

**ANNUAL REPORT 2016**  
**Pražská plynárenská, a.s.,**  
**and the Pražská plynárenská, a.s. Group**



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This annual report was compiled pursuant to Act No. 563/1991 Coll., on Accounting, as amended, and Act No. 90/2012 Coll., Act on commercial companies and cooperatives (Act on Commercial Corporations), as amended.

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

Prague dated 14 March 2017



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

Dear ladies and gentlemen,

I am very pleased to start this review of the past year with positive news. The year 2016 was another successful one for us at Pražská plynárenská, a.s., as we managed to maintain our position on the domestic energy market despite the strong competition and achieved excellent financial results. In this context, I would like to highlight the efficient management of the Group, which succeeded in reducing total operating costs, and the optimally handled purchasing strategy in the energy sector, which employs the management of open positions to contribute substantially to increasing the business margin.

I value the success of Pražská plynárenská, a.s. all the more because it was achieved in a time that is undeniably very complex and often confusing. The energy sector as such is changing beyond recognition at a tumultuous rate, as are customer preferences, needs and demands. This motivates and obliges us to make fundamental changes in our corporate strategy, and we are transforming established business models, customer services and creating new products corresponding to current demands literally on the go. I firmly believe these are changes for the better, and their meaning will be fully appreciated in the not so distant future.

I would also like to point out one other important aspect. The good results of Pražská plynárenská, a.s. clearly prove that the often-discussed concept of “municipal companies”, of which we are one, makes sense, is viable and can function very well and efficiently. It is also worth emphasising that in effect, the resources we generate are reinvested to the benefit of citizens, and thus do not disappear into the private sector or abroad.

I would like to thank not only all our employees for their great work, but also our business partners for their willingness and cooperation, and in particular our customers who have been very stable in relation to our Company. We greatly appreciate this and I can promise that we will continue to strive to make Pražská plynárenská, a.s. a reliable energy supplier they can depend on, and that will always do something more for them.

Ing. Pavel Janeček  
Chairman of the Board of Directors



## SELECTED DATA ABOUT THE COMPANY

The information provided in this chapter applies to the non-consolidated financial statements, unless stated otherwise. The individual financial statements were compiled in accordance with the Generally Accepted Accounting Principles in the Czech Republic.

The average CZK/EUR exchange rate for 2016 was CZK/EUR 27.033 and was used for conversion of all data in the tables, including comparative information.

## BASIC INFORMATION ABOUT THE COMPANY

<b>Business name:</b>	Pražská plynárenská, a.s. ('PP, a.s.' or the 'Company')
<b>Registered office:</b>	Prague 1 – Nové Město, Národní 37
<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>Phone:</b>	+420 267 171 111
<b>Data box ID:</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><li>• Královéhradecká 1566, Ústí nad Orlicí</li><li>• Vítězná 2197, Sokolov</li></ul>
<b>Web pages:</b>	<a href="http://www.ppas.cz">www.ppas.cz</a>

## COMPANY PROFILE

Pražská plynárenská, a.s. traditionally belongs to the most important domestic energy suppliers and it has been a reliable energy supplier to approximately 415,000 offtake points all over the Czech Republic. It is a Czech supplier for which ensuring convenient 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. It further bases its competitiveness on the background of a stable and strong Company, a responsible and honest approach, and not least the ability to react flexibly and swiftly to the changing needs and demands of customers.

In the area of energy use, the Company supports new, ecological and efficient technologies in a long-term perspective, especially the usage of natural gas and new electricity in transportation.

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

In addition to its business activity, Pražská plynárenská, a.s. is consistently active in the field of public welfare activities and the development of civic society. Its business success based on the loyalty of clients is returned to the general public in the form of traditional and long-standing support of various cultural, sports and social projects.

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 now Pražská plynárenská, a.s. can be traced back to municipal gasworks since the mid-19<sup>th</sup> Century. Pražská plynárenská, a.s. and its predecessors alike have been owned by the Capital City of Prague since 2014, thus coming full circle in an imaginary sense.



## BASIC ECONOMIC INDICATORS (2012 – 2016)

			2012	2013	2014 <sup>5</sup>	2015	2016
<b>Revenues</b>		<b>in CZK '000</b>	9,335,952	8,942,537	14,221,895	15,891,270	12,158,535
		<b>in EUR '000</b>	345,354	330,801	526,094	587,847	449,766
<b>Profit before tax</b>		<b>in CZK '000</b>	722,292	624,908 <sup>3</sup>	812,636	771,589	1,337,553
		<b>in EUR '000</b>	26,719	23,116	30,061	28,542	49,479
<b>Profit after tax</b>		<b>in CZK '000</b>	672,963	582,053 <sup>3</sup>	735,471	647,051	1,155,047
		<b>in EUR '000</b>	24,894	21,531	27,206	23,936	42,727
<b>Equity</b>		<b>in CZK '000</b>	3,673,145	6,872,400 <sup>4</sup>	6,823,774	3,878,801	5,009,169
		<b>in EUR '000</b>	135,876	254,223	252,424	143,484	177,652
<b>Share capital</b>		<b>in CZK '000</b> <sup>1</sup>	1,439,907	1,439,907	1,439,907	431,972 <sup>6</sup>	431,972
		<b>in EUR '000</b>	53,265	53,265	53,265	15,979	15,979
<b>Natural gas</b>	<b>Sales<sup>2</sup></b>	<b>in MWh '000</b>	7,354.2	6,620.1	14,380.7	17,933.8	12,595.4
		<b>in m<sup>3</sup> mil.</b>	696.9	624.2	1,354.5	1,684.7	1,178.0
	<b>Number of offtake points as at 31 Dec.</b>		417,581	403,804	397,073	393,994	384,608
<b>Electricity</b>	<b>Sales</b>	<b>in MWh '000</b>	2.0	39.3	82.2	108.3	371.5
	<b>Number of offtake points as at 31 Dec.</b>		1,276	15,357	18,267	22,988	28,991

<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 handover protocol.

<sup>3</sup> In 2014 the correction was recognised in the calculation of adjustments to overdue receivables based on the decision of Company's management. This correction was also reflected in amounts stated for 2013.

<sup>4</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>5</sup> In 2014 Pražská plynárenská, a.s. and Pragoplyn, a.s. were merged.

<sup>6</sup> The sole shareholder decided to decrease share capital by CZK 1,007,935,000.

## Securities issued as at 31 December 2016

The decrease of share capital of Pražská plynárenská, a.s. came into effect on 4 March 2015 upon 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 shares
<b>Form</b>	bearer	registered	registered
<b>Nature</b>	book-entered securities	booked-entered securities	booked-entered securities
<b>Number</b>	950,338 units	489,568 units	1 unit
<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>	CZ0005084350	CZ0005123190	CZ0005123208

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



## **OWNERSHIP STRUCTURE OF PRAŽSKÁ PLYNÁRENSKÁ, a.s., AS AT 31 DECEMBER 2016**

Pražská plynárenská, a.s. was directly controlled during the entire year 2016 by Pražská plynárenská Holding a.s. ('PPH a.s.') with its registered office at U Plynárny 500/44, Michle, 140 00 Prague 4, Company ID Number: 26442272, and indirectly controlled by the Capital City of Prague with its registered office at Mariánské nám. 2, 110 01 Prague 1.

### **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: Prague 4, U Plynárny 500, Post code 145 08

Company ID No.: 274 03 505

[www.ppdistribuce.cz](http://www.ppdistribuce.cz)

The joint-stock company Pražská plynárenská Distribuce, a.s., member of the Pražská plynárenská, a.s. Group ('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. owns and operates its distribution network and offers services in the area of gas distribution as a separate legal entity. (These services were previously provided by Pražská plynárenská, a.s.) PPD, a.s. has an experienced team of gas experts who have extensive practical experience in operating and constructing gas facilities.

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

Address: U Plynárny 1450/2a, Michle, 140 00 Prague 4

Company ID No.: 471 16 471

[www.ppsd.cz](http://www.ppsd.cz)

The company Pražská plynárenská Servis distribuce, a.s., member of the Pražská plynárenská, a.s. Group, 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 of 1 November 2014.

PPSD, a.s. provides comprehensive 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 gas offtake equipment and industrial pipelines, i.e. gas distribution systems in buildings from major valves to gas appliances. The company also performs complete activities related to the construction of other utility networks.

PPSD, a.s. provides gas emergency service on pipeline equipment, connections and regulation stations, gas offtake equipment and gas pipelines for households. The Company also furnishes all gas network related material, including the production and sale of boxes used for installing main gas valves, gas meters and regulatory 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: Prague 4 - Michle, U Plynárny 500, Post code 145 08

Company ID No.: 274 36 551

[www.ppsm.cz](http://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, whereas this change came into effect on 19 December 2011.

The main objective of PPSM, a.s. is the provision of maintenance services mainly in the area of complex property management, maintenance of buildings and lands, transportation services and fleet maintenance, construction and operation of CNG filling stations, rental of vehicles using CNG, provision of catering and a pastry shop, property security, mailroom management services, energy services and inspection activities, occupational health and safety, fire prevention, ecology and logistics.

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

Address: Prague 4, U Plynárny 500, Post code 140 00

Company ID No.: 630 72 599

[www.promes.cz](http://www.promes.cz)

Prometheus, energetické služby, a.s., member of the Pražská plynárenská, a.s. Group ('Prometheus a.s.'), 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 a.s. offers comprehensive energy services in the area of production and heat distribution systems, construction of new sources of heat, expertise, and sales of gas appliances to customers.

**Informační služby - energetika, a.s.**

Address: Prague 4, U Plynárny 500, Post code 141 00

Company ID No.: 264 20 830

[www.ise.cz](http://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, provide 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 came into legal force on 3 January 2005.

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

The company specialises in the comprehensive creation of infrastructure for information and communication technologies, implementation of information systems and ensuring their operation.

**Information about organisational units abroad**

Pražská plynárenská, a.s. had no organizational units abroad as at 31 December 2016.



## INFORMATION ABOUT 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 term in office 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.

At the meeting of the Supervisory Board of PP, a.s. held on 13 September 2016, Ing. Petr Zmátlík resigned from the function of member of the Board of Directors of PP, a.s. as of 30 September 2016. At the meeting of the Supervisory Board of PP, a.s. held on 26 October 2016, Ing. Milan Cízl was elected as a member of the Board of Directors with effect from 1 November 2016. In the period from 1 October 2016 to 31 October 2016 under the management of the Board of Directors, the everyday running of the financial section was ensured within her employment relationship by Ing. Marta Ptáčková (head of the Risk Monitoring and Management department).

As at 31 December 2016, the Board of Directors consisted of the following members:

- **Ing. Pavel Janeček**, Chairman of the Board of Directors
- **Ing. Milan Jadlovský**, Vice-Chairman of the Board of Directors
- **Ing. Alois Těšitel**, Member of the Board of Directors
- **Ing. Milan Cízl**, Member of the Board of Directors

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

- Ing. Pavel Janeček is responsible for the Company's management,
- Ing. Milan Jadlovský is responsible for the management of the Sales department,
- Ing. Alois Těšitel is responsible for the management of the Strategy department,
- Ing. Milan Cízl is responsible for the management of the Finance and Administration 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 in office of individual members of the Supervisory Board is five years based on the Articles of Association.

As at 31 December 2016, 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 Supervisory Board
- **Ing. Marta Ptáčková**, Member of the Supervisory Board
- **JUDr. Štěpán Stupčuk**, Member of the Supervisory Board
- **Mgr. Miroslav Vránek**, Member of Supervisory Board



## Information about members of bodies (given in alphabetical order of surnames)

**Ing. Milan Cízl** – Member of the Board of Directors responsible for management of the Finance and Administration department

In 2003 he graduated from the Faculty of Economics and Administration at Masaryk University in Brno, and subsequently participated in a post-graduate internship at the University in Ljubljana. Upon completing his studies, he joined the Ernst & Young consultancy firm, working in various positions within the auditing section and specialising in the energy industry and financial institutions. In 2008 to 2014 he worked for Patria Finance, a.s. in the sector of financial management, initially as the deputy financial director and later as the CFO. From 2014 to 2016 he held the position of financial director and vice chairman of the board of directors at Roklen Fin, a.s. In November 2016 he was appointed as member of the Board of Directors of PP, a.s. and commissioned to manage the Finance and Administration department. He is also a member of the Board of Directors of ISE, a.s. within the PP, a.s. Group.

**Bc. Martin Čáslavka** - Member of the Supervisory Board

In 2004 he graduated from the Faculty of Arts of Charles University in Prague in the field of sociology and adult pedagogy. He studied international economic relations in industrial property at the Metropolitan University of Prague and further pursues 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 at international companies. He was and still is a member of statutory and supervisory bodies of 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 2016). He is the co-founder and 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. At his place of residence, he is committed to work in a non-profit organization which operates a forest nursery and environmental education centre. He has been a Member of the Supervisory Board of PP, a.s. since April 2015.

**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 into business and consulting services in modelling traffic systems as an entrepreneur. In 2001 he started to work as a manager at Nexes, s.r.o. where he was also the statutory representative. From 2011 he went into business and consulting services in the field of railways and other transport systems as an entrepreneur. From 2013 he worked as a commercial and technical director - model and production facilities, including the management and organization of deliveries of production units. Since October 2014 until the present, he has been a councillor and chairman of the political club at the Council of the Capital City of Prague. Until October 2015, he was the councillor for asset management and ownership interests. In April 2015 he became a member of the Supervisory Board of PP, a.s., and was subsequently elected its chairman. In April 2016 he was appointed chairman of the Committee for European Funds of the Council of the Capital City of Prague.

**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 and since 2002 he has been gaining experience at PP, a.s., particularly in the energy sector, having worked in the Purchasing and Forecasts department. Two years later he became the head of strategic marketing and gas purchasing and was subsequently appointed as head of the Director General's office in 2006. In September 2007 he was appointed as the director of Pragoplyn, a.s. and was also elected as a 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 the Strategy department in October 2014. He was commissioned by the Board of



Directors to manage the Sales department on 1 May 2015. Within PP, a.s. Group, he also acts on the supervisory boards of PPSD, 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 Suez Tractebel, 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 the company Pergo, Trelleborg in Sweden. He also worked as a portfolio manager for Explorer Capital Investment, New York, between 2004 and 2011. In October 2014 he was commissioned to manage the governance section of PP a.s. Furthermore, he also acts on several supervisory boards of the PP, a.s. Group.

**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 at Dřevo Měřín, v.d. During the school year 1987/1988 he worked as a warden at Stavební izolace Praha, s.p. Since 1988, he has worked at 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 leading the department from 2005. From November 2012 he worked for another entity within the PP, a.s. Group, namely the subsidiarity Pragoplyn, a.s., performing similar 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 trading and currently he is the head of Sales department at 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 degree at Cardiff University in Great Britain in the study program of legal studies. During his studies he worked in a variety of position in building savings trusts and private companies focused on financial services. He was the leader of the Prague representation of the Czech investment fund (Český investiční fond). He gained experience in the judicial field during internships at the civil and criminal sections 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's degree in business and administration at the Czech University of Life Sciences Prague, graduating in 2014. After successfully passing the bar exams, he founded a private law firm in Prague in 2015. He is a long-standing member of the Inspection and Revision Commission of Spolek českých právníků Všehrd (Všehrd Association of Czech Lawyers). In 2014, he was appointed as an alternate councillor of the Prague 21 district 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., 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 Pilsen in 1987, later working there as a university teacher until 1995. In the following 3 years until 1998, he was a partner and executive manager of a company specializing in financial consulting and also a manager at a company specializing in marketing and sports trading in the area of sports projects on both domestic and international levels. Between 1997 and 2007 he was active in professional hockey. He was the chief executive officer of the major league club in Plzeň since 1997 and of HC Sparta Praha since 1999, and subsequently acted as chief executive officer and member of the board of HC Sparta Praha. Since 2000, he was a member of the executive committee of the Czech Ice Hockey Association (Český svaz ledního hokeje), vice-chairman of the Czech Ice Hockey Association and president of the Association of Professional Ice Hockey Clubs (Asociace profesionálních klubů ledního hokeje) since 2004. He became a member of the management and executive director for business development at Česká pošta, s.p. in 2010. From 2013 until autumn 2016, he worked as the CEO at STES a.s. He is currently involved in managing his own companies. From 2014 to 2016 he was member of the Supervisory Board of PPD, a.s. In April 2015 he became a member of the Supervisory Board of PP, a.s., and was subsequently elected its vice-chairman. Throughout his career, he has been devoted to the



development and partial management of companies with his own shares, mainly in marketing, sport, energy, real estate and agriculture.

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

From 1981 to 1986 she studied at Faculty of Science of Charles University in Prague, where she later continued to prepare for a science degree, later working as an academic. From 1989 until 2001 she was on maternity leave. After that she worked as a teacher at FZŠ Mezi Školami in Prague 13 where she concentrated mainly on the topic of environmental protection. From 2008 she was a member of the Prague 13 district council where she worked as a member of the environment committee (2008-2014), and 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 Prague 13 and a member of the Council of the Capital City of Prague, and chairing the Committee for the environment, infrastructure and technical facilities until April 2016. Since April 2016, she has been the vice-chairperson of the Committee for Zoning Development and the Zoning Plan for the Council of the Capital City of Prague, and a member of the Council's Education and Upbringing Committee. She also acts as vice-chairman of the Path to Education endowment fund (Nadační fond Cesta ke vzdělávání) and is a member of the Monitoring Committee of the Operational Programme Prague – Growth Pole of the Czech Republic. From 2008 to 2010 she took a specialized course for coordinators of environmental education and improving awareness, organised by the City Hall of the Capital City of Prague. Since 2003 she has managed several projects specializing in environmental protection, among others a project by the Ministry of Education, Youth and Sports to support environmental education and raising awareness called Environmental education and raising awareness under the conditions of a Prague neighbourhood school with the representation of ethnic minorities (during the years 2009-2010). She has published 28 articles in scientific and professional journals and 4 publications. She has been a member of Supervisory Board of PP, a.s. since April 2015.

**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 the municipal economy section at the Czech Ministry of Finance. Between 1979 and 1988, she worked as head of the finance department at Stavební strojírenství a lehké prefabrikace (Construction Engineering and Lightweight Prefab Products). From 1989 to 1997, she worked for Český plynárenský podnik (Czech Gas Company) – Transgas, acting as deputy finance director from 1992. From 1997 to 2005, she held the post of director of the Czech Gas Union (Česká plynárenská unie). She currently works as head of the Risk Monitoring and Management department at PP, a.s. She has been a member of the Supervisory Board of PP, a.s. since January 2007. From July of the same year until 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 of Charles University in Prague (graduated in 2003). In 2007, he passed the rigorous examination and obtained a JUDr. degree. After his studies, he worked as a specialist officer and lawyer at the Ministry of the Interior of the Czech Republic. Afterwards he defended the Czech Republic in litigations and arbitration proceedings at the Office for 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 Prague 6 district and in 2010, he became the deputy mayor for the management of municipal property and legal relations. He became a Member of Parliament of the Czech Republic. He has been a Member of the Supervisory Board of PP, a.s. since April 2015.

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

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



PPSD, a.s., Chairman of the Supervisory Board of Prometheus, energetické služby, a.s., a member of PP, a.s. Group, and 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 at 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 at 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 head of the Commercial Director's Office. He is currently working as head of the 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's degree in social and media communication.



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

The information provided in this chapter applies to the individual financial statements, unless stated otherwise. The individual financial statements were compiled in accordance with the Generally Accepted Accounting Principles in the Czech Republic.

The average CZK/EUR exchange rate for 2016 was CZK/EUR 27.033 and was used for conversion of all data in the tables, including comparative information.

### THE ENERGY INDUSTRY IN 2016

There are fundamental changes underway in the energy sector, caused not only by rapid technological progress which offers new opportunities and solutions, but also by the development of the energy policy on a European level.

Among the topics of today are diversification, decentralisation and renewable sources, and there is an obvious shift away from fossil fuels towards renewable sources, and from centralised production at large facilities towards more decentralised systems.

In connection to the foregoing, there have been concurrent changes on the energy markets, where suppliers are forced to reconsider their existing approaches and make fundamental changes. The trend is a transition from energy supplies based solely on the commodity itself to innovative products and value-added services. As a result, energy companies take far greater account in their offers of smart energy solutions, comprehensive solutions for energy demands and the introduction of new efficient technologies.

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

#### INFORMATION ON MAIN AREAS OF ACTIVITY

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.

#### INFORMATION ON REVENUES

Year		2014	2015	2016
Sales of own products, services and goods	in CZK '000	13,688,919	15,550,241	11,737,955
	in EUR '000	506,378	575,232	434,208

Revenues were generated in the Czech Republic.

#### Breakdown of operating revenues by type of activity

Type of activity (in %)	2014	2015	2016
Revenue from sale of gas*	95.1	95.2	90.9
Revenue from sale of electricity*	1.9	2.1	5.7
Other operating revenues and income	3.0	2.7	3.4

\* Licensed activity.



## CAPITAL INVESTMENTS

	Acquisition cost	
	In CZK mil.	In EUR mil.
Investment expenditures in tangible fixed assets	70.2	2.6
Investment expenditures in intangible fixed assets	28.5	1.1
<b>Total</b>	<b>98.7</b>	<b>3.7</b>

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

The investment expenditures into tangible fixed assets mainly consist of investments into the construction of CNG filling stations and information technology. The building in the Michle compound was also purchased from innogy Česká republika a.s. The investment expenditures into intangible fixed assets were concentrated in the area of information systems in 2016. All investments were realized in the Czech Republic.

## EARNINGS BEFORE TAX

Earnings before tax (in CZK mil.)	Actual 2016	Actual 2015	Comparison actual 16/15
Operating earnings	1,008.7	595.2	413.5
Financial earnings	328.9	176.4	152.5
<b>Total earnings</b>	<b>1,337.6</b>	<b>771.6</b>	<b>566.0</b>

Earnings (in EUR mil.)	Actual 2016	Actual 2015	Comparison actual 16/15
Operating earnings	37.3	22.0	15.3
Financial earnings	12.2	6.5	5.7
<b>Total earnings</b>	<b>49.5</b>	<b>28.5</b>	<b>21.0</b>

## REVENUES

Revenues (CZK mil.)	Actual 2016	Actual 2015	Comparison actual 16/15
Total operating revenues	11,770.0	15,602.5	(3,832.5)
of which: revenues from sale of natural gas*	10,694.2	14,845.6	(4,151.4)
revenues from sale of electricity*	671.7	328.2	343.5
Financial revenues	388.5	288.8	99.7
<b>Total revenues</b>	<b>12,158.5</b>	<b>15,891.3</b>	<b>(3,732.8)</b>

Revenues (EUR mil.)	Actual 2016	Actual 2015	Comparison actual 16/15
Total operating revenues	435.4	577.2	(141.8)
of which: revenues from sale of natural gas*	395.6	549.2	(153.6)
revenues from sale of electricity*	24.8	12.1	12.7
Financial revenues	14.4	10.6	3.8
<b>Total revenues</b>	<b>449.8</b>	<b>587.8</b>	<b>(138.0)</b>

\* Licensed activity.



