implementation of information systems and ensuring their operation.

## INFORMATION ABOUT AN ORGANISATIONAL UNIT ABROAD

Pražská plynárenská, a. s., had no organizational unit abroad as at 31 December 2015.

## INFORMATION ON THE COMPANY'S BODIES AND MANAGEMENT

### General Meeting

The General Meeting is the supreme body of the Company.

### Board of Directors

The Board of Directors of PP, a. s., has four members. It is a statutory body which manages the Company's activities and acts on its behalf. The office term of the individual Board of Directors Members is five years under the Articles of Association. It acts and signs on behalf of the Company concerning third parties, before courts and other authorities to the full extent of the Board of Directors' powers, at least two of the Board of Directors' Members always act jointly in all matters.

As at 31 December 2015, the Board of Directors consisted of the following members:

- **Ing. Pavel Janeček**,  
Chairman of the Board of Directors
- **Ing. Milan Jádlovský**, Vice-Chairman  
of the Board of Directors
- **Ing. Alois Těšitel**, Member  
of the Board of Directors
- **Ing. Petr Zmátlík**, Member  
of the Board of Directors

The Board of Directors of PP, a. s., has allocated of competences of its members in accordance with Section 156, paragraph 2 of the Civil Code, as follow:

- Ing. Pavel Janeček is responsible for the Company's management,
- Ing. Milan Jádlovský is responsible for the management of the sales department,
- Ing. Alois Těšitel is responsible for the management of the strategy department,
- Ing. Petr Zmátlík is responsible for the management of the finance and administrative department.

## SUPERVISORY BOARD

The Supervisory Board of PP, a. s., is the Company's supervisory body and oversees how the Board of Directors exercises its authority; it elects and dismisses members of the Board of Directors and oversees the Company's business activities. It has nine members and the term of office of individual Members of the Supervisory Board is five years based on the Articles of Association.

On 15 April 2015, the sole shareholder of the Company, on behalf of the General Meeting, decided to recall Dr.-Ing. Milan Urban, Pavel Hurda, MUDr. Iveta Borská, Ing. Pavel Richter and Jiří Vávra from their position of the Supervisory Board Member of Pražská plynárenská, a. s. The office term of the Member Supervisory Board JUDr. Lubomíra Stojkovičová ended on 15 November 2015.

As at 31 December 2015, the Supervisory Board consisted of the following members:

- **Ing. Michal Hašek**,  
Chairman of the Supervisory Board
- **Mgr. Luboš Koželuh, MBA**,  
Vice-Chairman of the Supervisory Board
- **Bc. Martin Čáslavka**,  
Member of the Supervisory Board
- **Petr Klepáček**,  
Member of the Supervisory Board
- **Mgr. Ing. Martin Kopecký**,  
Member of the Supervisory Board
- **RNDr. Marcela Plesníková**,  
Member of the Supervisory Board
- **Ing. Marta Ptáčková**,  
Member of the Supervisory Board
- **JUDr. Štěpán Stupčuk**,  
Member of the Supervisory Board
- **Mgr. Miroslav Vránek**,  
Member of the Supervisory Board

### Information on Members of Company Bodies and Management (given in alphabetical order of surnames)

#### Bc. Martin Čáslavka – Member of the Supervisory Board

In 2004 he graduated from the Faculty of Arts Charles University in Prague in the field of sociology and adult pedagogy. He studied International Economic Relations in Industrial Property in Metropolitan University of Prague and further continues with his education in the field of Finance at the University of Economics and Management in Prague. From 2001 until 2014, he worked in

various middle and senior management positions in sales, marketing and project and process management in an international companies, such as Henkel, Absolut Company, Wrigley, Ahold and Makro & Metro. He was and still is a Member of statutory and supervisory bodies in several joint stock companies – Teplárna Liberec, a. s. (Member of Board of Directors until 2011), Správa majetkového portfolia Praha 3 a. s. (Member of Board of Directors until 2012), Pražské služby, a. s. (Member of Board of Directors until 2015), 4 Majetková, a. s. (Member of Board of Directors until 2015). He is co-founder and a member of several non-profit organizations and initiatives, e.g. Veřejnost proti korupci. He is the author of the project Prohaiti which helped to eliminate the consequences of the earthquake in Haiti in 2010. In his place of residence he is committed through the work in a non-profit organization which operates a forest nursery and environmental education centre. Since April 2015 he has been a Member of the Supervisory Board of PP, a. s.

#### Ing. Michal Hašek – Chairman of the Supervisory Board

He completed his studies at the Faculty of Mechanical Engineering at the Czech Technical University in Prague between 1982 and 1987. After graduation he worked as chief commercial officer in the Czech Trade Inspection Authority. From 1991 to 1993, he worked as a trade manager in H. Diamonds, s. r. o. From 1993 to 2001 he went in business and consulting services in modelling traffic systems as self-employed. In 2001 he started to work as a manager in Nexes, s. r. o. where he was also the statutory representative. From 2011 he went in business and consulting services in the field of railways and other transport systems as self-employed. From 2013 he worked as a Commercial and Technical Director – model and production facilities, including management and organization of deliveries of production units. From October 2014 to October 2015 he was a town councillor of the Capital City of Prague, councillor for the management of assets and shares and the chairman of the club councillors. Since 16 April 2015 he is a Member of the Supervisory Board of PP, a. s., and he became the Chairman of the Supervisory Board on 30 April.



**Ing. Milan Jadlovský – Vice-Chairman of the Board of Directors responsible for management of sales department**

He studied at VŠB – Technical University of Ostrava in the field of Entrepreneurship and Management. Since 2002 he has been gaining experience in PP, a. s., particularly in the energy sector where worked in the department of purchasing and forecasts. Two years later he became the head of strategic marketing and gas purchase and subsequently he was appointed a head of the Director General's office in 2006. In September 2007 he was appointed the director of Pragoplyn, a. s., and was also elected the Member of the Board of Directors of this company. In April 2014 he became its Chairman. He held this position until October 2014 when Pragoplyn, a. s., merged with PP, a. s. He was appointed the member of the Board of Directors of PP, a. s., in March 2014 and in April 2014 he became its Vice-Chairman. From August 2014 until October 2014, he was the Strategy Director of PP, a. s. The Board of Directors entrusted him with managing of strategy department in October 2014. He was commissioned by the Board of Directors with managing of sales department in May 2015. Within PP, a. s. Group, he also acts in the Supervisory Board of PPSD, a. s., ISE, a. s., and Prometheus, energetické služby, a. s., a member of PP, a. s. Group.

**Ing. Pavel Janeček – Chairman of the Board of Directors responsible for the Company's management**

He completed his studies at the Faculty of Electrical Engineering of the Czech Technical University in Prague between 1986 and 1991. After graduation, he worked as commercial and marketing manager in Cheming Pardubice (now known as Tractebel Suez, Belgium). Firstly he worked as deputy commercial director from September 1997 and then as a director of Karma a.s. (traditional manufacturer of gas appliances) from February 1998. From June 1998 until 2011 he worked as Management Advisor in Fég ZRt., Hungary. From 2004 to 2005 he worked for a company Pergo, Trelleborg in Sweden. He also worked as portfolio manager for Explorer Capital Investment, New York between 2004 and 2011. In October 2014 he was commissioned with managing PP, a. s. Furthermore, he also acts in several Supervisory Boards of the Group PP, a. s.

**Petr Klepáček – Member of the Supervisory Board**

After finishing studies at the Industrial high school in the field of furniture industry in 1981, he worked as a foreman in furniture production in Dřevo Měřín, v. d. During the school year 1987–1988 he worked as a warden in Stavební izolace Praha, s. p. Since 1988 he has worked in PP, a. s., including its legal predecessors. At the beginning his work consisted of technical activities including measuring and monitoring of energy consumption patterns of gas for large customers, followed by business activities aimed at negotiating contracts and reporting for large customers, and finally by leading the department from 2005. From November 2012 he worked in another entity within the PP, a. s. Group, the subsidiary Pragoplyn, a. s., performing similar work responsibilities focusing on large customers and individual services. From April 2014 to November 2014 when PP, a. s., merged with Pragoplyn, a. s. he was a member of the Board of Directors of Pragoplyn, a. s. He has several years of experience with gas trade and currently he is as the head of sales department in PP, a. s. He became the Member of the Supervisory Board of PP, a. s., in November 2015.

**Mgr. Ing. Martin Kopecký – Member of the Supervisory Board**

He graduated at Faculty of Law of Charles University in Prague in 2012. During the years 2011–2012 he earned his Certificate at Cardiff University in Great Britain in the study program of Legal studies. During his studies he worked in variety position in building savings and private companies focused on financial services. He was a leader of Prague representation of Český investiční fond (the Czech investment fund). He obtained experience from the judicial area during the internships in civil and criminal section of district courts in Prague. From 2012 to 2015 he worked as an articulated clerk at a leading international law firm and at the same time he studied for his master degree in Business and administration at The Czech University of Life Sciences Prague and graduated in 2014. After successfully passing the bar exams, he founded a private law firm in Prague in 2015. He is a long-term member of the Inspection and Revision Commission of Spolek českých právníků Všehrd (The Všehrd Association of Czech Lawyers). In 2014, he was appointed as an Alternate

counsellor of the district Prague 21 and a member of the controlling committee. In 2015, he was called in to take the vacant councillor position and he was appointed as a board member of the district. Since 2015 he has been a member of the Supervisory Board of PP, a. s., Pražská vodohospodářská společnost, a. s., and Všehrd provozní, s. r. o.

**Mgr. Luboš Koželuh, MBA – Vice-chairman of the Supervisory Board**

He graduated from the Faculty of Education of the University of West Bohemia in 1987, afterwards he worked there as a university teacher until 1995. In the following 3 years, until 1998, he was a partner and an executive manager of a company specializing in financial consulting and also a manager in a company specializing in marketing and sport trading in the area of sports projects in domestic and international levels. Between 1997 and 2007 he was active in professional hockey. He was a Chief Executive Officer of Extraliga club in Plzeň since 1997 and in HC Sparta Praha since 1999. Afterwards he worked as a Chief Executive and a member of the Board of Directors in HC Sparta Praha. Since 2000 he was a member of the Executive committee of Český svaz ledního hokeje (The Czech Ice Hockey Association), a Vice-chairman of ČSLH (The Czech Ice Hockey Association) and a chief executive of Asociace profesionálních klubů ledního hokeje (Association of Professional Ice Hockey Clubs) since 2004. He became a member of management and an executive director for Business Development in Česká pošta, s. p. in 2010. Since 2013 until now, he has been a chief executive in STES a. s. In 2014, he became a member of the Supervisory Board of PPD, a. s., and a Vice-chairman of the Supervisory Board of PP, a. s., a year later. Throughout his career, he devoted to the development and partial management company with its own shares, mainly in marketing, sport, energy, real estate and agriculture.

**RNDr. Marcela Plesníková – Member of Supervisory Board**

During 1981 and 1986 she graduated at Faculty of Science Charles University in Prague where she later continued with a preparation for science education and then worked as a scholastic. From 1989 until 2001 she was on maternity leave. After that she worked as a teacher in FZŠ Mezi Školami in Prague 13 where she concentrated mainly on the topic of environmental protection. From 2008 she

was a member of the council MČ Prague 13 where she worked as a member of the Environment Committee (2008–2014) and a Vice-chairman of the Board of Directors of the Committee for Education and Training (2010–2014). In 2014, she was appointed as a deputy mayor of MČ Prague 13 and a member of the council of the Capital City of Prague where she chairs the Committee for the environment, infrastructure and technical facilities and is also a member of the Committee for Education and Training ("ZHMP"). She is a Vice-chairman of Nadační fond Cesta ke vzdělávání (Endowment fund of Way to Health) and a member of the Monitoring Committee of Operační program Praha pólrůstu ČR (the Operational program of Praha pólrůstu the Czech Republic) as well. From 2008 to 2010 she took a specialized study for coordinators of environmental education and raising of awareness which were organised by the City Hall of the Capital City of Prague. Since 2003 she has managed several projects specialized on the environmental protection, besides others a project of the Ministry of Education Youth and Sports to support environmental education and raising of awareness called Environmentální výchova, vzdělávání a osvěta v podmínkách pražské sídlištní školy (Environmental education and raising of awareness under the conditions of a Prague neighborhood school with the representation of ethnic minorities) (during the years 2009–2010). She published 28 articles in scientific and professional journals and 4 publications. Since May 2015 she has been a member of Supervisory Board of PP, a. s.

**Ing. Marta Ptáčková – Member of the Supervisory Board**

She earned her degree at the Business Faculty of the Economics University in Prague in the field of foreign trade. From 1975 to 1978, she was employed in section of municipal economy at the Czech Ministry of Finance. Between 1979 and 1988, she worked as a head of the finance department in Stavební strojírenství a lehké prefabrikace (Construction Engineering and Lightweight Prefab Products). From 1989 to 1997, she worked in Český plynárenský podnik (Czech Gas Company) – Transgas, where, from 1992, she worked in the position of deputy finance director. From 1997 to 2005, she held the post of director of the Česká plynárenská unie (Czech Gas Union). She currently works as the head of the risk monitoring and

management department in PP, a. s. She has been a Member of the Supervisory Board of PP, a. s., since January 2007. From July 2007 until 30 June 2014 she acted in statutory bodies of Pragoplyn, a. s.

**JUDr. Štěpán Stupčuk – Member of the Supervisory Board**

He studied at Faculty of Law Charles University in Prague (graduated in 2003). In 2007, he passed the rigorous examination and obtained JUDr. degree. After studies, he worked as a specialist officer and lawyer of Ministry of the Interior of the Czech Republic. Afterwards he defended the Czech Republic Litigation Arbitration at the Office of the Government Representation in Property Affairs as a barrister. Since 2005, he has been a member of ČSSD. In 2006, he was appointed as a councillor of MČ Prague 6 and in 2010, he became a deputy mayor for the area of management of municipal property and legal relations. He became a Member of Parliament of the Czech Republic in 2013. Since April 2015 he has been a member of Supervisory Board of PP, a. s.

**Ing. Alois Těšitel – Member of the Board of Directors responsible for management of strategy department**

During 1975 and 1980, he studied at the Faculty of Civil Engineering of the Czech Technical University in Prague. Immediately after the graduation, he joined Středočeské plynárny, koncernový podnik (Central Bohemia Gas Company) where he worked as a clerk. Subsequently he held there different positions and from 1993 to 2000 he acted as the Chairman of the Board of Directors and Director of Středočeská plynárenská, a. s. Then he held various managerial positions, for example as the director of operational division in Řízení letového provozu ČR or deputy managing director for trade in Česká pošta (Czech post). He was appointed member of the Board of Directors of PP, a. s., in March 2014. He was appointed a Sales Director of PP, a. s., in April 2014 and in October 2014 he was commissioned by the Board of Directors with managing of sales department in PP, a. s. He was a Member of the Board of Directors of PPH a. s. from April 2014 until 10 March 2015. On 1 May 2015 he was commissioned by the Board of Directors with managing of strategy department in PP, a. s. Within PP, a. s., Group, he also acts as the Chairman of the Board of Directors in PPSD, a. s., Prometheus, energetické služby, a. s.,

a member of PP, a. s. Group, a Member of the Board of Directors in ISE, a. s. and PPSM, a. s.

**Mgr. Miroslav Vránek – Member of Supervisory Board**

After finishing his studies at Vocational Secondary School, he worked during the years 1990 to 1991 in Elektromont Praha, a. s., Filmový podnik hl. m. Prahy, a. s. (Prague City Film Company) and Pražská energetika, a. s. (Prague Energy Company). Since 1991, he has worked in PP, a. s., as operations engineer, readings technician, readings and data verification technician, head of the readings department, head of Commercial and Technical Operations, head of the sales section, sales officer and as head of the Commercial Director's Office. He is currently working as head of communication and PR department. He has been a Member of the Supervisory Board of PP, a. s., since January 2007. During his employment he obtained a master degree in Social and Media Communication.

**Ing. Petr Zmátlík – Member of the Board of Directors responsible for management of finance and administrative department**

In 1998 he graduated from the Faculty of Civil Engineering of the Czech Technical University in Prague in the field of building and specialised module of economics and management in the construction industry. After the completion of his studies, he worked in various positions and projects within the consulting company PricewaterhouseCoopers, including two years secondment in PwC London. During his last 8 years within the consultancy, he dealt mainly with the energy and utilities sector. He led an expert committee in London and then in Prague, which focused on the field of energy and utilities within PwC. He gained the extensive knowledge in this area through managing major projects for energy groups such as British Gas, RWE, E.ON and PP, a. s. He specializes especially in commercial-strategic management, process optimization and business development. From April to October 2014 he acted as the Managing Director of PP, a. s. In October 2014 he was appointed a member of the Company's Board of Directors and commissioned to manage of the finance and administrative department. He was also the Chairman of the Board of Directors in ISE, a. s. and a Vice-Chairman of the Supervisory Board of Prometheus, energetické služby, a. s., a Member of PP, a. s. Group.

# **ENERGY IS OUR PASSION**

Changing market requirements constantly inspire us and move us forward. CNG customer cards are already used by thousands of customers.







# REPORT OF THE BOARD OF DIRECTORS ON THE BUSINESS ACTIVITY OF THE COMPANY AND ITS ASSETS

The information given in this chapter applies to the individual financial statements, unless stated otherwise. The individual financial statements have been prepared in accordance with Generally Accepted Accounting Principles in the Czech Republic.

The average CZK/EUR exchange rate for 2015 was CZK/EUR 27.283 and was used for conversion of all data in the tables, including comparative information.

## THE ENERGY INDUSTRY IN 2015

The energy sector is gradually coming through radical changes and traditional energy, as we have known so far, is gradually being transformed. The energy policy has been updated in the Czech

Republic after years of delays and hesitation. Its priorities are, among others, reducing dependence on fuel imports, increased diversification of suppliers of oil and gas, reducing the energy intensity of the economy and reducing emissions of harmful greenhouse gases. As we can see, there is a transition from fossil fuels to renewable energy sources, a transition from centralized production systems in large power supplies to decentralized systems. These changes have already been in progress and will accelerate in the future.

In the background of this process, there is an ongoing transition from the energy supplies based solely on the commodity itself to innovative products and value-added services in the energy markets. Customers are getting to be more demanding and require more than just a simple supply of gas, electricity or heat, for example they also expect all sort of

other energy-related services. Based on that, companies operating in the energy industry must reassess their existing processes and introduce fundamental changes to the well-established business models.

## INFORMATION ON THE COMPANY'S ACTIVITIES AND FINANCIAL POSITION

### INFORMATION ON THE MAIN AREAS OF ACTIVITIES

Pražská plynárenská, a. s., trades natural gas under licence No. 241218964 issued by the Energy Regulatory Office and electricity under licence No. 141015380 issued by the same authority.

## REVENUES

Year		2013	2014	2015
Sales of own products, services and goods	CZK'000	8,432,577	13,688,919	15,550,241
	EUR'000	309,078	501,738	569,961

Revenues were generated in the Czech Republic.

### Breakdown of operating revenues by activity

Type of activity (in %)	2013	2014	2015
Revenue from sale of gas*	93.0	95.1	95.2
Revenue from sale of electricity*	1.8	1.9	2.1
Other operating revenues and income	5.2	3.0	2.7

\*Licensed activity.

**CAPITAL INVESTMENTS**

	Acquisition cost	
	CZK million	EUR million
Investment expenditures in tangible fixed assets	66.1	2.4
Investment expenditures in intangible fixed assets	66.6	2.5
<b>Total</b>	<b>132.7</b>	<b>4.9</b>

The investment expenditures mentioned above reflect the cash flows, including prepayments on investments.

The investment expenditures in tangible fixed assets mainly consist of investments in construction of CNG filling stations and information technology. The investment expenditures in intangible fixed assets were focused in the area of information systems in 2015. All investments were realized in the Czech Republic.

**PROFIT BEFORE TAX**

Profit before tax (CZK million)	Actual 2015	Actual 2014	Comparison Actual 15/14
Operating profit	591.6	404.1	187.5
Profit from financing activities	180.0	408.5	(228.5)
<b>Profit before tax</b>	<b>771.6</b>	<b>812.6</b>	<b>(41.0)</b>

Profit before tax (EUR million)	Actual 2015	Actual 2014	Comparison Actual 15/14
Operating profit	21.7	14.8	6.9
Profit from financing activities	6.6	15.0	(8.4)
<b>Profit before tax</b>	<b>28.3</b>	<b>29.8</b>	<b>(1.5)</b>

**REVENUES**

Revenues (CZK million)	Actual 2015	Actual 2014	Comparison Actual 15/14
Total operating revenues	15,602.5	13,725.0	1,877.5
of which: revenues from sale of natural gas*	14,845.6	13,046.9	1,798.7
revenues from sale of electricity*	328.2	266.5	61.7
Financial income	288.8	496.9	(208.1)
<b>Total revenues and income</b>	<b>15,891.3</b>	<b>14,221.9</b>	<b>1,669.4</b>

Revenues (EUR million)	Actual 2015	Actual 2014	Comparison Actual 15/14
Total operating revenues	571.9	503.1	68.8
of which: revenues from sale of natural gas*	544.1	478.2	65.9
revenues from sale of electricity*	12.0	9.8	2.2
Financial income	10.6	18.2	(7.6)
<b>Total revenues and income</b>	<b>582.5</b>	<b>521.3</b>	<b>61.2</b>

\* Activity under licence.



## COSTS

Costs* (CZK million)	Actual 2015	Actual 2014	Comparison Actual 15/14
Total operating costs	15,010.9	13,320.9	1,690.0
of which: purchase of gas**	11,648.6	10,222.4	1,426.2
purchase of electricity**	111.1	93.6	17.5
Financial expenses	108.8	88.4	20.4
<b>Total costs and expenses</b>	<b>15,119.7</b>	<b>13,409.3</b>	<b>1,710.4</b>

Costs* (EUR million)	Actual 2015	Actual 2014	Comparison Actual 15/14
Total operating costs	550.2	488.2	62.0
of which: purchase of gas**	427.0	374.7	52.3
purchase of electricity**	4.1	3.4	0.7
Financial expenses	4.0	3.2	0.8
<b>Total costs and expenses</b>	<b>554.2</b>	<b>491.4</b>	<b>62.8</b>

\*Net of income tax on current activity.

\*\* Activity under licence without distribution fees.

## FINANCIAL SITUATION

In 2015, Pražská plynárenská, a. s., was a financially stable company. The Company paid all its liabilities within due dates (i.e. liabilities to suppliers, customers, employees and banking and state institutions).

The Company covers its financial needs from its own sources, borrowings from banks and other cash resources from the PP, a. s. Group companies and the parent company PPH, a. s., via the cash pooling scheme.

In May 2015 the refinancing of the Group PP, a. s., was completed. A new structure of credit lines of Pražská plynárenská, a. s., was established in the total amount CZK 3.5 billion and a new line for bank guarantees was opened in the total amount of CZK 0.5 billion. These new credit lines were provided by Československá obchodní banka, a. s., Česká spořitelna, a. s., UniCredit Bank Czech Republic and Slovakia, a. s., and Komerční banka, a. s. the funds from these facilities are drawn on a daily and monthly basis to enable effective management of the Company's cash flows, which are

significantly affected by seasonal fluctuations related to the purchase and sale of gas. As at 31 December 2015 the outstanding balance of loans amounted to CZK 1,256.9 million, representing a significant increase by CZK 463.1 million from 31 December 2014 (CZK 793.8 million). The increase was due to higher credit needs of Pražská plynárenská, a. s., in 2015, which was caused by refinancing.

## SUMMARY OF PROPERTY OWNED BY PP, a. s.

As at 31 December 2015 the Company owned property (land, buildings, and other structures) in the total amount of CZK 1,095.3 million at cost. Buildings include mainly the Národní 37/38 premises and the buildings of Pražská plynárenská, a. s., areal in Prague 4 – Michle. The net book value of property owned by the Company's amounted to CZK 722.2 million.

## NATURAL GAS TRADING

Natural gas trading (in mil. kWh)	2015
Purchased natural gas	18,244.8
Sale of natural gas – total	17,933.8
Sale of natural gas – licensed activity	17,910.3
Sale of CNG	23.5

The natural gas trading was under a strong pressure from competition in 2015. Market competition took place across all segments, in the forms of price and non-price competition. The result of the market environment was the pressure on realized margins and product innovation. The aim of proactive trade policy was to retain existing customer base with an emphasis on it getting more resistant against other trade license holders, as well as strengthening its position outside the Prague market.

The basic tools of market competition became product offers specifically targeted at selected customer segments and offers of other services of the Company emphasising the high quality customer care.

The achieved financial results were positively affected by active management of the purchasing portfolio and also by taking advantage of the declining purchase prices of commodities.

## ELECTRICITY TRADING

Electricity trading (in mil. kWh)	2015
Purchased electricity	108.3
Sale of electricity	108.3

The 2015 results of trading activities in the area of electricity sales were affected by the gradual increase of customer base, despite the fact that the acquisition activity was affected by increased pressure from other suppliers also in 2015. Pražská plynárenská, a. s., responded to their activities by its price offer and also expanded the portfolio of services to customers through all trade segments. In 2015, Pražská plynárenská, a. s., focused on providing energy consulting in cooperation with subsidiary Prometheus, energetické služby, a. s., member of the Group Pražská plynárenská, a. s.

The development of prices was favorable on energy exchanges in 2015. Similarly to the gas market, active management of the purchasing portfolio opened space for optimizing financial results in the area of electricity trading.

## MARKETING AND CUSTOMER CARE

### CUSTOMER CARE

Pražská plynárenská, a. s., has a long term focus on building effective communication with its customers and on offering quality and affordable services and products. Throughout the whole year business offices and contact points, mobile business offices in the peripheral locations of Prague, the customer service line, customer portal, website [www.ppas.cz](http://www.ppas.cz) and Facebook profile were available for the communication with the Company and for handling of customer needs. Customers can also use 86 Prague branches of the Czech Post (Česká

pošta, s.p.) for dealing with the most common issues associated with the natural gas supply. Since 14 September 2015 customers could be acquainted with the services of Pražská plynárenská, a. s., at 11 branches in East Bohemia and at 5 branches in South Moravia where through a contact form they could contact dealers of PP, a. s., who would prepare special offers for natural gas and electricity supplies.

The Company assisted its customers in case of unexpected events. There is an all-year-round customer assistance service "POMOC 24" (HELP 24) available for cases of malfunction of gas appliances or related equipment. Within this service, subject to fulfilling certain conditions, the Company provided to its customers repair of gas appliances and other services free of charge or with the Company's financial participation. Throughout the whole year 2015, customers from Household category could take an advantage of the AXA Assistance card – basic program, which offers „Insurance of assistance services in household”, which includes insurance „Technical assistance”. The insurance covers the provision of indemnification to authorized person in a form of assistance services or possibly in a form of payment for work performed by a service provider, in the relevant scope and under specified conditions. Further, AXA Assistance card for insurance of assistance services were provided for housing cooperatives and associations.

In cooperation with partners, additional benefits were available to Pražská plynárenská, a. s., customers throughout the whole year, including an opportunity to acquire new gas boilers, heaters, carbon monoxide detectors or purchase CNG vehicles under favourable conditions. Naturally, there were price products and offers that the Company actively offered to different customer groups throughout the year. These for example included discounts for seniors of the age above 65 years, for disabled persons ("ZTP/P card holders"), a discount of 6.5% from the gas price for contracts concluded for a minimum period of 2 years, a discount of 11% for contracts concluded for a minimum period of 3 years; discounts of Flexi electricity products and many others.

### VEHICLES RUNNING ON COMPRESSED NATURAL GAS (CNG)

For a long period of time Pražská plynárenská, a. s., has been actively engaged in promoting the use of natural gas for vehicle propulsion (compressed natural gas, CNG) and this activity placed it between the largest CNG sellers in the Czech Republic in 2015. The use of alternative fuels in transport (compressed natural gas, CNG) was formally supported by the Government of the Czech Republic in November 2015 when it approved Národní akční plán čisté mobility (the National Action Plan for Clean Mobility).

#### Sale of CNG

Sale of CNG increased in Prague by 29 % in 2015 compared to the previous year and reached 3,138 thousand kg. In 2015 sales of CNG at Pražská plynárenská, a. s., gas stations reached 1,550 thousand kg.

#### CNG filling stations

14 CNG (compressed natural gas) public filling stations were in operation in the Capital City of Prague at the end of 2015. Pražská plynárenská, a. s., owns and operates five stations in its premises – in Michle in Prague 4, at the SHELL petrol station at Švehlova Street, Prague 10, in the Pražské služby, a. s., grounds at Pod Šancemi in Prague 9, at the Q100 petrol station in Prague 4 – Hodkovičky and at Evropská Street in Prague 6 – Liboc. At every station, customers can choose whether to pay in cash, with a credit card or with the CNG CardCentrum card. In 2015, Pražská plynárenská, a. s., was a supplier of natural gas for the next 6 CNG filling stations in Prague and two in Bohemia, owned by private companies.

In 2015, the Company started the preparation and construction of 3 new CNG filling stations – at the main depot of Czech post (Česká pošta) in Prague 10 – Malešice, at the Car centrum Dojáček in Prague 9 and at the petrol station in Mirošovice. The expansion of CNG filling stations in Michle was completed in September 2015. The output of the station increased by more than 5 times, building modifications and further fueling point enabled all kinds of CNG vehicles in this area. In October 2015, the Company signed a Letter of Intent for construction of 14 new public CNG filling stations at the MOL petrol station (9 in Prague, 5 outside of Prague) with MOL. The realization date is in years 2016–2018.



# **FLAMES OF HUMANITY**

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Pražská plynárenská, a. s., is aware of its role not only in business and in the service of its customers, but also in the environment where it operates, including society, and also the natural environment, infrastructure and cultural life. Great importance is given to social matters. The company is strongly committed to keeping its own ethical standards of transparency and moral behavior.





### CNG vehicles

160 vehicles (CNG) are currently being operated in Pražská plynárenská, a. s., and its subsidiaries, including CNG vehicles of the car rental centre. This means a growth of 25 CNG vehicles compared to 2014.

The joint project of the city of Prague, Pražské služby, a. s., and Pražská plynárenská, a. s., on the conversion of waste collection and cleaning vehicles to the compressed natural gas ones continued successfully in 2015. In 2015, Pražské služby, a. s., brought 22 delivery cars into operation in addition to the existing 85 CNG vehicles. The purchase of additional 10 – 15 CNG vehicles is planned for 2016. Municipal vehicles that run on CNG are mostly used in areas with the heaviest traffic and the most polluted environment in the city centre of Prague.

Pražská plynárenská, a. s., participates in the CNG CardCentrum single payment system used in the Czech Republic. As of 31 December 2015 Pražská plynárenská, a. s., issued 3,694 CNG loyalty cards. During the year 2015, a total 915 CNG cards were issued to new customers.

### LOYALTY PROGRAM

Customers of the Company can receive attractive discounts and benefits in different areas (e.g. travelling, sport, cultural activities, accommodation etc.) at more than 90 partners using the loyalty program of the Company „Zákaznická karta Pražské plynárenské“. Customer cards are available to customers free of charge. Owners of the cards can participate interesting competitions awarded with foreign tourists' trips, spa stays and other prizes.