## COSTS

Costs* (CZK mil.)	Actual 2016	Actual 2015	Comparison actual 16/15
Total operating costs	10,761.3	15,007.3	(4,246.0)
of which: costs for consumed natural gas**	6,990.6	11,648.6	(4,658.0)
costs for purchase of electricity**	308.2	111.1	197.1
Financial costs	59.7	112.4	(52.7)
<b>Total costs</b>	<b>10,821.0</b>	<b>15,119.7</b>	<b>(4,298.7)</b>

Costs* (EUR mil.)	Actual 2016	Actual 2015	Comparison actual 16/15
Total operating costs	398.1	555.1	(157.0)
of which: costs for consumed natural gas**	258.6	430.9	(172.3)
costs for purchase of electricity**	11.4	4.1	7.3
Financial costs	2.2	4.2	(2.0)
<b>Total costs</b>	<b>400.3</b>	<b>559.3</b>	<b>(159.0)</b>

\* Net of income tax on current activity.

\*\* Activity under licence without distribution fees.

## FINANCIAL SITUATION

In 2016, Pražská plynárenská, a.s. was a financially stable company, meeting all of its financial obligations towards customers, suppliers, banks, state institutions and employees by the prescribed deadlines.

The Company finances its needs from its own resources and external resources from banks, as well as cash resources from other companies in the PP, a.s. Group and the parent company PPH a.s. via the cash pooling scheme.

In May 2016, the refinancing of the Company's credit resources was successfully finalised, creating a new structure of short-term external financing for a total volume of CZK 5.0 bil. The Company's new structure of external financing is contractually ensured until May 2019 and includes overdraft facilities (lines of credit), a bill of exchange program for drawing the necessary funds using bills in auctions, and a facility for concluding bank guarantees. Thanks to this new structure of external financing, the Company has already saved considerable interest expenses in 2016, which will be repeated in the coming years. These external financing resources are provided by a club of two banks, namely Československá obchodní banka, a.s., and Česká spořitelna, a.s.

Given the positive development of the Company's cash flow, the overdraft facility in particular was drawn on a daily basis, thus optimising the coverage of the Company's cash flow, which is strongly impacted by seasonal fluctuations related to the purchase and sale of gas. Revolving lines of credit were also used in the period until May 2016. As at 31 December 2016 the balance of loans amounted to CZK 40.8 mil., representing a decline of CZK 1,216.1 mil. compared to the balance of bank loans at 31 December 2015 (CZK 1,256.9 mil.). The decrease was mainly the result of the substantially higher earnings generated in 2016.

## SUMMARY OF REAL ESTATE OWNED BY PP, a.s.

As at 31 December 2016, the Company owned real estate (land, buildings, and other structures) at a total acquisition price of CZK 1,146.3 mil. Buildings mainly include the Národní 37 in Prague 1 premises and the buildings of Pražská plynárenská, a.s. compound in Prague 4 - Michle. The net book value of property owned by the Company amounted to CZK 751.8 mil. At the end of 2016, the building in the Pražská plynárenská, a.s. in Prague 4 - Michle was purchased.



## NATURAL GAS TRADING

Natural gas trading (in MWh '000)	2016
Purchased natural gas	13,123.8
Sale of natural gas - total	12,595.4
Sale of natural gas -licensed activity	12,568.4
Sale of CNG	27.0

The year 2016 saw the continuation of market competition, which was again more intensive than in previous year, mainly due to new forms of competition. In the first quarter, there was a national bulk auction of customers in both energy sectors. Unregulated prices became the subject of interest of regulatory authorities and considerable media attention. Concurrently with this, the substantial slump in stock market prices resonated in the first quarter, resulting in a decline in the sale prices of natural gas across the market. The business policy of Pražská plynárenská, a.s. stressed the strengthening of the customer base against competing offers, product innovation, improving customer care, expanding the range of services, benefits and bonuses, but also in improving the efficiency of internal processes, greater involvement of everybody in the sales policy and the management of purchasing positions. In the course of 2016, we presented not only new products, but also a new sales channel that incorporates modern elements in customer service using contemporary technological tools and trends. The aim was to strengthen our relationship with customers, improve the Company's image and meet the planned results.

## ELECTRICITY TRADING

Electricity trading (in MWh '000)	2016
Purchased electricity	371.5
Sale of electricity	371.5

The 2016 results of trading activities in the area of electricity sales were affected by the gradual increase of the customer base, despite the fact that acquisition activity was affected by heightened pressure from other suppliers in 2016. Pražská plynárenská, a.s., responded to their activities with its price offer and also expanded the portfolio of services to customers across all business segments. In 2016, Pražská plynárenská, a.s. introduced the new Self Service program, which allows customers to choose products and bonuses on their own. The development of prices on energy stock markets was favourable for acquisitions, especially in the first quarter of 2016 when electricity prices declined sharply. 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 entire year, business offices, 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 communication with the Company and for handling customer needs. Towards the end of the year, a new business



office was successfully opened in Ústí nad Orlicí. With this step, Pražská plynárenská, a.s. took a step closer to customers in the given region.

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 1 October 2016, customers not only in the East Bohemia region but also in Central Bohemia and North Bohemia can encounter Pražská plynárenská, a.s. services at 24 branches of Czech Post via stands with an offer of the most common discounts and provided services and customer benefits. Customers could also contact the sales representatives of Pražská plynárenská, a.s. by completing a contact form, to obtain a non-binding offer of natural gas or electricity supply.

With effect from 1 May 2016, Pražská plynárenská, a.s. reduced the price of gas for customers, meaning that the price for the gas commodity was reduced by 11% on average for all customers in the basic pricelist and all other related products.

Within the framework of other price offers, new products for households were introduced, such as Rodina+ (Family+) (electricity and gas) with a contract for 2 years, or the innovated Senior+ product (electricity and gas) for seniors over 65 years of age and holders of a ZTP/P pass with a contract for 1 year.

Existing products in the offer also saw changes, e.g. the Discount 11% with which Pražská plynárenská, a.s. offers a special bonus based on the customer's consumption.

Another novelty introduced in the course of 2016 was the Self Service program, through which the customer selects the product that suits them most, and thereby the bonuses which they get from Pražská plynárenská, a.s. for free.

The Company also offers help in unexpected cases of gas or electrical appliance breakdowns.

The POMOC 24 assistance service, through which the Company ensured (under certain conditions) the repair of gas and electrical appliances for its customers either entirely free of charge or with a financial deductible, was available all year round.

Throughout 2016, customers in the Household category could also take advantage of household assistance service insurance, which includes help in emergencies (e.g. heating, electrical or locksmith work) and was obtained through Pražská plynárenská, a.s. entirely free of charge with products for a definite term. Insurance of assistance services was provided for housing cooperatives and owners' associations.

In cooperation with partners, additional bonuses were available to Pražská plynárenská, a.s. customers throughout the whole year, including the opportunity to acquire new gas boilers or heaters, arrange appliance maintenance or purchase CNG vehicles under favourable conditions.

## **LOYALTY PROGRAM**

Customers of the Company can receive attractive discounts and benefits in different areas (e.g. travel, sport, cultural activities, accommodation) from several dozen project partners using the Company's loyalty program "Zákaznická karta Pražské plynárenské a.s.". The Company provides the customer card to its customers free of charge and during the course of the year, interesting contests for holidays abroad, spa getaways and other attractive prizes are organised for cardholders.

## **COMPANY MAGAZINE**

The U Plynárny magazine was published all year as a quarterly and 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, as well as 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).



## **CLEAN MOBILITY**

### **SUPPORT OF NATURAL GAS USE IN TRANSPORT**

The strategic documents (State Energy Concept, CZ Transport Policy for the 2014-2020 period with an outlook to 2050, CZ State Environmental Policy 2012-2020, National Action Plan Clean Mobility) and conducted analyses indicate that compressed natural gas (CNG) is the best-prepared alternative environmental fuel for transport in the Czech Republic, minimally in the middle term. Pražská plynárenská, a.s. is actively involved in the field of clean mobility. With its development program focussed on the alternative use of natural gas in transport, it contributes substantially to reducing greenhouse gas emissions.

In 2016, Pražská plynárenská, a.s. was among the largest sellers of CNG in the Czech Republic. It continued to build its CNG filling station network both in Prague and newly in the Central Bohemia region.

#### **Sale of CNG**

In 2016, Pražská plynárenská, a.s. sold 1.783 million kg of CNG at its filling stations, which is 233,000 kg more of CNG than in 2015. The 13% growth of sales is related both to customers' rising interest in CNG and alternative fuels in general, and to the newly built stations located close to main traffic thoroughfares.

#### **CNG filling stations**

At the end of 2016, Pražská plynárenská, a.s. operated 7 filling stations. In the course of the year it launched operation of two new stations; its first public CNG station in the Central Bohemia region in Mirošovice u Prahy and a station in the compound of the central depot of Czech Post in Sazečská Street in Prague 10 - Malešice. In the City of Prague, it also owns and operates CNG 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 with a standard credit card or with the CNG CardCentrum card. In 2016, Pražská plynárenská, a.s. was a supplier of natural gas for another 18 CNG filling stations in the Czech Republic owned by private companies.

In 2016, preparation and construction of 6 new CNG stations was commenced.

#### **CNG vehicles**

As at the end of 2016, 174 vehicles (CNG) were being operated in Pražská plynárenská, a.s. and its subsidiaries, including CNG vehicles of the car rental centre. This means a growth of 14 CNG vehicles compared to 2015.

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 compressed natural gas continued successfully in 2015. In 2016, Pražské služby, a.s. put 13 trucks and utility vehicles into operation, in addition to the existing 107 CNG vehicles. The purchase another 12 CNG vehicles is planned for 2017. 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. The project will gradually be expanded to the field of electromobility.

Pražská plynárenská, a.s. participates in the CNG CardCentrum single payment system used in the Czech Republic. As at 31 December 2016, Pražská plynárenská, a.s. had issued 4,162 CNG loyalty cards. In 2016, a total of 468 CNG cards were issued to new customers.



## **ELECTROMOBILITY**

Within the framework of the long-term and systematic development of clean mobility at Pražská plynárenská, a.s. and support for the development of low-emission transport in Prague, activities in the field of electromobility were launched in 2016. The aim is to build charging stations at selected locations in Prague, in particular for municipal communal vehicles, and an offer of electromobility for testing at the PP, a.s. car rental centre.

### **Charging stations for electromobility**

In 2016, a fast-charging station for electromobility was built at the Pražská plynárenská, a.s. compound in Michle. This is the second project in the Czech Republic where the users of 'clean' cars can fuel CNG and recharge electricity in one place.

The charging station is designated both for electromobility from the PP a.s. car rental centre, and for the cars of Pražská plynárenská, a.s. employees and customers.

### **Electromobility**

The number of cars at the PP, a.s. car rental centre was expanded to include 2 electromobility (VW Golf, Nissan Leaf) in 2016.

## **SOCIAL RESPONSIBILITY**

Pražská plynárenská, a.s. is aware of its responsibility not only in its field of business and the services it provides to customer, but also towards society as a whole. This particularly concerns the environment, infrastructure and cultural-social life as such.

Therefore, besides its business activities Pražská plynárenská, a.s. also focuses 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 of Pražská plynárenská, a.s. also participate in charity activities and development projects in various fields. As a result, 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 11 years. During this time, 54 exhibitions of major Czech artists from the field of art have taken place at the Gallery. In 2016, the following 5 exhibition openings were held:

- Pavel Holeka/Básně psané papírem (Poems Written in Paper),
- Alén Diviš (1900-1956),
- Vladimír Hanuš/Zítra bude oblakem (Tomorrow Will be a Cloud),
- Dimitrij Kadrnožka/Barvy radosti a melancholie (Colours of Joy and Melancholy),
- Fairy Tale/Motifs of Czech Symbolism and Art Nouveau.

The openings were attended by prominent personalities from cultural, social and public life in the pleasant gallery setting. News from the events was broadcast both on TV and in the radio via live feed, interesting reports and advertisements for the exhibitions, as well as articles and reviews published in newspapers and magazines. The individual exhibits were enriched by their curators with commented viewings, and a catalogue with reproductions in



full colour was issued to accompany each exhibition. It can be stated that the quality standard of the exhibitions improves with every passing year. The exhibitions are very positively received by experts in the field of art and the general public alike. Students from art schools also visit the exhibitions in high numbers. In its existence, the Smečky Gallery has found its way into the awareness not only of Prague residents, but also visitors from across the country, who return to the gallery for high-quality cultural experiences.

## **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 spreading of education about gas 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 the energy sector. It informs visitors about the history and development of the Czech and world gas industry, since its beginnings to the 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 industries and gas facilities, as well as historical gas appliances and documents - catalogues, publications, and photographs can be found here. The attractions of the museum include the reconstructed model of the Michle gas plant in 1937 at a scale of 1 : 100.

In 2016 a worldwide unique exhibition “Historical Gas Irons and Mangles” continued with more than 70 exhibits. In June 2016, the Gas Museum was part of the Prague Museum Night for the second time in its history. Almost 500 visitors came to the museum during the event. Cooperation with Prague city districts and municipal companies continued, e.g. with the Museum of the City of Prague (lending of a historical gas exhibit for the exposition at the Rothmayer Villa) or with the Gallery of the City of Prague (“From Lamp-post to Lamp-post” walks in December 2016). In 2016, cooperation with the Czech Tourist Club was initiated. The first joint event was the April walk “From Žižkov to the Gas Museum”, which was attended by about 200 people.

In May, the hike “Energy Facilities in Prague 8” was held, with its destination near the former Libeň gas tank at Palmovka. In 2016, the museum's collection was enriched by a number of historical documents and exhibits both from the Czech Republic and abroad. A number of exhibits were expertly restored, and the original function of selected historical appliances (gas iron, coffee roaster, stove, burners and others) was renewed, allowing the possibility to show museum visitors at events what purposes gas was used for in the past.

## **COOPERATION WITH OTHER ENERGY COMPANIES**

Throughout the year the Company cooperated with manufacturers and vendors of gas appliances, providers of maintenance and related services, vendors of CNG cars and other entities, the result of which were favourable conditions for the purchase of goods and services for customers of Pražská plynárenská, a.s.

## **INFORMATION TECHNOLOGY**

The aim of the information strategy in 2016 was to provide resources to improve the Company's productivity, efficiency, quality and flexibility. The IT strategy through its solutions affected all the functional areas, with a view to providing relevant information to the management to support operation, customer services, energy purchasing, logistical processes and financial management.

An integral part of the support of corporate processes are optimal devices, which Company employees use to increase the rate of service, ensure supplies and improve relations with customers.

Among the successes of 2016 is the definition of a new project management concept in IT.

There was a fundamental change in the offer of Company products, which is closer again to customers thanks to the new information platform.



The Company is undergoing a change in the concept of information flows in the legal, financial and logistics areas, with the aim of supporting the Company management in deciding about internal Company processes and allowing flexible reaction to customer needs and legislation.

## **HUMAN RESOURCES MANAGEMENT**

### **LABOUR AND SOCIAL AREAS**

As at 31 December 2016, Pražská plynárenská, a.s. employed 343 people, of which 78 were men and 265 were 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.

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 a St. Nicholas party for the children of its employees. Creative spring and autumn workshops for employees' children were also held.

### **COLLECTIVE BARGAINING**

Labour, wages and other benefits of Pražská plynárenská, a.s. employees were fulfilled in line with the collective agreement valid from 1 February 2015 to 31 January 2017. In the employment law area, employees got e.g. 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. Employees are also offered benefits through a Cafeteria system (pursuant to the valid collective agreement).

### **OCCUPATIONAL HEALTH AND SAFETY, FIRE PREVENTION**

The Occupational health and safety and Fire prevention system are an integral and important part of managing Pražská plynárenská, a.s.

The internal management directives of Pražská plynárenská, a.s. related to Occupational health and safety and Fire prevention 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 legislative and other requirements through the internal management directives and preventive measures and regular inspections of premises and workplaces at Pražská plynárenská, a.s., the potential adverse impacts of work activities on the health and safety of workers are eliminated or minimized. There was not a single injury classified as a work injury in 2016. Hence, the work injury rate has been maximally optimised.

In 2016, there were 53 OHS and FP inspections performed at the Pražská plynárenská, a.s. Group. The inspections aimed at compliance with safety and fire conditions on the workplace and in all other areas and transport roads within Pražská plynárenská, a.s. premises. The deficiencies arising from the inspections were corrected by the given deadlines and measures were introduced to prevent their recurrence.

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



## **ENVIRONMENT**

The environmental policy of Pražská plynárenská, a.s. is focused on further improvements in the quality of the environment as a whole and also all its components, applying the principles of sustainable development, economic efficiency and social acceptability of environmental programs, projects and activities. Pražská plynárenská, a.s., as a company operating within a European Union member state, emphasizes the environment and the fulfilment of obligations arising from the approved environmental legislation of the 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 production.

The following highly efficient technologies were developed to use natural gas:

- natural gas heating,
- technological heating,
- motor vehicle propulsion.

The use of natural gas in all these areas primarily contributes to reducing air pollution with substances that have a negative environmental impact.

For instance, the use of natural gas to power motor vehicles contributes less to the greenhouse effect compared to liquid fuels. Natural gas by means of its physical essence can reduce emissions by about one third. For this reason, Pražská plynárenská, a.s. focuses on expanding the network of compressed natural gas filling stations for CNG vehicles. In 2016, two new filling stations were opened to the public.

The main emphasis in the area of waste management at the Company is placed on a preventive 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 of employees through e-learning, which is part of the Pražská plynárenská, a.s. policy.

### **REHABILITATION OF THE ECOLOGICAL BURDEN AT PP, a.s.**

The environmental burden supervised between 1926 and 1975 has been successively removed in cooperation with the Ministry of the Environment of the Czech Republic. The state through the Ministry of Finance of the Czech Republic paid the incurred costs of environmental liabilities of the Company. In 2016, negotiations about completing the rehabilitation of the last contaminated area at Pražská plynárenská, a.s. in Prague 4 - Michle continued with the Ministry of Finance of the Czech Republic and Ministry of the Environment of the Czech Republic. In order to complete the removal of the ecological burden, Pražská plynárenská, a.s. requested the Ministry of Finance of the Czech Republic to award a contract for surveys, including a risk analysis, on the basis of which project documentation to complete rehabilitation at Pražská plynárenská, a.s. would be processed. Pražská plynárenská, a.s. was not included in the priorities plan of the Ministry of Finance of the Czech Republic for the year 2016. In 2017 the Company will negotiate about further procedure for removing the environmental burden and its inclusion in the priorities plan with both Ministries.

Pražská plynárenská, a.s. conducted the regular "Annual monitoring of underground waters on the drainage line in the Pražská plynárenská, a.s. compound in Michle" at its own expense in 2016. The results of the performed analyses confirmed the stabilised condition of the site. No difference was found compared to 2011, respectively 2005 and 2009.



## **RISK MANAGEMENT IN PP, a.s.**

Pražská plynárenská, a.s. maintains a comprehensive risk management system. This includes identifying risks at all levels of management, their regular evaluation and ensuring the timely reaction of the Company aimed at eliminating risk exposure. The risk management strategy also includes the insurance strategy, in particular insurance of the Company's property and liability for damages caused to third parties.

## **INFORMATION ABOUT RESEARCH OF DEVELOPMENT OF NEW PRODUCTS OR PROCEDURES IN CURRENT ACCOUNTING PERIOD**

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



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

The information given in this chapter applies to the consolidated financial statements, unless stated otherwise. The consolidated financial statements were compiled in accordance with International Financial Reporting Standards IAS/IFRS as adopted by the EU.

The average CZK/EUR exchange rate for 2016 was CZK/EUR 27.033 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;
- provision of services relating to researching the causes of losses of natural gas, measurement and metrology in the gas industry;
- production and distribution of heat;
- provision of services relating to information technology and the purchase and sale of hardware and software;
- provision of services relating to management and maintenance of tangible and intangible fixed assets.

### CONSOLIDATED EARNINGS BEFORE TAX

Consolidated earnings (in CZK mil.)	Actual 2016	Actual 2015	Comparison actual 16/15
Operating earnings	1,833.8	1,166.6	667.2
Financial earnings	(107.3)	(87.9)	(19.4)
<b>Total earnings</b>	<b>1,726.5</b>	<b>1,078.7</b>	<b>647.8</b>

Consolidated earnings (in EUR mil.)	Actual 2016	Actual 2015	Comparison actual 16/15
Operating earnings	67.8	43.2	24.6
Financial earnings	(3.9)	(3.3)	(0.6)
<b>Total earnings</b>	<b>63.9</b>	<b>39.9</b>	<b>24.0</b>



## CONSOLIDATED REVENUES

Consolidated revenues (in CZK mil.)	Actual 2016	Actual 2015	Comparison actual 16/15
Total operating revenues	12,283.2	15,840.5	(3,557.3)
of which: revenues from sale of natural gas*	11,331.2	15,226.5	(3,895.3)
revenues from sale of electricity*	666.6	327.9	338.7
Financial revenues	46.4	60.7	(14.3)
<b>Total revenues</b>	<b>12,329.6</b>	<b>15,901.2</b>	<b>(3,571.6)</b>

Consolidated revenues (in EUR mil.)	Actual 2016	Actual 2015	Comparison actual 16/15
Total operating revenues	454.4	586.0	(131.6)
of which: revenues from sale of natural gas*	419.2	563.3	(144.1)
revenues from sale of electricity*	24.7	12.1	12.6
Financial revenues	1.7	2.2	(0.5)
<b>Total revenues</b>	<b>456.1</b>	<b>588.2</b>	<b>(132.1)</b>

\* Licensed activity.

## CONSOLIDATED COSTS

Consolidated costs* (in CZK mil.)	Actual 2016	Actual 2015	Comparison actual 16/15
Total operating costs	10,449.4	14,673.9	(4,224.5)
of which: costs for consumed natural gas**	7,254.2	11,885.2	(4,631.0)
costs for purchase of electricity**	314.5	119.0	195.5
Financial costs	153.8	148.6	5.2
<b>Total costs</b>	<b>10,603.2</b>	<b>14,822.5</b>	<b>(4,219.3)</b>

Consolidated costs* (in EUR mil.)	Actual 2016	Actual 2015	Comparison actual 16/15
Total operating costs	386.5	542.8	(156.3)
of which: costs for consumed natural gas**	268.3	439.7	(171.4)
costs for purchase of electricity**	11.6	4.4	7.2
Financial costs	5.7	5.5	0.2
<b>Total costs</b>	<b>392.2</b>	<b>548.3</b>	<b>(156.1)</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 external resources from banks. Available cash resources are pooled to enable the optimisation and simplification of the Group's financial management. It particularly allows for the reduction of debt exposure towards banks, thus generating savings on interest from provided external resources.

The year 2016 saw the restructuring of financing for Pražská plynárenská, a.s. and PPD, a.s., which by exploiting the favourable situation on financial markets and successful negotiation with banks will bring the PP, a.s. group considerable savings in 2016-2023 on interest costs and securing long-term external resources in the form of bonds until 2023.

Pražská plynárenská, a.s. managed to negotiate a change in the structure of short-term financing resources with the financing banks, including a substantial reduction of interest rates. Pražská plynárenská, a.s. can draw on short-term external resources worth up to CZK 0.5 bil. PPS, a.s. took the opportunity prematurely to redeem bonds with a variable interest rate derived from the PRIBOR rate, which were issued in May 2015 in a volume of CZK 2.5 bil. The hedging of interest rates against interest rate fluctuation in the form of an interest swap on these bonds was also terminated and settled. Subsequently, a new issue of bonds worth CZK 2.7 bil. with a fixed interest coupon and maturity in 2023 was issued in November 2016. This reissue of bonds resulted in considerable savings on interest expenses compared to the original conditions of the bond issue of 2015.