Information on the ongoing discount offers and benefits are sent to customers via catalogues together with final settlement for natural gas or electricity. They are also available on the web pages of the Company along with free internet applications for mobile phones.

### SOCIAL RESPONSIBILITY

Pražská plynárenská, a. s., acknowledges its role not only in the business and services provided to its customers, but also in the environment in which

it operates, considering the society, environment, infrastructure and cultural life. That is why Pražská plynárenská, a. s., besides its business activities focuses also on supporting projects and subjects from the above mentioned areas. Among other long-term projects which the Company prefers and carefully selects, it provides short-term or one-time support if necessary.

Employees participate in charity activities and development projects in various fields. Employees at all levels of the Company hierarchy take part in one-time or recurring projects.

### Sponsoring activities and donations

Pražská plynárenská, a. s., supported a wide range of diverse projects, in the field of professional or recreational sports, arts, social or charitable activities as part of its sponsoring activities. One example for many, the Company supported top domestic football or hockey teams, theatres and other cultural institutions or social events for the general public.

### THE SMEČKY GALLERY

The Smečky Gallery has already been on Prague's cultural scene for 10 years. 49 exhibitions of major Czech artists from the field of art have been already taken place in the Gallery in 2015:

- Oldřich Hamera / Folding,
- Ladislav Novák / Alchemage,
- Josef Váchal / Josef Váchal and Prague,
- Olga a Josef Vyleťalovi / Gentle claws,
- Příběh Alšovy jihočeské galerie (The Story of Aleš's South Bohemian Gallery) / From the Gothic to Present.

The vernissages were attended by public, social and cultural life personalities, and were broadcasted via reports and trailers on TV, and on radio, articles and critiques were published in newspapers and magazines.

The exhibitions were enriched by guided tours for visitors directly in the gallery, but also commented walks through Prague with the participation of curators. The thematic discussions took place with authors of exhibited works and their guests. Level exhibitions were very positively criticised by experts from the field of art, and as well as all the lay

public. For the Smečky Gallery's time scope, it has enrolled in consciousness not only Prague's residents, but also visitors from across the country, who are repeatedly back to the gallery for high-quality cultural experiences.

### THE COMPANY MAGAZINE

The magazine "U Plynárny" was published quarterly. It was designed for current and future customers, business partners, representatives of the state and local administration, and of course employees of the Pražská plynárenská, a. s. Group. It particularly informed about current events in the Company, its services, offers, bonuses, products and activities. The individual issues of the magazine are also available on the web page [www.ppas.cz](http://www.ppas.cz).

### GAS MUSEUM

Since 1999, Pražská plynárenská, a. s., operates the only museum in the Czech Republic devoted to the gas industry at its Michle premises. It is located in one of the historical technology buildings of the former Michle gas plant, it contributes to the spread of gas education and is a sought object for visits of elementary and secondary schools, professionals, foreigners and ordinary citizens, who are interested in history in general and in the development of technology and energetics. It informs visitors on the history and development of the Czech and world gas industry, since its beginnings to present. The Museum is divided into a number of sections – from extraction and production of gas to its use for a wide variety of purposes. Originals and models of various gas industry and gas facilities, also historic gas appliances and historical documents – catalogues, publications, and photographs can be found here. The attractions of the museum include the reconstructed model of Michle gas plant in 1937 at a scale of 1:100.

In 2015 a worldwide unique exhibition „Historical Gas irons and mangles“ continued with more than 70 exhibits. In June 2015, Gas museum was part of Pražské muzejní noci (Prague Museum Night) for the first time in its history. Almost 400 visitors visited the museum at the night event. The Gas museum cooperated with town districts, e.g.

Prague 8 on joint exhibition of Libeňský plynojem (Gasometer of Libeň), (September – October 2015), and with others Municipal entities, e.g. Muzeum hlavního města Prahy (The City of Prague Museum), (lending historical gas exhibit to Rothmarova villa) or Galerie hlavního města Prahy (Prague City Gallery), (vycházky „Od kandelábru ke kandelábru“ (Walks ‘from Lamppost to Lamppost’) – December 2015). In 2015, the museum's collection was enriched by a number of historical documents and exhibits.

## COOPERATION WITH OTHER ENERGY COMPANIES

Throughout the year the Company cooperated with manufacturers and vendors of gas appliances, service providers, vendors of CNG cars and other entities, in order to ensure favourable conditions for goods, products and services for customers of Pražská plynárenská, a. s.

Pražská plynárenská, a. s., cooperated with the ERO, in particular in preparing inputs for the amendment of the guidance on gas legislation on the rules of the gas market and in carrying out the Office's administrative activities. The traditionally close cooperation with the Czech Gas Association continued. The Czech Gas Association is an independent association of firms and specialists operating in the gas industry and related sectors.

## INFORMATION TECHNOLOGY

One of the main information technology's goals in 2015 was to support business strategy of the Company. The information technology was able to flexibly respond to changes on energy market and to implement business process using information systems of the Company.

The integral part of the strategy of information technology is to ensure secure operation of the systems, quality control and data protection which was

confirmed by obtaining the certificate on Information security.

In the business area, the Company successfully implemented a new information system used for electricity trading.

In the area of improving internal processes, the Company strengthened the information infrastructure and began to work on the support of internal communication and streamlining of the approval processes.

The business model of the Company also includes securing customer self-service. Customers can use the customer portal, which is constantly being enhanced so that a convenient communication between customers and the Company is ensured.

The vision of the information strategy is producing a firm information platform which will effectively respond to all business opportunities, legislative requirements and support intern process of the Company used by modern tools.

## HUMAN RESOURCES MANAGEMENT

### THE PERSONNEL AND SOCIAL FIELD

As at 31 December 2015, Pražská plynárenská, a. s., employed 314 employees, out of which 70 were men and 244 women.

In the area of social work, emphasis was placed on preventive health care. Employees participated in regular health checks according to their employment status. All employees were offered vaccinations against influenza and, some groups of employees were also offered vaccinations against viral hepatitis types A and B.

With the aim to improve relationships with employees on maternity or parental leave, a web portal is operated, which is partially connected with the Company's intranet offering useful information to these employees.

As in previous years, the Group organised pre-Christmas party for its former

employees and also St. Nicholas party for children of its employees.

### COLLECTIVE BARGAINING

Labour, wages and other entitlements of Pražská plynárenská, a. s., employees were satisfied in line with the collective agreement that was valid from 1 February 2015 to 31 January 2017. In the employment law area, employees took, for example, an additional week of holidays in addition to what is required by the Labour Code and took advantage of the catering facilities provided by the employer.

### SAFETY AND HEALTH PROTECTION AT WORK AND FIRE PROTECTION

Ensuring of health and safety at work and fire protection are the integral and important part of managing Pražská plynárenská, a. s.

The internal controls acts of Pražská plynárenská, a. s., related to Occupational safety and health and Fire protection are regularly updated according to relevant legal standards and they ensure compliance of the employment relationship between employer and employee.

Due to the consistent application and enforcement of internal controls acts and through preventive measures and regular inspections of premises and workplaces of Pražská plynárenská, a. s., the potential adverse impacts of work activities on health and safety of workers are eliminated or minimized. In 2015, the number of work accidents decreased to only one. Even this one did not require any sick leave.

In 2015, there were 45 inspections of health and safety performed in Pražská plynárenská, a. s. Group. The inspections aimed at compliance with safety and fire conditions in the workplace and in all other areas and transport roads within Pražská plynárenská, a. s., premises in Prague 4 – Michle. The findings arising from the inspections were remediated within the given deadlines and subsequently, measures were introduced to mitigate the same findings in the future.

No faults during performance of state technical supervision provided by Regional Labour Inspectorate, Fire Rescue Service and SIBP UNIOS in the area of safety and health protection at work and fire protection were identified. A high level of safety and health protection at work and fire protection, such as system processing and the implementation in practice, were confirmed by supervision authorities.

## ENVIRONMENT

The environment policy of Pražská plynárenská, a. s., is focused on achieving further improvements in the quality of the environment as a whole and also all its components, applying principles of sustainable development, economic effectiveness and social acceptability of environmental programs, projects and activities. Pražská plynárenská, a. s., as a member of European Union, emphasizes the fulfillment of obligations resulting from approved environmental legislation of EU.

Expansion of activities connected with the wider use of natural gas in a very wide range of areas and technical measures for the economy means that Pražská plynárenská, a. s., aids protection of the atmosphere in energy generation. Compared with other fossil fuels, burning of natural gas significantly reduces the pollution of atmosphere from emissions of greenhouse gases.

The main emphasis in the area of waste management of the Company is put on the precautionary attitude which eliminates contamination before its inception by choosing the appropriate procedures. The cost, raw material and energy savings are achieved by systematic environmental education and upbringing by e-learning which are part of Pražská plynárenská, a. s., politics. As a result waste decreased by 44 % from 2009 to the end of 2015.

In the issue of prevention of serious accidents caused by dangerous chemical substances and mixtures, the Company focused on filling station compressed natural gas for vehicles with compressed natural gas.

The environmental burden supervened between 1926 and 1975 have been successively removed in cooperation with Ministry of the Environment of the Czech Republic. Ministry of Finance of the Czech Republic has paid incurred costs of environmental liabilities of the Company. In 2015, the negotiation about completion remediation of the last contaminated area in Pražská plynárenská, a. s., in Prague 4 – Michle continued with Ministry of Finance of the Czech Republic and Ministry of the Environment of the Czech Republic. Elimination of environmental burden in Pražská plynárenská, a. s., were not included in the priorities plan of Ministry of Finance of the Czech Republic for the year 2015. In 2016 the Company will negotiate about the next process of the removing environmental burden and its including in the priorities plan with both Ministries.

## RISK MANAGEMENT IN PP, a. s.

Pražská plynárenská, a. s., maintains a complex risk management system. This includes identifying risks at all levels of management, their regular evaluation and ensures the timely reaction of the Company aiming to eliminate risk exposure. Part of the risk management is the insurance strategy, which secures the property and Company's liability at risk situations.

## INFORMATION ON RESEARCH POLICY AND THE DEVELOPMENT OF NEW PRODUCTS OR PROCEDURES IN THE CURRENT ACCOUNTING PERIOD

Pražská plynárenská, a. s., did not perform research or development of new products or procedures.

Pražská plynárenská, a.s., is focused on improving the quality of the environment as a whole and in all ways.





# REPORT ON BUSINESS ACTIVITIES OF THE PRAŽSKÁ PLYNÁRENSKÁ, a. s. GROUP

The information given in this chapter applies to the consolidated financial statements, unless stated otherwise. Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards as adopted by EU.

The average CZK/EUR exchange rate for 2015 was CZK/EUR 27.283 and was used for conversion of all data in the tables, including comparative information.

## DATA ON THE GROUP'S ACTIVITIES AND FINANCIAL POSITION

The Pražská plynárenská, a. s. Group, ('PP', a. s. Group' or 'the Group') consists of the parent company Pražská plynárenská, a. s., and all its subsidiaries:

- Pražská plynárenská Distribuce, a. s., member of the Pražská plynárenská, a. s. Group ('PPD, a. s.')
- Pražská plynárenská Servis distribuce, a. s., member of the Pražská plynárenská, a. s. Group ('PPSD, a. s.')
- Pražská plynárenská Správa majetku, a. s., member of the Pražská plynárenská, a. s. Group ('PPSM, a. s.')
- Prometheus, energetické služby, a. s., member of the Pražská plynárenská, a. s. Group ('Prometheus')

- Informační služby – energetika, a. s. ('ISE, a. s.')

The Group's core business activity is the sale and distribution of natural gas and sale of electricity.

### The Group also operates in the following business activities:

- construction, maintenance, service, repairs and construction of gas facilities;
- rendering services relating to researching the causes of losses of natural gas, measurement and metrology in the gas industry;
- production and distribution of heat;
- rendering services relating to information technology and the purchase and sale of hardware and software;
- rendering of services relating to management and maintenance of tangible and intangible fixed assets.

## CONSOLIDATED PROFIT BEFORE TAX

Consolidated profit before tax (CZK million)	Actual 2015	Actual 2014	Comparison Actual 15/14
Operating profit	1,162.2	883.1	279.1
Profit from financing activities	(83.5)	(32.7)	(50.8)
<b>Profit before tax</b>	<b>1,078.7</b>	<b>850.4</b>	<b>228.3</b>

Consolidated profit before tax (EUR million)	Actual 2015	Actual 2014	Comparison Actual 15/14
Operating profit	42.6	32.4	10.2
Profit from financing activities	(3.1)	(1.2)	(1.9)
<b>Profit before tax</b>	<b>39.5</b>	<b>31.2</b>	<b>8.3</b>

# CLEAN ENERGY

Gas is good for a clean environment, but it takes care of our customers comfort too. We are aware of our role not only in business and in serving our customers, but also of our responsibility for the environment where we operate.





## CONSOLIDATED REVENUES

Consolidated revenues (CZK million)	Actual 2015	Actual 2014	Comparison Actual 15/14
Total operating revenues	15,840.5	13,804.1	2,036.4
of which: revenues from sale of natural gas*	15,226.5	13,231.9	1,994.7
revenues from sale of electricity*	327.9	266.4	61.5
Financial income	60.7	55.7	5.0
<b>Total revenues and income</b>	<b>15,901.2</b>	<b>13,859.8</b>	<b>2,041.4</b>

Consolidated revenues (EUR million)	Actual 2015	Actual 2014	Comparison Actual 15/14
Total operating revenues	580.6	506.0	74.6
of which: revenues from sale of natural gas*	558.1	485.0	73.1
revenues from sale of electricity*	12.0	9.8	2.2
Financial income	2.2	2.0	0.2
<b>Total revenues and income</b>	<b>582.8</b>	<b>508.0</b>	<b>74.8</b>

\* Activity under licence.

## CONSOLIDATED COSTS

Consolidated costs* (CZK million)	Actual 2015	Actual 2014	Comparison Actual 15/14
Total operating costs	14,678.3	12,921.0	1,757.3
of which: purchase of gas**	11,885.2	10,383.3	1,501.9
purchase of electricity**	111.0	93.6	17.4
Financial expenses	144.2	88.3	55.9
<b>Total costs and expenses</b>	<b>14,822.5</b>	<b>13,009.3</b>	<b>1,813.2</b>

Consolidated costs* (EUR million)	Actual 2015	Actual 2014	Comparison Actual 15/14
Total operating costs	538.0	473.6	64.4
of which: purchase of gas**	435.6	380.6	55.0
purchase of electricity**	4.1	3.4	0.7
Financial expenses	5.3	3.2	2.1
<b>Total costs and expenses</b>	<b>543.3</b>	<b>476.8</b>	<b>66.5</b>

\* Net of income tax on current activity.

\*\* Activity under licence without distribution fees.



## FINANCIAL SITUATION

The Group covers its financial needs from its own sources and borrowing capital from banks. The available funds are centralised within the cash pooling scheme. Consolidation of funds (cash pooling) has been already used within the PP, a. s. Group since 2007. It is a tool by which PP, a. s. Group concentrates and shares its own funds and cash of all subsidiaries and the parent company PPH a. s., in order to decrease interest expenses and the whole Group indebtedness. Cash pooling also enables optimization and simplification of the Group financial management and available funds management. The financing by consolidating available funds of all companies within the Group brought savings of interest expenses in the amount of CZK 4.0 million in 2015 thanks to lower interests within cash pooling as opposed to loan financing.

In 2015, there was a financial restructure for the companies within the Group and PPH a. s. It was completed on 24 April 2015 by signing new loan agreements with consortium of banks, Pražská plynárenská, a. s., and PPH a. s.; and emission of PPD, a. s., bonds. The bonds were issued in the total amount of CZK 2.5 billion with the variable interest rate derived from PRIBOR. The maturity date of the whole bond emission is 16 May 2022. PPD, a. s., hedged the interest rate risk on the total volume of the emission by an interest rate swap. Part of the refinancing arrangement was the premature repayment of the long-term 7-years' acquisition loan which was drawn by PPH, a. s., in 2014 to purchase the PP, a. s., shares held by E.ON Czech Holding AG. In 2015. The loan was gradually paid in 2015 by PPH, a. s., leveraging the newly obtained borrowing capital from Pražská plynárenská, a. s., and PPD, a. s.

## ACTIVITIES IN THE FIELD OF RESEARCH AND DEVELOPMENT

The companies of the PP, a. s. Group did not perform research or development of new products or procedures.

## HUMAN RESOURCES MANAGEMENT

### THE PERSONNEL AND SOCIAL FIELD

As at 31 December 2015, the Group employed 760 employees.

In the area of social work, emphasis was placed on preventive health care. Employees participated in regular health checks according to their employment status. All employees were offered vaccinations against influenza and, some groups of employees were also offered vaccinations against viral hepatitis types A and B.

With the aim to improve relationships with employees on maternity or parental leave, a web portal is operated, which is partially connected with the Company's intranet offering useful information to these employees.

As in previous years, the Group organised pre-Christmas party for its former employees and also St. Nicholas party for children of its employees.

### COLLECTIVE BARGAINING

Labour, wages and other entitlements of the Group employees were satisfied in line with the collective agreement that was valid from 1 February 2015 to 31 January 2017. In the employment law area, employees took, for example, an additional week of holidays in addition to what is required by the Labour Code and took advantage of the catering facilities provided by the employer.

## RISK MANAGEMENT IN PP, a. s.

The Group maintains a complex risk management system. This includes identifying risks at all levels of management, their regular evaluation and ensures the timely reaction of the Company aiming to eliminate risk exposure. Part of the risk management is the insurance strategy, which secures the property and Company's liability at risk situations.

### FINANCIAL RISK

There is a credit risk arising to the Group as a consequence of the business conducted with VO, SO and MODOM customers. Business relationships with significant customers are rated in respect to the adherence of contractual terms and the main risk indicator is considered to be the amount of delayed payments and the length of their delays. Renewal of the business relationships especially by traders with final customers is assessed according to the historical experience and according to current business dealing with the particular subjects. Cash collection from customers for natural gas sold is encouraged partly by the system of advance payments and partly by the claims collection process.

The goal for liquidity risk management is to keep a balance between financing of operating activity and financial flexibility to meet trade payables and liabilities to creditors of the Group on time. Management of the Group minimize liquidity risk (i.e. the risk of a lack of cash to pay liabilities) by continuous ongoing management and planning of its future cash flows. Based on this detailed forecast, the Group ensures that a sufficient level of liquid cash is available to pay its liabilities. The availability of funding and the possibility of closing the market positions are important for caution management of liquidity risk.

The goal of interest rate risk management is to eliminate risk emerged from interest rate fluctuation by interest-bearing financial liabilities and receivables using its appropriate structure. The interest SWAP was entered into issued bond on the all volume bond until its maturity in 2022 to hedge interest rate risk.

Movements in exchange rates represent a risk due to the fact that the Group purchases part of the gas in foreign currency. Selection of currency in which purchases are realised is in forward purchases fully dependent on the overall commercial conditions. The Group always hedges against the exchange rate risk resulting from these purchase contracts

up to 100% of the purchased volume in the form of currency forwards at the bank. The Group actively manages this risk through monitoring foreign exchange developments and through the above management of gas purchases in foreign currency. The Group hedges itself against long-term currency risk.

The Group adopts a responsible approach to environmental protection through regular checks of compliance with all required procedures during the performance of its business activities. The environmental protection is carried out in compliance with the relevant legal standards and internal directives.

No companies of the Group had an organisational unit in abroad as at 31 December 2015.

## OTHER INFORMATION

The employee safety and health at work are ensured according to all relevant legal standards and internal management acts.

Growth and development in the heat business is one of our other goals.



## IMPORTANT EVENTS AT THE BEGINNING OF THE YEAR 2016

No events have occurred subsequent to year-end.

## EXPECTED DEVELOPMENT OF THE GROUP

Strengthening the Group's position in the energy market in the area of supply of both commodities – natural gas and energy, is the basic goal of the 2016 business policy. A key prerequisite for achieving these goals will be using long-term knowledge of the market with energies, an analysis of customers' ambitions, expectations and needs using modern forms of marketing, focus on quality of customers' services and the ability of an individual approach to customers. In following period, the significant surrounding effects, such as competitive environment, legislative regulation of the industry, economic development, the situation on the commodity's markets, security situation or continuance of the Czech crown in the intervention scheme, will have an impact on the Group's business. Timely and accurate identification of changes in the business and the ability to react quickly will be necessary to meet targets.

Purchase of surplus electricity production from renewable sources is provided by Pražská plynárenská, a. s. This step will strengthen competitiveness of the Group in the energy market and open other acquisition possibilities to strengthen market share of the Pražská plynárenská, a. s. Group. In time when the price of electricity decreases in the market and the differences between the prices of different suppliers' are not relevant, the customers' decision of the choice of supplier is influential just in quality and quantity services offered,

impeccable customer services and other special services.

Pražská plynárenská, a. s., will continue to strengthen its leadership position in sale of CNG in Prague and gradually expand its activities on the whole territory of the Czech Republic. The plan of Pražská plynárenská, a. s., is building and providing tenth stations in the market that open 5 new stations every year, according to Národní akční plán čisté mobility (National action plan for clean mobility) approved by the Government of the Czech Republic in November 2015. The plan takes into considerations 250 public CNG filling stations in the Czech Republic in 2022. Evenly distributed CNG stations network will be built in cooperation with large owners and entrepreneurs of gas stations. The Company has already contractually agreed suitable locations with many important partners.

Pražská plynárenská, a. s., as an important Municipal company, will continue to actively support and promote steps to improve quality of the environment in Prague which affected by a high degree of traffic load. The Company will establish or continue with cooperation with the companies in the city to ensure environmental and energy-saving precaution in the area of providing fleet. It will offer natural gas for public buses, post vehicles, taxis vehicles, police vehicles, waste collection vehicles, vehicles for street cleaning and supply vehicle in the territory of Prague.

The main target of PPD, a. s., in the area of management and operation of distribution system in Prague, is still ensuring reliable and safe operation of gas facilities. Emphasis will be placed mainly on the rehabilitation and recovery of gas equipment and measuring equipment. Since 1 January 2016, a new three-year regulatory period (IV. Regulatory period) has applied and in this context 'Zásady cenové regulace pro období 2016 – 2018 pro odvětví elektroenergetiky, plynárenství a pro činnosti operátora trhu v elektroenergetice a plynárenství' ('The principles of price regulation for the electricity, gas and activities of operator in electricity and gas market for the period 2016–2018) has come into force. Other targets are intensive growth and development in sales of thermal energy. Intensity growth of portfolio operated boilers which based primarily on the investment plan and presumptive acquisition activity, is crucial to achieve this goal.

The stable progression of the Group financial situation is expected during the year 2016. The state of loans in the particular terms of the year will be correspond to the season conditions of the gas offtake.

The financial needs in terms of external financing are covered by emissions of PPD, a. s., bonds from 2015 and by the credit lines of bank consortium in the amount of CZK 4.0 billion.







**FINANCIAL**

**SECTION**

- Individual Financial Statements of Pražská plynárenská, a. s., prepared in accordance with Czech accounting legislation as at 31 December 2015
- Notes to the Individual Financial Statements of Pražská plynárenská, a. s., prepared in accordance with the Czech accounting legislation as at 31 December 2015
- Consolidated Financial Statements for the group of companies controlled by Pražská plynárenská, a. s., prepared in accordance with International Financial Reporting Standards as adopted by EU as at 31 December 2015
- Notes to the Consolidated Financial Statements for the group of companies controlled by Pražská plynárenská, a. s., prepared in accordance with International Financial Reporting Standards as adopted by EU as at 31 December 2015

# INDIVIDUAL FINANCIAL STATEMENTS

## BALANCE SHEET

(in thousand Czech crowns)

Ref.			ASSETS	31. 12. 2015			31. 12. 2014
a			b	Gross	Provision	Net	Net
				1	2	3	4
			<b>TOTAL ASSETS</b>	<b>13,980,358</b>	<b>(1,721,193)</b>	<b>12,259,165</b>	<b>15,134,409</b>
<b>B.</b>			<b>Fixed assets</b>	<b>6,533,914</b>	<b>(1,383,279)</b>	<b>5,150,635</b>	<b>7,511,991</b>
<b>B.</b>	<b>I.</b>		<b>Intangible fixed assets</b>	<b>734,373</b>	<b>(637,571)</b>	<b>96,802</b>	<b>95,485</b>
B.	I.	1.	Formation expenses	101	(101)	0	0
		2.	Software	614,655	(568,754)	45,901	52,656
		3.	Royalties	11,202	(7,817)	3,385	3,948
		4.	Other intangible fixed assets	62,878	(60,899)	1,979	4,548
		5.	Intangible fixed assets in the course of construction	45,537	0	45,537	34,333
<b>B.</b>	<b>II.</b>		<b>Tangible fixed assets</b>	<b>1,635,161</b>	<b>(745,708)</b>	<b>889,453</b>	<b>875,125</b>
B.	II.	1.	Land	77,373	0	77,373	76,890
		2.	Constructions	1,017,944	(373,109)	644,835	665,432
		3.	Equipment	436,811	(368,945)	67,866	74,775
		4.	Other tangible fixed assets	38,478	(3,654)	34,824	34,409
		5.	Tangible fixed assets in the course of construction	19,058	0	19,058	23,619
		6.	Advances paid for tangible fixed assets	45,497	0	45,497	0
<b>B.</b>	<b>III.</b>		<b>Long-term investments</b>	<b>4,164,380</b>	<b>0</b>	<b>4,164,380</b>	<b>6,541,381</b>
B.	III.	1.	Investments in subsidiaries	4,164,312	0	4,164,312	6,541,379
		2.	Other long-term investments in securities	2	0	2	2
		3.	Other financial investments	66	0	66	0
<b>C.</b>			<b>Current assets</b>	<b>7,426,792</b>	<b>(337,914)</b>	<b>7,088,878</b>	<b>7,604,828</b>
<b>C.</b>	<b>I.</b>		<b>Inventories</b>	<b>1,068,222</b>	<b>0</b>	<b>1,068,222</b>	<b>965,560</b>
C.	I.	1.	Raw materials	1,067,696	0	1,067,696	965,010
		2.	Goods for resale	226	0	226	250
		3.	Advances paid for inventory	300	0	300	300
<b>C.</b>	<b>II.</b>		<b>Long-term receivables</b>	<b>17,243</b>	<b>0</b>	<b>17,243</b>	<b>3,164</b>
C.	II.	1.	Trade receivables	1,124	0	1,124	3,164
		2.	Deferred tax asset	16,119	0	16,119	0
<b>C.</b>	<b>III.</b>		<b>Short-term receivables</b>	<b>6,165,812</b>	<b>(337,914)</b>	<b>5,827,898</b>	<b>6,084,892</b>
C.	III.	1.	Trade receivables	1,029,172	(337,914)	691,258	634,546
		2.	Taxes – receivables from the state	42,960	0	42,960	86,801
		3.	Short-term advances paid	1,133,307	0	1,133,307	1,206,407
		4.	Estimated receivables	3,942,484	0	3,942,484	4,135,116
		5.	Other receivables	17,889	0	17,889	22,022
<b>C.</b>	<b>IV.</b>		<b>Financial assets</b>	<b>175,515</b>	<b>0</b>	<b>175,515</b>	<b>551,212</b>
C.	IV.	1.	Cash in hand	778	0	778	1,353
		2.	Cash at bank	174,737	0	174,737	549,859
<b>D.</b>	<b>I.</b>		<b>Prepayments and accrued income</b>	<b>19,652</b>	<b>0</b>	<b>19,652</b>	<b>17,590</b>
D.	I.	1.	Prepaid expenses	19,230	0	19,230	17,540
		2.	Accrued income	422	0	422	50

Ref.	LIABILITIES AND EQUITY		31. 12. 2015	31. 12. 2014
a	b		5	6
	TOTAL LIABILITIES AND EQUITY		12,259,165	15,134,409
A.		Equity	3,878,801	6,823,774
A. I.		Share capital	431,972	1,439,907
A. I.	1.	Share capital	431,972	1,439,907
A. II.		Capital contributions	3,213,745	3,091,424
	1.	Other capital contributions	85,435	85,406
	2.	Assets and liabilities revaluation	3,128,310	3,006,018
A. III.		Other reserves	4,033	460,517
A. III.	1.	Reserve fund	0	453,823
	2.	Statutory and other reserves	4,033	6,694
A. IV.		Retained earnings / Accumulated losses	0	1,096,455
A. IV.	1.	Retained earnings	0	1,156,650
	2.	Restatements of retained earnings	0	(60,195)
A. V.	1.	Profit / (loss) for the current period	647,051	735,471
A. V.	2.	Interim dividends paid	(418,000)	0
B.		Liabilities	8,378,793	8,310,518
B. I.		Provisions	171 701	33,911
	1.	Income tax provision	63,594	0
	2.	Other provisions	108,107	33,911
B. II.		Long-term liabilities	649	6,855
	1.	Long-term advances received	155	205
	2.	Other liabilities	494	0
	3.	Deferred tax liability	0	6,650
B. III.		Short-term liabilities	6,949,565	7,475,951
B. III.	1.	Trade payables	153,091	144,954
	2.	Liabilities – subsidiaries / controlling parties	449,202	672,098
	3.	Liabilities to shareholders	1,797	1,831
	4.	Liabilities to employees	10,681	10,373
	5.	Liabilities for social security and health insurance	6,244	6,236
	6.	Taxes and state subsidies payable	32,775	5,578
	7.	Short-term advances received	4,132,689	4,255,110
	8.	Estimated payables	2,130,895	2,338,315
	9.	Other payables	32,191	41,456
B. IV.		Bank loans & overdrafts	1,256,878	793,801
B. IV.	1.	Long-term bank loans	0	700,000
	2.	Short-term bank loans and overdrafts	1,256,878	93,801
C. I.		Accruals and deferred income	1,571	117
C. I.	1.	Accrued expenses	1,535	117
	2.	Deferred income	36	0



## INCOME STATEMENT

(in thousand Czech crowns)

Ref.	Description	Accounting period	
		2015	2014
a	b	1	2
I.	Sales of goods	1,577	2,230
A.	Cost of goods sold	1,268	1,622
+	Gross profit	309	608
II.	Sales of production	15,548,664	13,686,689
II. 1.	Sales of own products and services	15,548,664	13,686,689
B.	Cost of sales	14,408,338	12,831,787
B. 1.	Raw materials and consumables used	11,637,436	10,220,091
2.	Services	2,770,952	2,611,696
+	<b>Added value</b>	<b>1,140,585</b>	<b>855,510</b>
C.	Staff costs	257,494	293,138
C. 1.	Wages and salaries	164,314	205,173
2.	Emoluments of board members	22,209	13,883
3.	Social security and health insurance costs	62,706	65,237
4.	Other social costs	8,265	8,845
D.	Taxes and charges	7,493	13,617
E.	Depreciation and amortisation expense	107,599	116,787
III.	Sales of fixed assets and raw materials	2,128	5,627
III. 1.	Sales of fixed assets	2,128	5,627
F.	Net book value of fixed assets and raw materials sold	910	4,068
F. 1.	Net book value of fixed assets sold	910	4,068
G.	Changes in operating provisions and complex prepaid expenses	85,670	(61,829)
IV.	Other operating income	50,127	30,447
H.	Other operating expenses	142,036	121,660
*	<b>Operating result</b>	<b>591,638</b>	<b>404,143</b>
VII.	Income from long-term investments	227,646	440,780
VII. 1.	Income from investments in subsidiaries and associates	227,646	440,780
IX.	Gain on revaluation of securities and derivatives	42,990	30,762
L.	Loss on revaluation of securities and derivatives	29,314	24,738
X.	Interest income	1,426	2,361
N.	Interest expense	41,834	39,144
XI.	Other financial income	16,712	22,999
O.	Other financial expenses	37,675	24,527
*	<b>Financial result</b>	<b>179,951</b>	<b>408,493</b>
Q.	Tax on profit or loss on ordinary activities	124,538	77,165
Q. 1.	– current	147,307	42,380
2.	– deferred	(22,769)	34 785
**	<b>Profit or loss on ordinary activities after taxation</b>	<b>647,051</b>	<b>735,471</b>
***	<b>Net profit / (loss) for the financial period</b>	<b>647,051</b>	<b>735,471</b>
****	<b>Net profit / (loss) before taxation</b>	<b>771,589</b>	<b>812,636</b>

## 1. GENERAL INFORMATION

### Introductory information about the Company

<b>Name of the entity:</b>	Pražská plynárenská, a. s. (hereinafter only as “the Company”)
<b>Legal form:</b>	joint stock company
<b>Company incorporation date:</b>	31 December 1993
<b>Registered office of the entity:</b>	Národní 37/38 Prague 1 – Nové Město Postcode 110 00
<b>Company ID No.:</b>	601 93 492

### Subject of business:

The Company's core business activity is gas and electricity trading.