Short-term sources of external financing and the issued bonds were completely financed by Československá obchodní banka, a.s. and Česká spořitelna, a.s.

## **ACTIVITIES IN THE FIELD OF RESEARCH AND DEVELOPMENT**

No PP, a.s. Group company performed research or development of new products or procedures.

## **HUMAN RESOURCES MANAGEMENT**

### **LABOUR AND SOCIAL AREAS**

As at 31 December 2016, the Group employed 813 people.

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 and tick encephalitis.

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 a St. Nicholas party for the children of its employees. Creative spring and autumn workshops for employees' children were also held.

### **COLLECTIVE BARGAINING**

Labour, wages and other benefits for Group employees were fulfilled in line with the collective agreement valid from 1 January 2015 to 31 January 2017. In the employment law area, employees got e.g. 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. Employees are also offered benefits through a Cafeteria system (pursuant to the valid collective agreement).



## **RISK MANAGEMENT AT PP, a.s.**

Group companies maintain a risk management system. This includes identifying risks at all levels of management, their regular evaluation and ensures the timely reaction of the Company aimed at eliminating risk exposure. Part of the risk management is the insurance strategy, which secures the Company's property and liability in risky situations.

## **FINANCIAL RISK**

The Group faces a credit risk in 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 delay. Renewal of the business relationships especially by traders with final customers is assessed according to historical experience and according to current business dealing with the particular entities. Cash collection from customers for natural gas and electricity sold is encouraged partly by a system of advance payments and partly by the claims collection process.

The goal for liquidity risk management is to keep a balance between financing operating activity and financial flexibility to meet trade payables and liabilities to creditors of the Group on time. The management of the Group minimizes liquidity risk (i.e. the risk of a lack of cash to pay liabilities) by means of 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 the prudent management of liquidity risk.

The goal of interest rate risk management is to eliminate risk arising from interest rate fluctuation by interest-bearing financial liabilities and receivables using the appropriate structure. In 2015, an interest swap on the total volume of the issue until the time of redemption in 2022 was concluded to hedge against interest rate risk for the bonds issued by PPD, a.s. Within the framework of refinancing, these bonds were redeemed prematurely in November 2016 and the interest swap was settled. The original bonds were replaced with a new bond issue with a fixed rate and maturity in 2023. There is no interest rate risk for fixed bonds and it was not necessary to negotiate an interest swap.

Movements in exchange rates represent a risk due to the fact that the Group purchases a large part of the gas in foreign currency. Selection of the currency in which trades are realised is fully dependent on the overall commercial conditions in forward purchases. The Group always hedges against the exchange rate risk arising from these purchase contracts for up to 100% of the purchased volume in the form of currency forwards at the bank for all trades which have a different currency during purchase and resale. The Group actively manages this risk through monitoring foreign exchange developments, planned development of CNB interventions and management of gas purchases in foreign currencies, thus hedging against long-term currency risk.

## **OTHER INFORMATION**

Occupational health and safety of employees is ensured according to all the relevant legal standards and internal management directives.

Group companies take a responsible approach to environmental protection. In conducting their business activities, they thoroughly control the fulfilment of all procedures. Environmental protection is carried out in compliance with the relevant legal standards and internal directives.

In 2016, the volume of work related to the maintenance, repair and construction of gas networks in the PP a.s. Group increased, thus leading to a slight increase in waste generated during excavation works by 4%.

No companies of the Group had an organisational unit abroad as at 31 December 2016.



## IMPORTANT EVENTS AT THE BEGINNING OF 2017

The Company's sole shareholder acting in the capacity of the general meeting decided on 5 January 2017 to recall member of the Supervisory Board of Pražská plynárenská, a.s. Mgr. Ing. Martin Kopecký. With effect from 6 January 2017, this vacant position was filled by Mr Radomír Nepil; Ing. Petra Zemanová was elected member of the Supervisory Board and Mgr. Miroslav Vránek was re-elected member of the Supervisory Board with effect from 11 January 2017. On 10 January 2017, the term in office of member of the Supervisory Board Ing. Marta Ptáčková ended.

Pražská plynárenská, a.s. managed to defend the prestigious Prague Business Superbrands award for 2017.

## EXPECTED DEVELOPMENT OF THE GROUP

Pražská plynárenská, a.s., holder of a license for electricity and natural gas trading, will continue to operate in a highly competitive market in 2017. The trading of these utilities will continue to be affected by the regulatory framework and EU transposition. External influences will include macroeconomic indicators, political stability, price development on commodity markets, customer expectations and the various interests of competing companies. The ability to compete in this environment will be measurable through the ability to understand the ongoing interactions, analyse them correctly, identify opportunities and threats and define a successful strategy. Hence, further care and development of long-term relationships with customers, swift innovation, a proactive business policy, but also the strengthening of mutual trust on the basis of customers' positive experience in cooperating with Pražská plynárenská, a.s. will be crucial factors.

A new service, which Pražská plynárenská, a.s. offered in 2016, was the purchase of surplus electricity production from renewable sources. In 2017, it will expand the range of services related to renewable sources to include charging stands for electric cars at 3 to 5 specified locations in Prague. These steps will strengthen the Group's competitiveness in the energy market and open other acquisition possibilities to strengthen the market share of the Pražská plynárenská, a.s. Group. In a time when the price of electricity in the market is low and the differences between the prices of different suppliers are not relevant, the customer's decision on the choice of supplier is influenced particularly by the quality and quantity of services offered, impeccable customer care and other special services.

Pražská plynárenská, a.s. will continue to support the development of clean mobility and gradually expand the offer of alternative fuels in accordance with the National Action Plan for clean mobility approved by the Czech government in November 2015, and in accordance with the Smart Prague project. In addition to expanding the number of CNG stations, it will continue to build a network of charging stations to support the development of electromobility in Prague.

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 is affected by a high degree of traffic. The Company will establish or pursue further cooperation with companies in the city to ensure environmental and energy-saving measures in the area of car fleet operation. It will offer natural gas for public buses, mail vehicles, taxis, police vehicles, waste collection vehicles, vehicles for street cleaning and supply vehicles in the territory of Prague. It will gradually expand cooperation with an offer of charging infrastructure.

The main target of PPD, a.s. in the area of management and operation of the distribution system in the City of Prague is to ensure reliable and safe operation of gas facilities. Emphasis will be placed mainly on the rehabilitation and recovery of gas equipment and measuring equipment. A new three-year regulatory period (IV<sup>th</sup> regulatory period) came into effect on 1 January 2016. In this context the 'Principles of price regulation for the electricity and gas sectors and for the activities of electricity and gas market operators for the period of 2016-2018' came into force.



Other Group targets are intensive growth and development in the sale of thermal energy. The intensity of growth of the portfolio of operated boilers, which is based primarily on the investment plan and presumptive acquisition activity, is crucial to achieve this goal.

The stable progression of the Group's financial situation is expected in 2017. The balance use of used external resources in the individual parts of the year will correspond to the seasonal conditions of gas offtake. The Group's financial needs in terms of external capital are covered by the provided short-term external financing from a club of two banks equal to CZK 0.5 bil. as of May 2016, and by the reissue of PPD, a.s. bonds in November 2016.



## FINANCIAL SECTION

- Individual Financial Statements of Pražská plynárenská, a.s., compiled in accordance with Czech accounting legislation as at 31 December 2016
- Notes to the Individual Financial Statements of Pražská plynárenská, a.s., compiled in accordance with the Czech accounting legislation as at 31 December 2016
- Consolidated Financial Statements for the group of companies controlled by Pražská plynárenská, a.s., compiled in accordance with International Financial Reporting Standards IAS/IFRS as adopted by EU as at 31 December 2016
- Notes to the Consolidated Financial Statements for the group of companies controlled by Pražská plynárenská, a.s., compiled in accordance with International Financial Reporting Standards IAS/IFRS as adopted by EU as at 31 December 2016



## INDIVIDUAL FINANCIAL STATEMENTS

Company name: Pražská plynárenská, a.s.

Identification number: 60193492

Legal form: Joint-stock company

Primary business: Gas trading

Balance sheet date: 31 December 2016

### BALANCE SHEET

(in thousand Czech crowns)

Ref.	ASSETS	31.12.2016			31.12.2015
		Gross 1	Provision 2	Net 3	Net 4
a	b				
	<b>TOTAL ASSETS</b>	<b>14,035,030</b>	<b>(1,769,629)</b>	<b>12,265,401</b>	<b>12,259,165</b>
B.	<b>Fixed assets</b>	<b>7,070,969</b>	<b>(1,443,424)</b>	<b>5,627,545</b>	<b>5,150,635</b>
B. I.	<b>Intangible fixed assets</b>	<b>767,458</b>	<b>(701,664)</b>	<b>65,794</b>	<b>96,802</b>
B. I. 2.	Royalties	702,661	(638,820)	63,841	49,286
2.1.	Software	686,832	(627,019)	59,813	45,901
2.2.	Other royalties	15,829	(11,801)	4,028	3,385
4.	Other intangible fixed assets	62,878	(62,844)	34	1,979
5.	Advances paid for intangible fixed assets and intangible fixed assets in the course of construction	1,919	0	1,919	45,537
5.2.	Intangible fixed assets in the course of construction	1,919	0	1,919	45,537
B. II.	<b>Tangible fixed assets</b>	<b>1,632,443</b>	<b>(741,760)</b>	<b>890,683</b>	<b>889,453</b>
B. II. 1.	Land and Constructions	1,146,335	(394,519)	751,816	722,208
1.1.	Land	76,890	0	76,890	77,373
1.2.	Constructions	1,069,445	(394,519)	674,926	644,835
2.	Equipment	417,565	(343,289)	74,276	67,866
4..	Other tangible fixed assets	38,569	(3,952)	34,617	34,824
4.3.	Other tangible fixed assets	38,569	(3,952)	34,617	34,824
5.	Advances paid for tangible fixed assets and tangible fixed assets in the course of construction	29,974	0	29,974	64,555
5.1.	Advances paid for tangible fixed assets	19,622	0	19,622	45,497
5.2.	Tangible fixed assets in the course of construction	10,352	0	10,352	19,058
B. III.	<b>Long-term investments</b>	<b>4,671,068</b>	<b>0</b>	<b>4,671,068</b>	<b>4,164,380</b>
B. III. 1.	Investments in subsidiaries	4,671,005	0	4,671,005	4,164,312
5.	Other long-term investments in securities	2	0	2	2
7.	Other financial investments	61	0	61	66
7.1.	Other financial investments	61	0	61	66
C.	<b>Current assets</b>	<b>6,944,868</b>	<b>(326,205)</b>	<b>6,618,663</b>	<b>7,088,878</b>
C. I.	<b>Inventories</b>	<b>800,419</b>	<b>0</b>	<b>800,419</b>	<b>1,068,222</b>
C. I. 1.	Raw materials	799,807	0	799,807	1,067,696
3.	Products and Goods for resale	312	0	312	226
3.2.	Goods for resale	312	0	312	226
5.	Advances paid for inventory	300	0	300	300
C. II.	<b>Receivables</b>	<b>6,036,526</b>	<b>(326,205)</b>	<b>5,710,321</b>	<b>5,845,141</b>
C. II 1.	<b>Long-term receivables</b>	<b>17,300</b>	<b>0</b>	<b>17,300</b>	<b>17,243</b>
C. II. 1.1.	Trade receivables	32	0	32	1,124
1.4.	Deferred tax asset	17,268	0	17,268	16,119
C. II. 2.	<b>Short-term receivables</b>	<b>6,019,226</b>	<b>(326,205)</b>	<b>5,693,021</b>	<b>5,827,898</b>
C. II. 2.1.	Trade receivables	1,112,350	(326,205)	786,145	691,258
2.4.	Receivables - other	4,906,876	0	4,906,876	5,136,640
2.4.3.	Taxes - receivables from the state	41,193	0	41,193	42,960
2.4.4.	Short-term advances paid	1,090,016	0	1,090,016	1,133,307
2.4.5.	Estimated receivables	3,760,218	0	3,760,218	3,942,484
2.4.6.	Other receivables	15,449	0	15,449	17,889
C. IV.	<b>Financial resources</b>	<b>107,923</b>	<b>0</b>	<b>107,923</b>	<b>175,515</b>
C. IV. 1.	Financial resources in treasury	3,899	0	3,899	778
2.	Financial resources on account	104,024	0	104,024	174,737



D.	Prepayments and accrued income	19,193	0	19,193	19,652
D. 1.	Prepaid expenses	17,886	0	17,886	19,230
2.	Complex prepaid expenses	0	0	0	0
3.	Accrued income	1,307	0	1,307	422

Ref.	LIABILITIES AND EQUITY	31.12.2016	31.12.2015
a	b	5	6
	<b>TOTAL LIABILITIES AND EQUITY</b>	<b>12,265,401</b>	<b>12,259,165</b>
A.	Equity	5,009,169	3,878,801
A. I.	Share capital	431,972	431,972
A. I. 1.	Share capital	431,972	431,972
A. II.	Share premium and Capital contributions	3,420,438	3,213,745
2.	Capital contributions	3,420,438	3,213,745
2.1.	Other capital contributions	85,435	85,435
2.2.	Assets and liabilities revaluation	3,335,003	3,128,310
A. III.	Other reserves	1,712	4,033
2.	Statutory and other reserves	1,712	4,033
A. V.	Profit / (loss) for the current period	1,155,047	647,051
A. VI.	Interim dividends paid	0	(418,000)
B.+C.	Liabilities	7,256,057	8,378,793
B. I.	Provisions	195,628	171,701
2.	Income tax provision	75,977	63,594
3.	Other provisions	119,651	108,107
C.	Liabilities	7,060,429	8,207,092
C. I.	Long-term liabilities	541	649
3.	Long-term advances received	155	155
9.	Liabilities - other	386	494
9.3.	Other liabilities	386	494
C. II.	Short-term liabilities	7,059,888	8,206,443
2.	Liabilities to lending institutions	40,794	1,256,878
3.	Short-term advances received	3,785,418	4,132,689
4.	Trade payables	94,081	153,091
6.	Liabilities - subsidiaries / controlling parties	905,847	449,202
8.	Liabilities - other	2,233,748	2,214,583
8.1.	Liabilities to shareholders	1,792	1,797
8.3.	Liabilities to employees	12,091	10,681
8.4.	Liabilities for social security and health insurance	7,375	6,244
8.5.	Taxes and state subsidies payable	75,235	32,775
8.6.	Estimated payables	2,130,221	2,130,895
8.7.	Other payables	7,034	32,191
D.	Accruals and deferred income	175	1,571
D. 1.	Accrued expenses	123	1,535
2.	Deferred income	52	36



Company name: Pražská plynárenská, a.s.

Identification number: 60193492

Legal form: Joint-stock company

Primary business: Gas trading

Balance sheet date: 31 December 2016

# INCOME STATEMENT

(in thousand Czech crowns)

Ref.	DESCRIPTION	Accounting period	
		2016	2015
a	b	1	2
I.	Sales of products and services	11,736,407	15,548,664
II.	Sales of goods	1,548	1,577
A.	Cost of sales	10,310,875	14,409,656
A 1.	Cost of goods sold	933	1,268
2.	Raw materials and consumables used	7,153,249	11,637,436
3.	Services	3,156,693	2,770,952
D.	Staff costs	281,636	257,494
D. 1.	Wages and salaries	203,503	186,523
2.	Social security and health insurance costs and other expenses	78,133	70,971
2.1.	Social security and health insurance costs	68,919	62,706
2.2.	Other expenses	9,214	8,265
E.	Adjustments relating to operating activities	109,562	119,073
E. 1.	Adjustments relating to tangible and intangible fixed assets	121,271	107,576
1.1.	Adjustments relating to tangible and intangible fixed assets – permanent	121,294	107,599
1.2.	Adjustments relating to tangible and intangible fixed assets – temporary	(23)	(23)
3.	Adjustments relating to receivables	(11,709)	11,497
III.	Other operating income	32,004	52,255
III. 1.	Sales of fixed assets	3,989	2,128
3.	Other operating income	28,015	50,127
F.	Other operating expenses	59,225	221,101
F. 1.	Net book value of fixed assets sold	1,440	910
3.	Taxes and charges relating to operating activities	3,913	7,493
4.	Reserves relating to operating activities and complex deferred expenses	11,544	74,196
5.	Other operating expenses	42,328	138,502
*	Operating result	1,008,661	595,172
IV.	Income from long-term investments – equity investments	341,679	227,646
IV. 1.	Proceeds from investments – controlled or controlling entity	341,679	227,646
VI.	Interest income and similar income	1,250	1,426
VI. 1.	Interest income and similar income – controlled or controlling entity	524	549
2.	Interest income and similar income	726	877
J.	Interest expenses and similar expenses	12,180	41,834
J. 1.	Interest expenses and similar expenses – controlled or controlling entity	986	1,042
2.	Other interest expenses and similar expenses	11,194	40,792
VII.	Other financial income	45,647	59,702
K.	Other financial expenses	47,504	70,523
*	Financial result	328,892	176,417
**	Net profit / (loss) before taxation	1,337,553	771,589
L.	Tax on profit	182,506	124,538
L. 1.	Tax on profit current	183,655	147,307
2.	Tax on profit deferred	(1,149)	(22,769)
**	Net profit / (loss) after taxation	1,155,047	647,051



***	Net profit / (loss) for the financial period	1,155,047	647,051
*	Net turnover for the accounting period = I.+II.+III.+IV.+V.+VI.+VII.	12,158,535	15,891,270

## OVERVIEW OF CHANGES IN EQUITY

for the year ending 31 December 2016

changes/balances (in CZK '000)	Share capital	Capital funds	Facultativ e reserve fund	Other funds from profit	Retained earnings / Accumula ted losses	Earnings	Advance on share in profit	Equity Total
<b>Balances as at 31 Dec. 2014</b>	1,439,907	3,091,424	453,823	6,694	1,096,455	735,471	0	6,823,774
Appraisal differences from reassessment of interests in controlled entities using equivalence	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)
Payment from funds	0	0	(453,823)	0	0	0	0	(453,823)
Share in profit paid to shareholders	0	0	0	0	(1,096,455)	(707,471)	0	(1,803,926)
Share in profit paid to body members	0	0	0	0	0	(28,000)	0	(28,000)
Share capital decrease	(1,007,935)	0	0	0	0	0	0	(1,007,935)
Advance paid on share in profit	0	0	0	0	0	0	(418,000)	(418,000)
Earnings for 2015 accounting period	0	0	0	0	0	647,051	0	647,051
<b>Balances as at 31 Dec. 2015</b>	<b>431,972</b>	<b>3,213,745</b>	<b>0</b>	<b>4,033</b>	<b>0</b>	<b>647,051</b>	<b>(418,000)</b>	<b>3,878,801</b>
Appraisal difference from reassessment of interests in controlled entities using equivalence	0	206,693	0	0	0	0	0	206,693
Use of funds	0	0	0	(2,321)	0	0	0	(2,321)
Share in profit paid to shareholders	0	0	0	0	0	(619,851)	418,000	(201,851)
Share in profit paid to body members	0	0	0	0	0	(27,200)	0	(27,200)
Earnings for 2016 accounting period	0	0	0	0	0	1,155,047	0	1,155,047
<b>Balances as at 31 Dec. 2016</b>	<b>431,972</b>	<b>3,420,438</b>	<b>0</b>	<b>1,712</b>	<b>0</b>	<b>1,155,047</b>	<b>0</b>	<b>5,009,169</b>



## CASH FLOW STATEMENT for the year ending 31 December 2016

	(CZK '000)	2016	2015
	<b>Net cash flows from operating activities</b>		
	<b>Accounting profit from regular activity before tax</b>	<b>1,337,553</b>	<b>771,589</b>
<b>A.1</b>	<b>Adjusted by non-cash operations:</b>	<b>(197,573)</b>	<b>92,864</b>
A.1.1	Depreciation of fixed assets	121,294	107,599
A.1.2	Change in provisions and reserves	(188)	85,670
A.1.3	Profit from sale of fixed assets	(2,549)	(1,218)
A.1.4	Revenues from shares in profit	(341,679)	(227,646)
A.1.5	Interest paid and received	11,554	41,191
A.1.6	Correction by other non-cash operations	13,995	87,268
<b>A*</b>	<b>Net cash flows from operating activities before tax and working capital changes</b>	<b>1,139,980</b>	<b>864,453</b>
<b>A.2</b>	<b>Change in balance of non-cash components of working capital:</b>	<b>17,473</b>	<b>(215,602)</b>
A.2.1	Change in balance of receivables and temporary asset accounts	116,333	176,171
A.2.2	Change in balance of short-term liabilities and temporary liability accounts	(366,663)	(289,111)
A.2.3	Change in balance of supplies	267,803	(102,662)
<b>A**</b>	<b>Net cash flows from operating activities before tax</b>	<b>1,157,453</b>	<b>648,851</b>
A.3	Interest paid	(12,180)	(41,834)
A.4	Interest received	626	643
A.5	Paid income tax	(169,506)	(105,986)
A.6	Received shares in profit	341,679	227,646
<b>A***</b>	<b>Net cash flows from operating activities</b>	<b>1,318,072</b>	<b>729,320</b>
	<b>Cash flow from investment activity</b>		
B.1	Expenses for acquisition of fixed assets	(398,739)	(132,719)
B.2	Income from sale of fixed assets	3,989	2,128
B.3	Loans and credit to related entities	5	(66)
B.4	Income from reduction of subsidiary share capital	0	2,499,360
<b>B***</b>	<b>Net cash flow from investment activities</b>	<b>(394,745)</b>	<b>2,368,703</b>
	<b>Cash flow from financial activity</b>		
C.1	Change in balance of long-term and short-term liabilities	(759,547)	240,625
<b>C.2</b>	<b>Change in balance of equity:</b>		
C.2.2	Payment of share in equity to shareholders	0	(1,007,935)
C.2.5	Direct payment debited to funds	(2,321)	(2,661)
C.2.6	Share in profit paid (incl. advances paid)	(229,051)	(2,703,749)
<b>C***</b>	<b>Net cash flow from financial activity</b>	<b>(990,919)</b>	<b>(3,473,720)</b>
	<b>Net reduction of cash and cash equivalents</b>	<b>(67,592)</b>	<b>(375,697)</b>
	<b>Balance of cash and cash equivalents at start of year</b>	<b>175,515</b>	<b>551,212</b>
	<b>Balance of cash and cash equivalents at end of year</b>	<b>107,923</b>	<b>175,515</b>



## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS

### 1. GENERAL INFORMATION

#### 1.1. Basic Company information

Pražská plynárenská, a.s. (hereinafter the "Company") was incorporated in the commercial register maintained by the Municipal Court in Prague, Section B, File 2337, on 31 December 1993 and has its registered office in Prague 1 - Nové Město, Národní 37, Post code 110 00. The Company's core business activity is gas and electricity trading.

The Company updated its Articles of Association that are now fully governed by the new Corporations Act. This fact came into effect on the date of entry into the commercial register, i.e. 18 July 2014.

### 2. ACCOUNTING PROCEDURES

#### 2.1. Basic principles of processing the financial statements

The financial statements were compiled in accordance with Generally Accepted Accounting Principles in the Czech Republic for large corporations and were compiled under the historical cost convention, except as disclosed below.

#### 2.2. Comparable data

The reporting of balance sheet and profit and loss statement items was changed based on the requirements of the amended Accounting Act and implementing decree valid from 1 January 2016. To ensure the comparability of these items with the past accounting period, the balance sheet and profit and loss statement items for 2015 were reclassified in accordance with the Czech Accounting Standard for Businesses No. 024 "Comparable period for accounting periods started in 2016".

#### 2.3. 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 their acquisition.

Intangible fixed assets are depreciated by applying the linear 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%
- other appraisable rights	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%

The depreciation plan is updated in the course of using the intangible fixed assets based on changes in the expected lifetime. If the residual value of the asset exceeds the estimated recoverable value, its residual value is reduced to this amount by means of an adjustment. The estimated recoverable value 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.



## 2.4 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 their acquisition. Tangible fixed assets generated through own activity are appraised at cost. Assets received as gifts are reported at the replacement cost as at the date of takeover of the respective assets.

Tangible fixed assets except for land, which is not depreciated, are depreciated using the method of linear depreciation based on their estimated useful lives as follows:

Asset category	Depreciation rate
Tangible fixed assets with an acquisition cost over CZK 40,000:	
- constructions	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%

The depreciation plan is updated in the course of using the tangible fixed assets based on changes in the expected lifetime.

If the residual value of the asset exceeds the estimated recoverable value, its residual value is reduced to this amount by means of an adjustment. The estimated recoverable value is determined based on expected future cash flows generated by the certain 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.

## 2.5 Investments in controlled entities

Investments in controlled entities represent ownership interests in enterprises that are controlled or managed by the Company (hereinafter also a "subsidiary").

Investments in subsidiaries and affiliates are accounted for using 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 as at the balance sheet date. Revaluation of investment by using the equity method of accounting is recorded through the Company's equity.

## 2.6 Inventories

Purchased inventories are appraised at the acquisition cost reduced by the adjustment. Acquisition cost includes all costs related to the acquisition of these inventories (mainly transport costs, customs duty, etc.). The Company applies the weighted average cost method for all decrements of purchased inventories.

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

## 2.7 Receivables

Receivables are reported at nominal value reduced by an adjustment to doubtful receivables. An adjustment to doubtful receivables is created on the basis of the ageing structure of receivables and individual evaluation



of the credit-worthiness of the debtors. The Company does not create adjustments to receivables from related entities.

## **2.8 Foreign currency conversion**

Transactions denominated in a foreign currency are converted and posted at the rate of exchange valid as at the transaction date.

Cash, receivables and liabilities denominated in foreign currencies were converted 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 are posted to the profit and loss statement.

The Company treats advances paid for the acquisition of fixed assets or inventories as receivables denominated in a foreign currency, and therefore these assets are converted at the exchange rate published by the Czech National Bank as at the balance sheet date.

## **2.9 Financial derivatives**

Financial derivatives including foreign exchange contracts, interest rate futures, forward rate agreements (FRA), currency and interest rate swaps, currency and interest rate options and other financial derivatives are initially reported in the balance sheet at acquisition cost and subsequently reassessed 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 if they have a positive fair value or in other payables if their fair value is negative.

Derivatives embedded in other financial instruments are not reported individually.

Changes in the fair value of financial derivatives for trading are reported in summary in the financial earnings.

The Company has financial derivatives which serve as an effective hedging instrument in accordance with the Company's risk management strategy, but hedge accounting cannot be applied to them under Czech accounting regulations because they do not meet the criteria for hedge accounting. Therefore, these derivatives are presented as trading derivatives.

## **2.10 Stipulating fair value**

The Company appraises derivatives at fair value. The Company uses the quoted market price to determine the fair value of derivatives traded on the active market. To measure the fair value of these derivatives, the Company uses standard models using exclusively market parameters.

## **2.11. Equity**

If the Company decides to pay advances on shares in profit, it will report this fact as a reduction of its own equity in the balance sheet Decision on advance payment of share in profit. If the Company generates as loss as at the balance date or attains a lower profit than the paid advance on shares in profit, it will report the payment of advances on shares in profit or part thereof as a receivables towards shareholders in the balance sheet as at the end of the accounting period.

## **2.12. Reserves**

The Company creates reserves to cover its liabilities or expenses, the nature of which is clearly defined and which are likely or certain to arise as at the balance date, but their value or moment of accrual is not yet precisely known. The reserve as at the balance sheet date represents the best estimate of expenses which are like to arise or - in the case of liabilities - the amount required for their settlement.

The Company creates a reserve for its future payable income tax reduced by advances paid for income tax. If advances paid for income tax are higher than the estimated tax, the difference is recognised as a short-term receivable.

The Company creates other reserves for unused vacation, employee bonuses and competition clauses.



### **2.13. Employee benefits**

Employee benefits are regularly accounted to costs in the period with which they are associated in substantive and time terms.

Regular contributions are made to the state to fund the national pension plan.

### **2.14. Liabilities to credit institutions**

Short-term and long-term liabilities to credit institutions (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 into costs. Long-term liabilities are not discounted.

### **2.15. Revenues**

Sales revenues are posted upon the delivery of products and customer acceptance and are reported net of discounts and value added tax.

Sales revenues are posted as at the date of service provision and are reported net of discounts and value added tax.

### **Natural gas**

Revenue from the sale of gas on the liberalized market, which was fully liberalized on 1 January 2007 in accordance with Section 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 consumed gas and other services (transport, structuring, flexibility), distribution price and price for OTE (Market Operator) services.

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. Section 15), based on the reading of the consumption of each offtake 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. 4500/2000 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 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 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.

#### **2.16. Related entities**

The Company's related entities refer to:

- entities, which directly or indirectly exercise decisive control at the Company, and companies in which these entities have decisive or significant control;
- entities which can directly or indirectly exercise significant control the Company,
- 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 decisive or significant control;
- subsidiaries.

Material transactions and outstanding balances with related parties are disclosed in note 13 "Transactions with related entities" and note 14 "Employees".

#### **2.17. Leasing**

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

#### **2.18. Interest paid**

All interest charges are expensed into costs. Long-term liabilities are not discounted.

#### **2.19. 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.

#### **2.20. Cash flow statement**

The Company compiled a cash flow statement using the indirect method. Cash equivalents consist of short-term liquid assets which can easily and readily be monetised into a previously known amount in cash.

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. Receivables or liabilities arising from the title of cash-pooling are not reported within the cash flow statement as a part of Cash and cash equivalents.

#### **2.21. 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 and their impacts are quantified in the notes to the financial statements, but are not themselves recognised in the financial statements.



### 3. INTANGIBLE FIXED ASSETS

#### 2016:

ACQUISITION PRICE (in CZK '000)	1 January 2016	Increments/ re-accounting	Disposals	31 December 2016
Software	614,655	72,177	0	686,832
Other appraisable rights, licenses	11,202	4,627	0	15,829
Other intangible fixed assets	62,979	0	101	62,878
Unfinished intangible fixed assets	45,537	33,186	76,804	1,919
<b>Total</b>	<b>734,373</b>	<b>109,990</b>	<b>76,905</b>	<b>767,458</b>

CUMULATED DEPRECIATION (in CZK '000)	1 January 2016	Increments	Disposals	31 December 2016
Software	568,754	58,265	0	627,019
Other appraisable rights, licenses	7,817	3,984	0	11,801
Other intangible fixed assets	61,000	1,945	101	62,844
<b>Total</b>	<b>637,571</b>	<b>64,194</b>	<b>101</b>	<b>701,664</b>
<b>Residual value</b>	<b>96,802</b>			<b>65,794</b>

#### 2015:

ACQUISITION PRICE (in CZK '000)	1 January 2015	Increments/ re-accounting	Disposals	31 December 2015
Software	569,915	44,740	0	614,655
Other appraisable rights, licenses	9,916	1,286	0	11,202
Other intangible fixed assets	62,979	0	0	62,979
Unfinished intangible fixed assets	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>

CUMULATED DEPRECIATION (in CZK '000)	1 January 2015	Increments	Disposals	31 December 2015
Software	517,259	51,495	0	568,754
Other appraisable rights, licenses	5,968	1,849	0	7,817
Other intangible fixed assets	58,431	2,569	0	61,000
<b>Total</b>	<b>581,658</b>	<b>55,913</b>	<b>0</b>	<b>637,571</b>
<b>Residual value</b>	<b>95,485</b>			<b>96,802</b>



#### 4. TANGIBLE FIXED ASSETS

##### 2016:

ACQUISITION PRICE (in CZK '000)	1 January 2016	Increments/ re-accounting	Disposals	31 December 2016
Land	77,373	0	483	76,890
Constructions	1,017,944	51,785	284	1,069,445
Tangible movable property and lots thereof	436,811	42,471	61,717	417,565
Other tangible fixed assets	38,478	91	0	38,569
Unfinished tangible fixed assets	19,058	85,641	94,347	10,352
Advances paid for tangible fixed assets	45,497	19,622	45,497	19,622
<b>Total</b>	<b>1,635,161</b>	<b>199,610</b>	<b>202,328</b>	<b>1,632,443</b>

CUMULATED DEPRECIATION (in CZK '000)	1 January 2016	Increments	Disposals	31 December 2016
Constructions	372,633	21,625	192	394,066
Tangible movable property and lots thereof	368,945	35,131	60,787	343,289
Other tangible fixed assets	3,654	298	0	3,952
<b>Total</b>	<b>745,232</b>	<b>57,054</b>	<b>60,979</b>	<b>741,307</b>

ADJUSTMENTS (in CZK '000)	1 January 2016	Increments	Disposals	31 December 2016
Constructions	476	0	23	453
<b>Total</b>	<b>476</b>	<b>0</b>	<b>23</b>	<b>453</b>
<b>Residual value</b>	<b>889,453</b>			<b>890,683</b>

##### 2015:

ACQUISITION PRICE (in CZK '000)	1 January 2015	Increments/ re-accounting	Disposals	31 December 2015
Land	76,890	483	0	77,373
Constructions	1,017,156	788	0	1,017,944
Tangible movable property and lots thereof	442,047	23,978	29,214	436,811
Other tangible fixed assets	37,765	713	0	38,478
Unfinished tangible fixed assets	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>

CUMULATED DEPRECIATION (in CZK '000)	1 January 2015	Increments	Disposals	31 December 2015
Constructions	351,225	21,408	0	372,633
Tangible movable property and lots thereof	367,272	29,978	28,305	368,945
Other tangible fixed 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>

ADJUSTMENTS (in CZK '000)	1 January 2015	Increments	Disposals	31 December 2015
Constructions	499	0	23	476
<b>Total</b>	<b>499</b>	<b>0</b>	<b>23</b>	<b>476</b>
<b>Residual value</b>	<b>875,125</b>			<b>889,453</b>



## 5. SHARES IN CONTROLLED ENTITIES

### Information about subsidiaries:

Pražská plynárenská Distribuce, a.s., member of the Pražská plynárenská, a.s. Group,  
 registered office: U Plynárny 500, Prague 4, Post code 145 08

Pražská plynárenská Servis distribuce, a.s., member of the Pražská plynárenská, a.s. Group,  
 registered office: U Plynárny 1450/2a, Prague 4, Post code 140 00

Pražská plynárenská Správa majetku, a.s., member of the Pražská plynárenská, a.s. Group,  
 registered office: U Plynárny 500, Prague 4, Post code 145 08

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

### As at 31 December 2016:

Domestic	Number of shares (units)	Nominal value of shares (in CZK '000)	Accounting value of ownership interest (in CZK '000)	Share in share capital (in %)	Earnings (in CZK '000)	Equity (in CZK '000)	Income from dividends in given year (in CZK '000)
Pražská plynárenská Distribuce, a.s., member of the Pražská plynárenská, a.s. Group	5,207	2,707,640	4,347,136	100	452,716	4,347,136	255,870
Pražská plynárenská Servis distribuce, a.s., member of the Pražská plynárenská, a.s. Group	202,106	15,080	174,645	100	74,888	174,645	64,250
Pražská plynárenská Správa majetku, a.s., member of the Pražská plynárenská, a.s. Group	10	2,000	8,575	100	3,830	8,575	6,486
Prometheus, energetické služby, a.s., member of the Pražská plynárenská, a.s. Group	128	128,000	129,409	100	295	129,409	3,823
Informační služby - energetika, a.s.	20	2,000	11,240	100	5,212	11,240	11,250
<b>Residual value</b>			<b>4,671,005</b>				



## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS

As at 31 December 2015:

Domestic	Number of shares (units)	Nominal value of shares (in CZK '000)	Accounting value of ownership interest (in CZK '000)	Share in share capital (in %)	Earnings (in CZK '000)	Equity (in CZK '000)	Income from dividends in given year (in CZK '000)
Pražská plynárenská Distribuce, a.s., member of the Pražská plynárenská, a.s. Group	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 Pražská plynárenská, a.s. Group	202,106	15,080	167,078	100	70,272	167,078	35,000
Pražská plynárenská Správa majetku, a.s., member of the Pražská plynárenská, a.s. Group	10	2,000	11,551	100	6,766	11,551	3,390
Prometheus, energetické služby, a.s., member of the Pražská plynárenská, a.s. Group	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>Residual value</b>			<b>4,164,312</b>				

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

The Company is not a member with unlimited liability in any company.

Change in the appraisal of shares by equivalence for asset participations in subsidiaries:

(CZK '000)	Subsidiaries	
	2016	2015
Balance as at 1 January	4,164,312	6,541,379
Increase of valuation	206,693	122,293
Acquisition of shares	300,000	0
Divestment of shares	0	(2,499,360)
<b>Final balance as at 31 December</b>	<b>4,671,005</b>	<b>4,164,312</b>

## 6. INVENTORIES

As at 31 December 2016 the item Raw materials consists primarily of gas stored in the gas storage facility worth CZK 797,649,000 (as at 31 December 2015: CZK 1,067,696,000).

The Company did not create an adjustment to inventories as at 31 December 2016 or 31 December 2015.



## **7. RECEIVABLES**

Receivables past maturity as at 31 December 2016 amounted to CZK 367,497,000 (as at 31 December 2015: CZK 374,119,000).

Adjustments to receivables as at 31 December 2016 amounted to CZK 326,205,000 (as at 31 December 2015: CZK 337,914,000).

Receivables are not covered by substantive guarantees and none has a maturity period of over 5 years.

The Company does not register any receivables and conditional receivables which are not reported in the balance sheet.

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 accruals for unbilled gas and gas distribution in the amount of CZK 3,518,059,000 as at 31 December 2016 (as at 31 December 2015: CZK 3,751,503,000) and accruals for unbilled electricity in the amount of CZK 233,993,000 as at 31 December 2016 (as at 31 December 2015: CZK 182,375,000).

## **8. EQUITY**

The Company's share capital as at 31 December 2016 was CZK 431,972,000 and is divided into 950,338 bearer shares with a nominal value of CZK 300 and 489,569 registered shares with 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.

The Company is part of a single consolidation unit, of which the parent company is Pražská plynárenská Holding a.s., registered office at U Plynárny 500/44, Prague 4, Post code 140 00.

The Company's final parent company is the Capital City of Prague.

The consolidated financial statements compiled for the entire consolidation group to which the Company belongs can be obtained from Pražská plynárenská Holding a.s., registered office at U Plynárny 500/44, Prague 4, Post code 140 00.

The Company is fully governed by the new Corporations Act and used the option not to create a mandatory reserve fund, which is also permitted by the Company's articles of association.

According to the instruction of 3 June 2015 issued by the controlling entity - Pražská plynárenská Holding a.s., the Company compiled the interim financial statements as at 31 May 2015 and based on these interim financial statements, an advance on the share in profit of CZK 418,000,000 was paid out to Pražská plynárenská Holding a.s. in accordance with the group instruction and after verifying compliance with the statutory conditions for the payment of an advance on the share in profit.

On 30 March 2016, Pražská plynárenská Holding a.s. as the sole shareholder of the Company acting in the capacity of the general meeting approved the Company's financial statements for 2015 and decided about the division of profit earned in 2015 of CZK 647,051,000 and payment of a share in profit to shareholders in the amount of CZK 619,851,000, for which an advance of CZK 418,000,000 was paid in 2015 in accordance with the group instruction and after verifying compliance with the statutory conditions for the payment of an advance on the share in profit.

The Company did not propose the division of profit for 2016 as at the issue date of these statements.



## 9. RESERVES

(in CZK '000)	31 December 2016	31 December 2015
Income tax reserve	75,977	63,594
Other reserves	119,651	108,107
<b>Total reserves</b>	<b>195,628</b>	<b>171,701</b>

Advances for income tax of CZK 114,977,000 paid by the Company as at 31 December 2016 (as at 31 December 2015: CZK 74,357,000) are offset against the reserve for income tax of CZK 190,954,000 created as at 31 December 2016 (as at 31 December 2015: CZK 137,951,000).

Other reserves include a reserve for unused vacation, employee bonuses and competition clauses.

## 10. LIABILITIES, FUTURE LIABILITIES AND CONTINGENT LIABILITIES

Liabilities are not covered by substantive guarantees and none has a maturity period of more than 5 years.

The Company has secured its financial obligations arising from the operation on the gas market with Československá obchodní banka, a. s. in favour of RWE Supply Trading GmbH, as at 31 December 2016 for up to EUR 10,000,000 (as at 31 December 2015: EUR 6,500,000). These liabilities are not recognized in the balance sheet.

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

Estimated liabilities include an accrual for unbilled purchased gas and services related to gas distribution of CZK 1,923,528,000 as at 31 December 2016 (as at 31 December 2015: CZK 1,940,138,000) and an accrual for unbilled purchased electricity and services related to electricity distribution of CZK 195,897,000 (as at 31 December 2015: CZK 179,182,000).

The total value of liabilities not included in the balance sheet, arising from concluded operative lease agreements, was CZK 10,243,000 as at 31 December 2016 (as at 31 December 2015: CZK 9,811,000).

Future liabilities arising from contracts for lease of gas storage capacity as at 31 December 2016 amounted to CZK 521,246,000 (as at 31 December 2015: CZK 672,982,000).

The total value of future liabilities arising from contracts which do not relate to gas was as at 31 December 2016 CZK 27,224,000 (as at 31 December 2015: CZK 34,820,000).

As at 31 December 2016, the Company did not provide any substantive guarantees which are not reported in the balance sheet.

The Company management is not aware of any significant unrecorded contingent liabilities as at 31 December 2016.

## 11. LIABILITIES TO CREDIT INSTITUTIONS AND OTHER LOANS

Liabilities to credit institutions and other loans can be broken down as follows:

(in CZK '000)	31 December 2016	31 December 2015
Bank overdrafts	40,794	356,878
Short-term bank loans	0	900,000
<b>Total bank loans and overdrafts</b>	<b>40,794</b>	<b>1,256,878</b>
<b>Short-term loans - cash-pooling</b>	<b>905,847</b>	<b>449,202</b>



Until May 2016, the Company used lines of credit agreed with a consortium of banks consisting of Československá obchodní banka, a.s., Komerční banka, a.s., Česká spořitelna, a.s., and UniCredit Bank, a.s.

Structure of short-term lines of credit as at 24 May 2016:

(in CZK '000)	Limit	From	To	Interest rate
Line A	900,000	24 April 2015	24 April 2018	floating
Line C	700,000	24 April 2015	24 April 2018	floating
Line D	900,000	24 April 2015	24 April 2018	floating
Line E	1,000,000	24 April 2015	24 April 2018	floating
<b>Total</b>	<b>3,500,000</b>			

A loan of CZK 700 mil. from Line C was drawn in 2015 with an average interest rate of 4.79% p.a. Lines of credit in 2015 were also drawn in the form of an overdraft facility (equal to CZK 356,878,000 as at 31 December 2015) and a tranche of line D (equal to CZK 200,000,000 as at 31 December 2015). The average interest rate on the overdraft facility and tranche of Line D in 2015 was 1.23% p.a.

In May 24 (2016), the refinancing of the Company's credit resources was successfully finalised with the signing of new credit agreements, thus creating a new structure of short-term external financing for a total volume of CZK 5.0 bil. The Company's new structure of external financing is contractually ensured until 2019 and includes overdraft lines of credit, a bill of exchange program for drawing the necessary funds using bills in auctions, and a line for concluding bank guarantees. These external financing resources are provided by a club of two banks, namely Československá obchodní banka, a. s., and Česká spořitelna, a.s.

Structure of short-term financing as of 24 May 2016:

(in CZK '000)	Limit	From	To	Interest rate
Overdraft lines of credit	900,000	24 May 2016	24 May 2019	floating
Line for guarantees	700,000	24 May 2016	24 May 2019	Fixed
Bill of exchange program	3,400,000	24 May 2016	24 May 2019	floating
<b>Total</b>	<b>5,000,000</b>			

Lines of credit in 2016 were drawn in the form of an overdraft facility (equal to CZK 40,794,000 as at 31 December 2016) and tranche (line C and D). The average interest rate on the overdraft facility and tranche of Line D in 2016 was 0.92% p.a. A loan of CZK 700 mil. from Line C was drawn with an average interest rate of 3.23% p.a.

In connection to the refinancing, the Company and Československá obchodní banka, a. s., a Česká spořitelna, a.s. concluded the following documents in May 2016:

- Agreement on establishment of a lien to the enterprise between Pražská plynárenská, a.s., and Československá obchodní banka, a. s.,
- Agreement on establishment of a lien to the enterprise between Pražská plynárenská, a.s., and Česká spořitelna, a. s.,
- Agreement on establishment of a lien to receivables from agreements on opening of bank accounts between Pražská plynárenská, a.s., and Československá obchodní banka, a. s.,
- Agreement on establishment of a lien to receivables from agreements on opening of bank accounts between Pražská plynárenská, a.s., and Česká spořitelna, a. s.,
- Agreement on prohibition of encumbrance and divestment between Pražská plynárenská, a.s., and Československá obchodní banka, a. s.

The listed agreements are not contrary to the lien associated with the bonds issued by the subsidiary Pražská plynárenská Distribuce, a.s., member of the Pražská plynárenská, a.s. Group.



In relation to the conditions arising from the new credit agreements signed in 2016, financial covenants are monitored at the level of consolidated data of the Company. In the case of non-compliance, the banks may demand the premature repayment of loans.

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

Financial resources contributed to cash-pooling and reported in the row Liabilities - controlled or controlling entity, accrued interest at a rate of O/N PRIBOR + 0.05% p.a. in 2016 and 2015.

## 12. REVENUES

Revenues may be broken down as follows:

(in CZK '000)	2016	2015
Revenues related to natural gas and CNG trading	10,730,694	14,877,991
Revenues related to electricity trading	671,741	328,229
Revenues from services provided	333,972	342,444
Revenues from sale of goods	1,548	1,577
<b>Total</b>	<b>11,737,955</b>	<b>15,550,241</b>

In 2016 and in 2015 all revenues were generated in the Czech Republic.

## 13. TRANSACTIONS WITH RELATED ENTITIES

This note specifies all the mutual transactions with related entities, except for transactions related to the purchase or sale of energy (gas, electricity, heat, CNG) with companies controlled by the Capital City of Prague, which were concluded under standard market conditions and are not enumerated in the following tables.