<b>Share capital:</b>	CZK 431,972,100
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### Composition of the Board of Directors as at 31 December 2014 and 31 December 2015 was as follows:

Ing. Pavel Janeček	Chairman of the Board of Directors
Ing. Milan Jadlovský	Vice-Chairman of the Board of Directors
Ing. Petr Zmátlík	Member of the Board of Directors
Ing. Alois Těšitel	Member of the Board of Directors

### Composition of the Supervisory Board as at 31 December 2015 was as follows:

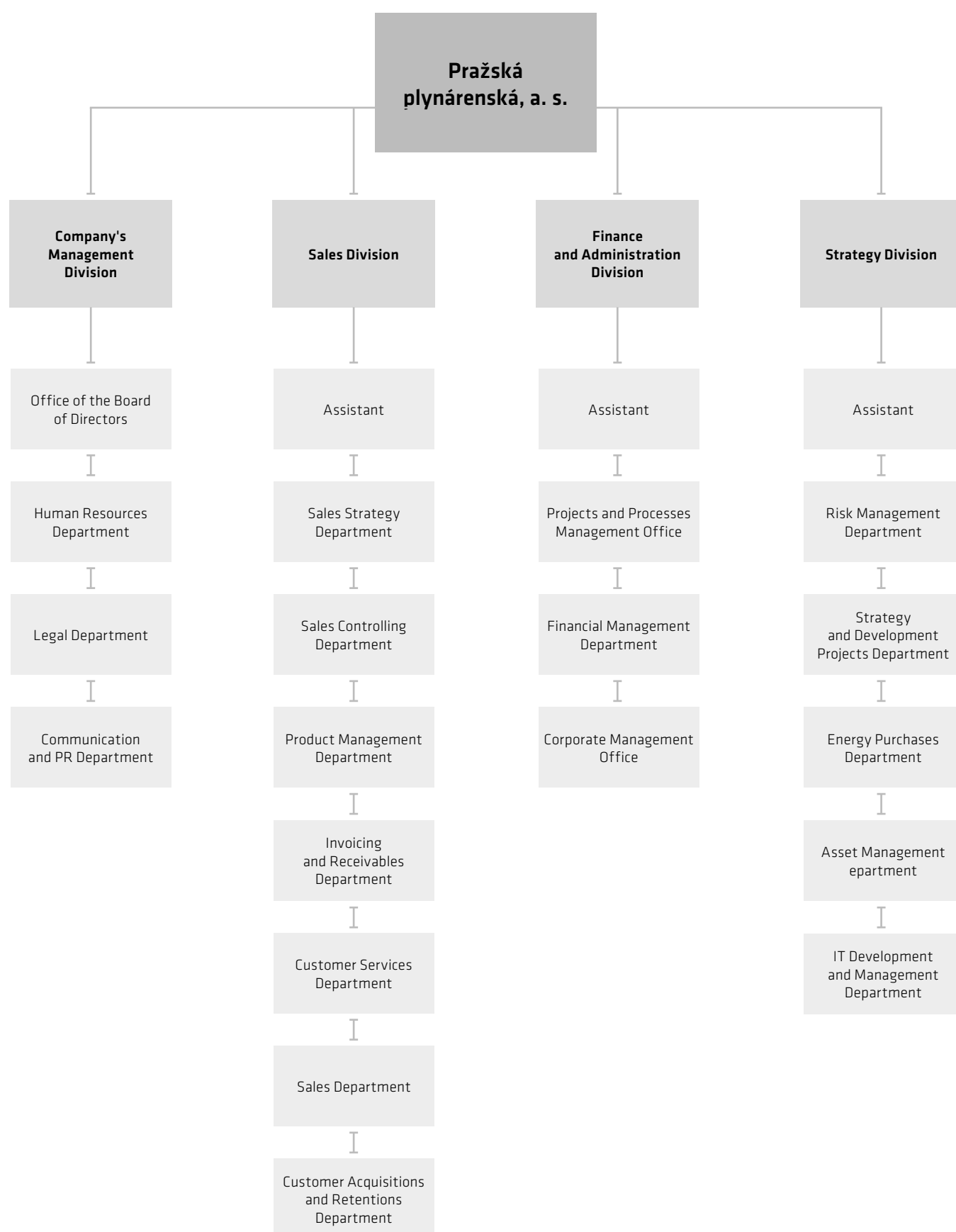
Ing. Michal Hašek	Chairman of the Supervisory Board
Mgr. Luboš Koželuh, MBA	Vice-Chairman of the Supervisory Board
Bc. Martin Čáslavka	Member of the Supervisory Board
Mgr. Ing. Martin Kopecký	Member of the Supervisory Board
RNDr. Marcela Plesníková	Member of the Supervisory Board
JUDr. Štěpán Stupčuk	Member of the Supervisory Board
Ing. Marta Ptáčková	Member of the Supervisory Board
Mgr. Miroslav Vránek	Member of the Supervisory Board
Petr Klepáček	Member of the Supervisory Board

### Composition of the Supervisory Board as at 31 December 2014 was as follows:

Dr.-Ing. Milan Urban	Chairman of the Supervisory Board
Pavel Hurda	Vice-Chairman of the Supervisory Board
Ing. Marta Ptáčková	Member of the Supervisory Board
Ing. Pavel Richter	Member of the Supervisory Board
JUDr. Lubomíra Stojkovičová	Member of the Supervisory Board
Jiří Vávra	Member of the Supervisory Board
Mgr. Miroslav Vránek	Member of the Supervisory Board
MUDr. Iveta Borská	Member of the Supervisory Board

The Company updated its Articles of Association that are now fully governed by the new Corporations Act.

## The Company's organizational structure as at 31 December 2015



## 2. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Generally Accepted Accounting Principles in the Czech Republic and have been prepared under the historical cost convention, except as disclosed below.

### a) Intangible fixed assets

All intangible assets with a useful life longer than one year and a unit cost of more than CZK 5,000 per item are treated as intangible fixed assets.

Purchased intangible fixed assets are initially recorded at cost, which includes all costs related with its acquisition.

Intangible fixed assets are amortised applying the straight-line method over their estimated useful lives as follows:

Asset category	Depreciation rate
Intangible fixed assets with an acquisition cost over CZK 60,000:	
- Software	25.0 %
- Royalties	25.0 %
- Other intangible fixed assets	25.0 %
Intangible fixed assets with an acquisition cost CZK 5,000 up to CZK 60,000	50.0 %

A provision for impairment is created when the carrying value of an asset is greater than its estimated recoverable amount. The estimated recoverable amount is determined based on expected future cash flows generated by the certain asset.

Intangible assets with an acquisition cost not exceeding CZK 5,000 per item are expensed upon consumption.

### b) Tangible fixed assets

Tangible assets with useful life longer than one year and with an acquisition cost exceeding CZK 10,000 per item are treated as tangible fixed assets.

Purchased tangible fixed assets are initially recorded at acquisition cost which includes all costs related to its acquisition. Own capitalised work is recorded at cost. Assets received as gifts are recorded at replacement cost upon receipt.

Tangible fixed assets are amortised applying the straight-line method over their estimated useful lives as follows:

Asset category	Depreciation rate
Tangible fixed assets with an acquisition cost over CZK 40,000:	
- Buildings	2.0 %
- Computer and office equipment	25.0 %
- Passenger cars	25.0 %
Separate movable items with an acquisition cost CZK 10,000 up to CZK 40,000	50.0 %

A provision for impairment is established where the carrying value of an asset is greater than its estimated recoverable amount. The estimated recoverable amount is determined based on the expected future cash flows generated by the particular asset.

Repair and maintenance expenditures of tangible fixed assets are expensed as incurred. Technical improvements of tangible fixed assets are capitalized.

Tangible assets with acquisition cost not exceeding CZK 10,000 per item are expensed upon consumption.



**c) Investments in controlled entities / subsidiaries**

Investments in subsidiaries represent ownership interests in enterprises that are controlled or managed by the Company (hereinafter also as “subsidiary”).

Investments in subsidiaries are accounted for by the equity method of accounting. Under this method, the investment is initially recorded at cost and the carrying amount is increased or decreased to recognise the investor's share of the equity of the subsidiary or the associate as at the balance sheet date. Revaluation of investment by using the equity method of accounting is recorded through the Company's equity.

**d) Inventories**

Purchased inventories are stated at the lower of cost and net realisable amount. Cost includes all costs related with its acquisition (mainly transport costs, customs duty, etc.). The weighted average cost method is applied for all disposals.

A provision is created for slow-moving and obsolete inventory based on an analysis of turnover and individual evaluation of inventories.

**e) Receivables**

Receivables are stated at nominal value less a provision for doubtful amounts. A provision for doubtful amounts is created on the basis of an ageing analysis and individual evaluation of the credit worthiness of the customers. Receivables from related parties have not been provided for.

**f) Cash and cash equivalents**

Cash and cash equivalents include cash in hand, stamps and vouchers and cash in banks, including bank overdrafts.

Cash equivalents are short-term highly liquid investments that can be exchanged for a predictable amount of cash and no significant changes of value over time are expected. Cash equivalents are, for example, deposits with a maturity of less than 3 months from the date of acquisition and liquid debt securities traded in public markets.

The Company uses so-called cash-pooling within the group which is recognized in the balance under Receivables – subsidiaries / controlling parties or under Liabilities – subsidiaries / controlling parties.

**g) Foreign currency translation**

Transactions denominated in a foreign currency are translated and recorded at the rate of exchange ruling as at the transaction date.

Cash, receivables and liabilities balances denominated in foreign currencies have been translated at the exchange rate published by the Czech National Bank as at the balance sheet date. All exchange gains and losses on cash, receivables and liabilities balances are recorded in the income statement.

The Company treats advances paid for the acquisition of fixed assets or inventories as receivables and therefore these assets are translated at the exchange rate published by the Czech National Bank as at the balance sheet date.

**h) Loans**

Short-term and long-term loans are disclosed at nominal value. The portion of long-term loans due within one year following the balance sheet date is also regarded as a short-term loan. All interest charges are expensed. Long-term liabilities are not discounted.

**i) Derivative financial instruments**

Derivative financial instruments including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options and other derivative financial instruments are initially recognized on the balance sheet at cost and subsequently re-measured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate. All derivatives are presented in other receivables or in other payables when their fair value is positive or negative, respectively.

Certain derivatives embedded in other financial instruments are treated as separate derivatives.

Changes in the fair value of derivatives held for trading are included in gain or loss on revaluation of securities and derivatives.

**j) Provisions**

The Company recognizes provisions relating to probable future obligations or expenditures, when the purpose of the obligations or expenditures is known but the precise amount, or the time when the obligation or expenditure will crystallize, is not known. However, provisions are not created for future operating expenditures or for expenditures directly related to future revenue transactions.

The Company recognises a provision for its future income tax payable which is presented net of advances paid for the income tax. If advances paid are higher than the estimated income tax payable the difference is recognised as a short-term receivable.

**k) Revenues**

Sales of goods are recognized upon the delivery of products and customer acceptance and are stated net of discounts and value added tax.

Sales of services are recognized as at the date the services are rendered and are stated net of discounts and value added tax.

**Natural gas**

Revenue from the sale of natural gas on the liberalized market, which was fully liberalized on 1 January 2007 in accordance with article 55 of act No. 458/2000 Coll., is measured based on the commodity value reflecting all natural gas purchase costs and the gross margin that covers costs of gas trade and profit, and based on the cost of other energy services related to gas deliveries to the customer in the required quantity and at the required time.

Price for end customers consists of the price for consumed gas supplies and other services (transport, structuring, flexibility), distribution price and price for services OTE (Market Operator).

Gas supply and distribution to high-volume and middle-volume customer categories are billed on a monthly basis based on measured consumption. Gas supplies to low-volume customer categories ("MO") and households ("DOM") are billed periodically once within 12 months, maximum 14 months (according to the Act No. 210/2011 Coll. article 15), based on the reading of the consumption of each off take point, respectively based on customer self-reading.

Revenues from MO and DOM categories consist of actually billed revenues and revenues from so called "unbilled gas". The amount of unbilled gas is calculated from the total amount of purchased gas in the particular year based on past behaviour of individual customers and is valued in relation to the valid price list of the Company, or to individual prices adjusted by discounts.

**Electricity**

Revenue from the sale of electricity on the liberalized market, which was fully liberalized on 1 January 2006 in accordance with act No. 458/2000 Coll., is measured based on the commodity value reflecting all costs for electricity purchases and the gross margin that covers costs of electricity trade and profit, and the cost of other energy services related to electricity deliveries to the customer in the required quantity and at the required time.

Electricity supply and distribution to middle-volume customer categories – households ("MOO") and middle-volume customer categories – entrepreneurs ("MOP") are billed based on measured consumption of each off take point, which is performed in the reading cycle set by the relevant provider of the distribution network. Electricity supplies to categories MOO and MOP with Type C reading are billed periodically once within 12 months, maximum 14 months (according to the Act No. 210/2011 Coll. article 15) based on the reading of the consumption of each off take point, respectively based on customer self-reading. In case of Type B reading in categories MOO and MOP the electricity supplies are billed on monthly basis (according to the Act No. 82/2011 Coll. article 3) based on the reading of the consumption of each off take point.

Revenues from MOO and MOP categories consist of actually billed revenues and revenues from so called "unbilled electricity". The amount of unbilled electricity is calculated from the total amount of purchased electricity in the particular year based on past behaviour of individual customers and is valued in relation to the valid price list of the Company, or to individual prices adjusted by discounts.

Electricity supply and distribution to high-volume categories ("VO"), whose consumption points are on the surface of a high or very high voltage, are billed on a monthly basis based on measured consumption.

Revenues from VO consist of actually billed revenues.

**l) Leases and rent**

The costs of assets held under both finance and operating leases or rent are not capitalised as fixed assets. Lease or rental payments are expensed evenly over the life of the lease or rent. Future lease or rental payments not yet due are disclosed in the notes but not recognised in the balance sheet.

**m) Employee benefits**

The Company recognises a provision relating to untaken holidays and employee bonuses.

Regular contributions are made to the state to fund the national pension plan. The Company also provides contributions to defined contribution plans operated by independent pension funds.

**n) Deferred tax**

Deferred tax is recognised on all temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base. Deferred tax asset is recognised if it is probable that sufficient future taxable profit will be available against which the asset can be utilised.

**o) Related parties**

The Company's related parties are considered to be the following:

- parties, which directly or indirectly control the Company, their subsidiaries and associates;
- members of the Company's or parent company's statutory and supervisory boards and management and parties close to such members, including entities in which they have a controlling or significant influence;
- subsidiaries.

Material transactions and outstanding balances with related parties are disclosed in Note 3o) „Related party transactions“.

**p) Subsequent events**

The effects of events, which occurred between the balance sheet date and the date of preparation of the financial statements, are recognised in the financial statements in the case that these events provide further evidence of conditions that existed as at the balance sheet date.

Where significant events occur subsequent to the balance sheet date but prior to the preparation of the financial statements, which are indicative of conditions that arose subsequent to the balance sheet date, the effects of these events are disclosed, but are not themselves recognised in the financial statements.

### 3. ADDITIONAL INFORMATION FOR THE BALANCE SHEET AND THE INCOME STATEMENT

#### a) Intangible fixed assets

**2015:**

<b>ACQUISITION COST</b> (in CZK '000)	<b>1 January 2015</b>	<b>Additions</b>	<b>Disposals</b>	<b>31 December 2015</b>
Incorporation expenses	101	0	0	101
Software	569,915	44,740	0	614,655
Royalties, licenses	9,916	1,286	0	11,202
Other intangible assets	62,878	0	0	62,878
Intangible fixed assets in the course of construction	34,333	57,230	46,026	45,537
<b>Total</b>	<b>677,143</b>	<b>103,256</b>	<b>46,026</b>	<b>734,373</b>

<b>ACCUMULATED AMORTISATION</b> (in CZK '000)	<b>1 January 2015</b>	<b>Additions</b>	<b>Disposals</b>	<b>31 December 2015</b>
Incorporation expenses	101	0	0	101
Software	517,259	51,495	0	568,754
Royalties, licenses	5,968	1,849	0	7,817
Other intangible assets	58,330	2,569	0	60,899
<b>Total</b>	<b>581,658</b>	<b>55,913</b>	<b>0</b>	<b>637,571</b>

<b>Net book value</b>	<b>95,485</b>			<b>96,802</b>
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**2014:**

<b>ACQUISITION COST</b> (in CZK '000)	<b>1 January 2014</b>	<b>Merger impact</b>	<b>Additions</b>	<b>Disposals</b>	<b>31 December 2014</b>
Incorporation expenses	0	101	0	0	101
Software	543,167	1,756	24,992	0	569,915
Royalties, licenses	9,848	68	0	0	9,916
Other intangible assets	65,059	0	0	2,181	62,878
Intangible fixed assets in the course of construction	29,045	0	30,280	24,992	34,333
<b>Total</b>	<b>647,119</b>	<b>1,925</b>	<b>55,272</b>	<b>27,173</b>	<b>677,143</b>

<b>ACCUMULATED AMORTISATION</b> (in CZK '000)	<b>1 January 2014</b>	<b>Merger impact</b>	<b>Additions</b>	<b>Disposals</b>	<b>31 December 2014</b>
Incorporation expenses	0	101	0	0	101
Software	463,627	613	53,019	0	517,259
Royalties, licenses	3,773	11	2,184	0	5,968
Other intangible assets	56,478	0	4,033	2,181	58,330
<b>Total</b>	<b>523,878</b>	<b>725</b>	<b>59,236</b>	<b>2,181</b>	<b>581,658</b>

<b>Net book value</b>	<b>123,241</b>				<b>95,485</b>
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## b) Tangible fixed assets

## 2015:

<b>ACQUISITION COST</b> (in CZK '000)	<b>1 January 2015</b>	<b>Additions</b>	<b>Disposals</b>	<b>31 December 2015</b>
Land	76,890	483	0	77,373
Buildings and constructions	1,017,156	788	0	1,017,944
Separate movable items	442,047	23,978	29,214	436,811
Other tangible assets	37,765	713	0	38,478
Tangible fixed assets in the course of construction	23,619	21,401	25,962	19,058
Advances paid for tangible fixed assets	0	94,859	49,362	45,497
<b>Total</b>	<b>1,597,477</b>	<b>142,222</b>	<b>104,538</b>	<b>1,635,161</b>
<b>ACCUMULATED DEPRECIATION</b> (in CZK '000)	<b>1 January 2015</b>	<b>Additions</b>	<b>Disposals</b>	<b>31 December 2015</b>
Buildings and constructions	351,225	21,408	0	372,633
Separate movable items	367,272	29,978	28,305	368,945
Other tangible assets	3,356	298	0	3,654
<b>Total</b>	<b>721,853</b>	<b>51,684</b>	<b>28,305</b>	<b>745,232</b>
<b>PROVISIONS</b> (in CZK '000)	<b>1 January 2015</b>	<b>Additions</b>	<b>Disposals</b>	<b>31 December 2015</b>
Buildings and constructions	499		23	476
<b>Total</b>	<b>499</b>	<b>0</b>	<b>23</b>	<b>476</b>
<b>Net book value</b>	<b>875,125</b>			<b>889,453</b>

## 2014:

<b>ACQUISITION COST</b> (in CZK '000)	<b>1 January 2014</b>	<b>Merger impact</b>	<b>Additions</b>	<b>Disposals</b>	<b>31 December 2014</b>
Land	76,890	0	0	0	76,890
Buildings and constructions	1,014,047	0	3,109	0	1,017,156
Separate movable items	450,129	1,867	15,678	25,627	442,047
Other tangible assets	37,511	0	254	0	37,765
Tangible fixed assets in the course of construction	21,676	0	20,963	19,020	23,619
Advances paid for tangible fixed assets	10,174	0	10,542	20,716	0
<b>Total</b>	<b>1,610,427</b>	<b>1,867</b>	<b>50,546</b>	<b>65,363</b>	<b>1,597,477</b>
<b>ACCUMULATED DEPRECIATION</b> (in CZK '000)	<b>1 January 2014</b>	<b>Merger impact</b>	<b>Additions</b>	<b>Disposals</b>	<b>31 December 2014</b>
Buildings and constructions	329,879	0	21,346	0	351,225
Separate movable items	351,976	939	35,914	21,557	367,272
Other tangible assets	3,065	0	291	0	3,356
<b>Total</b>	<b>684,920</b>	<b>939</b>	<b>57,551</b>	<b>21,557</b>	<b>721,853</b>
<b>PROVISIONS</b> (in CZK '000)	<b>1 January 2014</b>	<b>Merger impact</b>	<b>Additions</b>	<b>Disposals</b>	<b>31 December 2014</b>
Buildings and constructions	524	0	0	25	499
<b>Total</b>	<b>524</b>	<b>0</b>	<b>0</b>	<b>25</b>	<b>499</b>
<b>Net book value</b>	<b>924,983</b>				<b>875,125</b>

## c) Investments in subsidiaries

As at 31 December 2015:

Domestic	Number of shares (pcs)	Nominal value of shares (CZK '000)	Carrying value (CZK '000)	% of capital	Net profit (CZK '000)	Equity (CZK '000)	Dividend income (CZK '000)
Pražská plynárenská Distribuce, a. s., member of the group Pražská plynárenská, a. s.	5,207	2,707,640	3,834,806	100	285,930	3,834,806	180,000
Pražská plynárenská Servis distribuce, a. s., member of the group Pražská plynárenská, a. s.	202,106	15,080	167,078	100	70,272	167,078	35,000
Pražská plynárenská Správa majetku, a. s., member of the group Pražská plynárenská, a. s.	10	2,000	11,551	100	6,766	11,551	3,390
Prometheus, energetické služby, a. s., member of the group Pražská plynárenská, a. s.	128	128,000	133,101	100	3,982	133,101	3,348
Informační služby – energetika, a. s.	20	2,000	17,776	100	11,720	17,776	5,909
<b>Net book value</b>			<b>4,164,312</b>				

As at 31 December 2014:

Domestic	Number of shares (pcs)	Nominal value of shares (CZK '000)	Carrying value (CZK '000)	% of capital	Net profit (CZK '000)	Equity (CZK '000)	Dividend income (CZK '000)
Pražská plynárenská Distribuce, a. s., member of the group Pražská plynárenská, a. s.	5,207	5,207,000	6,253,675	100	277,372	6,253,675	409,702
Pražská plynárenská Servis distribuce, a. s., member of the group Pražská plynárenská, a. s.	202,106	15,080	134,209	100	46,795	134,209	17,922
Pražská plynárenská Správa majetku, a. s., member of the group Pražská plynárenská, a. s.	10	2,000	8,551	100	3,530	8,551	1,458
Prometheus, energetické služby, a. s., member of the group Pražská plynárenská, a. s.	128	128,000	132,630	100	3,488	132,630	2,872
Informační služby – energetika, a. s.	20	2,000	12,314	100	6,159	12,314	8,826
<b>Net book value</b>			<b>6,541,379</b>				

The Company, by the decision of its general meeting of shareholders on 5 August 2014, reduced the share capital of its subsidiary, Pražská plynárenská Distribuce, a. s., member of the group Pražská plynárenská, a. s. (hereinafter "PPD"). PPD's share capital decreased by CZK 2,499,360,000 from the level of CZK 5,207,000,000 to the new level of CZK 2,707,640,000. The nominal value of the shares decreased proportionally for all shares of PPD, ie. at 5207 pieces of certificated shares from nominal value of CZK 1,000,000 in the original amount, at nominal value CZK 520,000. The decrease of the share capital became effective on 11 March 2015. The payment of capital reduction was made in order to mobilize available resources in favor of the sole shareholder (the Company) and occurred on 14 May 2015.

Information about subsidiaries:

- Pražská plynárenská Distribuce, a. s., member of the group Pražská plynárenská, a. s.  
Registered office: U Plynárny 500, Prague 4, Postcode 145 08
- Pražská plynárenská Servis distribuce, a. s., member of the group Pražská plynárenská, a. s.  
Registered office: U Plynárny 1450/2a, Prague 4, Postcode 140 00
- Pražská plynárenská Správa majetku, a. s., member of the group Pražská plynárenská, a. s.  
Registered office: U Plynárny 500, Prague 4, Postcode 145 08
- Prometheus, energetické služby, a. s., member of the group Pražská plynárenská, a. s.  
Registered office: U Plynárny 500, Prague 4, Postcode 140 00
- Informační služby – energetika, a. s.  
Registered office: U Plynárny 500, Prague 4, Postcode 141 00

There is no difference between the percentage of ownership and the percentage of voting rights in any of the subsidiaries.

#### d) Inventories

As at 31 December 2015 the item Raw materials is represented by gas stored in the gas storage in the amount of CZK 1,067,696,000 (as at 31 December 2014: CZK 965,010,000).

#### e) Receivables

(in CZK '000)	31 December 2015	31 December 2014
Trade receivables – not due	655,053	568,904
– overdue	374,119	392,059
Estimated receivables	3,942,484	4,135,116
Short-term advances paid	1,133,307	1,206,407
Other receivables	60,849	108,823
<b>Total short-term receivables</b>	<b>6,165,812</b>	<b>6,411,309</b>
Provisions for doubtful receivables	(337,914)	(326,417)
<b>Net value of long-term receivables</b>	<b>5,827,898</b>	<b>6,084,892</b>
Long-term receivables	1,124	3,164
Deferred tax asset	16,119	0
<b>Net value of total receivables</b>	<b>5,845,141</b>	<b>6,088,056</b>

Unsettled receivables have not been secured and none of them are due for more than 5 years.

Short term advances paid consist mainly of cash paid in respect of subsequent purchases of natural gas and gas distribution.

Estimated receivables consist mainly of accrual for unbilled gas and gas distribution in the amount of CZK 3,751,503,000 as at 31 December 2015 (as at 31 December 2014: CZK 3,991,763,000) and accrual for unbilled electricity in the amount of CZK 182,375,000 as at 31 December 2015 (as at 31 December 2014: CZK 133,753,000).

Analysis of the change in the provision for doubtful receivables:

(in CZK '000)	2015	2014
<b>Opening balance as at 1 January</b>	<b>326,417</b>	<b>355,212</b>
Charge for the year	250,994	431,664
Written off during the year	102,471	101,349
Released during the year	137,026	359,110
<b>Closing balance as at 31 December</b>	<b>337,914</b>	<b>326,417</b>

## f) Equity

## Statement of changes in equity

Changes / remaining balances (in CZK '000)	Share capital	Capital funds	Optional reserve fund	Other profit based funds	Less interim dividend	Retained earnings	Profit for the period	Total equity
<b>Balances at 31 December 2013</b> (restated)	<b>1,439,907</b>	<b>3,368,970</b>	<b>451,823</b>	<b>5,289</b>	<b>0</b>	<b>1,024,358</b>	<b>582,053</b>	<b>6,872,400</b>
<b>Merger impact as at 1. 1. 2014</b>	<b>0</b>	<b>10,210</b>	<b>2,000</b>	<b>1,192</b>	<b>0</b>	<b>135,839</b>	<b>24,715</b>	<b>173,956</b>
Revaluation of investments in controlled entities using the equity method	0	(287,756)	0	0	0	0	0	(287,756)
Corrections of prior periods	0	0	0	0	0	(60,195)	60,195	0
Allocations to funds and retained earnings	0	0	0	5,350	0	20,715	(26,065)	0
Use of funds	0	0	0	(5,137)	0	0	0	(5,137)
Dividends paid	0	0	0	0	0	(24,262)	(609,298)	(633,560)
Directors' fees	0	0	0	0	0	0	(31,600)	(31,600)
Profit for financial period 2014	0	0	0	0	0	0	735,471	735,471
<b>Balances at 31 December 2014</b>	<b>1,439,907</b>	<b>3,091,424</b>	<b>453,823</b>	<b>6,694</b>	<b>0</b>	<b>1,096,455</b>	<b>735,471</b>	<b>6,823,774</b>
Revaluation of investments in controlled entities using the equity method	0	122,292	0	0	0	0	0	122,292
Allocations to funds and retained earnings	0	29	0	0	0	0	0	29
Use of funds	0	0	0	(2,661)	0	0	0	(2,661)
Funds paid	0	0	(453,823)	0	0	0	0	(453,823)
Dividends paid	0	0	0	0	0	(1,096,455)	(707,471)	(1,803,926)
Directors' fees	0	0	0	0	0	0	(28,000)	(28,000)
Decrease of share capital*	(1,007,935)	0	0	0	0	0	0	(1,007,935)
Less interim dividend declared	0	0	0	0	(418,000)	0	0	(418,000)
Profit for financial period 2015	0	0	0	0	0	0	647,051	647,051
<b>Balances at 31 December 2015</b>	<b>431,972</b>	<b>3,213,745</b>	<b>0</b>	<b>4,033</b>	<b>(418,000)</b>	<b>0</b>	<b>647,051</b>	<b>3,878,801</b>

\* the change in amount of share capital is described more detailly in the Note 4a)

The Company is fully governed by the new Corporations Act (see Note 1) and used the option not to create a reserve fund. This fact is further enabled by the Articles of Associations of the Company.

On 6 March 2015, Pražská plynárenská Holding a. s., the sole shareholder of the Company acting in the power of the general meeting of the shareholders, approved the financial statements for 2014 and decided about the allocation of profit earned in 2014 of CZK 735,471,605.56, about the allocation of retained earnings of CZK 1,096,454,821.89 and about distribution of dividends to the shareholders of CZK 1,803,926,427.45. It was also decided to distribute the reserve fund to the shareholder, amounting to CZK 453,822,511.72.

According to the instruction from 3 June 2015 and issued by the controlling entity, the company Pražská plynárenská Holding, a. s., the Company prepared interim financial statements as at 31 May 2015. On the basis of these interim financial statements, in line with the group instructions and after verifying the compliance with statutory conditions for an interim dividend payment, an interim dividend of CZK 418,000,000 was paid out.



**g) Main shareholders of the Company**

The sole shareholder of the Company is Pražská plynárenská Holding a. s. The ultimate parent of the Company is the Capital of Prague.

The Company's share capital as at 31 December 2015 was CZK 431,972,100 (as at 31 December 2014: CZK 1,439,907,000) and is divided into 950,338 bearer shares with a nominal value of CZK 300 and 489,569 registered shares at a nominal value CZK 300. Bearer shares were issued in booked form. Registered shares are in booked form, their transferability is limited and the general meeting of the shareholders must give the owner its consent for their transfer, following discussion at the Board of Directors and the Supervisory Board (for detailed information see Note 4a).

**h) Provisions**

(CZK '000)	31 December 2015	31 December 2014
Income tax provision	63,594	0
Other provisions	108,107	33,911
<b>Total</b>	<b>171,701</b>	<b>33,911</b>

Advances for income tax of CZK 74,357,000 paid by the Company as at 31 December 2015 (as at 31 December 2014: CZK 62,457,000) are netted off with the provision for income tax of CZK 137,951,000 as at 31 December 2015 (as at 31 December 2014: CZK 41,770,000). Other provisions include a provision for untaken holiday, employee bonuses and competition clauses.

**i) Liabilities**

(CZK '000)	31 December 2015	31 December 2014
Trade payables – current	147,942	141,847
– overdue	5,149	3,107
Short-term advances received	4,132,689	4,255,110
Liabilities – cash-pooling	449,202	672,098
Other liabilities	83,688	65,474
Estimated payables	2,130,895	2,338,315
<b>Total short-term liabilities</b>	<b>6,949,565</b>	<b>7,475,951</b>
Long-term advances received	155	205
Other liabilities	494	0
Deferred tax liability	0	6,650
<b>Total long-term liabilities</b>	<b>649</b>	<b>6,855</b>
<b>Total short-term and long-term liabilities</b>	<b>6,950,214</b>	<b>7,482,806</b>

Trade and other payables have not been secured against any assets of the Company and are not due after more than 5 years. The Company does not have any overdue payables related to social or health insurance or any other overdue payables to tax authorities or other state institutions.

Short-term advances received include mainly cash received from customers for gas consumption.

Estimated payables include an accrual for unbilled purchased gas and gas distribution of CZK 1,940,138,000 as at 31 December 2015 (as at 31 December 2014: CZK 2,184,113,000) and an accrual for unbilled purchased electricity and services connected with its distribution of CZK 179,182,000 (as at 31 December 2014: CZK 131,607,000).

**j) Bank loans and overdrafts**

(CZK '000)	31 December 2015	31 December 2014
Bank overdrafts	356,878	93,801
Short-term bank loans	900,000	0
Long-term bank loans with maturity from 1 to 5 years	0	700,000
<b>Total bank loans and overdrafts</b>	<b>1,256,878</b>	<b>793,801</b>
<b>Short-term loans – cash-pooling</b>	<b>449,202</b>	<b>672,098</b>

Up to April 2015, the Company used four short-term credit lines with the following banks: Československá obchodní banka, a. s., Citibank Europe plc., organizační složka, Komerční banka, a. s., a Česká spořitelna, a. s. During April the whole credit structure was refinanced and the Company has at its disposal new short-term 3-year credit lines from a consortium of banks formed by Československá obchodní banka, a. s., Komerční banka, a. s., Česká spořitelna, a. s. and UniCredit bank. Credit lines before and after refinancing are drawn in the form of an overdraft or loan tranches and the average interest rate of drawn loans in 2015 was 1.23 % p.a. (2014: 0.50 % p.a.).

In connection with opening new credit lines from a consortium of banks, the following documents were concluded between the Company and Československá obchodní banka, a. s. (Agent collateral):

- Agreement on the establishment of a pledge on the company, which provided for all existing, future and contingent financial debt of the Company in favor of the collateral agent.
- Agreement on a pledge on bank accounts, which were pledged as security for each claim in favor of the collateral agent.
- Agreement on the Prohibition of and agreement on a pledge on shares of Pražská plynárenská Distribuce, a. s., member of the group Pražská plynárenská, a. s.

In April 2015 the long term loan amounting to CZK 700,000,000 was transformed to new short-term credit lines from the consortium of banks. In 2015 the average interest rate of this bank loan was 4.79 % p.a. (2014: 3.50 % p.a.).

In relation to the conditions resulting from the new loan contracts signed in 2015, financial covenants are monitored at the level of consolidated data of the parent company (Pražská plynárenská Holding a. s.). In the case of non-compliance banks may demand early repayment of loans.

Short-term credit lines from the consortium of banks:

(CZK '000)	limit	from	to	interest rate
line A	900,000	24. 4. 2015	24. 4. 2018	floating
line C	700,000	24. 4. 2015	24. 4. 2018	floating
line D	900,000	24. 4. 2015	24. 4. 2018	floating
line E	1,000,000	24. 4. 2015	24. 4. 2018	floating

Drawing of short-term bank loans provides the Company with the possibility of covering optimally seasonal fluctuations in its cash flow, that accompany the purchase and sale of energy.

In 2015 and 2014 the average interest rate of financial resources in the cash pooling was an interest rate of O/N PRIBOR + 0.05% p.a.

#### k) Derivative financial instruments

The fair value of derivatives is presented in "Other receivables" if positive, or in "Other payables" if negative.

(CZK '000)	31 December 2015			31 December 2014		
	Real value		Nominal value	Real value		Nominal value
	Positive	Negative		Positive	Negative	
Currency forward	0	13,283	979,534	1,032	0	23,628
Embedded derivative	0	13,800	700,000	0	41,040	700,000

Changes in fair value of trading derivatives are recorded in the income statement.

Certain derivative transactions, although providing effective economic hedges under the Company's risk management positions, do not qualify for hedge accounting under Czech accounting rules. Therefore, they are presented above as trading derivatives.

**l) Income tax**

(in CZK '000)	2015	2014
Current tax expense (19%)	137,951	41,770
Deferred tax expense	(22,769)	34,785
Adjustment of prior year tax expense based on final CIT return	9,356	610
<b>Total income tax expense</b>	<b>124,538</b>	<b>77,165</b>

Adjustment of prior period tax base includes additional tax returns and refinement of the estimated tax payable for 2014 as a result of the improvement in the method of creation and release of accruals for unbilled gas.

The deferred tax was calculated at 19% (the rate enacted for 2014, 2015 and subsequent years).

Analysis of deferred tax asset / (liability):

(in CZK '000)	31 December 2015	31 December 2014
Accelerated tax depreciation of fixed assets	(29,578)	(30,800)
Provisions and allowances	46,178	24,713
Other	(481)	(563)
<b>Net deferred tax asset / (liability)</b>	<b>16,119</b>	<b>(6,650)</b>

**m) Revenue analysis**

Operating revenues were generated as follows:

(in CZK '000)	2015	2014
Revenues related to natural gas trade	14,877,991	13,076,237
Revenues related to electricity	328,229	266,520
Revenues from provision of services	342,444	343,932
Revenues from resale of goods	1,577	2,230
Revenues from sale of assets	2,128	5,627
Other revenues	50,127	30,447
<b>TOTAL</b>	<b>15,602,496</b>	<b>13,724,993</b>

In 2015 and in 2014 all revenues were generated in the Czech Republic.

**n) Personal costs and employees**

(in CZK '000)	2015		2014	
	Number	Personal costs	Number	Personal costs
Employees	293	203,915	313	211,681
Company management	24	53,579	24	81,457
<b>TOTAL</b>		<b>257,494</b>		<b>293,138</b>

The number of employees is derived from the average full-time equivalent.

The company's management includes members of the Supervisory Board and the Board of Directors. An employee who reports directly to the statutory body and at the same time there is another manager who reports to this employee is considered to be part of the management.

**o) Transactions with related parties**

Transactions for the purchase, respectively sale of energy (gas, electricity, heat, CNG) with companies controlled by capital of Prague were concluded under standard market conditions and are not presented in the following tables.

(in CZK '000)	2015	2014
Sale of natural gas	259,030	240,149
Sale of electricity	326	101
Provision of services incl. lease of assets	315,267	317,315
Resale of goods and raw materials	137	195
Sale of assets	4	258
Dividend revenue	227,646	440,780
Interest revenues	549	592
Other revenues	1	10
<b>Total revenues</b>	<b>802,960</b>	<b>999,400</b>
Purchase of services	1,600,979	1,605,729
Purchase of raw materials and gas	10,905	14,555
Interest costs	1,042	1,105
Other costs	96	184
<b>Total costs</b>	<b>1,613,022</b>	<b>1,621,573</b>
<b>Acquisition of investments</b>	<b>72,064</b>	<b>38,244</b>

The following related party balances were outstanding as at:

(in CZK '000)	31 December 2015	31 December 2014
Trade receivables	281,476	302,315
Short-term advances paid*	861,055	771,228
Estimated receivables	34,319	36,954
Other receivables and accruals	2,130	50
<b>Total receivables</b>	<b>1,178,980</b>	<b>1,110,547</b>
Trade payables	11,613	11,367
Short-term advances received*	35,464	34,941
Long-term advances received*	0	50
Loans received – cash-pooling	449,202	672,098
Estimated payables	636,048	605,717
Other payables and accruals	57	117
<b>Total payables</b>	<b>1,132,384</b>	<b>1,324,290</b>

\*balances of these items are presented incl. VAT.

Company cars are made available for use by board members and other management. Total remuneration for the members of the Board of directors and Supervisory board is part of the staff costs.

Supervisory Board members and members of the Board of Directors were paid dividends according to the decision of Pražská plynárenská Holding a.s as the sole shareholder of the Company.

**p) Fees paid and payable to the audit company**

The information relating to the fees paid and payable for services performed by the audit company is included in the consolidated financial statements of the Company Pražská plynárenská Holding a. s. as at 31 December 2015.

## 4. OTHER SIGNIFICANT FACTS

### a) Share capital decrease

The sole shareholder of the Company, Pražská plynárenská Holding a. s., identity number: 264 42 272, with its registered office in Prague 4, U Plynárny 500/44, post code 140 00, approved the decrease of the share capital of the Company at the General Meeting held 1 August 2014. The Company's capital is reduced by the amount of CZK 1,007,934,900 from the current amount of CZK 1,439,907,000 to the amount of CZK 431,972,100 after the reduction. The share capital is reduced by reducing the nominal value of all shares of the Company pursuant to the provisions of section 524 and following of Act no. 90/2012 Coll., on the Commercial Companies and Cooperatives (Corporations Act). The nominal value of the shares is reduced proportionally for all shares of the Company, i.e. for 950,338 pieces of bearer shares with a nominal value of CZK 1,000 and 489,569 pieces of shares with a nominal value of CZK 1,000 in such a way that the new value of each booked bearer share and each individual share would be CZK 300. The effectiveness of capital reduction occurred on 3 March 2015.

The reason for the reduction of the share capital of the Company is to optimize the capital structure of the Company following the revaluation of the Company's assets and thus releasing the excess working capital to the sole shareholder.

### b) Refinancing

On 24 April 2015, a loan agreements were signed between the consortium of banks and companies Pražská plynárenská, a. s., and Pražská plynárenská Distribuce, a. s., member of the group Pražská plynárenská, a. s., and Pražská plynárenská Holding a. s. (hereinafter „PPH“). The agreements changed the structure and terms of financing compared to 2014.

Subsequently, on 14 May 2015 there were new loans drawn. The company repaid the existing borrowings at the Česká spořitelna, a. s., and Československá obchodní banka, a. s., and drew loans from the new credit lines from the consortium of banks (Česká spořitelna, a. s., Československá obchodní banka, a. s., Unicredit Bank Czech Republic and Slovakia, a. s., and Komerční banka, a. s.). At the same time, the Company paid out dividends and the decrease in its share capital totalling CZK 2.8 billion to PPH. This enabled PPH to repay a consortium of banks large part of the acquisition loan, that was drawn in 2014, with an extraordinary instalment. Based on interim financial statements prepared as at 31 May 2015, in line with the group instructions and after verifying the compliance with statutory conditions for the payment of interim dividends, the Company paid out interim dividends amounting to CZK 418.0 million to company Pražská plynárenská Holding. This led to full repayment of the acquisition loan of PPH, and drawdown of loan capital was moved under more favourable terms to the Company and PPD.

### c) Contractual commitments

The Company has not undertaken any significant investment commitments.

The total amount of commitments under the operative lease agreements which were not recognized in the balance sheet as at 31 December 2015, were CZK 9,811,000 (as at 31 December 2014: CZK 9,839,000).

The future liabilities arising from contracts for lease of gas storage as of 31 December 2015 amounted to CZK 672,982,000 (as at 31 December 2014: CZK 579,701,000).

The total amount of future liabilities arising from contracts which do not relate to gas was as at 31 December 2015 CZK 34,820,000 (as at 31 December 2014: CZK 25,029,000).

The Company has secured its financial obligations arising from the operation on the gas market with consortium of banks, in favour of OTE, a. s., as at 31 December 2015 up to CZK 200,000,000 (as at 31 December 2014: up to CZK 350,000,000) and in favour of RWE Supply Trading GmbH, as at 31 December 2015 up to EUR 6,500,000 (as at 31 December 2014: up to EUR 5,500,000). These liabilities are not recognized in the balance sheet.



## 5. CONTINGENT LIABILITIES

Management of the Company is not aware of any significant unrecorded contingent liabilities as at 31 December 2015.

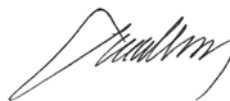
## 6. SUBSEQUENT EVENTS

No events have occurred subsequent to year-end that would have a material impact on the financial statements as at 31 December 2015.

Prague, 25 February 2016



**Ing. Pavel Janeček**  
Chairman of the Board of Directors



**Ing. Petr Zmátlík**  
Member of the Board of Directors

# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

Prepared in accordance with IFRS as adopted by the EU  
(in thousand Czech crowns)

	Note	31. 12. 2015	31. 12. 2014 (restated)	1. 1. 2014 (restated)
<b>ASSETS</b>				
<b>Non-current assets</b>				
Land, property, plant and equipment	6.1	6,050,763	5,770,799	5,600,868
Intangible assets	6.2	80,455	81,319	106,259
Other non-current assets		2,899	4,612	6,799
<b>Total non-current assets</b>		<b>6,134,117</b>	<b>5,856,730</b>	<b>5,713,926</b>
<b>Current assets</b>				
Inventories	6.3	1,090,420	984,934	811,139
Trade and other receivables	6.4	1,247,954	1,145,524	2,180,299
Tax receivables		19	21	30
Cash and cash equivalents		177,745	554,423	327,605
Other assets		20,577	22,850	28,570
Income tax	6.12	0	30,096	0
<b>Total current assets</b>		<b>2,536,715</b>	<b>2,737,848</b>	<b>3,347,643</b>
<b>TOTAL ASSETS</b>		<b>8,670,832</b>	<b>8,594,578</b>	<b>9,061,569</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Share capital	6.5	431,972	1,439,907	1,439,907
Statutory reserve funds	6.6	238,960	692,783	675,120
Revaluation of hedging derivatives		(20,392)	0	0
Retained earnings		1,040,697	2,411,822	2,334,257
<b>Total equity</b>		<b>1,691,237</b>	<b>4,544,512</b>	<b>4,449,284</b>
<b>Non-current liabilities</b>				
Trade liabilities and other non-current liabilities	6.7	891	2,033	4,647
Bank loans and bonds	6.11	2,501,659	700,000	1,000,000
Other liabilities	6.9.1.2	80,450	0	0
Deferred tax liabilities	6.8	369,488	373,508	355,897
Provisions	6.13	200,000	200,000	200,000
<b>Total non-current liabilities</b>		<b>3,152,488</b>	<b>1,275,541</b>	<b>1,560,544</b>
<b>Current liabilities</b>				
Trade liabilities and advances received	6.9	2,206,980	2,178,886	1,857,163
Bank loans and bonds	6.11	1,256,878	93,802	950,759
Other liabilities	6.9	287,842	492,378	181,115
Income tax	6.12	3,011	0	54,297
Other tax liabilities	6.12	40,159	9,315	8,263
Provisions	6.13	32,237	144	144
<b>Total current liabilities</b>		<b>3,827,107</b>	<b>2,774,525</b>	<b>3,051,741</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>8,670,832</b>	<b>8,594,578</b>	<b>9,061,569</b>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

Prepared in accordance with IFRS as adopted by the EU  
(in thousand Czech crowns)

	Note	2015	2014
Revenues	6.14	15,772,640	13,750,690
Purchased gas and electricity, materials and services related to gas and electricity supplies	6.15	12,795,759	11,134,794
Other operating income	6.16	67,878	53,388
Personnel costs	6.17	648,948	661,050
Amortisation and depreciation of non-current assets	6.18	377,874	371,034
Other operating costs	6.19	855,748	754,102
<b>Operating profit</b>		<b>1,162,189</b>	<b>883,099</b>
Financial costs	6.20	144,196	88,341
Financial income	6.20	60,663	55,689
<b>Financial loss</b>		<b>(83,533)</b>	<b>(32,651)</b>
Profit before tax		1,078,656	850,448
Income tax	6.21	227,854	121,660
<b>Profit after tax for the period</b>		<b>850,802</b>	<b>728,788</b>
Other comprehensive income	6.9.1.2	(20,392)	0
<b>Total comprehensive income</b>		<b>830,410</b>	<b>728,788</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

Prepared in accordance with IFRS as adopted by the EU  
(in thousand Czech crowns)

	Share capital	Statutory reserve funds	Revaluation of hedging derivatives	Retained earnings	Total
Note	6.5	6.6			
<b>Balance as at 1 January 2014</b>	<b>1,439,907</b>	<b>675,120</b>	<b>0</b>	<b>2,334,257</b>	<b>4,449,284</b>
Profit for the period				728,788	728,788
<b>Transactions with owners of the Company:</b>					
Dividends paid				(633,560)	(633,560)
Contribution to statutory reserve funds		17,663		(17,663)	0
<b>Balance as at 31 December 2014</b>	<b>1,439,907</b>	<b>692,783</b>	<b>0</b>	<b>2,411,822</b>	<b>4,544,512</b>
Profit for the period				850,802	850,802
Other comprehensive income			(20,392)		(20,392)
<b>Total comprehensive income</b>			<b>(20,392)</b>	<b>850,802</b>	<b>830,410</b>
<b>Transactions with owners of the Company:</b>					
Share capital decrease	(1,007,935)				(1,007,935)
Dividends paid		(453,823)		(1,803,926)	(2,257,749)
Interim dividends paid				(418,000)	(418,000)
<b>Balance as at 31 December 2015</b>	<b>431,972</b>	<b>238,960</b>	<b>(20,392)</b>	<b>1,040,697</b>	<b>1,691,237</b>

## CONSOLIDATED STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 31 DECEMBER 2015

Prepared in accordance with IFRS as adopted by the EU  
(in thousand Czech crowns)

	2015	2014
<b>Profit before tax</b>	<b>1,078,656</b>	<b>850,448</b>
<b>Adjustments of profit before tax</b>	<b>582,416</b>	<b>463,531</b>
Amortization and depreciation of non-current assets	377,874	371,034
Write-off of receivables	100,344	99,888
Change in provisions and reserves	45,687	(35,920)
Profit from sale of non-current assets	(4,415)	(2,188)
Net interest	76,602	36,741
Other non-cash movements (revaluation of derivatives)	(13,676)	(6,024)
<b>Net cash flows from operating activities before tax and working capital changes</b>	<b>1,661,072</b>	<b>1,313,979</b>
<b>Change in working capital needs</b>	<b>(121,448)</b>	<b>1,138,568</b>
Change in receivables from operations	(110,522)	982,389
Change in liabilities from operations	94,954	330,269
Movement in inventories (gross)	(105,880)	(174,090)
<b>Net cash flows from operating activities before tax</b>	<b>1,539,624</b>	<b>2,452,547</b>
Interest paid	(76,720)	(38,602)
Interest received	118	2,044
Income tax on current activities and additional tax paid minus tax refunds	(193,992)	(190,148)
<b>Net cash flows from operating activities</b>	<b>1,269,030</b>	<b>2,225,841</b>
Acquisition cost of non-current assets	(659,151)	(520,640)
Proceeds from sale of non-current assets	6,709	7,129
Related party loans	(66)	0
<b>Net cash flows from investing activities</b>	<b>(652,508)</b>	<b>(513,511)</b>
<b>Change in liabilities from financing activities</b>	<b>2,690,484</b>	<b>(851,952)</b>
Change in long-term liabilities	(1,142)	(2,614)
Bonds emission	2,501,659	0
Received loans	6,786,010	5,946,405
Loans repayment	(6,322,934)	(7,103,362)
Decrease in the share capital paid	(1,007,935)	0
Dividends and profit shares including withholding tax paid	(2,257,749)	(633,560)
Interim dividends of 2015 paid	(418,000)	0
Change of the loan status from the parent company PPH	(273,109)	307,619
<b>Net cash flows from financing activities</b>	<b>(993,200)</b>	<b>(1,485,512)</b>
<b>Cash and cash equivalents balance at the beginning of the accounting period</b>	<b>554,423</b>	<b>327,605</b>
Net movement in cash and cash equivalents for the accounting period	(376,678)	226,818
<b>Cash and cash equivalents balance at the end of the accounting period</b>	<b>177,745</b>	<b>554,423</b>



## 1. BASIC INFORMATION

### 1.1. Name, registered office and information on the founding of the Company

Pražská plynárenská, a. s., (hereinafter referred to as "the Company") was incorporated on 31 December 1993 and has its registered office at the address Prague 1 – Nové Město, Národní 37/38, Post code 110 00, the Czech Republic. The Company's ID number is 601 93 492.

### 1.2. Definition of group and its business activities

The Group Pražská plynárenská, a. s., (hereinafter referred to as "the Group") consists of the parent company and all its subsidiaries.

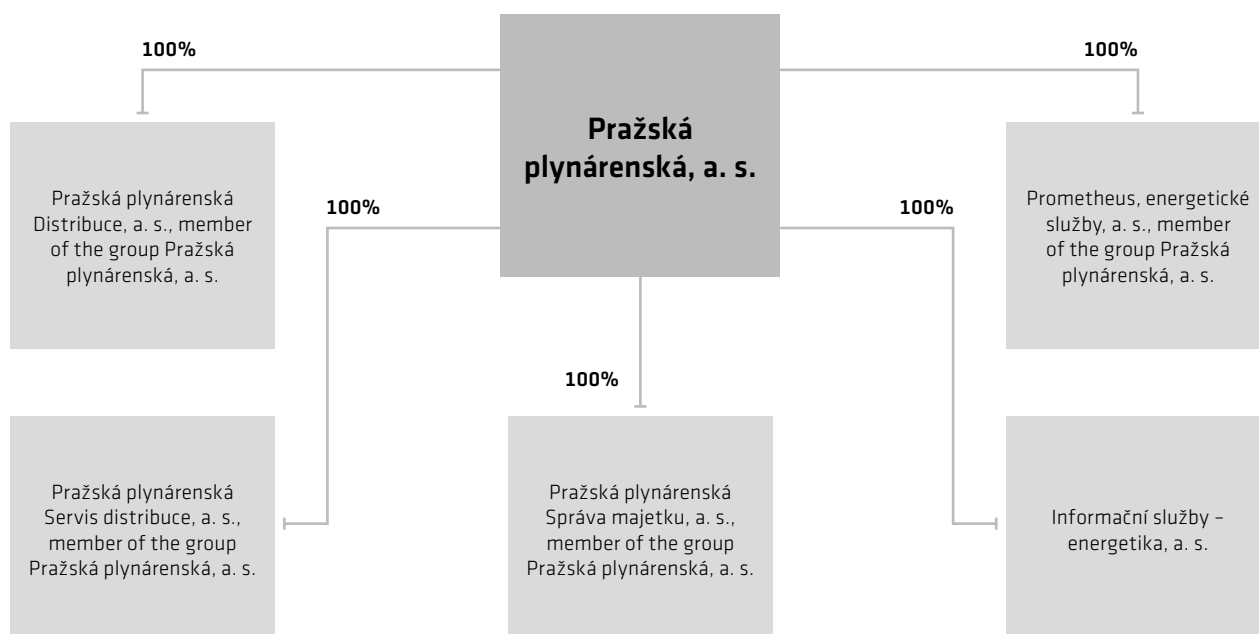
The Group's core business activity is the sale/distribution of natural gas and the sale of electricity.

The Group also operates in the following business activities:

- Rendering services relating to information technology and the purchase and sale of hardware and software;
- Rendering services relating to researching the causes of losses of natural gas, measurement and metrology in the gas industry;
- Service, maintenance, repairs and construction of gas facilities;
- Rendering services relating to management and maintenance of tangible and intangible fixed assets;
- Production and distribution of heat.

Based on the current results, the expected profit to be generated during the next 12 months, the availability of credit lines and other means of managing liquidity, management of the Group believes that the Group has sufficient financial capacity to continue its business for at least 12 months from the date of signing these consolidated financial statements.

Organizational structure of the Group as at 31 December 2014 and 31 December 2015:



As at 31 October 2014, the below described companies were dissolved without liquidation due to merger. The Company's share in these subsidiaries was transferred to the successor companies. The successor companies took over all components of assets and liabilities of the dissolved companies, including accruals that were valued at and in the structure resulting from the closing financial statements of the dissolved companies.

#### Měření dodávek plynu, a. s.

Registered office: U Plynárny 500, Prague 4, post code 145 08

Successor company: Pražská plynárenská Servis distribuce, a. s., member of the group Pražská plynárenská, a. s.

#### Pragoplyn, a. s.

Registered office: Jungmannova 36/31, Prague 1, post code 110 00

Successor company: Pražská plynárenská, a. s.

### 1.3. Members of the Board of Directors and Supervisory Board of the Company

#### Members of the board of directors:

Ing. Pavel Janeček	Chairman of the Board of Directors
Ing. Milan Jadlovský	Vice-Chairman of the Board of Directors
Ing. Petr Zmátlík	Member of the Board of Directors
Ing. Alois Těšitel	Member of the Board of Directors

#### Members of the Supervisory Board:

Ing. Michal Hašek	Chairman of the Supervisory Board
Mgr. Luboš Koželuh, MBA	Vice-Chairman of the Supervisory Board
Bc. Martin Čáslavka	Member of the Supervisory Board
Mgr. Ing. Martin Kopecký	Member of the Supervisory Board
RNDr. Marcela Plesníková	Member of the Supervisory Board
JUDr. Štěpán Stupčuk	Member of the Supervisory Board
Ing. Marta Ptáčková	Member of the Supervisory Board
Ing. Miroslav Vránek	Member of the Supervisory Board
Petr Klepáček	Member of the Supervisory Board

### 1.4. Major shareholders of the Company

The sole shareholder controlling the Company as at 31 December 2015 and 31 December 2014 is Pražská plynárenská Holding a. s. („PPH“), which is controlled by the Capital City of Prague.

According to the contract signed on 31 December 2013 742,580 pieces of certificated shares, representing 49% of equity share in Pražská plynárenská Holding, a. s., were transferred from E.ON Czech Holding AG to the Capital City of Prague on 27 March 2014. The Capital City of Prague became a 100% shareholder of PPH.

On the same day 710,550 pieces of ordinary bearer shares of the Company that were owned by E.ON Czech Holding AG were transferred to PPH. Subsequently PPH acquired a 99.55 % share in the Company. On 16 June 2014 the remaining 6,560 pieces of Pražská plynárenská, a. s., owned by minority shareholders were transferred to PPH. Subsequently PPH became the sole shareholder of the Company. The ultimate owner of the Company is the Capital City of Prague.

## 2. APPLICATION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

### 2.1. New standards, amendments and interpretations mandatory for the first time for the financial year 2015

- Improvements to 2013 International Financial Reporting Standards issued in December 2013 and effective on or after 1 July 2014:
  - IFRS 1, First-time Adoption of International Financial
  - IFRS 3, Business Combinations
  - IFRS 13, Fair Value Measurement
  - IAS 40, Investment Property
- IFRIC 21 – Levies (issued in May 2013 and effective for annual periods beginning on or after 1 January 2015). The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax.

The new standards and interpretations do not significantly affect the financial statements of the Group.

### 2.2. New standards, amendments to standards and interpretations not yet effective and not early adopted by the Group

The following standards, amendments and interpretations were issued and are mandatory for the Group's accounting periods beginning on or after 1 January 2015 subject to endorsement by the European Union as indicated below:

- Amendment to IAS 19 – Defined benefit plans: Employee contributions (issued in November 2013 and effective for annual periods beginning on or after 1 January 2016). This amendment applied to contributions from employers or third parties on defined benefit plans. The goal of amendment is to simplify contributions accounting, which are independent of the number of years of service. The amendment allows entities to recognise contributions as a reduction in the cost in the period in which the related service is rendered. The Group doesn't expect significant impact on consolidated financial statements of the Company.

- Improvements to 2012 International Financial Reporting Standards issued in December 2013 and effective on or after 1 July 2015:
  - IFRS 2, Share-based payments;
  - IFRS 3, Business combinations;
  - IFRS 8, Operating segments;
  - IFRS 13, Fair Value Measurement;
  - IAS 16, Property, Plant and Equipment;
  - IAS 38, Intangible Assets: Revaluation method;
  - IFRS 9, Financial Instruments, and resulting impact on IAS 37, Provisions;
  - IAS 39, Financial Instruments.
- Improvements to 2014 International Financial Reporting Standards issued in September 2014, effective date for EU has not been stated yet:
  - IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, regarding the methods of disposal;
  - IFRS 7, Financial Instruments: Disclosure of information regarding service contracts;
  - IAS 19, Employee Benefits regarding discount rates;
  - IAS 34, Interim Financial Reporting dealing with disclosure.
- Amendment to IAS 16, Property, Plant and Equipment, and IAS 38 Intangible Assets, clarification of acceptable methods of depreciation and amortisation (issued in May 2014, effective date for EU still not announced, in IASB effective from periods beginning 1 January 2016 or later). This standard will not have any impact on consolidated financial statements of the Company.
- Amendment to IAS 16, Property, Plant and Equipment and IAS 41 Agriculture, change in accounting of bearer plants, e.g. grape-vine, gum-tree and palms (issued in June 2014, effective date for EU still not announced, in IASB effective from periods beginning 1 January 2016 or later). This standard will not have any impact on consolidated financial statements of the Company.
- Amendments to IAS 27, Separate Financial Statements, (issued in August 2014, effective date for EU still not announced, in IASB effective from periods beginning 1 January 2016 or later). The amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. This standard will not have any impact on consolidated financial statements of the Group.
- Amendment to IFRS 11, Joint arrangements, Accounting for Acquisitions of Interests in Joint Operations (issued in May 2014, effective date for EU still not announced, in IASB effective from periods beginning 1 January 2016 or later). The amendment clarifies the accounting for acquisitions of an interest in a joint operation and correctness of such accounting. This standard will not have any significant impact on consolidated financial statements of the Group.
- Disclosure initiative to Amendment to IAS 1, (issued in December 2014, effective date for EU still not announced, within IASB effective for accounting period beginning on 1 January 2016 or later). The standard was changed in order to clarify concept of materiality and explains, that accounting entity is not required to report information required by IFRS, assuming that information is immaterial even when an IFRS requires a specific disclosure, materiality considerations do apply. The amendment also introduces new guidance on subtotals in financial statements. Significant influence of the standard on consolidated financial statements of the Group is not expected.
- Investment Entities: Applying the consolidation exception, amendments to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014, effective date for EU still not announced, within IASB effective for accounting period beginning on 1 January 2016 or later). Significant influence of the standard on consolidated financial statements of the Group is not expected.
- IFRS 14, Regulatory Deferral Accounts rate-categorised presentation (issued in January 2014, effective date for EU still not announced, in IASB effective from periods beginning 1 January 2016 or later). IFRS 14 provides an exemption for first-time adopters of IFRS to continue to show balances related to regulation by rate of return under the basis of accounting used immediately before adopting IFRS. For better comparability with entities already applying IFRS, who do not present such balances, the impact of regulatory deferral account balances are presented separately from other items. If the entity already applies IFRS, it is not permitted to use this standard. This standard will not have any impact on consolidated financial statements of the Company.
- IFRS 9, Financial Instruments – recognition and measurement (issued in July 2014, effective date for EU still not announced, in IASB effective from periods beginning 1 January 2018 or later). The new IFRS 9 standard replaces IAS 39 which relates to classification and measurement of financial assets and it also changes some requirements for publishing regulated by IFRS 7. Standard IFRS 9 specifies three categories for all financial assets, currently regulated by standard IFRS 39 – assets valued by net book value determined by effective rate method, assets in fair value through other comprehensive income and fair value through profit and loss. The effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss are required to be presented in other comprehensive income. The new IFRS 9 contains new more progressive recognition of impairment losses (ECL) model considering also expected credit losses in comparison to model of loss incurred as per IFRS 39. Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy

choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges. The Group is currently assessing the impact of IFRS 9.