(in CZK '000)	2016	2015
Sale of natural gas and CNG	199,593	259,030
Sale of electricity	5,154	326
Provision of services incl. rental of assets	306,294	315,267
Sale of goods and material	140	137
Sale of assets	1,246	4
Income from dividends	341,679	227,646
Interest received	524	549
Other revenues	1	1
<b>Total revenues</b>	<b>854,631</b>	<b>802,960</b>
Purchase of services	1,735,442	1,600,979
Purchase of materials and electricity	12,657	10,905
Interest paid	986	1,042
Other costs	158	96
<b>Total costs</b>	<b>1,749,243</b>	<b>1,613,022</b>
<b>Investments</b>	<b>56,100</b>	<b>72,064</b>



The Company reported the following balances with related entities:

(in CZK '000)	31 December 2016	31 December 2015
Trade receivables	337,834	281,476
Short-term advances paid*	874,288	861,055
Estimated receivables	34,245	34,319
Other receivables and accruals accounts	2,589	2,130
<b>Total receivables</b>	<b>1,248,956</b>	<b>1,178,980</b>
Liabilities to companies in the consolidation group:	1,625,252	1,132,217
Trade liabilities	32,771	11,446
Short-term advances received*	21,840	35,464
Received loans - cash-pooling (see note 11)	905,847	449,202
Estimated receivables	664,675	636,048
Other receivables and accruals accounts	119	57
Liabilities to companies outside the consolidation group:	295	167
Trade liabilities	295	167
<b>Total liabilities</b>	<b>1,625,547</b>	<b>1,132,384</b>

\* balances of these items are reported incl. VAT

Company cars are made available for use by management members and members of the Board of Directors.  
Total remuneration for the members of the Board of Directors and Supervisory Board is part of the personnel 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.

## 14. EMPLOYEES

(in CZK '000)	2016		2015	
	Number	Personnel costs	Number	Personnel costs
Payroll costs for Company management	23	47,576	22	40,234
Payroll costs of other employees	310	155,927	293	146,289
Social security and health insurance costs		68,919		62,706
Other social costs		9,214		8,265
<b>Total</b>		<b>281,636</b>		<b>257,494</b>

The Company's management includes members of the Supervisory Board and the Board of Directors and managers. Managers refer to employees who are considered employees, are directly subordinate to the statutory body but are simultaneously superior to another manager.

Other transactions with the Company management are described in note 13 Transactions with related entities.

## 15. FEE TO THE AUDIT COMPANY

Information relating to the fees to the audit company PricewaterhouseCoopers Audit, s.r.o. is provided in the notes to the consolidated financial statements of the parent company Pražská plynárenská Holding a.s.



## 16. INCOME TAX

Tax expense includes:

(in CZK '000)	2016	2015
Due tax (19%)	190,954	137,951
Deferred tax	(1,149)	(22,769)
Adjustment of the text expense for the previous period based on actually filed tax return	(7,299)	9,356
<b>Total tax expense</b>	<b>182,506</b>	<b>124,538</b>

The deferred tax was calculated using the tax rate of 19% (the tax rate for 2015 and subsequent years).

The deferred tax receivable may be analysed as follows:

(in CZK '000)	31 December 2016	31 December 2015
<b>Deferred tax liability (-)/receivables (+) on grounds of:</b>		
Difference in book and tax residual value of assets	(29,509)	(29,578)
Reserves and adjustments	47,119	46,178
Other temporary differences	(342)	(481)
<b>Net deferred tax receivables</b>	<b>17,268</b>	<b>16,119</b>

## 17. SUBSEQUENT EVENTS

No events have occurred subsequent to balance date that would have a material impact on the financial statements as at 31 December 2016.

14 March 2017

**Ing. Pavel Janeček**

Chairman of the Board of Directors

**Ing. Milan Cízl**

Member of the Board of Directors



## CONSOLIDATED FINANCIAL STATEMENTS

**Pražská plynárenská, a.s.**  
**Consolidated statement of financial position as at 31 December 2016**  
Prepared in accordance with IFRS as adopted by the EU

	Note	31.12.2016	31.12.2015
		(CZK '000)	(CZK '000)

### ASSETS

#### Non-current assets

Land, property, plant and equipment	6.1	6,377,721	6,050,763
Intangible assets	6.2	53,127	80,455
Other non-current assets	6.4	102,859	102,899
<b>Total non-current assets</b>		<b>6,533,707</b>	<b>6,234,117</b>

#### Current assets

Inventories	6.3	831,587	1,090,420
Trade and other receivables	6.4	940,964	1,147,954
Tax receivables		11	19
Cash and cash equivalents		111,658	177,745
Other assets		22,932	20,577
<b>Total current assets</b>		<b>1,907,152</b>	<b>2,436,715</b>
<b>TOTAL ASSETS</b>		<b>8,440,859</b>	<b>8,670,832</b>

### EQUITY AND LIABILITIES

#### Equity

Share capital	6.5	431,972	431,972
Statutory reserve funds	6.6	238,960	238,960
Revaluation of hedging derivatives		0	(20,392)
Retained earnings		2,235,510	1,040,697
<b>Total equity</b>		<b>2,906,442</b>	<b>1,691,237</b>



Non-current liabilities			
Trade liabilities and other non-current liabilities	6.7	1,491	891
Bank loans and bonds	6.10	2,643,687	2,501,659
Other liabilities	6.8.1.2	0	80,450
Deferred tax liabilities	6.11	387,933	369,488
Provisions	6.13	200,000	200,000
<b>Total non-current liabilities</b>		<b>3,233,111</b>	<b>3,152,488</b>
Current liabilities			
Trade liabilities and advances received	6.8 + 6.9	1,810,553	2,206,980
Bank loans and bonds	6.10	40,794	1,256,878
Other liabilities	6.8	262,576	287,842
Income tax	6.12	72,966	3,011
Other tax liabilities	6.12	84,164	40,159
Provisions	6.13	30,253	32,237
<b>Total current liabilities</b>		<b>2,301,306</b>	<b>3,827,107</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>8,440,859</b>	<b>8,670,832</b>



**Pražská plynárenská, a.s.**

**Consolidated statement of comprehensive income for the year ended 31 December 2016**

Prepared in accordance with IFRS as adopted by the EU

	Note	2016	2015
		(CZK '000)	(CZK '000)
Revenues	6.14	12,241,353	15,772,640
Purchased gas and electricity, materials and services related to gas and electricity supplies	6.15	8,609,557	12,803,757
Other operating income	6.16	41,894	67,878
Personnel costs	6.17	661,570	648,948
Amortisation and depreciation of non-current assets	6.18	424,749	377,874
Other operating costs	6.19	753,528	843,342
<b>Operating profit</b>		<b>1,833,843</b>	<b>1,166,597</b>
Financial costs	6.20	153,787	148,604
Financial income	6.20	46,421	60,663
<b>Financial loss</b>		<b>(107,366)</b>	<b>(87,941)</b>
Profit before tax		1,726,477	1,078,656
Income tax	6.21	329,813	227,854
<b>Profit after tax for the period</b>		<b>1,396,664</b>	<b>850,802</b>
Other comprehensive income	6.8.1.2	0	(20,392)
<b>Total comprehensive income</b>		<b>1,396,664</b>	<b>830,410</b>



**CONSOLIDATED REPORT ON CHANGES IN EQUITY  
for the year ending 31 December 2016**

Compiled in accordance with the IFRS in the version accepted by the EU  
(in whole CZK '000)

	Share capital	Funds from profit	Reassessment of hedging derivatives	Retained earnings	Total
Note	6.5	6.6			
<b>Balance as at 1 January 2015</b>	<b>1,439,907</b>	<b>692,783</b>	<b>0</b>	<b>2,411,822</b>	<b>4,544,512</b>
Earnings for the period	0	0	0	850,802	850,802
Other comprehensive earnings	0	0	(20,392)	0	(20,392)
<b>Total comprehensive earnings</b>	<b>0</b>	<b>0</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)	0	0	0	(1,007,935)
Dividends paid	0	(453,823)	0	(1,803,926)	(2,257,749)
Advances on dividends paid	0	0	0	(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>
Earnings for the period	0	0	0	1,396,664	1,396,664
Other comprehensive earnings	0	0	20,392	0	20,392
<b>Total comprehensive earnings</b>	<b>0</b>	<b>0</b>	<b>20,392</b>	<b>1,396,664</b>	<b>1,417,056</b>
<b>Transactions with owners of the Company:</b>					
Dividends paid	0	0	0	(619,851)	(619,851)
Advances on dividends paid	0	0	0	418,000	418,000
<b>Balance as at 31 December 2016</b>	<b>431,972</b>	<b>238,960</b>	<b>0</b>	<b>2,235,510</b>	<b>2,906,442</b>



## CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED CASH FLOW STATEMENT for the year ending 31 December 2016

Compiled in accordance with the IFRS in the version accepted by the EU (in whole CZK '000)

	2016	2015
<b>Profit before tax</b>	<b>1,726,477</b>	<b>1,078,656</b>
<b>Adjustments of profit before tax</b>	<b>525,320</b>	<b>582,238</b>
Depreciation of fixed assets	424,749	377,874
Write-off of receivables	36,590	100,344
Change in provisions and reserves	(13,668)	45,509
Profit from sale of fixed assets	(3,461)	(4,415)
Net interest	63,727	76,602
Adjustments by other non-cash operations (revaluation of derivatives)	17,383	(13,676)
<b>Net cash flows from operating activities before tax and working capital changes</b>	<b>2,251,797</b>	<b>1,660,894</b>
<b>Change in working capital needs</b>	<b>73,616</b>	<b>(121,270)</b>
Change in receivables from operations	180,070	(108,630)
Change in liabilities from operations	(364,777)	93,240
Movement in inventories (gross)	258,323	(105,880)
<b>Net cash flows from operating activities before tax</b>	<b>2,325,413</b>	<b>1,539,624</b>
Interest paid	(63,831)	(76,720)
Interest received	104	118
Income tax on current activities and additional tax paid minus tax refunds	(246,195)	(193,992)
<b>Net cash flows from operating activities</b>	<b>2,015,491</b>	<b>1,269,030</b>
Acquisition cost of fixed assets	(725,557)	(659,151)
Proceeds from sale of fixed assets	4,852	6,709
Loans and credit to related entities	4	(66)
<b>Net cash flow from investment activities</b>	<b>(720,701)</b>	<b>(652,508)</b>
<b>Change in liabilities from financial activities</b>		
Change in long-term liabilities	(79,850)	(1,142)
Change in balance of issued bonds	142,028	2,501,659
Received bank loans	3,112,175	6,786,010
Bank loan repayment	(4,328,259)	(6,322,934)
Change of the loan status from the parent company PPH a.s.	(5,120)	(273,109)
<b>Change in balance of equity</b>		
Decrease in share capital paid	0	(1,007,935)
Shares in profit paid	(201,851)	(2,257,749)
Advance on share in profit paid	0	(418,000)
<b>Net cash flows from financial activities</b>	<b>(1,360,877)</b>	<b>(993,200)</b>
<b>Cash and cash equivalents balance at the beginning of the accounting period</b>	<b>177,745</b>	<b>554,423</b>
<b>Net movement in cash and cash equivalents for the accounting period</b>	<b>(66,087)</b>	<b>(376,678)</b>
<b>Cash and cash equivalents balance at the end of the accounting period</b>	<b>111,658</b>	<b>177,745</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. BASIC INFORMATION

### 1.1. Name, registered office and information about foundation

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, Post code 110 00, Czech Republic. The Company’s ID number is 601 93 492.

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

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

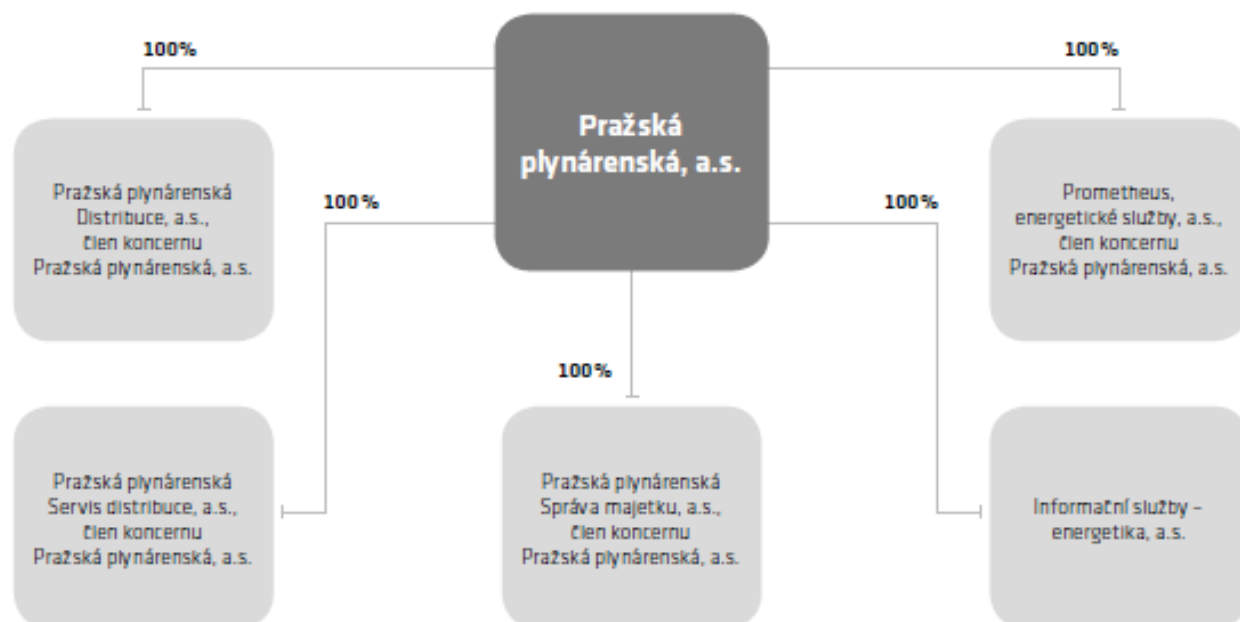
The Group’s core business activity is the sale and distribution of natural gas and the sale of electricity.

The Group also operates in the following business activities:

- provision of services related to information technology and the purchase and sale of hardware and software;
- provision of 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;
- provision of services related 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 2016 and 31 December 2015:



\* (member of the Pražská plynárenská, a.s. Group)



### 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 Jádlovský	Vice-Chairman of the Board of Directors
Ing. Milan Cízl	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
Mgr. Miroslav Vránek	Member of the Supervisory Board
Petr Klepáček	Member of the Supervisory Board

### 1.4. Main shareholders of the Company

The sole shareholder controlling the Company as at 31 December 2016 and 31 December 2015 is Pražská plynárenská Holding a. s. ("PPH a.s."), which is controlled by the Capital City of Prague, which is the final parent company.

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

### 2.1. New and amended standards and interpretations mandatory for the first time in 2016

- IAS 1, Compiling and publication of financial statements: Initiative for publication - amendment (effective for accounting periods starting on 1 January 2016). The amendment clarifies the concept of materiality and explains that the accounting unit is not required to report specific information required under IFRS, assuming that this information is immaterial, even when the IFRS stipulates a list of specific publication requirements, respectively the minimal requirements for publication. The standard also introduces new recommendations on subtotals in financial statements. The Group considered the comprehensibility and utility of information provided in the financial statements. Based on the results of this analysis, it eliminated selected disclosures which have no relevant impact on the economic decision-making of users.

Other new standards, amendments, interpretations and perfections to existing standards which are mandatory for future accounting periods starting on 1 January 2016 have little or no impact on the Group's consolidated financial statements.

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

The following standards, amendments to standards and interpretations, which can have a material impact on the Group's consolidated financial statements, will be mandatory for future accounting periods based on the data below, depending on their approval by the European Union.

- IFRS 9, Financial instruments - classification and appraisal (approved by the European Union, effective for accounting periods starting on 1 January 2018). The new IFRS 9 standard replaces IAS 39 which relates to the classification and appraisal of financial assets and it also changes some requirements for publishing regulated by IFRS 7. Standard IFRS 9 divides all financial assets currently belonging to the scope of IAS 39 into



three categories - assets valued by net book value determined using the effective interest rate method, assets subsequently valued at fair value into other total income and assets subsequently valued at fair value into earnings. 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 a new more progressive recognition of impairment losses (ECL) model, considering also expected credit losses in comparison to the model of loss incurred as per IFRS 39. Hedge accounting requirements were amended to align accounting more closely with risk management. The option of choosing the application of IFRS 9 or IAS 39 to all hedging relations was introduced. The Group is currently assessing the impact of IFRS 9.

- IFRS 15 Revenues from contracts with customers (approved by the European Union, effective for accounting periods starting on 1 January 2018). IFRS 15 introduces a new principle, namely that revenues are recognised at transaction price if the goods or services are transferred to a customer. Goods or services are transfer if the customer gains control over them. All contractually unseparated deliverables of goods and services with of a different character must be reported individually and all discounts and rebates from the contractual price are generally allocated to individual deliverables. Variable consideration is included in the transaction price to the extent which should eliminate the significant risk of “substantial debiting of revenues” in the future. Customer acquisition costs must be capitalised and amortized during the period for which they bring benefits according to contract. The Group is currently assessing the impact of IFRS 15.
- IFRS 15, Revenue from Contracts with customers (amendment still not adopted by the European Union, according to IASB it is effective for accounting periods beginning on 1 January 2018). The amendment does not alter the principles of the standards, but merely clarifies how these principles should be applied. It adds in particular how to determine the individual performance or determine whether an agent is in question. It also introduces simplifications for initial use of the standard.
- IFRS 16, Leases (standard still not adopted by European Union, according to IASB it is effective for accounting periods starting on 1 January 2019). The new IFRS 16 standard fully replaces the reporting of leases pursuant to IAS 17. Major changes mainly comprise reporting of leases on the side of the lessee. IFRS 16 introduces a unified accounting model on the part of the lessee for reporting all leasing transactions. It requires the lessees to recognise an asset - right to operate the asset - in the balance sheet and report the corresponding liability from lease. Reporting on the lessor side is more or less comparable with IAS 17. The Group is currently assessing the impact of IFRS 16.
- IAS 7, Cash flow statements: Initiative for publication - amendment (amendment still not adopted by the European Union, according to IASB it is effective for accounting periods beginning on 1 January 2017). The amendment to IAS 7 will require publication of a table of liability movements from financial activity. The Group expects the amendment to impact publication in the area of liabilities from financial activity.

Other new standards, amendments, interpretations and perfections to existing standards which will be mandatory for the future accounting period will have little or no impact on the Company's consolidated financial statements.

### **3. BASIC CONDITIONS FOR COMPILING THE CONSOLIDATED FINANCIAL STATEMENTS AND IMPORTANT ACCOUNTING PROCEDURES**

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

The consolidated financial statements were compiled in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations as adopted by the European Union applicable in 2016.

#### **3.2. Basis of compiling the consolidated financial statements**

The consolidated financial statements were compiled under the historical cost convention, only derivatives are valued at fair value. The consolidated financial statements were compiled on the assumption of ongoing existence of the accounting unit.



### 3.3. Functional and reporting 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 ("functional currency").

The functional and reporting currency of the consolidated financial statements of each company in the Group is the Czech koruna (CZK). The figures in the consolidated financial statements, unless stated otherwise, are presented in thousands of Czech korunas (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 whether the Company can influence the income through the control exercised in the entity.

The earnings of the subsidiaries acquired or disposed of by the Company during the year are 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 (100%) by the Company.

### 3.5. Intangible assets

#### 3.5.1. Appraisal of intangible assets

Separately acquired intangible assets are recognized at cost minus cumulated depreciation and impairment losses.

#### 3.5.2. Depreciation

Intangible assets are depreciated applying the linear method over their estimated useful lives as follows:

Intangible asset category	Useful life (number of years)
Software	4
Other intangible fixed assets	4

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

### 3.6. Land, buildings and equipment

#### 3.6.1. Appraisal

Land, buildings and equipment are reported at cost minus cumulated depreciation (except land) and impairment losses.

The cost of land, buildings and equipment includes all acquisition costs minus any discounts and plus any costs related to acquisition.



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 buildings and equipment and the costs incurred to bring the affected environment to its original condition.

Repairs and maintenance expenditures for land, buildings and equipment are reported in the consolidated statement of comprehensive income in the period in which they occurred.

Subsequent expenditures are included in the net book value or reported as separate assets, 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**

Buildings and equipment are depreciated applying the linear method over their estimated useful lives. Depreciation for the accounting period is reported in the consolidated statement of comprehensive earnings 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:

<b>Tangible asset category</b>	<b>Useful life (number of years)</b>
Buildings (except for regulation station buildings)	50
Regulation station buildings	30
Pipelines, pipeline branch connections	40
Technological boiler equipment	15
Regulation stations – technology	10
Gas meters	10
Cargo trucks	8
Passenger cars	4
Computer equipment	4
Inventory	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 land, buildings and equipment are determined as the difference between the sale proceeds and the book value of assets involved and are reported in net amount in the consolidated statement of comprehensive income.

### **3.7. Impairment of non-financial assets**

Whenever events or change occur, which could cause the book value of land, buildings and equipment and other non-financial assets including intangible assets to exceed their recoverable value, these assets are reviewed for value impairment. 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 book value exceeds its recoverable amount.

The recoverable value is the higher of the asset's value during use and its fair value reduced by the cost of sale. 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 recoverable value. The cost comprises the acquisition cost and other costs incurred in bringing inventories to their present condition and location.



The price of natural gas compressed into underground gas storage is stipulated based on the received supplier invoices for this compressed natural gas 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 also the price of natural gas extracted 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: financial assets at fair value reported in profit or loss, and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. As at 31 December 2016 and 31 December 2015, the Group reported 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 fixed assets. Loans and receivables are included in the rows Financial borrowings provided and Trade and other receivables in the consolidated statement of financial position.

Receivables, represented mainly by trade receivables, are initially reported at fair value (including all related acquisition costs) and are subsequently appraised using the effective interest rate method after deducting reserves for cumulated impairment loss (hereinafter "adjustments"). An adjustment to trade receivables is created 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 creates adjustments to trade receivables that are overdue. Trade receivables are represented mainly by receivables from customers for sale of gas. The final bill to customers for actual consumption of gas is decreased by received advances during billing period. If the received advances are higher than the billing for actual consumption, an overpayment is created, i.e. a negative balance on trade receivables, which is reclassified to liabilities in the consolidated financial statements.

The Group creates adjustments to trade receivables based on the age structure of receivables and individual evaluation of the credit-worthiness of the customers. The value of the adjustment is determined on the basis of experience with the payment of overdue trade receivables as follows:

Time overdue	Value of adjustment
1 – 3 months	5%
3 – 6 months	20%
6 – 12 months	50%
More than 12 months	100%

A 100% adjustment is created for receivables in insolvency proceedings. These rules were stipulated based on the analysis of the receivables' time overdue and the risk of default. The value of the adjustment approximates the difference between the receivables residual value and the present value of estimated future cash flows discounted at the original effective interest rate. Creation of adjustments is posted as other operating costs in the profit or loss. Irrecoverable receivables are depreciated into costs at the moment when financial settlement of the receivable is no longer expected. Recoveries for receivables previously written-off are posted to profit or loss.