- Amendments to IFRS 10, Consolidated Financial Statements and IAS 28, Investments in Associates (issued in September 2014, effective date for EU still not announced, in IASB effective from periods beginning 1 January 2016 or later). The amendments address a conflict between the requirements of IFRS 10 and IAS 28 concerning sale or contribution of assets between an investor and its associate or joint venture. The Group doesn't expect significant impact of this standard on consolidated financial statements of the Group.
- IFRS 15, Revenue from Contracts with Customers (issued in May 2014, effective date for EU still not announced, in IASB effective from periods beginning 1 January 2018 or later). This new standard introduces, that revenues are recognised in transaction price at time, when goods or services are transferred to a customer and the customer takes control over them. All separated deliverables with different substance must be reported individually and all discounts and rebates from the contract price are allocated to individual deliverables. Variable consideration is included in the transaction price to the extent, which should eliminate significant risk of „substantial debiting of revenues“ in future. Customer acquisition costs must be capitalised and amortized during the period they are bringing benefits according to contract. The Group is currently assessing the impact of IFRS 15.
- IFRS 16, Leases (issued in January 2016, effective date for EU still not announced, in IASB effective from periods beginning 1 January 2019 or later). The new standard replaces the accounting requirements of IAS 17, Leases. Major changes mainly comprise recognition of leases on the side of the Lessee. IFRS 16 introduces a single lessee accounting model. Lessees will be required to recognise an assets – right to operate the asset and lease liabilities. The requirements on the Lessor side are more or less comparable with IAS 17. The Group is currently assessing the impact of IFRS 16.
- IAS 7, Statement of Cash Flows (issued in January 2016, effective date for EU still not announced, in IASB effective from periods beginning 1 January 2017 or later). The new amendment will result in a change in disclosures regarding liabilities arising from financing activities. The Group is currently assessing the impact of IAS 7.
- IAS 12, Income taxes ((issued in January 2016, effective date for EU still not announced, in IASB effective from periods beginning 1 January 2017 or later). These amendments on the recognition of deferred tax assets for unrealised losses clarify how to account for deferred tax assets related to debt instruments measured at fair The Group doesn't expect significant impact of this standard on consolidated financial statements of the Group.

The above mentioned standards have not been early adopted by the entity. Unless otherwise stated, the new standards and interpretations do not significantly affect the financial statements of the Group.

### **3. BASIC ASSUMPTIONS FOR PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES**

#### **3.1. Declaration of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations as adopted by the European Union applicable in 2015.

#### **3.2. Basis of preparation of consolidated financial statements**

The consolidated financial statements have been prepared under the historical cost convention, only derivatives are valued at fair value. The consolidated financial statements have been prepared on a going concern basis.

#### **3.3. Functional and presentation currency of consolidated financial statements**

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

The functional and presentation currency of the Group is the Czech crown (CZK). The figures in the consolidated financial statements, unless stated otherwise, are presented in thousands of Czech crowns (CZK'000).

#### **3.4. Consolidation background**

The consolidated financial statements of the Group consist of the financial statements of Pražská plynárenská, a. s., and its subsidiaries. A subsidiary is a company (including a structured company) into which the Company has invested and which is controlled by the Company.

In assessing whether the Company controls the entity into which it has invested, the key consideration is, whether the Company is exposed to variable income from this entity or whether the Company is entitled to receive the income based on its commitment in the entity; and the Company can influence the income through the control exercised in the entity.

The profit or loss of the subsidiaries, acquired or disposed of by the Company during the year, is included in the consolidated statement of comprehensive income, from the acquisition date to the date of disposal.

The accounting policies used when preparing the subsidiaries' financial statements are in compliance with the accounting policies of the parent company.

All intra-group transactions, balances, revenues and costs are eliminated during the consolidation.

There are no non-controlling interests in subsidiaries, as the subsidiaries are fully-owned by the Company.

### **3.5. Intangible assets**

#### **3.5.1. Recognition and measurement**

Separately acquired intangible assets are recognized at cost less accumulated amortization and impairment losses.

#### **3.5.2. Amortization**

Intangible assets are amortized applying the straight-line method over their estimated useful lives as follows:

<b>Intangible asset category</b>	<b>Useful life (number of years)</b>
Software	4
Other intangible non-current assets	4

The expected useful life and the amortization method are reviewed at the end of each accounting period; the effect of any change in estimates is applied prospectively.

### **3.6. Property, plant and equipment**

#### **3.6.1. Recognition and measurement**

Property, plant and equipment are recognized at cost less accumulated depreciation (except land) and impairment losses.

The cost of property, plant and equipment includes all costs related to its acquisition less any discounts.

The costs related to acquisition include direct costs incurred in the delivery and bringing the assets to working condition, the costs associated with dismantling, removal and demolition of existing plant and equipment and the costs incurred to bring the affected environment to its original condition.

Repairs and maintenance expenditures of property, plant and equipment are recognized in the consolidated statement of comprehensive income in the period in which they occurred.

Subsequent expenditures are included in net book value or recognized as separate asset, if the Group might achieve financial gain in respect to this item and if the price of the item can be measured reliably.

#### **3.6.2. Depreciation**

Plant and equipment are depreciated applying the straight-line method over their estimated useful lives. Depreciation charge for the accounting period is recognized in the consolidated statement of comprehensive income for this period.

Land owned by the Group is not depreciated.



The estimated useful life of individual asset categories is always reviewed at the end of the accounting period and is stated in the table below:

Property, plant and equipment categories	Useful life (number of years)
Buildings (except of regulating station buildings)	50
Regulating station buildings	30
Pipelines, pipeline branch connections	40
Technological boiler equipment	15
Regulating stations – technology	10
Gas meters	10
Trucks	8
Passenger cars	4
Computer equipment	4
Furniture and fittings	2 – 8

The effect of any change in the estimated useful life or depreciation method is applied prospectively.

Assets acquired in the form of finance leasing are depreciated over the estimated useful life, as well as the Company's own assets or over the period of the lease, if this period is shorter.

### 3.6.3. Disposals

Gains and losses on disposals of a particular item of property, plant and equipment are determined as the difference between the sale proceeds and the carrying amount of assets involved and are recognized in net amount in the consolidated statement of comprehensive income.

### 3.7. Impairment of non-financial assets

Property, plant and equipment and other non-financial assets, including intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying values may not be recoverable. Tangible and intangible assets not yet available for use are reviewed for impairment annually. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

### 3.8. Inventories

Inventories are stated at the lower of cost and net realizable value. The cost comprises the acquisition cost and other costs incurred in bringing inventories to their present condition and location.

The price of gas put into the underground gas storage is determined on the basis of supplier invoices received for the given month. The price of stored gas is calculated under the allocation model based on the movement of gas in the storage facility and based on the invoices received for the given month. This price is as well the price of natural gas consumed in the following month.

The weighted average cost method is used monthly for disposals of inventories.

### 3.9. Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables. The classification depends on the purpose for which the financial assets were acquired. As at 31 December 2015 and 2014, the Group recognized the following categories of financial assets:

#### 3.9.1. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading with the receivable. They are included in current assets, except for maturities greater than 12 months after the reporting period. These are classified as non-current assets. Loans and receivables are included in the Financial borrowings provided and Trade and other receivables in the consolidated statement of financial position.

Receivables, represented mainly by trade receivables, are initially recognized at fair value (including all related costs) and are subsequently measured using the effective interest method, less an impairment loss. An impairment loss for receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

The Group recognizes an impairment loss of trade receivables that are overdue. Trade receivables are represented mainly by receivables from customers for sale of gas. The final bill to customer for actual consumption of gas is decreased by received advances during billing period. In case the received advances are higher than billing for actual consumption, the overpayment is recognized, i.e. negative balance on trade receivables, which is reclassified to the Trade and other payables in the consolidated financial statements.

The Group recognizes an impairment loss for overdue trade receivables on the basis of an ageing analysis and individual evaluation of the credit worthiness of the customers. The amount of the impairment is determined on the basis of experience with the payment of overdue trade receivables as follows:

Time overdue	Amount of impairment loss
1 - 3 months	5%
3 - 6 months	20%
6 - 12 months	50%
More than 12 months	100%

A 100% impairment loss is created for receivables under bankruptcy proceedings. These rules are based on the analysis of the receivables' ageing and the risk of default. The amount of the provision for impairment approximates the difference between the receivables' carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. Impairment loss is recognized as other operating costs in the consolidated profit or loss. When a trade receivable is uncollectible, it is written-off. Recoveries of amounts previously written-off that are subsequently received are credited to the profit or loss.

### 3.9.2. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss represent financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or if it is a derivative instrument.

Financial assets at fair value through profit and loss are further classified based on the available level of information used in estimating its fair value:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – input data other than quoted prices included in Level 1 that are observable either directly (for example, as prices), or indirectly (for example, derived from prices);
- Level 3 – input data that are not based on observable market data (unobservable data).

The only type of financial assets at fair value through gain or loss of the Group are derivatives. The fair value of these derivatives is set based on the valuation of assets in Level 2.

### 3.9.3. Derivative financial instruments

Derivatives are initially recognized at fair value as at the date when the contract is concluded. Derivatives are subsequently measured at fair value. All derivatives are classified as Other assets if their fair value is positive, and under Other liabilities if their fair value is negative. Changes in the fair value are recognised in the consolidated profit or loss within Financial expense (-) / income (+). Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate. The expected cash flows are based on current market data (foreign exchange rates) as at the end of the reporting period.

Group pre-defines a derivative, ie. Interest rate swaps, to hedge future cash flows attributable to a recognized asset or liability or a forecasted transaction (cash flow hedges). Financial derivatives are used in accordance with the Group's risk management strategy as an effective hedging tool against interest rate fluctuations. Accounting for this restricted financial derivative instrument as a hedging instrument is possible only when certain criteria are met, including the definition of hedging strategy and the hedge relationship before starting hedge accounting and ongoing documentation of actual and expected effectiveness of hedging.

Changes in the fair value of derivatives that qualify as effective fair value hedges are recorded in the income statement, along with the corresponding change in fair value of the hedged asset or liability that is attributable to that specific hedged risk. Changes in the fair value of derivatives that qualify as effective cash flow hedges are recorded as revaluation reserve from assets and liabilities in equity and are transferred to the income statement and classified as an income or expense in the period during which the hedged item affects the profit or loss.

Embedded financial derivatives are treated as separate derivatives and are recognized separately in the financial statements.

**3.10. Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

**3.11. Equity****3.11.1. Share capital**

Share capital of the Company consists of ordinary shares. Preferred shares were not issued. The Company does not hold any own shares.

**3.11.2. Statutory reserve funds**

The statutory reserve funds are created from the profit of the Group. Usage of funds created from profit is in accordance with the Company's Articles of incorporation.

**3.11.3. Reserves from revaluation of hedging derivatives**

As Reserves from the revaluation of hedging derivatives the Group recognizes gains or losses on derivatives used to hedge cash flows and which meet the criteria for hedge accounting, as described in section 3.9.3. Amounts reclassified as an income or expense in the period during which the hedged item affects the profit or loss.

**3.12. Financial liabilities**

Financial liabilities are classified as financial liabilities at fair value through profit or loss, or other financial liabilities.

**3.12.1. Financial liabilities at fair value through profit or loss**

Financial liabilities are measured at fair value through profit or loss, if intended for trading, or if they are financial derivatives that were not designated as hedging instruments.

Any profit or loss is charged to financial expenses in the consolidated profit or loss as at the reporting date.

Financial derivatives are the only financial liabilities of the Group that are recognized at fair value through profit or loss.

**3.12.2. Other financial liabilities**

Other financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate. The portion of non-current liabilities with contracted maturity within one year is classified as current liabilities. Other financial liabilities include trade payables and bank loans received.

**3.12.3. Trade payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Accounts payable are classified as current liabilities if payment is due within one year. If not, they are recorded as non-current liabilities.

Trade payables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate.

**3.13. Unbilled supplies and advances received**

The Group compensates value of unbilled supplies and advances received. The resulting value, per individual customer approximate the actual receivable from or payable to customer. Receivables from customers are classified as financial assets, which will be settled in cash. Liabilities to customers are non-financial liabilities (advances received), which will be settled by supply of gas, electricity or other non-cash supplies.

**3.14. Bank loans**

Bank loans and other short-term financial borrowings are recognized initially at fair value that is calculated as fair value of the fulfilment received less transaction costs incurred. Interest bearing bank loans and other short-term financial borrowings are subsequently recognized at amortised cost considering the materiality principle and using the effective interest rate method. Any difference between proceeds (less transaction costs incurred) and redemption value is recognized in profit or loss over the period of the loan using the effective interest rate method. Borrowing costs related to particular asset are capitalized into acquisition costs of this asset.

**3.14.1. Borrowing costs**

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period they are incurred.

**3.15. Bonds**

Issued debt securities and subordinated liabilities are initially recognized at fair value. After initial recognition, these financial liabilities are measured at amortized cost.

**3.16. Provisions**

A provision is recognized when the Group has an unconditional obligation as a result of past events, it is probable that the Group will have to settle the obligation, and the amount can be reliably estimated.

Provisions are measured as the best estimate of expenditures expected to be required to settle the obligation at the reporting date, considering risks and uncertainties connected with the obligation. Provisions not drawn in the following year are recognized as at consolidated financial statements date at discounted value in case that impact of discount as at balance sheet date is significant. Market interest rates are used for discounting.

**3.17. Revenue recognition**

Revenue is recognized when the risks and rewards from the ownership have been transferred to the buyer or when services that can be reliably measured are rendered and it is probable that the economic benefits associated with the transaction will flow to the Group.

Revenues from sales of goods and services are presented net of Value Added Tax and net of discounts and are measured at fair value of the consideration received or receivable on accrual basis.

**3.17.1. Revenues from sale and distribution of gas**

Revenue from natural gas supplies is recognized when the commodity is delivered. Revenue from the sale of natural gas on the liberalized market, which was fully liberalized on 1 January 2007 in accordance with article 55 of act No. 458/2000 Coll., is measured based on the commodity value reflecting all costs for natural gas purchases including the gross margin that covers costs of gas trades and profit, and the cost of other energy services related to gas deliveries to the customer in the required quantity and at the required time.

The price for end customers consists of the price for services provided by OTE including fee for Energy Regulatory Office (ERO), two-component price for distribution consisting of fixed price for purchased natural gas and monthly or yearly price for distribution capacity and two-component price of other services related to the supply. This price consists of commodity price and monthly payment or capacity component of the price.

The price of other supply services for households and low volume customers is fixed for the period based on the Group's business decision. The price for middle-volume customers and high-volume customers is fixed for a month or longer period or this price is based on the selected product offered by the Company.

All components of the two component price for distribution are regulated by ERO. The price for services by OTE is also regulated by ERO and it contains a fee according to Article no. 17d of Act No. 458/2000 Coll. as amended.

Gas supply and distribution to high-volume and middle-volume categories is billed on a monthly basis based on measured consumption. Gas supplies to low-volume categories and households are billed periodically, based on the reading of the consumption of each connecting point or client's individual reading, which is performed at least once in 12, max. 14 months (according to Article 15 Act No. 210/2011 Coll.).

Revenues from MO and DOM categories consist of actually billed revenues and revenues from so called "unbilled gas" (see Notes 3.22.1. and 4.1.). The amount of unbilled gas is calculated from the total amount of purchased gas in the particular year based on past behaviour of individual customers, divided into periods on the basis of the so-called load profiles ("TDD") and is valued in relation to the valid price list of the Group corrected by discounts.

### 3.17.2. Revenues from sale of electricity

Revenues from electricity sale are based on commodity valuation reflecting all costs for electricity purchases including the gross margin that covers costs of electricity trade and profit, and the cost of other energy services related to electricity deliveries to customers in the required quantities and at the required time.

Electricity price consists of two components, regulated and non-regulated item. Regulated component is composed of price for electricity distribution and regulated services. Each particular item is published by ERO by its price decisions. The price level for individual items can vary by different distributors.

Non-regulated price component contains primarily price for electricity supply, resp. electricity consumed at high tariff in CZK/MWh and electricity consumed at low tariff in CZK/MWh. As a part of this component can be also included fixed monthly payments for distribution point in CZK/month. Fixed monthly price for electricity delivery is determined by the trader using market principles. Price for electricity supply is derived from price on energy stock exchange. The final price includes also electricity tax and VAT.

Electricity supply and distribution to middle-volume household customers ("MOO") and middle-volume entrepreneur customers ("MOP") are invoiced according to measured consumption in period defined by relevant distribution system operator. Electricity supplies to customers "MOO" and "MOP" with type C measurement are invoiced periodically once within 12 months, respectively at least once within 14 months (according to the Act No. 210/2011 Coll. article 15). The electricity supplies based on type B measurement are invoiced on monthly basis according to individual consumption of particular customer (according to the Act No. 82/2011 Coll. article 3).

Revenues in categories "MOO" and "MOP" customers consist of revenues actually billed and revenues of unbilled electricity sales. The unbilled electricity value calculation is based on total volume of electricity purchased during the current year, the consumer's behaviours in previous year and the actual pricelist of the Company, eventually based on individually assessed prices and updated by given discounts.

Supplies and electricity distribution for high-volume customers ("VO") whose distribution points are on high or very high voltage level are invoiced monthly based on actual measured consumption. Revenues in "VO" category consist of actually billed revenues.

### 3.17.3. Revenues from sale of goods

Sales are recognized when goods are shipped to the customer and are stated net of discounts and Value Added Tax.

### 3.17.4. Revenues from sale of other services and other revenues

Sales are recognized as at the date the services are rendered and are stated net of discounts and Value Added Tax.

Revenues from sale of other services are mainly construction and maintenance of gas and water pipelines, rent and IT services.

## 3.18. Leases

Leases of property, plant and equipment where the majority of the risks and rewards of ownership have been transferred to the Group are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the settlement of the liability and finance charges. Related lease obligations are included in current or non-current liabilities in the consolidated statement of financial position. The interest is charged directly to the consolidated statement of comprehensive income over the lease period so as to achieve a constant rate of interest on the liability. The property, plant and equipment acquired via finance leases are recorded in the consolidated statement of financial position and depreciated over their estimated useful lives.

Leases in which a significant portion of the risks and rewards of ownership is retained by the lesser resulting from possession of the asset are classified as operating lease. Payments made under operating leases (net of any incentives received from the lesser) are charged to the consolidated profit or loss on a straight-line basis over the period of the lease. Contingent rentals from operating leases are recognized in the consolidated profit or loss in the period in which they occurred.

## 3.19. Foreign currency translation

Transactions in a foreign currency other than the functional currency of the Company and its subsidiaries are translated using the exchange rates announced by Czech National Bank as at the transaction date.

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate published by the Czech National Bank as at the reporting date of the consolidated statement. Foreign exchange gains and losses are recognized as financial gains or losses in the consolidated profit or loss in the period in which they occurred.



### 3.20. Employee benefits

#### 3.20.1. Contributions to the State pension scheme

Skupina platí za zaměstnance příspěvky do státního penzijního systému, který je spravován The Group pays contributions for its employees to the State pension system, which is managed on the basis of a defined contribution plan. The Group has no other liabilities related to the State pension scheme after paying contributions in the amount defined by law.

#### 3.20.2. Pension and life insurance

In accordance with the valid Collective Agreement, the Group makes monthly contributions to pension and life insurance schemes for its employees. The contributions are paid to an independent entity under a defined contribution scheme. The contributions are recognized in the consolidated statement of comprehensive income as incurred.

#### 3.20.3. Other obligations

Other benefits (e.g. for paid holidays) are continuously recognized as expenses when incurred.

#### 3.20.4. Termination benefits

The Company provides its executives with termination benefits. These benefits are granted if certain conditions are met, ie. in the case of complying with competition and confidentiality clauses. Amounts are determined based on their monthly pay. The Company recognizes the liability for the termination benefits as at the date when it can no longer withdraw the offer, ie. as at the signing date of the contract on performing the function of an executive.

### 3.21. Taxes

The tax expense comprises current and deferred income tax.

#### 3.21.1. Current tax

Current income tax represents the estimated tax payable for the accounting period calculated by using the tax rate and relevant laws enacted as at the end of the reporting period and valid for the period.

Estimated current tax payable is reduced by advances paid for the income tax. The short-term receivable is recognized in the case that advances paid for the income tax exceed the estimated current tax as at the reporting date.

#### 3.21.2. Deferred tax

Deferred tax is recognized on all temporary differences between the carrying amount of an asset or liability in the consolidated statement of financial position and their tax bases. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination. Deferred tax asset is recognized when it is probable that future taxable profit will be available against which the temporary differences can be utilized.

The deferred tax asset and liability are determined using the tax rate, expected to be valid in the period, in which the tax asset is realized or the tax liability is settled, according to tax law enacted as at the end of the reporting period.

Offsetting the deferred tax asset and liability is allowed when there is a legally enforceable right to offset current tax asset and current tax liability and when the deferred tax asset and liability relates to income tax collected by the same tax authority.

### 3.22. Significant accounting estimates and main sources of uncertainty about the estimates

Preparation of consolidated financial statements requires using estimates and assumptions that affect the figures for the financial position presented as at the reporting date and financial performance for the reporting period. Estimates and assumptions are calculated on the basis of all relevant available information. Nevertheless, given the nature of estimates, the actual values may vary in the future.

#### 3.22.1. Unbilled gas supplies

The Group management considers the determination of unbilled gas supplies and the distribution fees to low-volume customers and households ("MODOM") to be the most significant area subject to the use of estimates.

This estimate is determined using the balancing method, as the difference between total gas purchases and sales of monthly invoiced customers, losses and own consumption during that period. This estimate is then reduced by gas supplies for MODOM categories that have already been invoiced for the given period (see Note 4.1).

There are unbilled gas supplies to the VO and SO customers recognized within the accounting estimates. These estimates bear low-risk because they are created on the basis of actual gas meter readings.

### Sensitivity analysis

If the ratio of losses to the total amount of gas distributed in 2015 had been lower (higher) by 0.66 percentage points (with all other variables held constant), the profit before tax as at 31 December 2015 would have been higher (lower) by CZK 67,526,000 due to higher (lower) revenues in unbilled gas supplies.

### 3.23. Restatement of comparative information

In 2015 there was a change in the method of reporting provisions for annual rewards and bonuses and untaken holidays. As a result of the correction, the provisions decreased and other liabilities increased.

There was also a change in the method of reporting provisions for property reimbursement. As a result of the correction, there was a decrease in short-term provisions and an increase in long-term provisions.

The above mentioned fact was presented in accordance with IAS 8. As a result, the consolidated statements of financial position as at 31 December 2014 and 1 January 2014 were restated.

### The impact on the comparative period

Following tables show the excerpt positions from the consolidated financial statements as at 31 December 2014 and 1 January 2014, which were restated:

Consolidated statement of financial position as at 31 December 2014

(in CZK '000)	Note	Originally disclosed	Change in reporting of provisions for capital refund	Change in reporting of provisions for annual rewards and bonuses	Restated balance
<b>Long-term liabilities – total</b>		<b>1,075,541</b>	<b>200,000</b>	<b>0</b>	<b>1,275,541</b>
Provisions	6.9	0	200,000	0	200,000
<b>Short-term liabilities – total</b>		<b>2,974,525</b>	<b>(200,000)</b>	<b>0</b>	<b>2,774,525</b>
Other liabilities	6.9	417,428	0	74,950	492,378
Provisions	6.13	275,094	(200,000)	(74,950)	144
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>8,594,578</b>	<b>0</b>	<b>0</b>	<b>8,594,578</b>

Consolidated statement of financial position as at 1 January 2014

(in CZK '000)	Note	Originally disclosed	Change in reporting of provisions for capital refund	Change in reporting of provisions for annual rewards and bonuses	Restated balance
<b>Long-term liabilities – total</b>		<b>1,360,544</b>	<b>200,000</b>	<b>0</b>	<b>1,560,544</b>
Provisions	6.13	0	200,000	0	200,000
<b>Short-term liabilities – total</b>		<b>3 251,741</b>	<b>(200,000)</b>	<b>0</b>	<b>3,051,741</b>
Other liabilities	6.9	115,072	0	66,043	181,115
Provisions	6.13	266,187	(200,000)	(66,043)	144
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>9,061,569</b>	<b>0</b>	<b>0</b>	<b>9,061,569</b>

## 4. FINANCIAL RISK MANAGEMENT

### 4.1. Credit risk

Credit risk is defined as a risk that one party of the financial instrument causes financial loss to other party by failure to comply with its obligation.

There is a credit risk arising to the Group as a consequence of the business conducted with VO, SO and MODOM customers.

Business relationships with significant customers are rated in respect to the adherence of contractual terms and the main risk indicator is considered to be the amount of delayed payments and the length of their delays. Renewal of the business relationships especially with traders with end customers is assessed according to the historical experience and according to ongoing personal negotiations with the particular subjects.

Cash collection from customers for natural gas sold is supported partly by the system of advance payments and partly by the claims collection process.

Advance payments from VO and SO customers are paid several times per month and the amount reflects expected consumption of gas for every month. MODOM customers pay advances in monthly or quarterly intervals in the amount of 90% of the expected consumption or according to agreement. The consumption history, seasonality of gas consumption and prices of gas are taken into consideration while setting the advances for all customer categories.

The claims collection process is standardized and operates according to the approved process for the individual customer category. Individual approach is taken towards each VO and SO customer. Firstly, a sending of reminder mails and instalment calendar, subsequently court cash collection is undertaken. The reminder mails and instalment calendars are also used for MODOM customers. Legal action is taken after the given period for an out-of-court settlement expires. The Group uses the services of external legal counsels for the out-of-court settlements and legal enforcement.

Management of the Group monitors overdue receivables and their development on regular meetings with the participation of representatives from relevant departments and economists. The meetings have an agreed agenda with part relating to the overdue trade receivables' aging and type of collection.

Deposits from gas traders paid to Pražská plynárenská Distribuce, a. s., member of the group Pražská plynárenská, a. s., („PPD“) also help to reduce the credit risk.

An analysis of the Group's trade receivables in nominal value is shown in the following table:

31 December 2015:

Ageing of receivables (CZK '000)	DOM	MO	VO/SO	Other	Total
Not overdue	26,045	17,189	737,806	216,357	997,397
overdue within 1 month	12,105	8,947	17,336	3,299	41,687
1 – 3 months	10,018	5,848	2,000	65,224	83,090
3 – 6 months	6,966	3,815	859	913	12,553
6 – 12 months	14,519	10,508	7,424	5,794	38,245
over 12 months	105,385	112,381	13,455	14,807	246,028
<b>Total receivables</b>	<b>175,038</b>	<b>158,688</b>	<b>778,880</b>	<b>306,394</b>	<b>1,419,000</b>
of which under court collection process	113,017	119,075	6,585	71,373	310,050

Expected percentage of settlement for receivable not overdue (CZK '000)	DOM	MO	VO/SO	Other	Total
Not overdue	26,045	17,189	737,806	216,357	997,397
Expected settlement rate	56%	51%	55%	85%	

31 December 2014:

Ageing of receivables (CZK '000)	DOM	MO	VO/SO	Other	Total
Not overdue	57,535	30,923	665,855	151,289	905,602
overdue within 1 month	12,001	6,508	28,694	4,714	51,917
1 – 3 months	8,567	8,117	3,559	2,451	22,694
3 – 6 months	6,831	5,333	565	1,022	13,751
6 – 12 months	20,044	14,602	8,632	2,204	45,482
over 12 months	119,931	120,407	17,184	11,105	268,627
<b>Total receivables</b>	<b>224,909</b>	<b>185,890</b>	<b>724,489</b>	<b>172,785</b>	<b>1,308,073</b>
of which under court collection process	122,135	136,440	3,944	5,058	267,577

Expected percentage of settlement for receivable not overdue (CZK '000)	DOM	MO	VO/SO	Other	Total
Not overdue	57,535	30,923	665,855	151,289	905,602
Expected settlement rate	52%	48%	65%	81%	

Based on historical data, 64% of all incurred receivables are paid before the maturity, 34% of receivables are paid after due date. The remaining 2% of receivables are collected through legal proceedings. The success rate of these claims collections is each year different.

Due dates of receivables are based on invoice due dates and the collection period is subsequently not prolonged or changed in respect to the customers.

Long-term external rating of banks with which the Group has financial transactions, is A2 level according to the rating agency Moody's.

Following tables show the analysis of impaired and not impaired financial assets. Impaired assets represent trade receivables overdue more than 1 month with elevated credit risk based on historical experience:

31 December 2015:

(CZK '000)	Not impaired financial assets not yet due	Not impaired financial assets overdue	Impaired financial assets	Total
Trade receivables	387,682	37,522	349,744	774,948
Unbilled deliveries	644,052	0	0	644,052
Cash and cash equivalents	177,745	0	0	177,745
Other long-term assets	2,899	0	0	2,899
<b>Total</b>	<b>1,212,378</b>	<b>37,522</b>	<b>349,744</b>	<b>1,599,644</b>

31 December 2014:

(CZK '000)	Not impaired financial assets not yet due	Not impaired financial assets overdue	Impaired financial assets	Total
Trade receivables	275,887	51,917	350,554	678,358
Unbilled deliveries	629,715	0	0	629,715
Cash and cash equivalents	554,423	0	0	554,423
Financial derivatives	1,032	0	0	1,032
Other long-term assets	4,612	0	0	4,612
<b>Total</b>	<b>1,465,669</b>	<b>51,917</b>	<b>350,554</b>	<b>1,868,140</b>

## 4.2. Liquidity risk

Liquidity risk is a risk, that the entity might have a difficulty with payments of financial liabilities.

The goal for liquidity risk management is to keep a balance between financing of operating activity and financial flexibility to meet trade payables and liabilities to creditors of the Group on time.

Management of the Group minimizes liquidity risk (i.e. the risk of a lack of cash to pay liabilities) by continuous ongoing management and planning of its future cash flows. The main tool for planning of cash flows is the preparation of a midterm plan, which is prepared annually for a 3-year period. The cash-flow plan for the following year is subsequently divided into individual days and kept updated. Based on this detailed forecast, the Group ensures that a sufficient level of liquid cash is available to settle its liabilities. The availability of funding and the possibility of closing the market positions are important for cautious management of liquidity risk.

Management of the Group monitors liquidity and its development in weekly reports basis prepared by Financing and Tax department. Management of the Group is also provided with short term forecast of liquidity development.

In 2015, the Group has finished the restructuring of the the Group's companies' financing, including PPH. It was completed on 24 April 2015 by signing the new loan agreements by the Company and PPH and emission of bonds by PPD.

The refinancing resulted in the the new structure of the Group's credit lines totaling CZK 3.5 billion and line for bank guarantees in the amount of CZK 0.5 billion, all provided by a consortium of banks, ie. Československá obchodní banka, a. s., Česká spořitelna, a. s., Unicredit Bank Czech Republic and Slovakia, a. s., and Komerční banka, a. s. These new credit lines are drawn on a daily and monthly basis, so there is optimal coverage of the Group's cash flow, which is significantly affected by seasonal fluctuations related to the purchase and sale of gas.

In connection with opening new credit lines from the consortium of banks, the following documents were concluded between the Company and Československá obchodní banka, a. s. (Agent collateral):

- Agreement on the establishment of a lien on the companyt, which provides for all existing, future and contingent financial debt of the Company in favor of the collateral agent.
- Agreement on a receivables pledge on bank accounts, which were pledged as security for each claim in favor of the collateral agent.
- Agreement on the prohibition of a lien on the shares of Pražská plynárenská Distribuce, a. s., member of the group Pražská plynárenská, a. s.

The long-term loan, drawn from 2009, was transformed into short-term line C new credit agreement from 31 May 2015. It is classified as a short term loan due to its maturity up to 1 year (payable till 31 May 2016).

Interest rates on all loans drawn are floating and derived from PRIBOR. An integral part of the Group financing is using available funds of all the Group's companies within cash-pooling. Using these free resources reduces drawing of short-term loans from banks.

Summary of the short-term credit lines as at 31 December 2015:

### Short-term credit lines

Bank	limit	from	to	interest rate
Consortium of banks – line A	CZK 900,000,000	24. 4. 2015	24. 4. 2018	floating
Consortium of banks – line C	CZK 700,000,000	24. 4. 2015	24. 4. 2018	floating
Consortium of banks – line D	CZK 900,000,000	24. 4. 2015	24. 4. 2018	floating
Consortium of banks – line E	CZK 1,000,000,000	24. 4. 2 015	24. 4. 2018	floating

As at 31 December 2015, the Group used credit in the amount of CZK 1,256,878,000 (average interest rate of loans is presented in the Note 6.11), further as at 31 December 2015 the Group used financial resources from the parent company PPH, a. s., in the amount of CZK 34,510,000, that represent cash pooling liabilities. The average interest rate on cash pooling for 2015 was 0.20% p. a.

Summary of the short-term and the long-term bank loans as at 31 December 2014:

#### Short-term credit lines

Bank	limit	from	to	interest rate
ČSOB	CZK 300,000,000	26. 6. 2014	29. 6. 2015	floating
Citibank	CZK 600,000,000	21. 2. 2012	21. 2. 2015	floating
Komerční banka	CZK 1,300,000,000	13. 3. 2014	27. 2. 2015	floating
Česká spořitelna	CZK 1,000,000,000	26. 11. 2014	30. 11. 2015	floating

#### Long-term credit lines

Bank	limit	from	to	interest rate
ČSOB	CZK 700,000,000	31. 12. 2014	31. 5. 2016	floating

As at 31 December 2014 the Group used credit in the amount of CZK 793,802,000, further as at 31 December 2014 the Group used financial resources from the parent company PPH, a. s., in the amount of CZK 307,619,000, that represent cash pooling liabilities. The average interest rate on cash pooling for 2014 was 0.20% p.a.

The fulfilment of financial covenants is attached to the loans – described in detail in note 5.

The liquidity position is supported by a system of advance payments, while wholesale and medium-sized customers pay advances several times a month, small business and households pay advances in monthly or quarterly intervals. When determining the advances for all categories, consumption in the past, seasonality and the price of gas are taken into account.

The emission of bonds was an integral part of the refinancing process of Group companies.

On 14 May 2015 the Group issued bonds with a floating interest rate, which were fully acquired by a consortium of banks (Česká spořitelna, Československá obchodní banka, Komerční banka a UniCredit Bank).

Future cash flows (interest expense), related to bonds, are secured with financial derivatives (interest rate swap), to which hedge accounting is applied (cash flow hedges, Note 6.9.1.2).

Bond name as at 31.12.2014	Nominal value of the issue (CZK '000)	Due date	Coupon rate p.a. (%)	Coupon maturity	Book value as at 31. 12. 2015 (CZK '000)	Book value (CZK '000)
PPD Bond VAR/2022 ISIN CZ0003512493	2,500,000	14. 5. 2022	3M Pribor + margin	quarterly	2,501,659	0

The bonds carry no additional rights (including the subscription rights or the right to exchange). Bonds are not freely tradable. Bonds can be transferred without prior consent of the issuer only to a person who is a professional subject within the meaning of § 2 section 1 of the Law on Capital Market. The fulfilment of financial covenants is attached to the bonds. If there was a failure to comply with these conditions, an early repayment may be required. There are no liens or other security interests in favor of bondholders.

The following tables present liabilities grouped according to their remaining maturity as at 31 December 2015 and 31 December 2014. The liabilities contained in the tables are the undiscounted cash flows, including interest where relevant. The interest amount is based on the loans values as at 31 December 2015 and on interest rates on the financial market as at 31 December 2015 (including bank margins).

31 December 2015:

(CZK '000)	0-3 months	3-6 months	6-12 months	1-3 years	3-5 years	5-8 years
Bank loans	559,413	701,517	0	0	0	0
Derivatives	205,501	230,732	416,887	215,589	50,250	37,688
Bonds	7,750	7,750	15,500	62,000	62,000	2,546,500
Trade payables and other liabilities	1,434,089	621	54	216	449	71
Financial resources from PPH – cashpooling	34,511	0	0	0	0	0
<b>Celkem</b>	<b>2,241,264</b>	<b>940,620</b>	<b>432,441</b>	<b>277,805</b>	<b>112,699</b>	<b>2,584,259</b>



31 December 2014:

(CZK '000)	0-3 months	3-6 months	6-12 months	1-3 years	3-5 years	5-8 years
Bank loans	95,566	1,769	3,578	702,913	0	0
Derivatives	32,001	8,373	16,746	7,678	0	0
Trade payables and other liabilities	1,502,478	566	0	1,758	0	75
Financial resources from PPH – cashpooling	307,621	0	0	0	0	0
<b>Total</b>	<b>1,937,666</b>	<b>10,708</b>	<b>20,324</b>	<b>712,349</b>	<b>0</b>	<b>75</b>

The main aim of the ageing analysis of liabilities is the identification of unavoidable liabilities that have to be paid (within the legal limitations), which represent cash outflow that negatively impacts the liquidity.

#### Guarantees concluded

The Group has guarantees covering its financial liabilities arising from its activities on the gas trading market at the consortium of the banks, a. s., in favour of OTE, a. s., as at 31 December 2015 up to the amount of CZK 200,000,000 (as at 31 December 2014: CZK 350,000,000) and in favour of RWE Supply GmbH, up to the amount of EUR 6,500,000 as at 31 December 2015 (as at 31 December 2014: CZK 5,500,000). These liabilities are not included in the balance sheet.

### 4.3. Market risk

#### 4.3.1. Interest rate risk

Interest rate risk is defined as risk related to changes in fair value of future cash flows from financial instruments as result of interest rate fluctuation.

The goal of interest rate risk management is to eliminate risk emerged from interest rate fluctuations of interest-bearing financial liabilities and receivables using an appropriate structure.

Management of the Group monitors interest rate risk and its development using regular reports, which include information about interbank interest rates (mainly PRIBOR) and assessment of actual interest expenses. Management of the Group is provided with the short term prediction of relevant interest rates.

Management of the Group and representatives from Financing and Tax department have regular meetings on quarterly basis with financing banks representatives. Development of interest rates on the market and negotiation for potential adjustments of interest rates from provided loans are discussed during those meetings.

The Group's entire short-term and long-term bank loans as at 31 December 2015 and 2014 have floating interest rates derived from the relevant interbank rate PRIBOR.

To hedge the interest rate risk resulting from the issued bonds, an interest rate swap in the same volume was concluded.

#### Sensitivity analysis:

If the interest rate had increased/decreased by 10 basic points with all other variables held constant as at 1 January 2015, profit for the year before tax as at 31 December 2015 would have been CZK 3,011,000 lower/higher as a result of the increased interest expense (as at 31 December 2014: CZK 1,581,000).

If the interest rate had increased/decreased by 10 basic points with all other variables held constant as at 31 December 2015, the impact of the interest rate swap revaluation into equity as at 31 December 2015 would have been CZK 16,250,000 lower/higher, ie. the Group's equity would have been by this amount higher/lower (as at 31 December 2014: CZK nil).

The structure of the impact on profit before tax is shown in the table below:

(CZK '000)	2015	2014	2015	2014
	increase of 10 p.b.		decrease of 10 p.b.	
Impact on profit before tax	(3,011)	(1,581)	3,011	1,581
Impact on other comprehensive income before tax	16,250	0	(16,250)	0
<b>Impact on total comprehensive income before tax</b>	<b>13,239</b>	<b>(1,581)</b>	<b>(13,239)</b>	<b>1,581</b>

#### 4.3.2. Currency risk

Currency risk is defined as a risk related to changes in future cash flows from financial instruments as result of foreign exchange rates fluctuation.

Movements in exchange rates represent a risk due to the fact that the Group purchases part of the gas in foreign currency (about 30% of the total volume of gas purchased). Selection of currency in which purchases are realised is in forward purchases fully dependent on the overall commercial conditions. The Group always hedges against the exchange rate risk resulting from these purchase contracts up to 100% of the purchased volume in the form of currency forwards at the bank. All spot purchases transactions are made in EUR. On the other hand the vast majority of these purchases are also sold in EUR or the price lists that reflect the final price using the current exchange rate as at the day of purchase are used. The Group actively manages this risk through monitoring foreign exchange developments and through the above management of gas purchases in foreign currency. The Group hedges itself against long-term currency risk.

Fluctuation of exchange rates constitutes a further risk as the Group keeps receivables and payables in foreign currencies.

#### Sensitivity analysis:

If the CZK/EUR exchange rate had decreased/increased by 0.5 CZK/EUR with all other variables held constant as at 31 December 2015, profit for the year before tax as at 31 December 2015 would have been CZK 17,961,000 higher/lower (as at 31 December 2014: CZK 445,000).

#### 4.4. Fair value measurement

Fair values of financial assets and liabilities that are traded in an active market are determined by using prices quoted (unadjusted) on the active markets.

As at the end of the reporting period, the Group classified its financial assets and liabilities at fair value through profit or loss under Level 2 featuring entry data used to determine the fair value (see Note 6.9.1.).

Carrying amount of short term receivables after deducting their impairment and short term liabilities and loans approximate their fair values.

#### 4.5. Offsetting of financial instruments

31 December 2015:

(CZK '000)	Gross amount of compensation in the Statement of financial position	Gross amount of credit in the Statement of financial position	Gross amount after compensation in the Statement of financial position	The amount, which is the subject to master netting agreements and similar arrangements in the Statement of financial position	Total net exposure
Trade and other receivables	1,153,250	0	1,153,250	217,776	935,474
Trade payables and other financial liabilities	1,520,232	0	1,520,232	217,776	1,302,456

31 December 2014 (restated):

(CZK '000)	Gross amount of compensation in the Statement of financial position	Gross amount of credit in the Statement of financial position	Gross amount after compensation in the Statement of financial position	The amount, which is the subject to master netting agreements and similar arrangements in the Statement of financial position	Total net exposure
Trade and other receivables	980,594	0	980,594	233,854	746,740
Trade payables and other financial liabilities	1,851,703	0	1,851,703	233,854	1,617,849

## 5. CAPITAL RISK MANAGEMENT

Optimal capitalization of the Group is balancing between capital gains and capability to cover all mature liabilities.

The goal of capital risk management is to maintain such proportion of equity and liabilities that all financial liabilities are repaid and that the Group's value increase for shareholders is ensured.

Following the conditions resulting from the new loan agreements signed in 2015, there are monitored following indicators:

- the ratio of net debt to EBITDA,
- CAPEX.

The Group's objective is to meet all conditions arising from those debt covenants (in case of not meeting them there may be required early repayment of loans).

## 6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 6.1. Land property, plant and equipment

Property, plant and equipment (CZK '000) Acquisition cost	Land	Gas pipes, buildings and other constructions	Separate movable items	Boiler installations and other tangible fixed assets	Fixed assets under course of construction	Advances for tangible non-current assets	Total
<b>Balance as at 1. 1. 2014</b>	<b>118,100</b>	<b>8,591,426</b>	<b>1,786,688</b>	<b>141,614</b>	<b>112,932</b>	<b>8,448</b>	<b>10,759,208</b>
Purchases	0	0	0	0	495,963	9,566	505,529
Transfers	84	449,142	118,852	3,673	(571,751)	0	0
Retirements	0	(20,068)	(89,750)	0	0	(8,448)	(118,266)
<b>Balance as at 31. 12. 2014</b>	<b>118,184</b>	<b>9,020,500</b>	<b>1,815,790</b>	<b>145,287</b>	<b>37,144</b>	<b>9,566</b>	<b>11,146,471</b>
Purchases	0	0	0	0	609,377	29,279	638,656
Transfers	5,337	429,106	116,325	20,679	(571,447)	0	0
Retirements	(163)	(50,178)	(112,044)	0	0	(9,566)	(171,951)
<b>Balance as at 31. 12. 2015</b>	<b>123,358</b>	<b>9,399,428</b>	<b>1,820,071</b>	<b>165,966</b>	<b>75,074</b>	<b>29,279</b>	<b>11,613,176</b>
<b>Accumulated depreciation, impairment, depreciation, recharging</b>							
<b>Balance as at 1. 1. 2014</b>	<b>0</b>	<b>3,617,011</b>	<b>1,500,775</b>	<b>40,554</b>	<b>0</b>	<b>0</b>	<b>5,158,340</b>
Depreciation	0	193,751	117,909	7,435	0	0	319,095
Impairment	0	499	347	0	0	0	846
Accumulated depreciation for disposals	0	(16,334)	(86,275)	0	0	0	(102,609)
<b>Balance as at 31. 12. 2014</b>	<b>0</b>	<b>3,794,927</b>	<b>1,532,756</b>	<b>47,989</b>	<b>0</b>	<b>0</b>	<b>5,375,672</b>
Depreciation	0	202,536	117,980	8,161	0	0	328,677
Impairment	0	476	282	0	0	0	758
Accumulated depreciation for disposals	0	(41,856)	(100,838)	0	0	0	(142,694)
<b>Balance as at 31. 12. 2015</b>	<b>0</b>	<b>3,956,083</b>	<b>1,550,180</b>	<b>56,150</b>	<b>0</b>	<b>0</b>	<b>5,562,413</b>
<b>Net book value 2014</b>	<b>118,184</b>	<b>5,225,573</b>	<b>283,034</b>	<b>97,298</b>	<b>37,144</b>	<b>9,566</b>	<b>5,770,799</b>
<b>Net book value 2015</b>	<b>123,358</b>	<b>5,443,345</b>	<b>269,891</b>	<b>109,816</b>	<b>75,074</b>	<b>29,279</b>	<b>6,050,763</b>

Separate movable items – detail (CZK '000) Acquisition cost	Vehicles	Computer equipment	Gas meters	Regulating stations-technology	Furniture and fittings	Total
<b>Balance as at 1. 1. 2014</b>	<b>111,140</b>	<b>196,670</b>	<b>630,811</b>	<b>422,254</b>	<b>425,813</b>	<b>1,786,688</b>
Transfers	21,002	5,089	56,137	28,418	8,206	118,852
Retirement	(24,396)	(6,015)	(53,251)	(1,113)	(4,975)	(89,750)
<b>Balance as at 31. 12. 2014</b>	<b>107,746</b>	<b>195,744</b>	<b>633,697</b>	<b>449,559</b>	<b>429,044</b>	<b>1,815,790</b>
Transfers	15,656	12,589	56,742	23,808	9,271	118,066
Retirement	(15,286)	(23,013)	(40,125)	(14,647)	(20,714)	(113,785)
<b>Balance as at 31. 12. 2015</b>	<b>108,116</b>	<b>185,320</b>	<b>650,314</b>	<b>458,720</b>	<b>417,601</b>	<b>1,820,071</b>
<b>Accumulated depreciation, impairment, depreciation, recharging</b>						
<b>Balance as at 1. 1. 2014</b>	<b>75,563</b>	<b>159,506</b>	<b>574,002</b>	<b>345,372</b>	<b>346,332</b>	<b>1,500,775</b>
Depreciation	14,716	16,059	49,303	15,432	22,399	117,909
Impairment	0	0	192	0	155	347
Accumulated depreciation for disposals	(21,446)	(6,015)	(52,726)	(1,113)	(4,975)	(86,275)
<b>Balance as at 31. 12. 2014</b>	<b>68,833</b>	<b>169,550</b>	<b>570,771</b>	<b>359,691</b>	<b>363,911</b>	<b>1,532,756</b>
Depreciation	14,004	14,209	54,672	14,038	21,057	117,980
Impairment	0	0	0	0	282	282
Accumulated depreciation for disposals	(13,226)	(23,013)	(40,125)	(3,760)	(20,714)	(100,838)
<b>Balance as at 31. 12. 2015</b>	<b>69,611</b>	<b>160,746</b>	<b>585,318</b>	<b>369,969</b>	<b>364,536</b>	<b>1,550,180</b>
<b>Net book value 2014</b>	<b>38,913</b>	<b>26,194</b>	<b>62,926</b>	<b>89,868</b>	<b>65,133</b>	<b>283,034</b>
<b>Net book value 2015</b>	<b>38,505</b>	<b>24,574</b>	<b>64,996</b>	<b>88,751</b>	<b>53,065</b>	<b>269,891</b>

An impairment test has been performed over non-current assets under the course of construction based on the future usage analysis and no impairment was identified.

The Group has no pledged assets. Property purchased using financial leasing is not significant for the Group.

## 6.2. Intangible assets

Intangible assets (CZK '000) Acquisition cost	Goodwill	Software	Royalties	Intangible fixed assets under course of construction	Advances for intangible assets	Total
<b>Balance as at 1. 1. 2014</b>	<b>171</b>	<b>536,265</b>	<b>5,500</b>	<b>25,828</b>	<b>0</b>	<b>567,764</b>
Purchase	0	0	0	29,063	0	29,063
Transfers	0	24,550	0	(24,550)	0	0
Retirements	0	(2,878)	0	0	0	(2,878)
<b>Balance as at 31. 12. 2014</b>	<b>171</b>	<b>557,937</b>	<b>5,500</b>	<b>30,341</b>	<b>0</b>	<b>593,949</b>
Purchase	0	0	0	48,370	0	48,370
Transfers	0	37,517	1,286	(38,803)	0	0
Retirements	0	(583)	0	0	0	(583)
<b>Balance as at 31. 12. 2015</b>	<b>171</b>	<b>594,871</b>	<b>6,786</b>	<b>39,908</b>	<b>0</b>	<b>641,736</b>
<b>Oprávký, odpisy, opravné položky</b>						
<b>Balance as at 1. 1. 2014</b>	<b>0</b>	<b>461,047</b>	<b>458</b>	<b>0</b>	<b>0</b>	<b>461,505</b>
Depreciation	0	50,564	1,375	0	0	51,939
Impairment	0	0	0	0	0	0
Accumulated depreciation for disposals	0	(814)	0	0	0	(814)
<b>Balance as at 31. 12. 2014</b>	<b>0</b>	<b>510,797</b>	<b>1,833</b>	<b>0</b>	<b>0</b>	<b>512,630</b>
Depreciation	0	47,515	1,682	0	0	49,197
Accumulated depreciation for disposals	0	(546)	0	0	0	(546)
<b>Balance as at 31. 12. 2015</b>	<b>0</b>	<b>557,766</b>	<b>3,515</b>	<b>0</b>	<b>0</b>	<b>561,281</b>
<b>Net book value 2014</b>	<b>171</b>	<b>47,140</b>	<b>3,667</b>	<b>30,341</b>	<b>0</b>	<b>81,319</b>
<b>Net book value 2015</b>	<b>171</b>	<b>37,105</b>	<b>3,271</b>	<b>39,908</b>	<b>0</b>	<b>80,455</b>

No impairment of goodwill was identified in 2015 and 2014.

The average residual amortization period of software is 1 year and 4 months.

An impairment test has been performed over non-current assets under the course of construction based on future usage analysis and no impairment was identified.

### 6.3. Inventories

Inventories represent mainly gas stored in the gas storage. In 2015 this gas has been used and accounted for as consumption in the amount of CZK 811,824,000 (2014: CZK 479,134,000).

No surpluses and/or shortfalls in inventories were found during stock-taking in 2015.

### 6.4. Trade and other receivables

Type of receivables (CZK '000)	31. prosinec 2015	31. prosinec 2014
Trade receivables from third parties	774,895	678,133
Trade receivables from related parties	53	225
<b>Financial trade receivables</b>	<b>774,948</b>	<b>678,358</b>
Allowances for receivables	(341,620)	(328,511)
<b>Net trade receivables – financial</b>	<b>433,328</b>	<b>349,847</b>
Unbilled deliveries	644,052	629,715
Receivables from derivative transactions	0	1,032
Other receivables – financial	75,870	0
<b>Total financial trade and other receivables</b>	<b>1,153,250</b>	<b>980,594</b>
Operating short-term advances paid	76,387	71,576
Other receivables – non-financial	18,317	93,354
<b>Total non-financial trade and other receivables</b>	<b>94,704</b>	<b>164,930</b>
<b>Total trade and other receivables</b>	<b>1,247,954</b>	<b>1,145,524</b>

Short-term operating advances provided to individual suppliers for natural gas and electricity purchases and purchases of gas distribution services were offset with anticipated payables created in connection with these suppliers. In 2015 the offset amount of advances with anticipated payables was CZK 389,700,000 (2014: CZK 600,110,000).

Trade receivables outstanding have not been secured. Receivables from related parties are analysed in Note 6.23.

The ageing of trade and other receivables which has not been determined to be impaired as at the reporting date is as follows:

Overdue receivables (CZK '000)	31. prosinec 2015	31. prosinec 2014
Up to 30 days	40,773	51,917
<b>Total</b>	<b>40,773</b>	<b>51,917</b>

The ageing of trade and other receivables which are determined to be impaired as at the reporting date is as follows:

Overdue receivables (CZK '000)	31. prosinec 2015	31. prosinec 2014
Up to 6 months	96,557	36,445
6 to 12 months	38,245	45,482
Over 1 year	246,028	268,627
<b>Total</b>	<b>380,830</b>	<b>350,554</b>

Movements in the allowance account of trade and other receivables are as follows:

<b>Allowance for trade and other receivables (CZK '000)</b>	<b>31. prosinec 2015</b>	<b>31. prosinec 2014</b>
Opening balance as at 1 January	328,511	372,315
Creation of allowance for receivables	115,731	57,576
Use of allowance	102,622	101,380
<b>Balance as at 31 December</b>	<b>341,620</b>	<b>328,511</b>

Structure of allowances for trade and other receivables by category is shown in the following tables:

31 December 2015:

<b>Allowances for receivables (CZK '000)</b>	<b>Ageing of allowances for overdue receivables</b>					<b>Total</b>
	<b>Up to 1 month</b>	<b>1 to 3 months</b>	<b>3 to 6 months</b>	<b>6 to 12 months</b>	<b>Over 12 months</b>	
MO	0	292	1,846	7,116	112,381	121,635
DOM	0	501	1,393	7,261	105,385	114,540
VO/SO	914	1,161	796	7,094	13,455	23,420
Other	0	64,138	183	2,897	14,807	82,025
<b>Total</b>	<b>914</b>	<b>66,092</b>	<b>4,218</b>	<b>24,368</b>	<b>246,028</b>	<b>341,620</b>

31 December 2014:

<b>Allowances for receivables (CZK '000)</b>	<b>Ageing of allowances for overdue receivables</b>				<b>Total</b>
	<b>1 to 3 months</b>	<b>3 to 6 months</b>	<b>6 to 12 months</b>	<b>Over 12 months</b>	
MO	525	1,762	9,417	125,759	137,463
DOM	628	2,576	14,943	135,223	153,370
VO/SO	149	7	386	26,780	27,322
Other	136	226	3,685	6,309	10,356
<b>Total</b>	<b>1,438</b>	<b>4,571</b>	<b>28,431</b>	<b>294,071</b>	<b>328,511</b>

The following table analyses income and expenses related to trade and other receivables:

<b>Trade and other receivables (CZK '000)</b>	<b>31 December 2015</b>	<b>31 December 2014</b>
Change in allowance – for existing trade receivables	13,109	(43,804)
Trade receivables written-off	100,344	99,888
<b>Total net loss from trade receivables</b>	<b>113,453</b>	<b>56,084</b>

The Group has no long-term receivables.

## 6.5. Share capital

<b>Form of shares</b>	<b>2015</b>		<b>2014</b>	
	<b>Number</b>	<b>Nominal value (CZK)</b>	<b>Number</b>	<b>Nominal value (CZK)</b>
Bearer shares	950,338	300	950,338	1,000
Registered shares	489,569	300	489,569	1,000
<b>Total</b>	<b>1,439,907</b>		<b>1,439,907</b>	
<b>Total share capital</b>		<b>431,972,100</b>		<b>1,439,907,000</b>

Bearer shares are in booked form.



Registered shares are in booked form, their transferability is limited and their transfer must be approved by the General Meeting based on a proposal of the Board of Directors and the Supervisory Board. All shares have equal rights. Shareholders have both rights and obligations. The basic duty of the shareholders is obligation to deposit. The rights of shareholders include:

- The right to dividend;
- The right to vote;
- The right to request and receive an explanation on the general meeting on matters relating to the Company or persons controlled by or for the exercise of shareholder rights;
- The right to present proposals and counterproposals on matters included on the agenda of the General Meeting;
- The rights of qualified shareholders, to ask the Board of Directors to convene a General Meeting and the Supervisory Board to review the performance of the Board of Directors;
- The right to bring an action against a member of the Board of Directors or the Supervisory Board, the right to seek repayment of the issue price against shareholders who defaulted on repayment;
- The right to require the compulsory transfer of the securities.

During 2015 there were changes in the amount of share capital (see Note 7.2.).

### 6.6. Funds from profit

The Companies from the Group are fully governed by the new Corporations Act however, it did not use the option not to create a reserve fund. Conforming to it is governed by its Articles of Association.

Reserve funds may be transferred to retained earnings or it may be used to offset losses.

### 6.7. Trade payables and other long-term liabilities

Other liabilities (CZK '000) due	Long-term advances received	Other long-term liabilities	Total
<b>Balance as at 31. 12. 2014</b>	<b>200</b>	<b>1,833</b>	<b>2,033</b>
- of which: due in less than 5 years	200	1,833	2,033
- of which: due after 5 years	0	0	0
<b>Balance as at 31. 12. 2015</b>	<b>155</b>	<b>736</b>	<b>891</b>
- of which: due in less than 5 years	155	736	891
- of which: due after 5 years	0	0	0
<b>Total as at 31. 12. 2014</b>	<b>200</b>	<b>1,833</b>	<b>2,033</b>
<b>Total as at 31. 12. 2015</b>	<b>155</b>	<b>736</b>	<b>891</b>

### 6.8. Deferred tax liability

Compensation of deferred tax assets and liabilities:

(CZK '000)	31 December 2015	31 December 2014
Deferred tax asset to be recovered after more than 12 months	(24,223)	(19,382)
Deferred tax asset to be recovered within 12 months	(56,532)	(32,564)
Deferred tax liability payable after more than 12 months	450,243	425,454
Deferred tax liability payable within 12 months	0	0
<b>Net deferred tax liability</b>	<b>369,488</b>	<b>373,508</b>

The deferred tax was calculated using the tax rate 19% (tax rate for 2014, 2015 and following years).

Deferred tax liability (+) and deferred tax asset (-) (CZK '000) Item	31 December 2015	31 December 2014
Deferred tax liability in respect of net book value of non-current assets	449,762	425,325
Tax non-deductible part of allowances for receivables	(25,657)	(18,296)
Tax non-deductible impairment of materials	(296)	(221)
Provisions for litigation and anticipated compensation from the insurance company	(19,000)	(19,000)
Provisions and other temporary differences	(6,762)	(32)
Anticipated obligations to employees and board members	(23,776)	(14,268)
Deferred tax asset from changes in the fair value of the hedging derivative	(4,783)	0
<b>Total</b>	<b>369,488</b>	<b>373,508</b>

Deferred tax liability (+) and deferred tax asset (-) (CZK '000)	Difference of net book value of non-current assets	Tax non-deductible portion of allowance for doubtful receivables	Tax non-deductible impairment of material	Other	Total
<b>31 December 2014</b>	<b>425,325</b>	<b>(18,296)</b>	<b>(221)</b>	<b>(33,300)</b>	<b>373,508</b>
Profit (-) / loss (+)	24,437	(7,361)	(75)	(16,238)	<b>763</b>
Other total comprehensive income	0	0	0	(4,783)	<b>(4,783)</b>
<b>31 December 2015</b>	<b>449,762</b>	<b>(25,657)</b>	<b>(296)</b>	<b>(54,321)</b>	<b>369,488</b>

## 6.9. Trade payables and other liabilities, advances received – current

Trade payables and short-term advances received (CZK '000)	31 December 2015	31 December 2014
Trade payables to third parties	1,431,008	1,500,883
Trade payables to related parties	1,959	330
Short-term advances received	774,013	677,673
<b>Total trade payables and advances received</b>	<b>2,206,980</b>	<b>2,178,886</b>

Other liabilities (CZK '000)	31 December 2015	31 December 2014 (restated)	1 January 2014 (restated)
Financial resources from PPH	34,510	307,619	0
Liabilities from derivatives	50,958	41,040	45,000
Other liabilities – financial	1,797	1,831	1,892
<b>Total financial liabilities</b>	<b>87,265</b>	<b>350,490</b>	<b>46,892</b>
Liabilities to employees	156,867	105,621	99,929
Liabilities for social insurance	34,840	30,482	30,009
Other liabilities – non-financial	8,870	5,785	4,285
<b>Total non-financial liabilities</b>	<b>200,577</b>	<b>141,888</b>	<b>134,223</b>
<b>Total other liabilities</b>	<b>287,842</b>	<b>492,378</b>	<b>181,115</b>

Trade payables and short-term advances received (CZK '000) Carrying amount	Trade payables	Short-term advances received	Estimated liabilities	Total
Balance as at 31. 12. 2014	261,011	677,673	1,240,202	2,178,886
Balance as at 31. 12. 2015	301,344	774,013	1,131,623	2,206,980

Trade payables and short-term advances received (maturity) (CZK '000)	Trade payables	Short-term advances received	Estimated liabilities	Total
<b>Balance as at 31. 12. 2014</b>	<b>261,011</b>	<b>677,673</b>	<b>1,240,202</b>	<b>2,178,886</b>
- of which: due within 6 months	261,011	677,673	1,240,202	2,178,886
- of which: due more than 6 months but within one year	0	0	0	0
<b>Balance as at 31. 12. 2015</b>	<b>301,344</b>	<b>774,013</b>	<b>1,131,623</b>	<b>2,206,980</b>
- of which: due within 6 months	301,344	774,013	1,131,623	2,206,980
- of which: due more than 6 months but within one year	0	0	0	0
<b>Total as at 31. 12. 2014</b>	<b>261,011</b>	<b>677,673</b>	<b>1,240,202</b>	<b>2,178,886</b>
<b>Total as at 31. 12. 2015</b>	<b>301,344</b>	<b>774,013</b>	<b>1,131,623</b>	<b>2,206,980</b>

Payables to related parties are disclosed in Note 6.23.