### **3.9.2 Financial assets at fair value reported to profit or loss**

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

Financial assets at fair value reported to profit or loss are further classified based on the available level of information used in estimating their 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 (e.g. as prices) or indirectly (e.g. derived from prices) for the given asset or liability;
- Level 3 – input data that are not based on observable market data (unobservable data).

The only type of financial assets at fair value reported into the Group's profit or loss are derivatives. The fair value of these derivatives is set based on the valuation of assets in Level 2.

### **3.9.3. Derivatives**

Derivatives are initially appraised at fair value as at the date when the contract is concluded. Derivatives are subsequently appraised 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 for the Group. Changes in the fair value are reported directly in the profit or loss under Financial expense (-) / income (+). The fair value of derivatives is obtained from market prices or discounted cash flow models, or stipulated as the present value of expected cash flows from derivatives. The expected cash flows are based on current market data (foreign exchange rates) as at the end of the reporting period.

The Group pre-defines a specific derivative, i.e. interest rate swaps, to hedge future cash flows attributable to selected assets or liabilities or forecasted transactions (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.

A change in the fair value of the financial derivative which meets the requirements of effective cash flow heading is reported in Revaluated hedging derivatives in equity and in the profit or loss posted in the same period in which the hedged item influences the profit and loss statement.

The effective part of the change in market value of the derivative for cash flow hedging is recognised in the comprehensive earnings and in Revaluation of hedging derivatives, while the ineffective part is recognised in profit or loss.

Embedded financial derivatives are separated and are reported 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, which are held for the purpose of covering short-term cash liabilities.

### **3.11. Equity**

#### **3.11.1. Share capital**

The Company's share capital consists of ordinary shares. Preferred shares were not issued by the Company. The Company does not hold any own shares.

#### **3.11.2. Funds from profit**

Funds from profit are created from the profit of the Group. Use of funds from profit is in accordance with the Company's articles of association.



### **3.11.3. Revaluation of hedging derivatives**

In Revaluation of hedging derivatives, the Group recognises gains or losses from derivatives used to hedge cash flows, which meet the criteria for hedge accounting as described in Chap. 3.9.3. Amounts are reclassified/recognised as profit or loss in the period during which the hedged item affected the profit or loss.

### **3.12. Financial liabilities**

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

#### **3.12.1. Financial liabilities at fair value reported into profit or loss**

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

Any resulting profit or loss is reported to Financial expenses in the consolidated profit or loss as at the balance date.

Derivatives are the only type of financial liabilities reported at fair value into the Company's profit or loss.

#### **3.12.2. Other financial liabilities**

Other financial liabilities are initially appraised at fair value and subsequently appraised at accrued value in the discounted amount using the effective interest rate. The portion of long-term liabilities with contracted maturity within one year is reported in short-term liabilities. Other financial liabilities include trade liabilities, issued bonds and bank loans received.

#### **3.12.3. Trade liabilities**

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

Liabilities are classified as current liabilities if payment is due within one year. If not, they are reported as long-term liabilities.

Trade liabilities 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 the value of unbilled supplies and advances received. The resulting value per individual customer is approximate to the actual receivable from or liability 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 financial borrowings are posted initially at fair value that is equal to the fair value of the fulfilment received reduced by costs related to the provision of the loan or financial borrowings. Interest-bearing bank loans and financial borrowings are subsequently appraised at the accrued value with regard to the materiality principle and using the effective interest rate method. All differences between the collected amount (reduced by transaction costs) and redemption value are reported in profit or loss over the entire period of the loan using the effective interest rate method. Borrowing costs related to acquiring a particular asset are capitalized into the 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 capitalised to the cost of those assets, until such time as the assets 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 posted at fair value as at their inception date by the Group. After initial posting, these financial liabilities are appraised at accrued value.

### **3.16. Reserves**

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

The value of reserves is determined based on the best estimate of the requirement payment of the present liability as at the balance date, taking into account the risks and uncertainties connected to the liability. Provisions not drawn in the following year are appraised as at consolidated financial statements date at discounted settlement value as at the balance date based on the effective interest rate method, if the impact of discounting is substantial. Market interest rates are used for discounting.

### **3.17. Revenues**

The group recognises sales revenues at the moment when the risks and rewards from ownership of the product have been transferred to the buyer or when reliable appraisable services are rendered, if it is simultaneously probable that the economic benefits associated with the transaction will flow to the Group.

Revenues from sales of goods and services are reported net of value added tax and reduced by discounts and are appraised at fair value received or the consideration claimed on an accrual basis.

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

Revenue from natural gas supplies is reported 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 Section 55 of Act No. 458/2000 Coll., is appraised 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 fixed yearly price for distribution capacity and the two-component price for other services related to the supply, which consists of the commodity price component and the fixed monthly price or capacity price component.

The price of other supply services for households and low volume customers is generally 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 Energy Regulatory Office. The price for services by OTE is also regulated by Energy Regulatory Office and also it contains the fee pursuant to Section 17d of Act No. 458/2000 Coll. as amended.

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

Revenues from the 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 value of unbilled gas is calculated from the total amount of purchased gas in the



particular year based on past behaviour of individual customers, and appraised in relation to the valid published price list of the Group or based on the individually stipulated price, corrected by any provided 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. The regulated component is composed of price for electricity distribution and regulated services. Each particular item is published by Energy Regulatory Office in the form of a price decision. The price level for individual items can vary with different distributors.

The 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 value added tax.

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 categories MOO and MOP with Type C reading are billed periodically once within 12 months, maximum 14 months (according to Section 15 of Act No. 210/2011 Coll.) 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 Section 3 of Act No. 82/2011 Coll.) 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.

### **3.17.3. Revenues from sale of goods**

Sales are posted 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 operating revenues**

Sales revenues are posted as at the date of service provision and are reported 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. Leasing**

Leased fixed assets, in cases where the majority of the risks and rewards of ownership have been transferred to the Group, are classified as financial leases. Assets purchased through financial leasing are appraised at fair value at the start, or at the present value of total minimum lease payments, if this is lower. Each lease payment is allocated between the settlement of the liability and financial costs. Related lease obligations are posted as a long-term or short-term liability in the consolidated statement of financial position. Financial interest is posted as a cost directly to the consolidated statement of comprehensive earnings over the entire lease period so as to apply a constant rate of interest on the unpaid balance of the liability. Assets finance through financial leasing are reported 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 possession of the asset is retained by the lessor are classified as operative leases. Payments made under operative leases (net of any incentives received from the lessor) are reported evenly as costs throughout the period of the lease. Contingent rent from agreements on operative leases becomes a cost in the period in which it was expended.

### **3.19. Foreign currency conversion**

Transactions in a foreign currency other than the functional currency of the Company and its subsidiaries are converted using the exchange rates declared by Czech National Bank (CNB) as at the transaction date.

Monetary assets and liabilities denominated in foreign currencies are converted at the exchange rate published by the CNB as at the date of compiling the consolidated financial statements. Foreign exchange gains and losses are reported 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**

The Group pays contributions for its employees to the state pension scheme, 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. These contributions are posted to the profit and loss statement when incurred.

#### **3.20.3. Other benefits**

Other benefits (e.g. for paid vacation) are continuously posted to 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, i.e. in the case of complying with competition and confidentiality clauses. Amounts are determined based on their salaries. The Company posts the liability from the title of these benefits as at the date when it can no longer withdraw the offer, i.e. as at the signing date of the contract on performing the function of an executive.

### **3.21. Taxes**

Income tax comprises due and deferred tax.

#### **3.21.1. Due tax**

Due income tax represents the estimated tax liability 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 due tax is reduced by advances paid on income tax. If the advances paid for the income tax exceed the estimated due tax as at the reporting date, the respective difference is reported as a short-term receivable.

#### **3.21.2. Deferred tax**

Deferred tax is reported on all temporary differences between the residual value of an asset or liability in the consolidated statement of financial position and its tax value. 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 receivable is posted when it is probable that a future taxable profit will be attained against which the temporary differences can be utilized.

The deferred tax receivable and liability are determined using the tax rate, expected to be valid in the period in which the tax receivable 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 receivable and liability is allowed when there is a legally enforceable right to offset current tax receivable and current tax liability and when the deferred tax receivable 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**

Compiling of the consolidated financial statements requires using estimates and assumptions that affect the reported figures in the consolidated report on financial position as at the reporting date and the consolidated comprehensive earnings 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.

There are unbilled gas supplies to 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:**

The percentage of balance differences in the distributed quantity used to calculate unbilled gas in 2016 is 2.23%. The long-term average share of balance differences in the distributed quantity is equal to 2.36%. If in 2016 the share of balance difference in the total distributed quantity were equal to the long-term average, meaning lower (higher) by 0.13 percentage points (while all other variables remained constant), the profit before tax as at 31 December 2016 would have been higher (lower) by CZK 13,654,000 due to higher (lower) revenues in unbilled gas supplies.

## **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.

A credit risk arises for the Group in consequence of the business conducted with VO, SO and MODOM customers.

Business relationships with key account customers are rated in respect to the adherence of contractual terms, where 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 end 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.

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 the expected consumption or according to agreement. In all categories, advances are stipulated with respect to past consumption (from March 2016 an algorithm is used to calculate advances based on a 3-year consumption history), seasonality of gas consumption and gas prices.



The claims collection process is standardized and operates according to the approved process for the individual customer category.

An individual approach is taken towards each VO and SO customers; firstly, a reminder is sent in the form of letters, followed by instalment schedules, and subsequently court recovery and distraintment. The reminder letters and instalment schedules are also used for MODOM customers. After the passing of the stipulated period for out-of-court recovery, a lawsuit is undertaken in all customer categories followed by distraintment proceedings after the court decision. The Group uses the services of external companies and law firms for out-of-court settlements and legal enforcement.

The management of the Group monitors overdue receivables and their development at regular meetings with the participation of representatives from relevant departments and economists. The meetings have an agreed agenda with a part relating to the information about the status and structure of overdue trade receivables and recovery method.

Storage deposits from gas traders paid to Pražská plynárenská Distribuce, a.s., member of the Pražská plynárenská, a.s. Group ("PPD a.s.") also help to reduce the credit risk.

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

31 December 2016:

Receivables by maturity (in CZK '000)	DOM cat.	MO cat.	VO/SO cat.	Other	Total
Receivables within maturity	24,354	29,822	578,393	205,287	837,856
Up to 1 month past maturity	10,353	10,468	26,615	10,434	57,870
1 – 3 months	8,162	4,771	1,756	2,089	16,778
3 – 6 months	6,020	3,550	263	2,376	12,209
6 – 12 months	16,214	7,551	562	3,196	27,523
More than 12 months	101,801	100,645	11,442	75,380	289,268
<b>Total receivables</b>	<b>166,904</b>	<b>156,807</b>	<b>619,031</b>	<b>298,762</b>	<b>1,241,504</b>
Of which receivables recovered in court	104,118	104,988	10,548	71,379	291,033

Receivables within maturity (in CZK '000) with expected payment in %	DOM cat.	MO cat.	VO/SO cat.	Other	Total
Receivables within maturity	24,354	29,822	578,393	205,287	837,856
Expected payments by maturity in %	62%	69%	76%	71%	

31 December 2015:

Receivables by maturity (in CZK '000)	Cat. DOM	Cat. MO	Cat. VO/SO	Other	Total
Receivables within maturity	26,045	17,189	737,806	116,357	897,397
Up to 1 month past maturity	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
More than 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>206,394</b>	<b>1,319,000</b>
Of which receivables recovered in court	113,017	119,075	6,585	71,373	310,050



<b>Receivables within maturity (in CZK '000) with expected payment in %</b>	<b>Cat. DOM</b>	<b>Cat. MO</b>	<b>Cat. VO/SO</b>	<b>Other</b>	<b>Total</b>
Receivables within maturity	26,045	17,189	737,806	116,357	897,397
Expected payments by maturity in %	56%	51%	55%	85%	

Based on historical data, 67% of all incurred receivables are paid before maturity, 23% of receivables are paid after maturity, and the remaining 10% of receivables are collected through legal proceedings, whereas the success rate of recovering these receivables varies.

The maturity of receivables is based on invoice due dates and the collection period is subsequently not prolonged or changed with respect to the customers.

The long-term credit rating of banks with which the Group has financial transactions, is A2 according to the rating agency Moody's; for comparison, we note that the Czech Republic has an A1 rating.

The following tables show the analysis of impaired and unimpaired financial assets. Impaired assets represent trade receivables for which the Group expects an elevated credit risk based on historical experience:

31 December 2016:

<b>(in CZK '000)</b>	<b>Unimpaired financial assets within maturity</b>	<b>Unimpaired financial assets past maturity</b>	<b>Impaired financial assets</b>	<b>Total</b>
Trade receivables	374,810	92,999	329,639	797,448
Unbilled deliveries	444,056	0	0	444,056
Cash and cash equivalents	111,658	0	0	111,658
Other fixed assets	102,859	0	0	102,859
<b>Total</b>	<b>1,033,383</b>	<b>92,999</b>	<b>329,639</b>	<b>1,456,021</b>

31 December 2015:

<b>(in CZK '000)</b>	<b>Unimpaired financial assets within maturity</b>	<b>Unimpaired financial assets past maturity</b>	<b>Impaired financial assets</b>	<b>Total</b>
Trade receivables	387,682	37,522	349,744	774,948
Unbilled deliveries	544,052	0	0	544,052
Cash and cash equivalents	177,745	0	0	177,745
Other fixed assets	102,899	0	0	102,899
<b>Total</b>	<b>1,212,378</b>	<b>37,522</b>	<b>349,744</b>	<b>1,599,644</b>

#### 4.2. Liquidity risk

Liquidity risk is the risk that the entity might have difficulty paying its 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 caution management of liquidity risk.

The Group management monitors liquidity and its development based on regular weekly reports; short-term liquidity forecasts are also submitted to the Group management.

Until May 2016, the Group used lines of credit agreed with a consortium of banks consisting of Československá obchodní banka, a.s., Komerční banka, a.s., Česká spořitelna, a.s., and UniCredit Bank, a.s.

Structure of short-term lines of credit as at 24 May 2016:

#### Short-term credit lines

	Limit	From	To	Interest rate
Bank consortium - line A	CZK 900,000,000	24 April 2015	24 April 2018	floating
Bank consortium - line C	CZK 700,000,000	24 April 2015	24 April 2018	floating
Bank consortium - line D	CZK 900,000,000	24 April 2015	24 April 2018	floating
Bank consortium - line E	CZK 1,000,000,000	24 April 2015	24 April 2018	floating
<b>Total</b>	<b>CZK 3,500,000,000</b>			

As at 31 December 2015 the Group used credit in the amount of CZK 1,256,878,000; furthermore, as at 31 December 2015 it 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.

In May 2016, the refinancing of the Group's credit resources was successfully finalised with the signing of new credit agreements, thus creating a new structure of short-term external financing for a total volume of CZK 5.0 bil. The Company's new structure of external financing is contractually ensured until 2019 and includes overdraft lines of credit, a bill of exchange program for drawing the necessary funds using bills in auctions, and a line for concluding bank guarantees. These external financing resources are provided by a club of two banks, namely Československá obchodní banka, a.s., and Česká spořitelna, a.s.

Structure of short-term financing as of 24 May 2016:

#### Short-term credit lines

	Limit	From	To	Interest rate
Overdraft lines of credit	CZK 900,000,000	24 May 2016	24 May 2019	floating
Line for guarantees	CZK 700,000,000	24 May 2016	24 May 2019	Fixed
Bill of exchange program	CZK 3,400,000,000	24 May 2016	24 May 2019	floating
<b>Total</b>	<b>CZK 5,000,000,000</b>			

As at 31 December 2016, the Group used credit in the amount of CZK 40,794,000 (average interest rate of loans is presented in the Chap. 6.10); furthermore, as at 31 December 2016 it used financial resources from the parent company PPH a.s. in the amount of CZK 29,390,000, that represent cash-pooling liabilities. The average interest rate on cash pooling for 2016 was 0.18% p.a.

In connection to the refinancing, the Group and Československá obchodní banka, a.s., a Česká spořitelna, a.s. concluded the following documents in May 2016:

- Agreement on establishment of a lien to the enterprise between Pražská plynárenská, a.s., and Československá obchodní banka, a.s.,
- Agreement on establishment of a lien to the enterprise between Pražská plynárenská, a.s., and Česká spořitelna, a.s.,
- Agreement on establishment of a lien to receivables from agreements on opening of bank accounts between Pražská plynárenská, a.s., and Československá obchodní banka, a.s.,



- Agreement on establishment of a lien to receivables from agreements on opening of bank accounts between Pražská plynárenská, a.s., and Česká spořitelna, a.s.
- Agreement on prohibition of encumbrance and divestment between Pražská plynárenská, a.s., and Československá obchodní banka, a.s.,

The drawing of short-term bank loans provides the Group with the possibility of optimally covering seasonal fluctuations in its cash flow, which accompany the purchase and sale of energy.

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 the drawing of short-term loans from banks.

The fulfilment of financial indicators (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. In all categories, advances are stipulated with respect to past consumption (from March 2016 an algorithm is used to calculate advances based on a 3-year consumption history), seasonality of gas consumption and gas prices.

The reissue of bond was a major change in Group financing.

In May 2015 the Group issued bonds with a floating interest rate, which were fully acquired by a consortium of banks (Česká spořitelna a.s., Československá obchodní banka a.s., Komerční banka a.s. and UniCredit Bank a.s.). Related future cash flows (interest expense) related to these bonds were secured with financial derivatives (interest rate swap), to which hedge accounting is applied (cash flow hedges, Chap. 6.8.1.2) until their redemption in 2022.

With regard to the favourable conditions on financial markets, the bonds issued in May 2015 were refinanced. As at 14 November 2016, the Company prematurely redeemed bonds with a floating interest rate and settled the interest rate swaps. New bonds were issued with a fixed interest rate and maturity in 2023. The issue price of these bonds was equal to 97.842% and the issue yield was CZK 2,641,734,000. The issued bonds were purchased by Česká spořitelna, a.s., and Československá obchodní banka, a.s.

Bond title	Nominal value of issue (in CZK '000)	Issue price (%)	Maturity date	Coupon rate p.a. (%)	Coupon maturity	Book value as at 31 Dec. 2016 (in CZK '000)	Book value as at 31 Dec. 2015 (in CZK '000)
Bond PPD, a.s., 0.70%/2023 ISIN CZ0003515348	2,700,000	97.842	14 Nov. 2023	0.70	annual	2,643,687	0
Bond PPD, a.s., VAR/2022 ISIN CZ0003512493	2,500,000	100.000	14 May 2022	3M Pribor + margin	quarterly	0	2,501,659

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 Section 2(1) of the Capital Market Undertakings Act.

The fulfilment of financial indicators (covenants) is attached to the bonds - see Chap. 5. In the case of failure to comply with these conditions, an early repayment of the bonds may be required.

A lien to the enterprise of Pražská plynárenská, a.s. in favour of the bondholders is established for the bonds.

The following tables present liabilities grouped according to their remaining maturity as at 31 December 2016 and 31 December 2015. The liabilities contained in the tables are the undiscounted cash flows, including interest where



relevant. The value of interest is based on the value of loans as at 31 December 2016 and interest rates on the financial market as at 31 December 2016 (including bank margins).

31 December 2016:

(in CZK '000)	0 - 3 months	3 - 6 months	6 - 12 months	1 - 3 years	3 - 5 years	5 - 7 years
Bank loans	40,794	0	0	0	0	0
Derivatives	909,112	640,502	37,298	9,648	0	0
Bonds	0	0	18,900	37,800	37,800	2,737,800
Trade liabilities and other liabilities	1,358,856	69	54	769	568	0
Financial resources from PPH a.s. - cash-pooling	29,390	0	0	0	0	0
<b>Total</b>	<b>2,338,152</b>	<b>640,571</b>	<b>56,252</b>	<b>48,217</b>	<b>38,368</b>	<b>2,737,800</b>

31 December 2015:

(in CZK '000)	0 - 3 months	3 - 6 months	6 - 12 months	1 - 3 years	3 - 5 years	5 - 7 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 liabilities and other liabilities	1,434,089	621	54	216	449	71
Financial resources from PPH a.s. - cash-pooling	34,511	0	0	0	0	0
<b>Total</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>

The main aim of the liabilities analysis is to identify liabilities that have to be paid (within the legal limitations) and which represent a cash outflow that negatively impacts the liquidity.

#### Guarantees concluded

The Company has secured its financial obligations arising from the operation on the gas market with Československá obchodní banka, a.s. in favour of RWE Supply Trading GmbH, as at 31 December 2016 for up to EUR 10,000,000 (as at 31 December 2015: EUR 6,500,000). These liabilities are not recognized in the balance sheet.

#### 4.3. Market risks

##### 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 fluctuation by interest-bearing financial liabilities and receivables using its appropriate structure.

The 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. The management of the Group is provided with the short term forecasts of the relevant interest rates.

All of the Group's short-term and long-term bank loans as at 31 December 2016 and 31 December 2015 have floating interest rates derived from the relevant interbank rate PRIBOR.

The interest rate risk on bonds issued in May 2015 at a volume of CZK 2.5 bil. was hedged by interest rate swaps for the same amount.



The interest rate swaps were terminated and settled in November 2016 along with the premature redemption of these bonds.

**Sensitivity analysis:**

If the interest rate had increased/decreased by 10 basis points as at 1 January 2016 while all other variables remained constant, the profit before tax as at 31 December 2016 would have been CZK 533,000 lower/higher as a result of the increased/decreased interest expense (as at 31 December 2015: CZK 3,011,000).

**4.3.2. Currency risk**

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

Movements in exchange rates represent a risk due to the fact that the Group purchases part of the gas in foreign currency (about 60% of the total volume of gas purchased). Selection of the currency in which purchases are realised in the case of forward purchases is fully dependent on the overall offered 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, whereas the vast majority of these purchases are also sold in EUR, or the purchase to the portfolio of pricelist customers is made using the current exchange rate as at the day of purchase. The Group actively manages this risk through monitoring foreign exchange developments and through the above management of gas purchases in foreign currency; thus 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 as at 31 December 2016 the CZK/EUR exchange rate had weakened (increased) / strengthened (decreased) by 0.5 CZK/EUR while all other variables remained constant, profit before tax as at 31 December 2016 would have been CZK 29,463,000 higher/lower as at 31 December 2016 due to the reassessment of forwards (as at 31 December 2015: CZK 17,961,000).



If as at 31 December 2016 the CZK/EUR exchange rate had weakened (increased) / strengthened (decreased) by 0.5 CZK/EUR while all other variables remained constant, profit before tax as at 31 December 2016 would have been CZK 202,000 lower/higher due to the revaluation of liabilities in EUR (as at 31 December 2015: CZK 1,732,000).

If as at 31 December 2016 the CZK/EUR exchange rate had weakened (increased) / strengthened (decreased) by 0.5 CZK/EUR while all other variables remained constant, profit before tax as at 31 December 2016 would have been CZK 1,909,000 lower/higher due to the revaluation of receivables in EUR (as at 31 December 2015: CZK 3,016,000).

(in CZK '000)	2016	2015	2016	2015
	increase by 0.5 CZK/EUR		decrease by 0.5 EUR/EUR	
Forward purchases in EUR	29,463	17,961	(29,463)	(17,961)
Liabilities in EUR	(202)	(1,732)	202	1,732
Receivables in EUR	1,909	3,016	(1,909)	(3,016)
<b>Impact on earnings before tax</b>	<b>31,170</b>	<b>19,245</b>	<b>(31,170)</b>	<b>(19,245)</b>

#### 4.4. Estimate of fair value

The fair values of financial assets and liabilities 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 reported its financial assets and liabilities at fair value to profit or loss under Level 2 featuring entry data used to determine the fair value (see Chap. 6.8.1.).

The book value of short-term receivables after deducting their estimated impairment and short-term liabilities, credit and loans is approximate to their fair values.

#### 4.5. Offsetting of financial receivables and financial liabilities

31 December 2016:

(in CZK '000)	Gross value of compensation in the statement of financial position	Gross value of offsetting in the statement of financial position	Net value after compensation in the statement of financial position	Amount which is the subject of a framework agreement on offsetting and similar provisions in the statement of financial position	Total net value of exposure
Trade and other receivables	911,865	0	911,865	79,458	832,407
Trade liabilities and other financial liabilities	1,393,606	0	1,393,606	79,458	1,314,148



31 December 2015:

(in CZK '000)	Gross value of compensation in the statement of financial position	Gross value of offsetting in the statement of financial position	Net value after compensation in the statement of financial position	Amount which is the subject of a framework agreement on offsetting and similar provisions in the statement of financial position	Total net value of exposure
Trade and other receivables	1,053,250	0	1,053,250	217,776	835,474
Trade liabilities and other financial liabilities	1,520,232	0	1,520,232	217,776	1,302,456

## 5. CAPITAL MANAGEMENT

Optimal capitalization of the Group is a compromise between capital gains and the ability to cover all mature liabilities.

The goal of capital 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.

Based on the conditions arising from the new loan agreements and issue conditions of the bond reissue, the following indicators are monitored:

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

The Group's objective is to achieve such financial results that these indicators are all met (if they are not met, the premature repayment of loans and bonds may be required).



## 6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 6.1. Land, buildings and equipment

Land, buildings and equipment (in CZK '000)	Land	Gas pipelines, buildings and other structures	Tangible movable property and lots thereof	Boilers and other tangible fixed assets	Unfinished TFA	Advances on TFA	Total
<b>Acquisition cost</b>							
<b>Balance as at 1 Jan. 2015</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	611,118	29,279	640,397
Activation	5,337	333,952	118,066	20,679	(478,034)	0	0
Decrements	(163)	(50,178)	(113,785)	0	0	(9,566)	(173,692)
<b>Balance as at 31 Dec. 2015</b>	<b>123,358</b>	<b>9,304,274</b>	<b>1,820,071</b>	<b>165,966</b>	<b>170,228</b>	<b>29,279</b>	<b>11,613,176</b>
Purchases	0	0	0	0	713,944	28,787	742,731
Activation	1,003	634,094	205,980	5,972	(847,049)	0	0
Decrements	(609)	(65,079)	(148,700)	(762)	0	(29,279)	(244,429)
<b>Balance as at 31 Dec. 2016</b>	<b>123,752</b>	<b>9 873,289</b>	<b>1,877,351</b>	<b>171,176</b>	<b>37,123</b>	<b>28,787</b>	<b>12,111,478</b>
<b>Cumulated depreciation, write-offs, adjustments, re-accounting</b>							
<b>Balance as at 1 Jan. 2015</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
Adjustments	0	476	282	0	0	0	758
Cumulated depreciation for decrements	0	(41,856)	(100,838)	0	0	0	(142,694)
<b>Balance as at 31 Dec. 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>
Depreciation	0	225,308	133,276	8,857	0	0	367,441
Adjustments	0	452	93	0	0	0	545
Cumulated depreciation for decrements	0	(55,831)	(140,279)	(532)	0	0	(196,642)
<b>Balance as at 31 Dec. 2016</b>	<b>0</b>	<b>4,126,012</b>	<b>1,543,270</b>	<b>64,475</b>	<b>0</b>	<b>0</b>	<b>5,733,757</b>
<b>Residual value 2015</b>	<b>123,358</b>	<b>5,348,191</b>	<b>269,891</b>	<b>109,816</b>	<b>170,228</b>	<b>29,279</b>	<b>6,050,763</b>
<b>Residual value 2016</b>	<b>123,752</b>	<b>5,747,277</b>	<b>334,081</b>	<b>106,701</b>	<b>37,123</b>	<b>28,787</b>	<b>6,377,721</b>



<b>Tangible movable property and lots thereof - detail (in CZK '000)</b>	<b>Means of transport</b>	<b>Computer equipment</b>	<b>Gas meters, recounters and regulators</b>	<b>Machinery at regulation stations</b>	<b>Inventory</b>	<b>Total</b>
<b>Acquisition cost</b>						
<b>Balance as at 1 Jan. 2015</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>
Activation	15,656	12,589	56,742	23,808	9,271	118,066
Decrements	(15,286)	(23,013)	(40,125)	(14,647)	(20,714)	(113,785)
<b>Balance as at 31 Dec. 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>
Activation	20,410	20,433	94,184	16,642	54,311	205,980
Decrements	(14,153)	(50,031)	(71,429)	(5,561)	(7,526)	(148,700)
<b>Balance as at 31 Dec. 2016</b>	<b>114,373</b>	<b>155,722</b>	<b>673,069</b>	<b>469,801</b>	<b>464,386</b>	<b>1,877,351</b>
<b>Cumulated depreciation, write-offs, adjustments, re-accounting</b>						
<b>Balance as at 1 Jan. 2015</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
Adjustments	0	0	0	0	282	282
Cumulated depreciation for decrements	(13,226)	(23,013)	(40,125)	(3,760)	(20,714)	(100,838)
<b>Balance as at 31 Dec. 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>
Depreciation	14,503	14,714	60,843	17,924	25,292	133,276
Adjustments	0	0	0	0	93	93
Cumulated depreciation for decrements	(13,392)	(49,989)	(71,133)	(1,493)	(4,272)	(140,279)
<b>Balance as at 31 Dec. 2016</b>	<b>70,722</b>	<b>125,471</b>	<b>575,028</b>	<b>386,400</b>	<b>385,649</b>	<b>1,543,270</b>
<b>Residual 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>
<b>Residual value 2016</b>	<b>43,651</b>	<b>30,251</b>	<b>98,041</b>	<b>83,401</b>	<b>78,737</b>	<b>334,081</b>

At the end of the period, an impairment test was performed on unfinished tangible fixed assets based on the future usage analysis, and no impairment was identified.

The group has pledged the enterprise PP, a.s. worth CZK 7.7 bil., of which CZK 5.0 bil. within short-term financing and CZK 2.7 bil. within the reissue of bonds in accordance with the Agreement on establishment of a lien to the enterprise agreed within refinancing in 2016.

Asset purchases through financial leasing are insignificant for the Group.



## 6.2. Intangible assets

Intangible assets (in CZK '000)	Goodwill	Software	Appraisable rights	Unfinished IFA	Total
<b>Acquisition cost</b>					
<b>Balance as at 1 Jan. 2015</b>	<b>171</b>	<b>557,937</b>	<b>5,500</b>	<b>30,341</b>	<b>593,949</b>
Purchases	0	0	0	48,370	48,370
Activation	0	37,517	1,286	(38,803)	0
Decrements	0	(583)	0	0	(583)
<b>Balance as at 31 Dec. 2015</b>	<b>171</b>	<b>594,871</b>	<b>6,786</b>	<b>39,908</b>	<b>641,736</b>
Purchases	0	0	0	29,980	29,980
Activation	0	63,461	4,706	(68,167)	0
Decrements	0	(39)	0	0	(39)
<b>Balance as at 31 Dec. 2016</b>	<b>171</b>	<b>658,293</b>	<b>11,492</b>	<b>1,721</b>	<b>671,677</b>
<b>Cumulated depreciation, write-offs, adjustments</b>					
<b>Balance as at 1 Jan. 2015</b>	<b>0</b>	<b>510,797</b>	<b>1,833</b>	<b>0</b>	<b>512,630</b>
Depreciation	0	47,515	1,682	0	49,197
Adjustments	0	0	0	0	0
Cumulated depreciation for decrements	0	(546)	0	0	(546)
<b>Balance as at 31 Dec. 2015</b>	<b>0</b>	<b>557,766</b>	<b>3,515</b>	<b>0</b>	<b>561,281</b>
Depreciation	0	53,343	3,965	0	57,308
Cumulated depreciation for decrements	0	(39)	0	0	(39)
<b>Balance as at 31 Dec. 2016</b>	<b>0</b>	<b>611,070</b>	<b>7,480</b>	<b>0</b>	<b>618,550</b>
<b>Residual value 2015</b>	<b>171</b>	<b>37,105</b>	<b>3,271</b>	<b>39,908</b>	<b>80,455</b>
<b>Residual value 2016</b>	<b>171</b>	<b>47,223</b>	<b>4,012</b>	<b>1,721</b>	<b>53,127</b>

The average remaining period of software depreciation is 1 to 9 months.

At the end of the period, an impairment test was performed on unfinished intangible fixed assets based on the future usage analysis, and no impairment was identified.

## 6.3. Inventories

Inventories represent mainly gas stored in the gas storage. In 2016 this gas was used and posted to consumption in the amount of CZK 1,024,205,000 (2015: CZK 811,824,000).

No surpluses and/or shortfalls in inventories were found during stock-taking in 2016.



#### 6.4. Trade and other receivables

Type of receivable (in CZK '000)	31 December 2016	31 December 2015
Trade receivables vis-a-vis third parties	796,817	774,895
Trade receivables vis-a-vis related entities	631	53
<b>Financial trade receivables</b>	<b>797,448</b>	<b>774,948</b>
Adjustments to receivables	(329,639)	(341,620)
<b>Net value of trade receivables - financial</b>	<b>467,809</b>	<b>433,328</b>
Unbilled deliveries	444,056	544,052
Other receivables - financial	0	75,870
<b>Total trade and other receivables - financial</b>	<b>911,865</b>	<b>1,053,250</b>
Short-term operating advances paid	11,866	76,387
Other receivables - non-financial	17,233	18,317
<b>Total trade and other receivables - non-financial</b>	<b>29,099</b>	<b>94,704</b>
<b>Total trade and other receivables - short-term</b>	<b>940,964</b>	<b>1,147,954</b>
Other fixed assets - non-financial	102,859	102,899
<b>Total trade and other receivables and other assets</b>	<b>1,043,823</b>	<b>1,250,853</b>

Short-term operating advances provided to individual suppliers for natural gas and electricity purchases and purchases of gas distribution services were offset against estimated liabilities created in connection with these suppliers. In 2016 the offset amount of advances against estimated liabilities was CZK 378,222,000 (2015: CZK 389,700,000).

Outstanding trade receivables have not been secured. Receivables from related entities are analysed in Chap. 6.23.

The age structure of trade and other receivables past maturity, for which no impairment has been determined as at the date of the consolidated financial statements, is as follows:

Receivables past maturity (in CZK '000)	31 December 2016	31 December 2015
Up to 30 days	57,474	40,773
<b>Total</b>	<b>57,474</b>	<b>40,773</b>

The age structure of trade and other receivables for which impairment was determined as at the date of the consolidated financial statements is as follows:

Receivables past maturity (in CZK '000)	31 December 2016	31 December 2015
up to 6 months	29,383	96,557
6 to 12 months	27,523	38,245
over 1 year	289,268	246,028
<b>Total</b>	<b>346,174</b>	<b>380,830</b>

The change in adjustments to trade and other receivables is as follows:

Adjustments to receivables (in CZK '000)	31 December 2016	31 December 2015
Balance as at 1 January	341,620	328,511
Creation of new adjustment	26,468	115,731
Use of adjustment	38,449	102,622
<b>Final balance as at 31 December</b>	<b>329,639</b>	<b>341,620</b>



The structure of adjustments to trade and other receivables by category is shown in the following tables:

31 December 2016:

Adjustments to receivables (in CZK '000)	Time structure of receivables past maturity						Total
	Within maturity	Up to 1 month	1 – 3 months	3 – 6 months	6 – 12 months	More than 12 months	
Cat. MO	0	0	239	1,602	4,729	100,645	107,215
Cat. DOM	0	0	398	1,490	8,304	101,801	111,993
Cat. VO/SO	0	362	995	239	477	11,442	13,515
Cat. Other	18,990	34	175	708	1,629	75,380	96,916
<b>Total</b>	<b>18,990</b>	<b>396</b>	<b>1 807</b>	<b>4,039</b>	<b>15,139</b>	<b>289,268</b>	<b>329,639</b>

31 December 2015:

Adjustments to receivables (in CZK '000)	Time structure of receivables past maturity					Total
	Up to 1 month	1 – 3 months	3 - 6 months	6 - 12 months	More than 12 months	
Cat. MO	0	292	1,846	7,116	112,381	121,635
Cat. DOM	0	501	1,393	7,261	105,385	114,540
Cat. VO/SO	914	1,161	796	7,094	13,455	23,420
Cat. 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>

The following table specifies the costs and revenues pertaining to trade and other receivables:

Trade and other receivables (in CZK '000)	31 December 2016	31 December 2015
Change of adjustment - to existing receivables	(11,981)	13,109
Loss from receivables write-offs	36,590	100,344
<b>Total net loss from receivables</b>	<b>24,609</b>	<b>113,453</b>

The group had no long-term receivables.

The book value of trade and other receivables is approximate to their fair value.

## 6.5. Share capital

Form of shares	2016		2015	
	Number	Nominal value (CZK)	Number	Nominal value (CZK)
Bearer	950,338	300	950,338	300
Registered	489,569	300	489,569	300
<b>Total</b>	<b>1,439,907</b>		<b>1,439,907</b>	
<b>Total share capital</b>		<b>431,972,100</b>		<b>431,972,100</b>

Bearer shares were issued in book-entered form.



Registered shares are in book-entered 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. All shares have equal rights. Shareholders have both rights and obligations. The basic duty of the shareholders is the contribution obligation. The rights of shareholders include:

- right to a share in profit,
- right to vote,
- right to request and receive an explanation at the general meeting on matters relating to the Company or persons controlled by or for the exercise of shareholder rights,
- right to present proposals and counterproposals on matters included on the agenda of the general meeting,
- rights of qualified shareholders, in particular to ask the Board of Directors to convene a general meeting and the Supervisory Board to review the performance of the Board of Directors,
- right to submit a shareholder lawsuit against a member of the Board of Directors or Supervisory Board,
- right to seek payment of the issue price by a shareholder who has delayed in payment,
- right to require the compulsory transfer of the subscriber securities.

#### 6.6. Funds from profit

Companies in the Group are fully governed by the new Act on Commercial Corporations, but have used the option not to create funds from profit. Use of funds from profit is in accordance with the Company's articles of association.

Resources from funds from profit may be transferred to retained earnings or may be used to compensate losses.

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

Other liabilities (in CZK '000) Maturity	Long-term advances received	Other long-term liabilities	Total
<b>Balance as at 31 Dec. 2015</b>	<b>155</b>	<b>736</b>	<b>891</b>
- of which due within 5 years	155	736	891
- of which due after 5 years	0	0	0
<b>Balance as at 31 Dec. 2016</b>	<b>155</b>	<b>1,336</b>	<b>1,491</b>
- of which due within 5 years	155	1,336	1,491
- of which due after 5 years	0	0	0
<b>Total as at 31 Dec. 2015</b>	<b>155</b>	<b>736</b>	<b>891</b>
<b>Total as at 31 Dec. 2016</b>	<b>155</b>	<b>1,336</b>	<b>1,491</b>

#### 6.8. Trade liabilities, advances received and other liabilities - short-term

Trade liabilities and advances received - short-term (in CZK '000)	31 December 2016	31 December 2015
Trade liabilities vis-a-vis third parties	1,351,949	1,430,988
Trade liabilities vis-a-vis related entities	5,239	1,979
Short-term operating advances received	453,365	774,013
<b>Total trade liabilities and advances received</b>	<b>1,810,553</b>	<b>2,206,980</b>

Other liabilities (in CZK '000)	31 December 2016	31 December 2015
Financial resources from PPH a.s.	29,390	34,510
Liabilities from derivative operations	5,236	50,958
Other financial liabilities	1,792	1,797
<b>Total financial liabilities</b>	<b>36,418</b>	<b>87,265</b>
Liabilities to employees	204,680	156,867
Liabilities to social security institutions	17,309	34,840
Other non-financial liabilities	4,169	8,870
Total non-financial liabilities	226,158	200,577
<b>Total other liabilities</b>	<b>262,576</b>	<b>287,842</b>



Trade liabilities and advances received - short-term (in CZK '000)	Trade liabilities	Short-term advances received	Estimated liabilities	Total
<b>Book value</b>				
Balance as at 31 Dec. 2015	301,344	774,013	1,131,623	2,206,980
Balance as at 31 Dec. 2016	242,671	453,365	1,114,517	1,810,553

Trade liabilities and advances received - short-term (by maturity) (in CZK '000)	Trade liabilities	Short-term advances received	Estimated liabilities	Total
<b>Balance as at 31 Dec. 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	301,290	774,013	1,131,623	2,206,926
- of which due within 6 to 1 year	54	0	0	54
<b>Balance as at 31 Dec. 2016</b>	<b>242,671</b>	<b>453,365</b>	<b>1,114,517</b>	<b>1,810,553</b>
- of which due within 6 months	242,617	453,365	1,114,517	1,810,499
- of which due within 6 to 1 year	54	0	0	54
<b>Total as at 31 Dec. 2015</b>	<b>301,344</b>	<b>774,013</b>	<b>1,131,623</b>	<b>2,206,980</b>
<b>Total as at 31 Dec. 2016</b>	<b>242,671</b>	<b>453,365</b>	<b>1,114,517</b>	<b>1,810,553</b>

Liabilities to related entities are disclosed in detail in Chap. 6.23.

Trade liabilities and other liabilities are not secured by any Group assets.

The book value of trade liabilities and other liabilities approximates their fair value.

### 6.8.1. Derivatives

#### 6.8.1.1. Derivatives for trading

The fair value of financial derivatives is reported within trade receivables and other receivables, if its value is positive for the Group, or within other liabilities, if it is negative:

(in CZK '000)	31 December 2016			31 December 2015		
	Fair value		Nominal value	Fair value		Nominal value
	Positive	Negative 1		Positive 1	Negative	
Currency forwards	439	5,675	1,596,560	58	13,341	979,534
Embedded derivative	0	0	0	0	13,800	700,000

An embedded financial derivative in the Group was formed from a reassessment of the formula for calculating the interest rate for loans of over CZK 700 mil. (Line C). The value of the embedded financial derivative reflects the impact of expected interest rate changes in the financial market on the calculation of interest from the loan until its maturity in 2016.

The embedded derivative for the loan of CZK 700 mil. (Line C) is constructed so that if the interest rate 1M PRIBOR decreases below 0.90% p.a., the Group pays fixed interest rates at 3.81% p.a. If the interest rate 1M PRIBOR was higher than 3.81%, the Company continued to pay an interest rate of 3.81 % p.a. If the interest rate of 1M PRIBOR was between 0.90% and 3.81% p. a., the Company continued to pay the current level of the 1M PRIBOR interest rate.

Financial revenues relating to derivatives reported in the profit or loss for 2016 amount to CZK 14,212,000 (2015: CZK 13,676,000).



### 6.8.1.2. Hedging financial derivatives

Financial derivatives, i.e. Interest rate swaps meet the criteria for hedge accounting, were a hedging instrument for future cash flows (interest expense) related to bonds issued in May 2015. The interest rate swaps were terminated and settled in November 2016 along with the premature redemption of these bonds.

The impact of revaluation of interest rate swaps during their termination into profit and loss as at 31 December 2016 is: CZK 39,230,000. The impact of interest expenses related to interest rate swaps on profit and loss as at 31 December 2016 is: CZK 21,907,000 (31 December 2015: CZK 15,593,000).

(in CZK '000)	31 December 2016			31 December 2015		
	Fair value		Nominal value of hedged item	Fair value		Nominal value of hedged item
	positive	negative		positive	negative	
<b>Interest swaps</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>104,325</b>	<b>2,500,000</b>
- of which long-term	0	0		0	80,450	
- of which short-term	0	0		0	23,875	

### 6.9. Unbilled supplies and advances received

31 December 2016 (in CZK '000)	DOM cat.	MO cat.	VO/SO cat.	Other	Total
Unbilled deliveries	2,131,531	1,188,789	635,283	182,527	4,138,130
Advances received	(2,271,869)	(1,456,334)	(214,650)	(104,586)	(4,047,439)
<b>Offsetting</b>	<b>2,131,531</b>	<b>1,188,789</b>	<b>191,227</b>	<b>82,527</b>	<b>3,594,074</b>
Unbilled deliveries - after offsetting	0	0	444,056	100,000	544,056
Advances received - after offsetting	(140,338)	(267,545)	(23,423)	(22,059)	(453,365)

31 December 2015 (in CZK '000)	DOM cat.	MO cat.	VO/SO cat.	Other	Total
Unbilled deliveries	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>Offsetting</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 deliveries - after offsetting	0	0	544,052	100,000	644,052
Advances received - after offsetting	(319,689)	(356,225)	(75,285)	(22,816)	(774,013)

### 6.10. Bank loans and bonds

Until May 2016, the Group used lines of credit agreed with a consortium of banks consisting of Československá obchodní banka, a.s., Komerční banka, a.s., Česká spořitelna, a.s., and UniCredit Bank, a.s.

Structure of short-term lines of credit as at 24 May 2016:

#### Short-term lines of credit

	Limit	From	To	Interest rate
Bank consortium - line A	CZK 900,000,000	24 April 2015	24 April 2018	floating
Bank consortium - line C	CZK 700,000,000	24 April 2015	24 April 2018	floating
Bank consortium - line D	CZK 900,000,000	24 April 2015	24 April 2018	floating
Bank consortium - line E	CZK 1,000,000,000	24 April 2015	24 April 2018	floating
<b>Total</b>	<b>CZK 3,500,000,000</b>			

A loan of CZK 700 mil. from Line C was drawn in 2015 with an average interest rate of 4.79% p.a. Lines of credit in 2015 were also drawn in the form of an overdraft facility (equal to CZK 356,878,000 as at 31 December 2015) and a tranche of line D (equal to CZK 200,000,000 as at 31 December 2015). The average interest rate on the overdraft facility and tranche of Line D in 2015 was 1.23% p.a.



In 24 May 2016, the refinancing of the Group's credit resources was successfully finalised with the signing of new credit agreements, thus creating a new structure of short-term external financing for a total volume of CZK 5.0 bil. The Company's new structure of external financing is contractually ensured until 2019 and includes overdraft lines of credit, a bill of exchange program for drawing the necessary funds using bills in auctions, and a line for concluding bank guarantees. These external financing resources are provided by a club of two banks, namely Československá obchodní banka, a.s., and Česká spořitelna, a.s.

Structure of short-term financing as of 24 May 2016:

#### Short-term credit lines

	Limit	From	To	Interest rate
Overdraft facility	CZK 900,000,000	24 May 2016	24 May 2019	floating
Line for guarantees	CZK 700,000,000	24 May 2016	24 May 2019	Fixed
Bill of exchange program	CZK 3,400,000,000	24 May 2016	24 May 2019	floating
<b>Total</b>	<b>CZK 5,000,000,000</b>			

Lines of credit in 2016 were drawn in the form of an overdraft facility (equal to CZK 40,794,000 as at 31 December 2016) and tranche (line C and D). The average interest rate on the overdraft facility and tranche of Line D in 2016 was 0.92% p.a. A loan of CZK 700 mil. from Line C was drawn with an average interest rate of 3.23% p.a.