Trade payables and other liabilities have not been secured by any Group's assets.

### 6.9.1. Derivative financial instruments

#### 6.9.1.1. Financial derivatives for trading

Fair value of financial derivatives is recognized within trade receivables, if its value is positive for the Group, or within other liabilities, if it is negative:

(CZK '000)	31 December 2015			31 December 2014		
	Fair value		Nominal value	Fair value		Nominal value
	Positive	Negative		Positive	Negative	
Currency forward	58	13,341	979,534	1,032	0	23,628
Embedded forward	0	13,800	700,000	0	41,040	700,000

Embedded financial derivatives are formed from revaluation of formula for long-term interest rate calculation. The value of embedded financial derivatives reflects the impact of interest rate changes on financial market on interest rate calculation of long-term loan until its maturity in 2016.

Embedded derivative at long-term loan is formed in such a way that if the interest rate 1M PRIBOR decreases below 0.90 % p.a. the Company pays fixed interest rates at 3.81% p.a. If the interest rate 1M PRIBOR is higher than 3.81%, the Company pays stable interest rate at 3.81% p.a. If the interest rate of 1M PRIBOR is between 0.90 % and 3.81 % p. a., the Company pays always the current level of 1M PRIBOR interest rate.

Financial revenues relating to derivatives are recognized in the consolidated statement of comprehensive income for the year 2015 in the amount of CZK 13,676,000 (2014: cost in the amount of CZK CZK 6,024,000) – see Note 6.20.

#### 6.9.1.2. Hedging financial derivatives

Financial derivatives, ie. Interest rate swaps qualify for hedge accounting – they are a hedging instrument for future cash flows (interest expense) related to issued bonds. The fair value of the Interest rate swaps is recorded in other receivables if it's positive for the Group, or in other payables, when it's negative.

(CZK '000)	31. prosince 2015			31. prosince 2014		
	Fair value		Nominal value of hedged item	Fair value		Nominal value of hedged item
	Positive	Negative		Positive	Negative	
<b>Interest rate swaps</b>	<b>0</b>	<b>104,325</b>	<b>2,500,000</b>	<b>0</b>	<b>0</b>	<b>0</b>
- long-term	0	80,450		0	0	
- short-term	0	23,875		0	0	

The impact of interest expenses relating to interest rate swaps to profit and loss on 31 December 2015: CZK 15,593,000 (31 December 2014: CZK nil).

These Interest rate swaps were, according to the Agreement on novation dated 14 May 2015, transferred to the Group company Pražská plynárenská Holding, a. s., (PPH) at its fair value as at the date of the transaction in the amount of CZK 75,870,000. This transaction with a related party is also described in Note 6.23.

#### 6.10. Unbilled supplies and advances received

31 December 2015 (CZK '000)	DOM	MO	VO/SO	Other	Total
Unbilled supplies	2,076,182	1,113,222	859,066	176,678	4,225,148
Advances received	(2,395,871)	(1,469,447)	(390,299)	(99,494)	(4,355,111)
<b>Netting</b>	<b>2,076,182</b>	<b>1,113,222</b>	<b>315,014</b>	<b>76,678</b>	<b>3,581,096</b>
Unbilled supplies – after netting	0	0	544,052	100,000	644,052
Advances received – after netting	(319,689)	(356,225)	(75,285)	(22,816)	(774,013)

31 December 2014 (CZK '000)	DOM	MO	VO/SO	Other	Total
Unbilled supplies	2,096,017	1,041,986	802,069	303,896	4,243,968
Advances received	(2,240,318)	(1,390,952)	(319,287)	(341,369)	(4,291,926)
<b>Netting</b>	<b>2,096,017</b>	<b>1,041,986</b>	<b>272,354</b>	<b>203,896</b>	<b>3,614,253</b>
Unbilled supplies – after netting	0	0	529,715	100,000	629,715
Advances received – after netting	(144,301)	(348,966)	(46,933)	(137,473)	(677,673)

#### 6.11. Bank loans and bonds

Up to April 2015, the Group used four short-term credit lines with the following banks: Československá obchodní banka, a. s., Citibank Europe plc., organizační složka, Komerční banka, a. s., a Česká spořitelna, a. s. During April the whole credit line structure was refinanced and the Company has at its disposal new short-term 3-year credit lines of Konsorcía bank, by Československá obchodní banka, a. s., Komerční banka, a. s., Česká spořitelna, a. s. and Unicredit Bank Czech Republic and Slovakia, a.s. Credit lines before and after refinancing are drawn in the form of an overdraft or loan tranche and the average interest rate of drawn loans in 2015 was 1.23 % p.a. (2014: 0.50 % p.a.).

The long term loan amounting to CZK 700,000,000 was in April 2015 transformed to new short-term lines from a consortium of banks. The average interest rate of this bank loan in 2015 was 4.79 % p.a. (2014: 3.50 % p.a.).

Use of short-term bank loans provides the Company a possibility of optimal coverage of seasonal fluctuations in its cash flow, that accompany the purchase and sale of electricity.

Following the conditions resulting from the new loan agreements signed in 2015, there are monitored following indicators: the ratio of net debt to EBITDA and CAPEX (amount of investment in tangible assets). These indicators were met as at 31 December 2015.

The book value and fair value of long- and short-term bank loans is as follows:

(CZK '000)	Book value	
	2015	2014
Long-term bank loans and bonds	2,501,659	700,000
Short-term bank loans	1,256,878	93,802

Book value of bank loans and bonds is similar to their fair value.

The impact of interest costs associated with bonds to the profit and loss as at 31 December 2015 is CZK 19,797,000 (as at 31 December 2014: CZK nil).

The bonds are described in the Note 4.2.

**6.12. Tax receivables and liabilities**

<b>Tax liability (+) and asset (-) (CZK '000)</b>	<b>Income tax</b>	<b>Other tax liabilities</b>
<b>Carrying value</b>		
Balance as at 31. 12. 2014	(30,096)	9,315
Balance as at 31. 12. 2015	3,011	40,159

Other tax liabilities in year 2015 consist of CZK 6,133,000 (2014: CZK 6,140,000) in respect of personal income tax, CZK 30,455,000 (2014: CZK nil) in respect of value added tax and CZK 3,571,000 (2014: CZK 3,175,000) in respect of other taxes and charges.

**6.13. Provisions**

<b>Provisions (CZK '000)</b>	<b>Other provisions – long-term</b>	<b>Other provisions – short-term</b>
<b>Carrying value</b>		
<b>Balance as at 1. 1. 2014 (restated)</b>	<b>200,000</b>	<b>144</b>
Creation of provisions	0	0
Use of provisions	0	0
<b>Balance as at 31. 12. 2014 (restated)</b>	<b>200,000</b>	<b>144</b>
Creation of provisions	0	32,237
Use of provisions	0	(144)
<b>Balance as at 31. 12. 2015</b>	<b>200,000</b>	<b>32,237</b>
<b>Net book value 2014 (restated)</b>	<b>200,000</b>	<b>144</b>
<b>Net book value 2015</b>	<b>200,000</b>	<b>32,237</b>

Provisions recognized as at 31 December 2015 contain provision for property reimbursement related to extraordinary event of damage in Divadelni Street, Prague, in amount of CZK 200,000,000.

Based on the raised claims in this case, the proceedings are at the very beginning, not all of the claims have been raised yet. So far, the negotiations have been either directly adjourned from the court, or did not take place based on an agreement between the interested parties. The event is still complex in terms of designation of the person responsible. Long-term litigations are assumed, results of which are anticipated to be inconclusive. Assuming that the company PPD is designated as the liable for damages and it loses the case, it would have to pay all damages to victims, all costs of counterparties and any court costs. The provision for a liability against 3rd parties was recognized based on the management's estimate.

**6.14. Revenues**

<b>Revenues (CZK '000)</b>	<b>2015</b>	<b>2014</b>
Sale of natural gas	12,589,084	10,877,475
Sale of own and foreign distribution of gas	2,637,097	2,354,159
Sale of heat and CNG	115,815	107,868
Unused tolerance	413	257
Sale of electricity	132,017	113,421
Sale of foreign distributions of electricity	195,886	152,998
Other services	93,384	135,826
– out of that repair and maintenance	19,295	24,044
– out of that IT services	1,154	6,227
– out of that rent	20,709	20,585
– out of that pipelines construction	25,180	45,585
– out of that other services	27,046	39,385
Sale of goods and services	8,944	8,686
<b>Total</b>	<b>15,772,640</b>	<b>13,750,690</b>

**6.15. Purchased gas, electricity, materials and services connected with gas and electricity supplies**

<b>Purchased gas, electricity, materials and services connected with gas and electricity supplies (CZK '000)</b>	<b>2015</b>	<b>2014</b>
Costs of gas purchases	11,885,227	10,383,340
– of which operational leasing (Note 6.25)	171,408	150,627
Distribution fee	604,142	504,856
The costs associated with the purchase of electricity	111,023	93,614
The fee for the distribution of electricity	195,367	152,984
<b>Celkem</b>	<b>12,795,759</b>	<b>11,134,794</b>

Costs related to operational leasing represent expenses for rent of gas storage.

**6.16. Other operating income**

<b>Other operating income (CZK '000)</b>	<b>2015</b>	<b>2014</b>
Income from sale of non-current assets	4,415	2,188
Income from sale of materials	4,863	3,517
Income from contractual fines and default interest	25,634	8,428
Income from write-off of receivables	2,329	1,492
Income from write-off of lapsed liabilities	7,433	7,215
Court fee compensations	13,083	10,274
Gifts received and investment contributions	29	20
Benefits from insurance	1,873	14,097
Other operating income	8,219	6,157
<b>Total</b>	<b>67,878</b>	<b>53,388</b>

**6.17. Personnel costs**

<b>Personnel costs (CZK '000)</b>	<b>2015</b>	<b>2014</b>
Employees	491,305	531,874
Members of statutory bodies	111,718	119,990
Future benefits to members of statutory bodies under contracts (Note 3.20.4.)	45,925	9,186
<b>Total</b>	<b>648,948</b>	<b>661,050</b>

A related party of the Group is also key management personnel, who are the members of statutory bodies.

In the years 2015 and 2014 no loans were provided to members of the Board of Directors, members of the Supervisory Board and other members of Company management and Subsidiaries' management. Company cars, computer and telecommunication equipment are made available for use by the board members and other management.

The personnel costs of statutory bodies include also paid dividends to members of statutory bodies in the amount of CZK 35,030,000 in 2015 (2014: CZK 37,995,000) and claims paid under contracts on the performance of functions (see Note 3.20.4.) in the amount of CZK 1,584,000 (2014: CZK 16,109,000).

The contribution to state pension and other social funds amounted to CZK 90,045,000 in 2015 (2014: CZK 95,079,000).



**6.18. Amortization and depreciation of non-current assets**

<b>Amortization and depreciation of non-current assets (CZK '000)</b>	<b>2015</b>	<b>2014</b>
Depreciation of pipelines and gas equipment	248,345	237,695
Depreciation of buildings and constructions (apart from the buildings of regulating stations and pipelines)	26,759	24,786
Depreciation of motor vehicles	14,004	14,716
Amortisation of intangible assets	49,197	51,939
Depreciation of computer equipment	14,209	16,059
Other depreciation	25,360	25,839
<b>Total</b>	<b>377,874</b>	<b>371,034</b>

**6.19. Other operating costs**

<b>Other operating costs (CZK '000)</b>	<b>2015</b>	<b>2014</b>
Materials and energy consumption	82,735	84,235
Costs of goods	5,164	5,619
Services	563,760	565,160
- out of that repair and maintenance of assets	204,379	218,198
- out of that collection of debts	17,641	21,213
- out of that advertisement	89,995	61,086
- out of that operating lease payments (Note 6.25)	61,416	62,413
- out of that maintenance of IT systems	42,507	44,764
- out of that the cost of commissions paid to agents	31,391	33,193
- out of that costs of consultancy	22,448	21,644
- out of that costs of the gas meter readings	16,894	16,957
- out of that other services	77,089	85,692
Taxes and charges	8,650	14,620
Allowances and write-off of receivables	116,038	57,566
Other	79,401	26,902
<b>Total</b>	<b>855,748</b>	<b>754,102</b>

Information on the auditors' fees is disclosed in the notes to the consolidated financial statements of Pražská plynárenská Holding, a. s., as of 31 December 2015.

**6.20. Financial income and expenses**

<b>Financial income and expenses (CZK '000)</b>	<b>2015</b>	<b>2014</b>
Interest income	901	1,861
Interest expense	(76,720)	(38,602)
Derivative transactions income	42,990	30,762
Derivative transactions expense	(29,314)	(24,738)
Other financial income	16,771	23,066
Other financial expense	(38,161)	(25,000)
<b>Net financial income (+) /expense (-)</b>	<b>(83,533)</b>	<b>(32,651)</b>

Other financial income and expenses represent mainly foreign exchange differences.

## 6.21. Income tax

The income tax expense recognized in the consolidated statement of comprehensive income consists of the following:

(CZK '000)	2015	2014
Income tax – current	227,590	104,049
Income tax – previous years adjustment	(499)	0
Income tax – deferred	763	17,611
<b>Income tax – profit</b>	<b>227,854</b>	<b>121,660</b>
Income tax – deferred (hedge accounting)	(4,783)	0
<b>Income tax – comprehensive income</b>	<b>223,071</b>	<b>121,660</b>

Reconciliation of the tax base and theoretical tax charge is calculated from consolidated accounting profit before tax multiplied by the statutory income tax rate:

(CZK '000)	2015	2014
Net profit before taxation	1,078,656	850,448
Theoretical income tax rate according to law 19%	204,945	161,585
Non-taxable income	(1,486)	(1,897)
Tax non-deductible expense	11,895	10,581
Donations	(636)	(822)
Costs accounted only in IFRS	6,656	9,919
Other	6,480	(57,706)
<b>Total income tax</b>	<b>227,854</b>	<b>121,660</b>

## 6.22. Dividends paid

As at 14 May 2015, there was a dividend paid in the amount of CZK 2,257,749,000 (CZK 1,568 per share), in year 2014 CZK 633,560,000 (CZK 440 per share).

Based on the instructions given within the PPH concern by the controlling entity Pražská plynárenská Holding, a. s., as at 3 June 2015, Pražská plynárenská, a. s., prepared interim financial statements as at 31 May 2015. On the basis of these interim financial statements, after verifying the compliance with the statutory conditions for the payment of interim dividends, the Company paid out interim dividend to Pražská plynárenská Holding, a. s., in the amount of CZK 418,000,000 (CZK 290 per share).

## 6.23. Related party transactions and balances

Transactions related to the purchase or sale of energy (gas, electricity, heat, CNG) to companies controlled by the Capital City of Prague were concluded according to market conditions and are not presented in the following tables.

The Group was involved in the following transactions with related parties:

<b>CONTROLLING PARTY</b>		
<b>Revenues (CZK '000)</b>	<b>2015</b>	<b>2014</b>
Revenues from rendering of services	920	1,373
<b>Total revenues</b>	<b>920</b>	<b>1,373</b>
<b>Costs (CZK '000)</b>	<b>2015</b>	<b>2014</b>
Other costs	391	162
<b>Total costs</b>	<b>391</b>	<b>162</b>

<b>PARENT COMPANY</b>		
<b>Revenues (CZK '000)</b>	<b>2015</b>	<b>2014</b>
Revenues from sale/distribution of natural gas and electricity	0	51,743
Revenues from rendering of services	72	1,695
Revenues from sale of goods	0	4
<b>Total revenues</b>	<b>72</b>	<b>53,442</b>
<b>Costs (CZK '000)</b>	<b>2015</b>	<b>2014</b>
Costs related to purchase of electricity, natural gas and distribution	0	48,561
Costs of services relating to energy distribution	0	2,431
Costs of other services	4,725	0
Other costs	1	2
<b>Total costs</b>	<b>4,726</b>	<b>50,994</b>

<b>OTHER RELATED PARTIES</b>		
<b>Revenues (CZK '000)</b>	<b>2015</b>	<b>2014</b>
Revenues from rendering of services	1,948	488
Other revenues	29	0
<b>Total revenues</b>	<b>1,977</b>	<b>488</b>
<b>Costs (CZK '000)</b>	<b>2015</b>	<b>2014</b>
Purchase of other services	84,596	66,412
Other costs	57	0
<b>Total costs</b>	<b>84,653</b>	<b>66,412</b>

The following related party balances were outstanding:

<b>CONTROLLING PARTY</b>		
<b>Receivables and payables (CZK '000)</b>	<b>31 December 2015</b>	<b>31 December 2014</b>
Trade receivables	29	30
Other receivables**	75,870	0
<b>Total receivables</b>	<b>75,899</b>	<b>30</b>
Trade payables	0	61
Short-term advances received*	20	8
Financial resources from PPH	34,510	307,619
Other liabilities	5	0
<b>Total payables</b>	<b>34,535</b>	<b>307,688</b>

\*balances presented with VAT

\*\*see Note 6.9.1.2.

<b>PARENT COMPANY</b>		
<b>Receivables and payables (CZK '000)</b>	<b>31 December 2015</b>	<b>31 December 2014</b>
Trade receivables	0	195
Short-term advances paid*	679	0
<b>Total receivables</b>	<b>679</b>	<b>195</b>
Trade payables	0	20
<b>Total payables</b>	<b>0</b>	<b>20</b>

\*balances presented with VAT

<b>OTHER RELATED PARTIES</b>		
<b>Receivables and payables (CZK '000)</b>	<b>31 December 2015</b>	<b>31 December 2014</b>
Trade receivables	24	0
Short-term advances paid*	0	1,795
<b>Total receivables</b>	<b>24</b>	<b>1,795</b>
Trade payables	1,959	249
Short-term advances received*	10,627	4,399
<b>Total payables</b>	<b>12,586</b>	<b>4,648</b>
*balances presented with VAT		

Dividends paid to shareholders in 2015 and 2014 are disclosed in Note 6.22.

Transactions made with the Group's management are disclosed in Note 6.17.

#### 6.24. Regulatory framework

Since 1 January 2007, the legal unbundling of distribution services from the originally vertically integrated gas organization has been in place. Based on licences acquired the Company carries on trading with natural gas and electricity and the subsidiary Pražská plynárenská Distribuce, a. s., member of the Group Pražská plynárenská, a. s., operates the gas distribution network. As at 1 January 2007, the Company separated part of its business in accordance with the European Union Directives and the amendment of the Energy Act and contributed this part of the business related to gas distribution to its subsidiary, which assumed the role of the distribution network provider.

a) Trade with gas and electricity (the trader is not a subject to price regulation).

The natural gas and electricity market is fully liberalized and all end customers have a choice of their supplier.

b) Gas distribution – price regulation.

The prices for natural gas distribution on Czech gas market are regulated in accordance with the energy act and published in a price list of the independent regulatory body, the Energy Regulatory Office.

2015 was the last year of the third regulatory period. Next, fourth regulatory period will consist of three years and will run from 2016 to 2018. For this period, the Energy Regulatory Office issued a Policy of price regulation for the electricity, gas distribution and market operating in the electricity and gas sector with effect from 1 January 2016 which includes the methodology of regulation. Its aim is to ensure adequate quality of service to customers while being cost effective, support future investments, ensuring resources for the renewal of the network and continue to increase efficiency from which customers will also profit.

The Energy Regulatory Office sets the ultimate level of allowed revenues for the distribution companies for the year and from them it sets fixed prices for the service distribution system into the customer's supply point under offtake band. Regulated prices and conditions of service distribution system for 2015 were set in Pricing Decision of Energy Regulatory Office No. 4/2014 from 25 November 2014.

In the Authority's competence is also to protect the legitimate interests of licensees whose activity is regulated (Act No. 458/2000 Coll. Energy Act, as amended, § 17, article 4). The methodology of distribution regulation should enable each gas distribution company to cover their allowed costs for ensuring reliable, safe and efficient performance of licensed activities, depreciation and allowed return on assets needed for the provision of licensed activities. In case of variance between the allowed and actual generated regulated revenues, the Energy Regulatory Office applies future corrections of this variance.

#### 6.25. Commitments

Capital expenditures contracted as at 31 December 2015, but not yet incurred amount to CZK 371,126,000 (2014: CZK 406,536,000). These expenses will be incurred over the next five years.

Operating leasing expenditures charged to the consolidated statement of comprehensive income are recognized in row Services in Notes 6.15. and 6.19. These expenditures represent mainly rent for gas storage and real estate.

The group leases gas storage, tangible and intangible assets under non-cancellable operating lease agreements. The lease terms are between 1 and 10 years, and the majority of the lease agreements are renewable at the end of the lease period.

The future aggregate minimum lease payments under non-cancellable agreements (without valid VAT) amounted as on 31 December 2015 to CZK 707,497,000 (as on 31 December 2014: CZK 614,925,000).

(CZK '000)	2015	2014
Up to 1 year	203,416	169,168
1 – 3 years	316,740	233,139
3 – 5 years	183,686	188,976
Over 5 years	3,655	23,642
<b>Total</b>	<b>707,497</b>	<b>614,925</b>

## 7. OTHER MATTERS

### 7.1. Continent liabilities

No court cases that would materially affect the Group's financial results are being conducted or prepared.

The Group has no contingent liability arising from possible major future costs that relate to a past period and which could arise as a result of damage to the environment and harm to an employee's health.

The Company's management is not aware of any important potential Group's liabilities as at 31 December 2015 apart of potential liabilities mentioned in Note 6.13.

### 7.2. Share capital reduction

The sole shareholder of the Company, Pražská plynárenská Holding a. s., identification number: 264 42 272, with its registered office in Prague 4, U Plynárny 500/44, post code 140 00, at the General Meeting held on 1 August 2014 made the decision to reduce the share capital of the Company. The Company's share capital was reduced by the amount of CZK 1,007,934,900 from the existing amount of CZK 1,439,907,000 to the new amount of CZK 431,972,100. The share capital was reduced by the nominal value of all shares of the Company pursuant to the provisions of section 524 and following of Act no. 90/2012 Coll., on the Commercial Companies and Cooperatives (Business Corporations Act). The nominal value of the shares was reduced proportionally for all shares of the Company, i.e. for 950,338 pieces of bearer shares with a nominal value of CZK 1,000 and 489,569 pieces of shares with a nominal value of CZK 1,000 in such a way that the new value of each booked bearer share and each individual share is CZK 300. The reduction of capital is effective since 3 March 2015.

### 7.3. Subsequent events

No events have occurred subsequent to the year-end that would have a material impact on the consolidated financial statements as at 31 December 2015.

### 7.4. Financial statements authorization

These consolidated financial statements have been approved and signed with the authorization of the Board of Directors. The consolidated financial statements will be approved by the sole shareholder at the General Meeting, which has the right to supplement or amend the consolidated financial statements prior to its final approval.

Prague, 25 February 2016



**Ing. Pavel Janeček**  
Chairman of the Board of Directors



**Ing. Petr Zmátlík**  
Member of the Board of Directors



# **CUSTOMER SATISFACTION** **MATTERS TO US**

The company rigorously pursues values, such as reliability, fairness, helpfulness, stability and quality of service, which lead to the satisfaction of our target customer.





## INFORMATION ABOUT THE PERSONS RESPONSIBLE FOR THE ANNUAL REPORT AND AUDIT OF FINANCIAL STATEMENTS

Ing. Pavel Janeček, Chairman of the Board of Directors of the Company Pražská plynárenská, a. s.,  
and

Ing. Milan Jadlovský, Vice-Chairman of the Board of Directors of the Company Pražská plynárenská, a. s.

**declare that the data presented in this Annual Report corresponds to the facts and that no matters of substance which could affect a true and fair assessment of Pražská plynárenská, a. s., have been omitted.**

25 February 2016

25 February 2016



**Ing. Pavel Janeček**  
Chairman of the Board of Directors  
Pražská plynárenská, a. s.



**Ing. Milan Jadlovský**  
Vice-Chairman of the Board of Directors  
Pražská plynárenská, a. s.

The Company's financial statements for 2015 were audited by PricewaterhouseCoopers Audit, s. r. o., with its registered office at Hvězdova 1734/2c, 140 00 Prague 4, Company ID No.: 407 65 521, registered in the Business Register maintained by the Municipal Court in Prague, section C, file 3637 and on the list of auditing companies at the Chamber of Auditors of the Czech Republic under Licence No. 021.

The Company's consolidated financial statements for 2015 were audited by PricewaterhouseCoopers Audit, s. r. o., with its registered office at Hvězdova 1734/2c, 140 00 Prague 4, Company ID No.: 407 65 521, registered in the Business Register maintained by the Municipal Court in Prague, section C, file 3637 and on the list of auditing companies at the Chamber of Auditors of the Czech Republic under Licence No. 021.

We are a traditional and reliable  
supplier of gas and electricity all  
across the Czech Republic.



# REPORT ON RELATIONS BETWEEN THE CONTROLLING AND THE CONTROLLED PARTY AND ON RELATIONS BETWEEN THE CONTROLLED PARTY AND OTHER PARTIES CONTROLLED BY THE SAME CONTROLLING PARTY (RELATED PARTIES) FOR 2015

**prepared by the Board of Directors of Pražská plynárenská, a. s., with its registered office at Národní 37/38, 110 00 Prague 1 – Nové Město, Company ID No.: 601 93 492.**

This report has been prepared by the Board of Directors of the controlled party pursuant to the provisions of Act No. 90/2012 Coll., Act on commercial companies and cooperatives (Act on Corporations), hereinafter referred to as the „Act on Corporations“, for the year 2015 (the „Accounting Period“). The report was prepared by the Board of Directors in accordance with the Section 82 of the said Act, having regard to the provisions of Section 504 of Act No. 89/2012 Coll., The Civil Code, which relates to trade secrets.

## INTRODUCTION

The basic relationships between the related parties can be seen in the graph of the PP's shareholder structure given in the attachment. As the graph shows, the controlling party (Pražská plynárenská Holding a. s.), is controlled by another party, the Capital City of Prague, which holds 100% in the registered capital of the controlling company.

Based on the Articles of Incorporation of PPH, a. s., the sole shareholder elects and dismisses members of the Board of Directors and the Supervisory Board acting in the capacity of the General Meeting (which, at 31 December 2015, was the Capital City of Prague).

In this report the Board of Directors of PP, a. s., describes the relationships between:

- PP, a. s., and PPH a. s., i.e. the controlled party and the party controlling directly the controlled party;
- related parties, i.e. PP, a. s., and the parties indirectly controlling the controlled party.

The relations between the related parties, i.e. PP, and its subsidiary companies, are described in the reports on the relations of the individual subsidiary companies.

## 1. STRUCTURE OF THE CONTROLLING RELATIONS

### 1.1 PARTIES CONTROLLING INDIRECTLY THE CONTROLLED PARTY

Capital City of Prague, with its registered office at Mariánské nám. 2/2, 110 01 Prague 1

### 1.2. THE PARTY CONTROLLING DIRECTLY THE CONTROLLED PARTY

The controlling party in 2015 was the company Pražská plynárenská Holding a. s., with its registered office at U Plynárny 500/44, 140 00 Prague 4, Company ID No. 264 42 272.

In 2015, the share of the party controlling directly the controlled party in the registered capital of the controlled party was a 100%.

### 1.3. CONTROLLED PARTY

This is the Company Pražská plynárenská, a. s., with its registered office at Národní 37/38, 110 00, Prague 1 – Nové Město, Company ID No: 60193492 (hereinafter referred to as the „PP, a. s.“ or the „controlled party“).

The Company Pražská plynárenská, a. s., is a member of the PPH group, whose controlling party is Pražská plynárenská Holding a. s., with its registered office at U Plynárny 500/44, 140 00 Prague 4, Company ID No.: 264 42 272, registered in the Commercial Register of the Municipal Court in Prague, section B, insert 7151.

Besides PP, a. s., following companies are controlled by the controlled party:

- Pražská plynárenská Distribuce, a. s., member of the group Pražská plynárenská, a. s.
- Pražská plynárenská Servis distribuce, a. s., member of the group Pražská plynárenská, a. s.
- Pražská plynárenská Správa majetku, a. s., member of the group Pražská plynárenská, a. s.
- Informační služby – energetika, a. s.
- Prometheus, energetické služby, a. s., member of the group Pražská plynárenská, a. s.

According to § 79 section 2 of ZOK, which concerns the coordination and strategic management within the PPH Group, the financing of individual members of the group is a component of the business, which consists mainly of obtaining foreign funds both within the group and from third parties.

#### 1.4. OTHER PARTIES CONTROLLED BY THE SAME CONTROLLING PARTIES

The organisations and companies, in which the Capital City of Prague had a major share in 2015 and with whom PP, a. s., entered into a contractual relationship in 2015 are listed below in Section No. 2.

#### 1.5. RELATED PARTIES

These are the companies Pražská plynárenská, a. s., Pražská plynárenská Holding a. s., the Capital City of Prague and companies or organizations, in which in 2015 the Capital City of Prague had a decisive ownership interest.

#### 1.6. THE ROLE OF PP, a. s., WITHIN THE GROUP

PP, a. s., operates in the group of Pražská plynárenská, a. s. Group, as the parent trade company. It's pursuing its influence through participation in general meetings of its subsidiaries, staffing directors and supervisory boards of subsidiaries and applying the Group's directives.

## 2. DESCRIPTION OF RELATIONSHIPS BETWEEN THE RELATED PARTIES

#### 2.1. WAYS AND MEANS OF CONTROL

PP, a. s., was mainly controlled by its shareholder through their representatives at Board of Directors and the Supervisory Board meetings, as well as through the exercise of voting rights at General Meetings of PP, a. s.

#### 2.2. CONTRACTS CONCLUDED BETWEEN THE RELATED PARTIES IN FORCE IN 2015

##### 2.2.1. Contracts concluded between PP, a. s., and the Capital City of Prague or parties controlled by it

##### a) contracts on gas and electricity supplies

- AKROP, s. r. o., Ke Špejcharu 392, Tuchoměřice
- Botanická zahrada hl. m. Prahy, Trojská 800/196, Prague 7 – Troja
- Centrum sociálních služeb Praha, Chelčického 39, Prague 3
- Československá akademie obchodní, střední odborná škola, Resslova 5, Prague 2
- Dětské centrum Paprsek, Šestajovická 19, Prague 9
- Dětský domov a Školní jídelna, Národních hrdinů 1, Prague 9 – Dolní Počernice
- Dětský domov Charlotty Masarykové, U Včely 176, Prague 5 – Zbraslav
- Divadlo Minor, Vodičkova 6, Prague 1
- Divadlo na Vinohradech, náměstí Míru 1450/7, Prague 2
- Divadlo pod Palmovkou, Zenklova 566/34, Prague 8 – Libeň
- Divadlo v Dlouhé, Dlouhá 729/39, Prague 1
- Domov mládeže a školní jídelna, Pobřežní 6, Prague 8
- Domov pro osoby se zdravotním postižením Lochovice, Lochovice 222
- Domov pro osoby se zdravotním postižením Sulická, Sulická 48, Prague 4 – Krč
- Domov pro seniory Ďáblice, Kubíkova 1698/11, Prague 8
- Domov pro seniory Dobřichovice, Brunšov 365, Všenory
- Domov pro seniory Elišky Turkyňové, Šolínova 3, Prague 6
- Domov pro seniory Háje, K Milíčovu 734, Prague 4
- Domov pro seniory Heřmanův Městec, Masarykovo nám. 37, Heřmanův Městec
- Domov pro seniory Chodov, Donovská 2222, Prague 4
- Domov pro seniory Kobylisy, Mirovická 19/1027, Prague 8 – Kobylisy
- Domov pro seniory Krč, Sulická 1085, Prague 4
- Domov pro seniory Pyšely, Náměstí T. G. Masaryka 1, Pyšely
- Domov pro seniory Zahradní Město, Sněženková 2973/8, Prague 10
- Domov se zvláštním režimem Krásná Lípa, Čelakovského 13, Krásná Lípa
- Domov se zvláštním režimem Terežín, nám. Čs. armády 84, Terežín
- Dopravní podnik hl. m. Prahy, akciová společnost, Sokolovská 217/42, Prague 9
- Dům dětí a mládeže Praha 2, Slezská 21/920, Prague 2
- Dům dětí a mládeže Praha 3 – Ulita, Na Balkáně 2866/17a, Prague 3
- Dům dětí a mládeže Praha 4 – Hobby centrum 4, Bartákova 1200/4, Prague 4
- Dům dětí a mládeže Praha 7, Šimáčkova 16/1452, Prague 7
- Dům dětí a mládeže, Rohová 7, Prague 6 – Suchdol
- Galerie hlavního města Prahy, Staroměstské náměstí 605/13, Prague 1
- Gymnázium Jaroslava Heyrovského, Mezi Školami 2475/29, Prague 5
- Gymnázium Karla Sladkovského, Sladkovského náměstí 8, Prague 3
- Gymnázium Na Pražačce, Nad Ohradou 2825/23, Prague 3 – Žižkov
- Gymnázium prof. Jana Patočky, Jindřišská 966/36, Prague 1
- Gymnázium Omská, Omská 1300, Prague 10 – Vršovice
- Gymnázium Botičská, Botičská 1, Prague 2
- Gymnázium Budějovická, Budějovická 680, Prague 4
- Gymnázium Na Vítězné pláni, Na Vítězné pláni 1160, Prague 4
- Gymnázium U Libeňského zámku, U Libeňského zámku 1, Prague 8
- Gymnázium Ústavní, Ústavní 400, Prague 8
- Gymnázium Litoměřická, Litoměřická 726, Prague 9 – Prosek
- Gymnázium Špitálská, Špitálská 2/700, Prague 9 – Vysočany
- Hlavní město Praha, Mariánské nám. 2, Prague 1
- Hudební divadlo Karlín, Křižíkova 283/10, Prague 8
- Hvězdárna a planetárium hl. m. Prahy (Štefánikova hvězdárna, Planetárium Praha, Hvězdárna Ďáblice), Petřín 205, Prague 1
- Integrované centrum pro osoby se zdravotním postižením Horní Poustevna, Horní Poustevna 40, Dolní Poustevna
- Integrované centrum sociálních služeb Odlochovice, Odlochovice 1, Jankov
- Jedličkův ústav a Mateřská škola a Základní škola a Střední škola, V Pevnosti 4, Prague 2
- Kolektory Praha, a. s., Pešlova 341/3, Prague 9
- Kongresové centrum Praha, a. s., 5. května 65, Prague 4

- Mateřská škola speciální Na Lysinách, Na Lysinách 6/41, Prague 4 – Hodkovičky
  - Mateřská škola speciální Drahaňská, Drahaňská 779/ 7, Prague 8
  - Mateřská škola speciální, Základní škola praktická a Základní škola speciální Bártlova, Bártlova 83, Prague 9
  - Městská nemocnice následné péče, K Moravině 343/6, Prague 9
  - Městská poliklinika Praha, Spálená 12, Prague 1
  - Muzeum hlavního města Prahy, Kožná 475/1, Prague 1
  - Národní kulturní památka Vyšehrad, V pevnosti 159/5b, Prague 2
  - Obecní dům, a. s., náměstí Republiky 1090/5, Prague 1
  - Obchodní akademie Hovorčovická, U Vinohradského hřbitova 3, Prague 3
  - Obchodní akademie Svatoslavova, Svatoslavova 333, Prague 4
  - Palata – Domov pro zrakově postižené, Na Hřebenkách 5, Prague 5
  - Pohřební ústav hl. m. Prahy, Staroměstské nám. 608/10, Prague 1
  - Pražská energetika, a. s., Na Hroudě 1492/4, Prague 10
  - Pražská konzervatoř, Na Rejdišti 1, Prague 1
  - Pražské služby, a. s., Pod Šancemi 444/1, Prague 9
  - Rozvojové projekty Praha, a. s., Opletalova 929/22, Prague 1
  - Smíchovská střední průmyslová škola Preslova, Preslova 25, Prague 5
  - Správa pražských hřbitovů, Vinohradská 294/212, Prague 10 – Strašnice
  - Středisko praktického vyučování, Seydlerova 2451, Prague 5 – Nové Butovice
  - Střední odborná škola civilního letectví, Praha – Ruzyně, K Letišti 278, Prague 6 – Ruzyně
  - Střední odborná škola, Drtinova 3/498, Prague 5
  - Střední odborné učiliště gastronomie, U Krbu 521/45, Prague 10
  - Střední odborné učiliště gastronomie a podnikání, Za Černým mostem 3/362, Prague 9
  - Střední odborné učiliště kadeřnické Karlínské náměstí, Karlínské náměstí 8/225, Prague 8 – Karlín
  - Střední odborné učiliště, Pod Klapíci 11/15, Prague 5 – Radotín
  - Střední odborné učiliště, Ohradní 57, Prague 4
  - Střední průmyslová škola dopravní, a. s., Plzeňská 298/217a, Prague 5
  - Střední průmyslová škola elektrotechnická V Úžlabině, V Úžlabině 320, Prague 10
  - Střední průmyslová škola elektrotechnická Ječná, Ječná 30, Prague 2
  - Střední průmyslová škola sdělovací techniky Panská, Panská 856/3, Prague 1
  - Střední průmyslová škola stavební Josefa Gočára, Družstevní ochoz 1659/3, Prague 4
  - Střední škola – Centrum odborné přípravy technickohospodářské Poděbradská, Poděbradská 1/179, Prague 9
  - Střední škola a Mateřská škola Aloyse Klara, Vídeňská 756/28, Prague 4
  - Střední škola automobilní a informatiky, Weilova 1270/4, Prague 10 – Hostivař
  - Střední škola dostihového sportu a jezdecký, U Závodíště 325/1, Prague 5 – Velká Chuchle
  - Střední škola elektrotechniky a strojírenství, Jesenická 1, Prague 10 – Záběhlíce
  - Střední škola Náhorní, U Měšťanských škol 525/1, Prague 8
  - Střední škola technická Zelený pruh, Zelený pruh 1294, Prague 4
  - Střední škola, Základní škola a Mateřská škola Chotouňská, Chotouňská 476, Prague 10
  - Symfonický orchestr hlavního města Prahy FOK, Náměstí Republiky 660/5, Prague 1
  - Školní jídelna, Štefánikova 11/235, Prague 5 – Smíchov
  - Švandovo divadlo na Smíchově, Štefánikova 6 a 7/57, Prague 5
  - Technická správa komunikací hl. m. Prahy, Řásovkova 770/8, Praha 1 – Staré Město
  - TRADE CENTRE PRAHA, a. s., Blanická 1008/28, Prague 2
  - Vyšší odborná škola a Střední průmyslová škola dopravní, Masná 18, Prague 1
  - Vyšší odborná škola a Střední průmyslová škola elektrotechnická Františka Křížáka, Na Příkopě 16, Prague 1
  - Vyšší odborná škola a Střední škola slaboproudé elektrotechniky, Novovysočanská 48/280, Prague 9 – Vysočany
  - Vyšší odborná škola a Střední umělecká škola Václava Hollara, Hollarovo náměstí 2, Prague 3
  - Vyšší odborná škola stavební a Střední průmyslová škola stavební, Dušní 17, Prague 1
  - Vyšší odborná škola uměleckoprůmyslová a Střední uměleckoprůmyslová škola, Prague 3, Žižkovo náměstí 1
  - Vyšší odborná škola zdravotnická a Střední zdravotnická škola, Alšovo náměstí 6, Prague 1
  - Základní škola a Mateřská škola, Za Invalidovnou 3, Prague 8
  - Základní škola Vokovice, Vokovická 3, Prague 6
  - Základní škola, Pod Radnicí 5, Prague 5
  - Základní umělecká škola Ilji Hurníka, Slezská 21, Prague 2
  - Základní umělecká škola Klementa Slavického, Zderazská 6, Prague 5 – Radotín
  - Základní umělecká škola, Biskupská 12, Prague 1
  - Základní umělecká škola, U Půjčovny 4, Prague 1
  - Základní umělecká škola, Bajkalská 11, Prague 10
  - Základní umělecká škola, Dunická 3136, Prague 4
  - Základní umělecká škola, Na Popelce 18, Prague 5 – Košíře
  - Základní umělecká škola, K Brance 72, Prague 5 – Stodůlky
  - Základní umělecká škola, Nad Alejí 28/1879, Prague 6
  - Základní umělecká škola, Klapkova 25, Prague 8
  - Základní umělecká škola, Učňovská 1, Prague 9
  - Zdravotnická záchranná služba hl. m. Prahy – územní středisko záchranné služby, Korunní 98, Prague 10
  - Zoologická zahrada hl. m. Prahy, U trojského zámku 120/3, Prague 7 – Troja
  - Želivská provozní, a. s., K Horkám 16/23, Prague 10
- b) other contracts**
- Botanická zahrada hl. m. Prahy, Trojská 800/196, Praha 7 – Troja – promotion contract
  - Československá akademie obchodní Dr. Edvarda Beneše, střední odborná škola, Resslova 8, Praha 2 – professional practice agreement
  - Domov pro seniory Krč, Sulická 1085, Praha 4 – contract for the sale of compressed natural gas CNG
  - Dům dětí a mládeže hl. m. Prahy, Karlínské nám. 316/7, Praha 8 – Karlín – promotion contract

- Hlavní město Praha, Mariánské nám. 2, Praha 1 – lease of commercial premises contract, lease of business premises contract, lease of parking spaces contract
- Kolektory Praha, a. s., Pešlova 341/3, Praha 9 – contract for the sale of compressed natural gas CNG
- Městská knihovna v Praze, Mariánské nám. 98/1, Praha 1 – lease of commercial premises contract
- Městská poliklinika Praha, Spálená 12, Praha 1 – contract for the sale of compressed natural gas CNG
- Muzeum hlavního města Prahy, Kožná 475/1, Praha 1 – loan agreement on a movable property
- Obchodní akademie Kubelíkova, Kubelíkova 37, Praha 3 – student's professional practice agreement
- Obchodní akademie Svatoslavova, Svatoslavova 333, Praha 4 – professional practice agreement from 18. 5. 2015 to 29. 5. 2015
- Palata – Domov pro zrakově postižené, Na Hřebenkách 5, Praha 5 – contract for the sale of compressed natural gas CNG
- Pražská energetika, a. s., Na Hroudě 1492/4, Praha 10 – EFET agreement (purchase / sale of natural gas), framework agreement for the transfer of unused tolerance, contract commercial sublease (shop), contract for the lease of premises used for business, contract on combined electricity supply services, lease of commercial space (parking)
- Pražské služby, a. s., Pod Šancemi 444/1, Praha 9 – promotion contract, contract for the sale of compressed natural gas CNG
- TRADE CENTRE PRAHA, a. s., Blanická 1008/28, Praha 2 – lease of commercial premises contracts, lease of premises used for business contract, the lease of parking space contract, provision of communications services contract, detection of methane installation contract

### 2.2.2. Contracts concluded between PP, a. s., and PPH a. s.

Contracts between PP, a. s., and PPH a. s.:

- a) Contract to provide services
- b) Agreement on the rental and sublease of non-residential space and equipment
- c) Agreement on covering the costs associated with operating a telephone line
- d) Contract for sublease space used for business

- e) Contract for cash-pooling in the group Pražská plynárenská, a. s.
- f) Order contract for the consideration payout for minority shareholders (the third party is Československá obchodní banka, a. s.).

### 2.2.3. Overview of conducts in favour of related entities realized by the controlled party

a) On the basis of Group instructions for the PPH Group (relating to the financing of group members) issued by the controlling entity Pražská plynárenská Holding, a. s., on 22 April 2015 the following stipulations were made:

- On 24 April 2015 Pražská plynárenská, a. s., as a borrower concluded Operating and not-committed loans agreement with his lender Česká spořitelna, a. s., Československá obchodní banka, a. s., UniCredit Bank Czech Republic and Slovakia, a. s., and Komerční banka, a. s., whereas under that agreement Pražská plynárenská, a. s., is entitled to receive operating lines of credit up to a total amount of CZK 4,000,000,000;
- On 24 April 2015 to secure the debt according to the Operating and not-committed loans agreement under the subparagraph a. above, Pražská plynárenská, a. s., as a pledgor concluded an Agreement on the pledge on bank accounts with Československá obchodní banka, a. s., as a pledgee;
- On 24 April 2015 to secure the debt according to the Operating and not-committed loans agreement under the subparagraph a. above, Pražská plynárenská, a. s., as a pledgor concluded an Agreement on establishing a lien on a company with Československá obchodní banka, a. s., as a pledgee;
- On 24 April 2015 to ensure the debt according to the Operating and not-committed loans agreement under the subparagraph a. above, Pražská plynárenská, a. s., as a pledgor concluded an Agreement on pledge on account with Československá obchodní banka, a. s., as a creditor;
- On 24 April 2015 to ensure the debt according to the Operating and not-committed loans agreement under the subparagraph a. above, Pražská

plynárenská, a. s., concluded an Agreement on the prohibition of a lien to shares in the company Pražská plynárenská Distribuce, a. s., member of the group Pražská plynárenská, a. s., with Československá obchodní banka, a. s., as a second party of the agreement.

b) Based on the decision of the sole shareholder, Pražská plynárenská Holding a. s., made on 6 March 2015 on the General Meeting of Pražská plynárenská, a. s., company's retained earning totaling CZK 1,831,926,427.45 were allocated: CZK 735,471,605.56 being the profits of the last preceding financial year (2014) and the rest being the undistributed retained earnings of previous years of CZK 1,096,454,821.89. Dividends of CZK 1,803,926,427.45 were paid out to shareholders on 14 May 2015.

c) Based on the decision of the sole shareholder, Pražská plynárenská Holding a. s., made on 6 March 2015 on the General Meeting of the Pražská plynárenská, a. s., there was a split optional reserve fund in the amount of CZK 453,822,511.72 as another own resource of Pražská plynárenská a. s. The payment was made on 14 May 2015.

d) Based on the decision of the sole shareholder, Pražská plynárenská Holding a. s., made on 1 August 2014 on the General Meeting of the Pražská plynárenská, a. s., there was a reduction of the share capital of Pražská plynárenská, a. s., in the amount of CZK 1,007,934,900 to the new amount CZK 431,972,100, and a proportional reduction in the nominal value of the shares. The amount corresponding to the share capital reduction was intended to be paid to the sole shareholder. Payment of the amount corresponding to the share capital reduction was made on 14 May 2015.

e) Based on the instructions given within the PPH concern by the controlling entity Pražská plynárenská Holding a. s., as at 3 June 2015, Pražská plynárenská, a. s., has prepared interim financial statements as at 31 May 2015. On the basis of these interim financial statements, after verifying that the statutory conditions for the payment of interim dividends were met, interim dividend in the amount of CZK 418,000,000 was paid out to Pražská plynárenská Holding a. s.



All the above actions were carried out following the instructions given by Pražská plynárenská Holding a. s., as the controlling entity of the PPH Group or by the decision of Pražská plynárenská Holding a. s., as the sole shareholder at the General Meeting of Pražská plynárenská, a. s.

During the decisive period Pražská plynárenská, a. s., with its controlled entity Pražská plynárenská Distribuce, a. s., a member of the group Pražská plynárenská, a. s., has concluded transaction on the basis of the Distribution of gas agreement.

There were no other legal acts resulting from exercising the influence of the controlling party that would involve assets exceeding 10% of equity represented by the amount of CZK 387,880,000 as reported in the latest financial statements as at 31 December 2015.

### 2.3. OTHER LEGAL MEASURES

A Memorandum is concluded with the Capital City of Prague on cooperation and mutual support in prevocational education of young people in the fields of training completed with an apprentice certificate in the Capital City of Prague.

No detriment arose to the controlled party from these relationships.

### 2.4. ASSESSMENT OF DETRIMENT CAUSED TO THE CONTROLLED ENTITY

No detriment occurred to PP, a. s., company which would result from the fact of being controlled by the controlling party.

### 2.5. ASSESSMENT OF THE STATUTORY BODY

Statutory body evaluated the advantages and disadvantages of relations between persons referred to in chapter 1 and stated that benefits prevailed and that there were no risks for the controlled entity arising from these relationships.

Pražská plynárenská Holding a. s., was the controlling person of PP, a. s., in 2015 and PPH a. s., controlled PP, a. s., directly. PP, a. s., was controlled by a shareholder of PPH a. s., (the Capital City of Prague), which controlled PP, a. s. through PPH a. s., indirectly.

PP, a. s., is a part of group which includes entities engaged in activities related to energy trade and distribution. Relations with indirectly controlling

entity the Capital City of Prague need to be considered significant due to the fact that Pražská plynárenská Distribuce, a. s., member of the group Pražská plynárenská, a. s., which is directly controlled by PP, a. s., is the main operator of natural gas distribution network in the area of the Capital City of Prague.

An important event in the PPH Group was overall restructuring of PPH a. s., PP, a. s., and PPD, a. s. financing, Which brought significant cost savings to the PPH Group.

### 2.6. OTHER FACTS

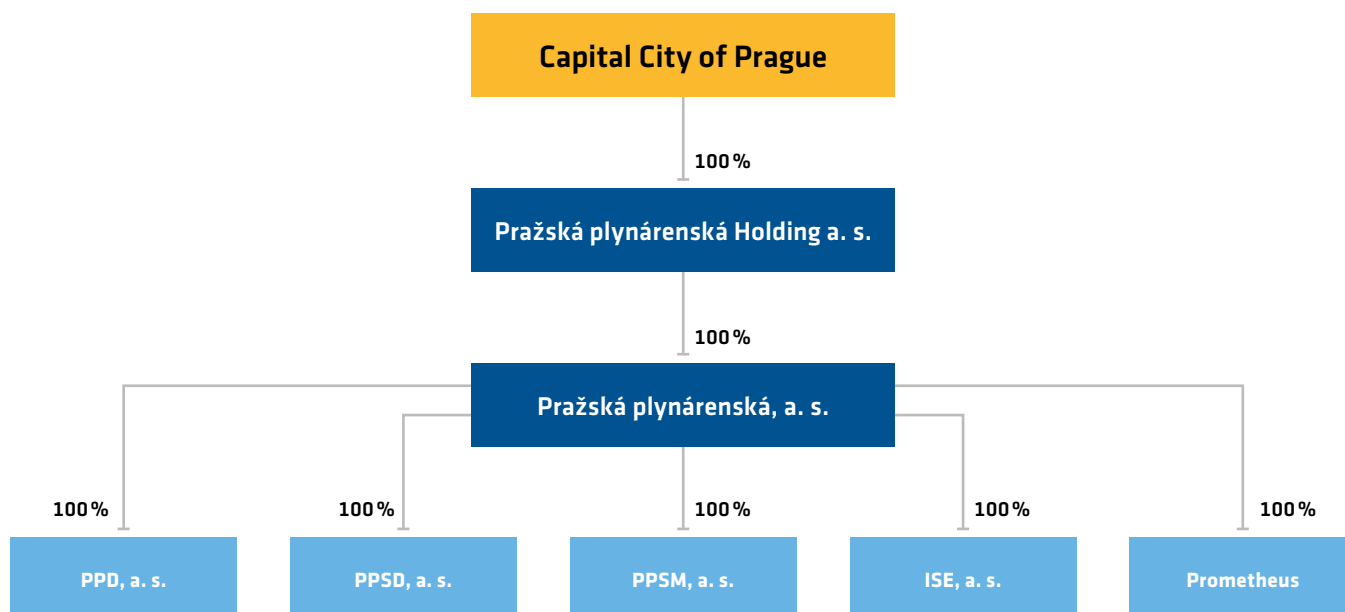
#### 2.6.1. Cooperation between PP, a. s., and Pražská energetika, a. s.

In 2015, co-operation continued between PP, a. s., and Pražská energetika, a. s., as part of the "Together for Prague" project under the auspices of Prague City Council. Specifically, this cooperation concerned the joint business office, the call centre line and joint meter readings.

#### 2.6.2. Members of PP, a. s. bodies

The Board of Directors of PP, a. s., is not aware that any member of the Company's bodies influenced the decisions of the Board or of the Supervisory Board in favour of the controlling party or the party controlled by the same controlling party.

## 3 GRAPH SHOWING THE RELATION OF PRAŽSKÁ PLYNÁRENSKÁ, a. s. AND RELATED PARTIES AS AT 31 DECEMBER 2015





## ABBREVIATIONS

a. s.	Joint-stock company
AG	Aktiengesellschaft (German abbreviation for a joint stock company)
CNG	Compressed natural gas
Coll.	Collection of Laws of the Czech Republic
CZK	Czech crowns
CNB	Czech National Bank
CR	Czech Republic
ČSOB, a. s.	Československá obchodní banka, a. s.
ČSSD	Česká strana sociálně demokratická
ČVUT	České vysoké učení technické v Praze
DOM	Domestic customer – natural person using gas for personal needs connected with housing or for personal needs of members of the natural person's household
ERO	Energy Regulator's Office
EU	European union
EUR	Euro
GmbH	Gesellschaft mit beschränkter Haftung (German abbreviation for a limited liability company)
hl. m. Praha	Capital City of Prague
IAS/IFRS	International Accounting standards / International Financial Reporting Standards
ID No.	Identification (ID) number
ISE, a. s.	Informační služby – energetika, a. s. (Information Services – Energy Sector Company)
ISIN	Identification number under which a share was kept in the Securities Centre and is now kept in the Central Securities Depository, a. s.
IT	Information Technology
kg	Kilogram
kWh	Kilowatthour
m <sup>3</sup>	Cubic meter
MČ	City district
MDP, a. s.	Měření dodávek plynu, a. s.
Mil.	Million
Mld.	Billion

MO	Small customer – end customer who is neither a large, medium-sized or domestic customer
MOO	Electricity retail customer population
MOP	Electricity retail business population
MP ČR	Ministry of Industry of the Czech Republic
MWh	Megawatthour
OTE	Market operator
Plc.	Public Limited Company
PP, a. s.	Pražská plynárenská, a. s. (Prague Gas Company)
PPD, a. s.	Pražská plynárenská Distribuce, a. s., člen koncernu Pražská plynárenská, a. s., (Distribution Company, a member of the Pražská plynárenská, a. s. Group)
PPH a. s.	Pražská plynárenská Holding a. s.
PPSD, a. s.	Pražská plynárenská Servis distribuce, a. s., , a member of the Pražská plynárenská, a. s.
PPSM, a. s.	Pražská plynárenská Správa majetku, a. s., člen koncernu Pražská plynárenská, a. s.
PR	Public Relations
PSČ	Postal code
PwC	PricewaterhouseCoopers
s. p.	State enterprise
s. r. o.	Limited liability company
SO	Medium-sized customer – natural person or legal entity whose offtake gas facility is connected to the transport or distribution system and whose annual consumption at the offtake point is at least 630 MWh but does not exceed 4,200 MWh
Ths.	Thousands
TU	Technická univerzita – Technical University
VAT	Value added tax
VH	Výsledek hospodaření – Net profit/loss
VO	Large customer – natural person or legal entity whose offtake gas facility is connected to the transport or distribution system and whose annual consumption at the offtake point exceeds 4,200 MWh
VŠE	Vysoká škola ekonomická v Praze
ZOK	Zákon o obchodních korporacích – Law no. 90/2012 Coll. on commercial companies and cooperatives
ZTP/P	Persons particularly seriously handicapped with guide



## *Independent auditor's report*

**to the shareholder of Pražská plynárenská, a.s.**

### *Auditor's Report on Financial Statements*

We have audited the accompanying financial statements of Pražská plynárenská, a.s. identification number 60193492, with registered office at Národní 37, Praha 1 – Nové Město ("the Company"), which comprise the balance sheet as at 31 December 2015, the income statement for the year then ended and notes, including a summary of significant accounting policies and other explanatory information ("the financial statements").

### *The Company Statutory Body's Responsibility for the Financial Statements*

The Company Statutory Body is responsible for the preparation of the financial statements that give a true and fair view in accordance with Czech accounting legislation, and for such internal control as the Statutory Body determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

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

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

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

### *Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2015 and its financial performance for the year then ended in accordance with Czech accounting legislation.

### *Auditor's Report on Consolidated Financial Statements*

We have audited the accompanying consolidated financial statements of the Company and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated statement of total comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and notes, including a summary of significant accounting policies and other explanatory information ("the consolidated financial statements").

### *The Group Statutory Body's Responsibility for the Consolidated Financial Statements*

The Group Statutory Body is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Statutory Body determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation of the consolidated financial statements that give a true and fair view 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 internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

*Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

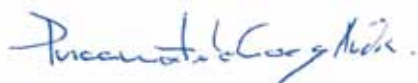
*Other information*

The other information comprises the information included in the summarised annual report, but does not include the financial statements, consolidated financial statements ("the financial statements of the Company") and our auditor's report thereon. The Group management is responsible for the other information.

Our opinions on the financial statements of the Company does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is not materially inconsistent with the financial statements of the Company or our knowledge about the Group obtained in the course of the audit of these financial statements, whether the annual report was prepared in compliance with legal requirements, and whether the other information does not appear to be otherwise materially misstated. If, based on the work we have performed, we conclude that the aforementioned requirements of the other information are not met, we are obliged to report that fact herein.

We have nothing to report in this regard.

25 February 2016



PricewaterhouseCoopers Audit, s.r.o.  
represented by



Václav Prýmek  
Partner

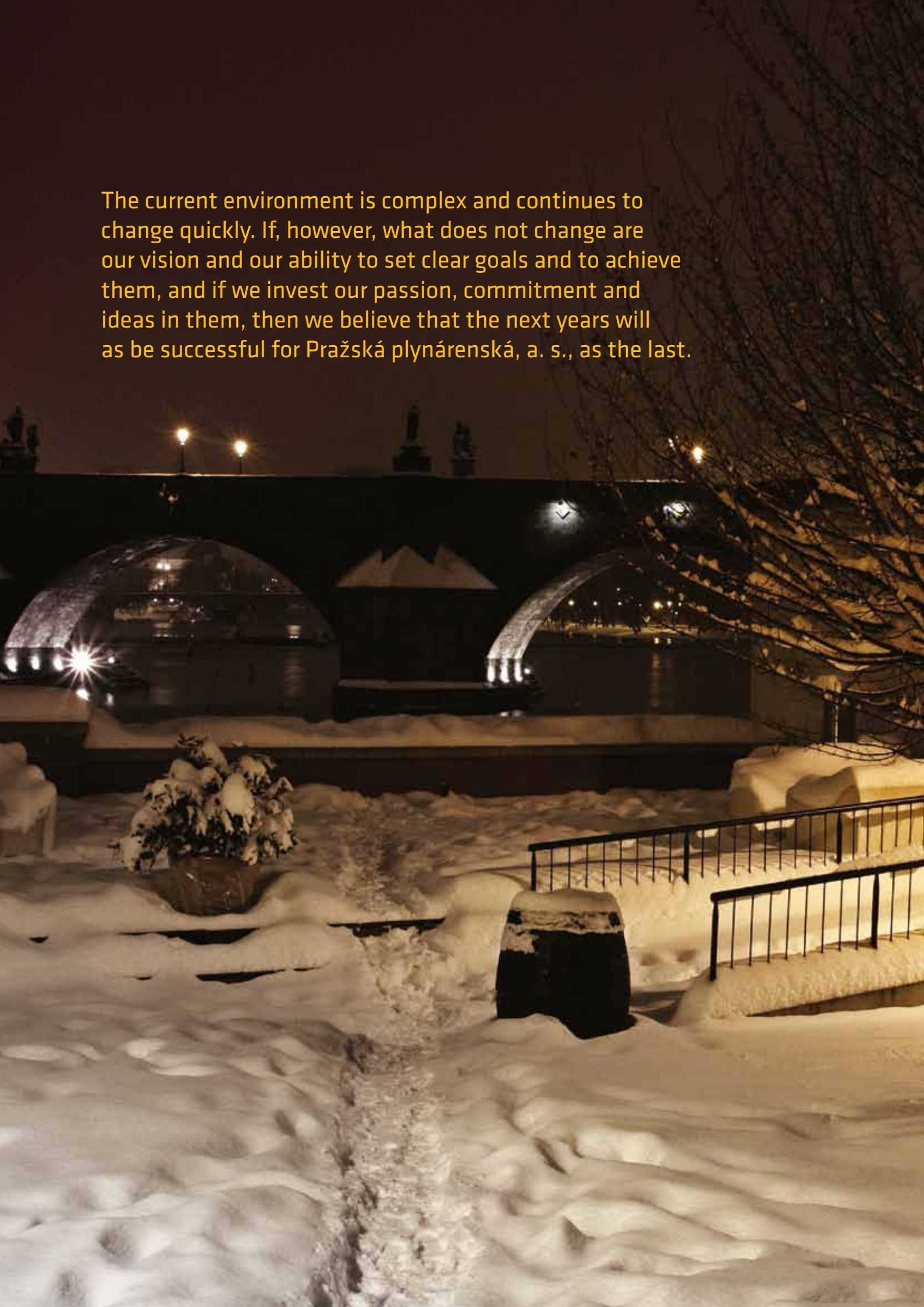


Petra Bočáková  
Statutory Auditor, Evidence No. 2253

*Translation note*

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

The current environment is complex and continues to change quickly. If, however, what does not change are our vision and our ability to set clear goals and to achieve them, and if we invest our passion, commitment and ideas in them, then we believe that the next years will as be successful for Pražská plynárenská, a. s., as the last.









Pražská plynárenská, a. s.  
[www.ppas.cz](http://www.ppas.cz)