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

Based on the conditions arising from the new loan agreements signed in 2016, the following indicators are monitored: ratio of net debt to EBITDA and CAPEX (amount of investment in tangible assets). These indicators were met as at 31 December 2016.

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

(in CZK '000)	Book value	
	2016	2015
Bonds	2,643,687	2,501,659
Short-term bank loans	40,794	1,256,878

The book value of bank loans and bonds is approximate to their fair value.

Bonds are described in Chap. 4.2.

The impact of interest expenses relating to bonds on profit and loss as at 31 December 2016 is: CZK 30,444,000 (31 December 2015: CZK 19,797,000).

#### 6.11. Deferred tax liability

Compensation of deferred tax assets and liabilities:

(in CZK '000)	31 December 2016	31 December 2015
Deferred tax receivable with expected realisation in more than 12 months	(19,497)	(24,223)
Deferred tax receivable with expected realisation within 12 months	(61,050)	(56,532)
Deferred tax liability that is to be settled in more than 12 months	468,480	450,243
Deferred tax liability that is to be settled within 12 months	0	0
<b>Net deferred tax liability</b>	<b>387,933</b>	<b>369,488</b>



The deferred tax was calculated using the tax rate of 19% (the tax rate for 2015 and subsequent years).

Deferred tax liability (+) and deferred tax receivable (-) (in CZK '000)	31 December 2016	31 December 2015
<b>Item</b>		
Deferred tax liability on the grounds of varying residual prices of fixed assets	468,138	449,762
Tax ineligible part of adjustments to receivables	(24,766)	(25,657)
Tax ineligible adjustment to material	(393)	(296)
Reserves for court disputes and expected indemnity from insurance companies	(19,000)	(19,000)
Reserves and other temporary differences	(10,908)	(6,762)
Expected liabilities to employees and members of bodies	(25,139)	(23,776)
Deferred tax receivables from change in fair value of hedging derivatives	0	(4,783)
<b>Total</b>	<b>387,933</b>	<b>369,488</b>

Deferred tax liability (+) and deferred tax receivable (-) (in CZK '000)	Difference in residual values of fixed assets	Tax non-eligible part of adjustments to receivables	Tax non-eligible adjustment to material	Other	Total
<b>31 December 2015</b>	<b>449,762</b>	<b>(25,657)</b>	<b>(296)</b>	<b>(54,321)</b>	<b>369,488</b>
Profit (-)/loss (+)	18,370	891	(97)	(5,502)	13,662
Other comprehensive earnings	0	0	0	4,783	4,783
<b>31 December 2016</b>	<b>468,132</b>	<b>(24,766)</b>	<b>(393)</b>	<b>(55,040)</b>	<b>387,933</b>

#### 6.12. Other tax liabilities

tax liabilities (in CZK '000)	Income tax	Other tax liabilities
<b>Book value</b>		
Balance as at 31 Dec. 2015	3,011	40,159
Balance as at 31 Dec. 2016	72,966	84,164

Other tax liabilities in 2016 consist of personal income tax equal to CZK 6,149,000 (2015: CZK 6,133,000), value added tax equal to CZK 72,795,000 (2015: CZK 30,455) and other taxes and levies equal to CZK 5,220,000 (2015: CZK 3,571,000).

#### 6.13. Reserves

Reserves (in CZK '000)	long-term	short-term
<b>Book value</b>		
<b>Balance as at 1 Jan. 2015</b>	<b>200,000</b>	<b>144</b>
Creation of reserves	0	32,237
Use of reserves	0	(144)
<b>Balance as at 31 Dec. 2015</b>	<b>200,000</b>	<b>32,237</b>
Creation of reserves	0	2,666
Use of reserves	0	(4,650)
<b>Balance as at 31 Dec. 2016</b>	<b>200,000</b>	<b>30,253</b>
<b>Residual value 2015</b>	<b>200,000</b>	<b>32,237</b>
<b>Residual value 2016</b>	<b>200,000</b>	<b>30,253</b>

Reserves created as at 31 December 2016 contain a reserve for potential property reimbursement related to an extraordinary incident in Divadelní Street, Prague, in the amount of CZK 200,000,000.



Court proceedings based on the lawsuits filed with regard to this incident are still underway. Given that the incident remains complex in terms of identification of the party responsible, lengthy litigations are assumed. If Pražská plynárenská Distribuce, a.s., (PPD, a.s.) is identified as the party responsible for the incurred damages, and if PPD, a.s. loses the lawsuits, it would have to compensate the victims for incurred damages, justified expenses and all legal expenses. Based on the estimates of the management, the Company created a reserve against third parties in the amount of expected performance for this case.

#### 6.14. Revenues

<b>Revenues (in CZK '000)</b>	<b>2016</b>	<b>2015</b>
Sale of natural gas	8,243,088	12,589,084
Sale of own and third-party gas distribution	3,087,924	2,637,097
Sale of heat and CNG	120,350	115,815
Unused tolerance	195	413
Sale of electricity	342,629	132,017
Sale of third-party electricity distribution	323,959	195,886
Other services	116,650	93,384
- of which revenues for asset repair and maintenance	22,599	19,295
- of which revenues for IT services	2,209	1,154
- of which revenues from lease of assets	20,878	20,709
- of which revenues from pipeline construction	33,006	25,180
- of which revenues from other services	37,958	27,046
Sale of goods and products	6,558	8,944
<b>Total</b>	<b>12,241,353</b>	<b>15,772,640</b>

#### 6.15. Purchased gas and electricity, materials and services related to gas and electricity supplies

<b>Purchased gas and electricity, materials and services related to gas and electricity supplies (in CZK '000)</b>	<b>2016</b>	<b>2015</b>
Costs related to gas purchases	7,254,181	11,885,227
- of which operative leasing (Chap. 6.25)	192,207	171,408
Fee for gas distribution	715,684	604,142
Costs related to electricity purchases	314,531	119,021
Fee for electricity distribution	325,161	195,367
<b>Total</b>	<b>8,609,557</b>	<b>12,803,757</b>

Costs for operative leasing represent costs related to leasing gas storage facilities.

#### 6.16. Other operating revenues

<b>Other operating revenues (in CZK '000)</b>	<b>2016</b>	<b>2015</b>
Profit from sale of fixed assets	3,461	4,415
Profit from material sold	5,677	4,863
Revenues from contractual penalties and interest on arrears	7,243	25,634
Revenue from receivables write-offs	2,011	2,329
Revenue from overpayment write-offs	6,778	7,433
Compensation of court fees	9,520	13,083
Gifts and investment contributions received	0	29
Insurance indemnity	2,303	1,873
Other operating revenues	4,901	8,219
<b>Total</b>	<b>41,894</b>	<b>67,878</b>



## 6.17. Personnel costs

Personnel costs (in CZK '000)	2016	2015
Employees	525,241	491,305
Members of statutory bodies	112,280	111,718
Future fulfilment to members of statutory bodies pursuant to agreements on execution of their function (Chap. 3.20.4)	24,049	45,925
<b>Total</b>	<b>661,570</b>	<b>648,948</b>

A related party of the Group is also the key management, meaning the members of the statutory bodies.

In 2016 and 2015 no loans were provided to members of the Board of Directors, members of the Supervisory Board and other members of Company 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 shares in profit paid to members of statutory bodies in the amount of CZK 35,521,000 in 2016 (2015: CZK 35,030,000) and claims paid under contracts on the performance of functions (see Chap. 3.20.4.) in the amount of CZK 3,311,000 (2015: CZK 1,584,000).

Contributions to the state pension scheme (based on defined contributions) in 2016 amounted to CZK 98,123,000 (2015: CZK 9,045,000).

## 6.18. Depreciation of intangible and tangible fixed assets

Depreciation of intangible and tangible fixed assets (in CZK '000)	2016	2015
Depreciation of pipelines and gas equipment	282,961	248,345
Depreciation of buildings and constructions (exception regulation station buildings and pipelines)	27,381	26,759
Depreciation of means of transport	14,503	14,004
Depreciation of intangible assets	57,308	49,197
Depreciation of computer equipment	14,714	14,209
Depreciation of other assets	27,882	25,360
<b>Total</b>	<b>424,749</b>	<b>377,874</b>

## 6.19. Other operating costs

Other operating costs (in CZK '000)	2016	2015
Raw materials and consumables used	69,971	74,737
Costs for goods	3,208	5,164
Services	640,166	563,760
- of which revenues for asset repair and maintenance	270,471	204,379
- of which costs for recovery of receivables	12,207	17,641
- of which advertising and promotion costs	95,846	89,995
- of which operative leasing instalments (Chap. 6.25)	61,285	61,416
- of which costs for IT system administration and management	56,984	42,507
- of which costs for commission to sales representatives	19,542	31,391
- of which costs for consultancy	22,504	22,448
- of which costs for gas meter readings	16,868	16,894
- of which costs for other services	84,459	77,089
Taxes and charges	4,804	8,650
Adjustments and receivable write-offs	26,765	116,038
Other	8,614	74,993
<b>Total</b>	<b>753,528</b>	<b>843,342</b>



Information about the auditing company's fee is provided in the consolidated financial statements of the Pražská plynárenská Holding a.s. as at 31 December 2016.

## 6.20. Financial revenues and costs

Financial costs and revenues (in CZK '000)	2016	2015
Interest revenue	728	901
Interest expense	(63,831)	(76,720)
Revenues from derivative operations	39,490	42,990
Costs from derivative operations	(64,508)	(29,314)
Other financial revenues	6,202	16,771
Other financial costs	(25,447)	(42,569)
<b>Net financial revenue (+) / cost (-)</b>	<b>(107,366)</b>	<b>(87,941)</b>

Other financial revenues consist primarily of FX differences. Other financial costs consist primarily of FX differences, financial donations and bank fees.

## 6.21. Income tax

The tax expense reported in the consolidated statement of comprehensive earnings includes:

(in CZK '000)	2016	2015
Income tax - due	316,843	227,590
Income tax - adjustment of income tax from previous years	(692)	(499)
Income tax - deferred	13,662	763
<b>Income tax - earnings</b>	<b>329,813</b>	<b>227,854</b>
Income tax - deferred (due to hedge accounting)	4,783	(4,783)
<b>Income tax - comprehensive earnings</b>	<b>334,596</b>	<b>223,071</b>

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

(in CZK '000)	2016	2015
Profit before tax	1,726,477	1,078,656
Tax using the statutory tax rate of 19%	328,031	204,945
Income not subject to tax	(5,237)	(1,486)
Cost ineligible for tax purposes	9,087	11,895
Donations	(1,681)	(636)
Costs accounted only in IFRS	6,749	6,656
Other	(7,136)	6,480
<b>Total income tax</b>	<b>329,813</b>	<b>227,854</b>

## 6.22. Dividends paid

On 30 March 2016, a decision was made to pay a share in profit (dividends) to shareholders equal to CZK 619,851,000 (CZK 430 per share), for which an advance of CZK 418,000,000 was paid in 2015 in accordance with the Group instruction and upon verification of fulfilment of the statutory conditions for payment of an advance on the share in profit. In 2015, a decision was made to pay a share in profit to shareholders equal to CZK 2,257,749,000 (CZK 1,568 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 entities:

<b>CONTROLLING ENTITY</b>		
<b>Revenues (in CZK '000)</b>	<b>2016</b>	<b>2015</b>
Revenues from services provided	947	920
<b>Total revenues</b>	<b>947</b>	<b>920</b>
<b>Costs (in CZK '000)</b>	<b>2016</b>	<b>2015</b>
Other costs	115	391
<b>Total costs</b>	<b>115</b>	<b>391</b>

<b>FINAL PARENT COMPANY</b>		
<b>Revenues (in CZK '000)</b>	<b>2016</b>	<b>2015</b>
Revenues from services provided	736	72
<b>Total revenues</b>	<b>736</b>	<b>72</b>
<b>Costs (in CZK '000)</b>	<b>2016</b>	<b>2015</b>
Purchase of other services	4,428	4,725
Other costs	1	1
<b>Total costs</b>	<b>4,429</b>	<b>4,726</b>

<b>OTHER RELATED ENTITIES</b>		
<b>Revenues (in CZK '000)</b>	<b>2016</b>	<b>2015</b>
Revenues from services provided	1,534	1,948
Other revenues	110	29
<b>Total revenues</b>	<b>1,644</b>	<b>1,977</b>

<b>Costs (in CZK '000)</b>	<b>2016</b>	<b>2015</b>
Purchase of other services	85,806	84,596
Other costs	18	57
<b>Total costs</b>	<b>85,824</b>	<b>84,653</b>

The Group reported the following balances with related entities:

<b>CONTROLLING ENTITY</b>		
<b>Receivables and liabilities (in CZK '000)</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
Trade receivables	28	29
Estimated receivables	45	46
Other receivables	0	75,870
<b>Total receivables</b>	<b>73</b>	<b>75,945</b>
Short-term advances received*	24	20
Financial resources from PPH a.s.	29,390	34,510
Other liabilities	4	5
<b>Total liabilities</b>	<b>29,418</b>	<b>34,535</b>

\* Balances of these items are reported incl. VAT.



<b>FINAL PARENT COMPANY</b>		
<b>Receivables and liabilities (in CZK '000)</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
Trade receivables	384	0
Short-term advances paid*	21	679
<b>Total receivables</b>	<b>405</b>	<b>679</b>
Trade liabilities	20	20
<b>Total liabilities</b>	<b>20</b>	<b>20</b>

\* Balances of these items are reported incl. VAT

<b>OTHER RELATED ENTITIES</b>		
<b>Receivables and liabilities (in CZK '000)</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
Trade receivables	219	24
<b>Total receivables</b>	<b>219</b>	<b>24</b>
Trade liabilities	5,219	1,959
Short-term advances received*	5,134	10,627
<b>Total liabilities</b>	<b>10,353</b>	<b>12,586</b>

\* Balances of these items are reported incl. VAT.

Dividends paid to shareholders in 2016 and 2015 are disclosed in Chap. 6.22.

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

#### **6.24. Regulatory framework**

As of 1 January 2007, the Company, based on the requirements of European Union directive on the unbundling of the gas market and the amendment to the Energy Act, separated a part of its activity and contributed a part of the enterprise related to natural gas distribution into its subsidiary. This led to the legal separation of the distribution system operator from the previously vertically integrated gas company, and the creation of the subsidiary Pražská plynárenská Distribuce, a.s., member of the Pražská plynárenská, a.s. Group, which took over the role of distribution system operator. The Company trades natural gas and electricity based on the granted licenses.

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

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

The year 2016 was the first year of the 4<sup>th</sup> regulatory period, which is in place from 2016 - 2018. For this period, the Energy Regulatory Office issued a Policy of price regulation for the electricity and gas sectors and for the market operator activity in the electricity and gas sectors 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, supporting future investments, ensuring resources for the renewal of the network and continuing to increase efficiency from which customers will also profit.

The Energy Regulatory Office sets the ultimate level of permitted revenues for the distribution companies for the year and on their basis it sets fixed prices for the service distribution system to the customer's supply point depending on the offtake band. Regulated prices and conditions of the service distribution system for 2016 were set in the Pricing Decision of Energy Regulatory Office No. 6/2015 of 25 November 2015, as amended by Pricing Decisions No. 1/2016 of 29 February 2016 and 2/2016 of 1 June 2016.



The Energy Regulatory Office's competence also includes the protection of legitimate interests of licensees whose activity is regulated in accordance with Section 17(4) of the Energy Act. The legislative framework of price regulation stipulated under Section 19a(1), Energy Act, guarantees each regulated entity to cover their permitted (eligible) costs for ensuring reliable, safe and efficient performance of the licensed activities, depreciation and reasonable profit to ensure the return on investment into equipment which serves to perform the licensed activity. In the case of discrepancy between the regulated permitted revenues for the regulated year and those actually generated in the given regulated year, the Energy Regulatory Office will correct such discrepancy in the following period.

#### **6.25. Contractual and other future obligations**

Capital expenditures for tangible and intangible fixed assets contracted as at 31 December 2016, but not yet incurred amount to CZK 436,314,000 (2015: CZK 371,126,000). These expenses will be incurred over the next five years.

Operating leasing expenditures charged to the consolidated statement of comprehensive earnings in the course of the year are reported in Chapter 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 operative lease agreements. The agreements are concluded for terms of 1 to 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 operative lease agreements (without valid VAT) as on 31 December 2016 amounted to CZK 556,813,000 (as at 31 December 2015: CZK 707,497,000).

<b>(in CZK '000)</b>	<b>2016</b>	<b>2015</b>
Within 1 year	220,180	203,416
1 - 3 years	287,393	316,740
3 - 5 years	49,154	183,686
Over 5 years	86	3,655
<b>Total</b>	<b>556,813</b>	<b>707,497</b>

## **7. OTHER FACTS**

### **7.1. Contingent liabilities**

No court cases that would materially affect the Group's earnings are underway or being 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 2016 apart from those mentioned in Chap. 6.13.

### **7.2. Events after the balance date of the financial statements**

No events have occurred subsequent to 31 December 2016 that would have a material impact on the consolidated financial statements.



### **7.3. Approval of the financial statements**

The consolidated financial statements were approved for publication by the Board of Directors and signed on its behalf. The consolidated financial statements were approved by the sole shareholder at the general meeting which has the right to supplement or modify the consolidated financial statements before their final approval.

Prague dated 14 March 2017

**Ing. Pavel Janeček**

Chairman of the Board of Directors

**Ing. Milan Cízl**

Member of the Board of Directors



## **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 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 fact and that no matters of substance which could affect a true and fair assessment of Pražská plynárenská, a.s. and the Pražská plynárenská, a.s. Group have been omitted.**

14 March 2017

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

14 March 2017

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

The Company's financial statements for 2016 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, entered in the Commercial Register maintained by the Municipal Court in Prague, Section C, File 3637 and in the list of auditing companies of the Chamber of Auditors of the Czech Republic under Reg. No. 021.

The Company's consolidated financial statements for 2016 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, entered in the Commercial Register maintained by the Municipal Court in Prague, Section C, File 3637 and in the list of auditing companies of the Chamber of Auditors of the Czech Republic under Reg. No. 021.



# **REPORT ON RELATIONS BETWEEN THE CONTROLLING AND THE CONTROLLED ENTITY AND ON RELATIONS BETWEEN THE CONTROLLED ENTITY AND OTHER ENTITIES CONTROLLED BY THE SAME CONTROLLING ENTITY (RELATED ENTITIES) FOR 2016**

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

This report has been compiled by the Board of Directors of the controlled entity pursuant to the provisions of Act No. 90/2012 Coll., on commercial companies and cooperatives (Act on Commercial Corporations), hereinafter referred to as the "Act on Corporations", for the year 2016 (the "Reference Period"). The report was compiled by the Board of Directors in accordance with the Section 82 of the cited Act, taking into account the provisions of Section 504 of Act No. 89/2012 Coll., Civil Code, concerning business trade secrets.

## **INTRODUCTION**

The basic relationships between the related entities can be seen in the graph of the shareholder structure of Pražská plynárenská (hereinafter "PP, a.s.") in the attachment. As the graph shows, the controlling entity Pražská plynárenská Holding a.s. (hereinafter "PPH a.s.") is controlled by another entity, namely the Capital City of Prague, which holds 100% in the share capital of the controlling company.

Pražská plynárenská, a.s. is the lead company of the Pražská plynárenská, a.s. Group, and was also a member of the Pražská plynárenská Holding a.s. group, where the lead company was Pražská plynárenská Holding a.s. Within the framework of the group under the leadership of Pražská plynárenská a.s., only the financing of individual group members has been coordinated.

Based on the articles of association of PPH, a.s., the sole shareholder acting in the capacity of the general meeting elects and dismisses members of the Board of Directors and the Supervisory Board (that being the Capital City of Prague as at 31 December 2016).

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 entity and the entity directly controlling the controlled entity;
- related entities, i.e. PP, a.s. and the City of Prague, the entity indirectly controlling the controlled entity and entities controlled by it.

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

## **1. STRUCTURE OF CONTROLLING RELATIONS**

### **1.1. ENTITY CONTROLLING AN INDIRECTLY CONTROLLED ENTITY**

This is the Capital City of Prague, with its registered office at Mariánské nám. 2, Prague 1, Post code 110 00.

### **1.2. ENTITY CONTROLLING A DIRECTLY CONTROLLED ENTITY**

The controlling entity in 2016 was Pražská plynárenská Holding a.s., with its registered office at U Plynárny 500/ 44, Prague 140 00, Company ID No. 264 42 272.

In 2016, the share of the entity directly controlling the controlled entity was 100% of the controlled entity's share capital.



### **1.3. CONTROLLED ENTITY**

This is Pražská plynárenská, a.s., with its registered office at Prague 1 – Nové Město, Národní 37, Post code 110 00, Company ID No. 601 93 492 (hereinafter “PP” or the “controlled entity”).

### **1.4. OTHER ENTITIES CONTROLLED BY THE SAME CONTROLLING ENTITIES**

The organisations and companies, in which the Capital City of Prague had a major share in 2016 and with whom PP, a.s. entered into a contractual relationship in 2016 are listed below in Chapter No. 2.

### **1.5. RELATED ENTITIES**

These are the companies Pražská plynárenská, a.s., Pražská plynárenská Holding a.s., the Capital City of Prague and companies or organizations, in which the Capital City of Prague had a decisive ownership interest in 2016.

### **1.6. ROLE OF PP, a.s. IN THE GROUP**

PP, a.s. operates in the Pražská plynárenská, a.s. Group as the parent business corporation. It exercises its influence through participation at the general meetings of its subsidiaries, staffing of the boards of directors and supervisory boards of its subsidiaries and application of Group directives.

## **2. DESCRIPTION OF RELATIONS BETWEEN RELATED ENTITIES**

### **2.1. METHODS AND MEANS OF CONTROL**

PP, a.s. was primarily controlled by its shareholder through its representatives at Board of Directors and Supervisory Board meetings, and through the exercise of voting rights at general meetings of PP, a.s.

### **2.2. CONTRACTS CONCLUDED BETWEEN RELATED ENTITIES VALID IN 2016**

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

##### **a) Contracts on gas and electricity supply**

- AKROP, s. r. o., Ke Špejcharu 392, Tuchoměřice
- Dětský domov a Školní jídelna, Národních hrdinů 1, Prague 9 - Dolní Počernice
- Divadlo Minor, Vodičkova 674/6, Prague 1
- Divadlo na Vinohradech, náměstí Míru 1450/7, Prague 2
- Divadlo pod Palmovkou, Zenklova 566/34, Prague 8 - Libeň
- Dopravní podnik hl. m. Prahy, akciová společnost, Sokolovská 217/42, Prague 9
- Domov pro seniory Hortenzie, K Ubytovně 65, Líbeznice
- Domov pro seniory Nová slunečnice, Na Hranicích 674, Prague 8
- 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 540/7, Prague 6 - Suchdol
- Fakultní základní umělecká škola Hudební a taneční fakulty AMU v Praze, K Brance 72/2, Prague 5
- 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 prof. Jana Patočky, Jindřišská 966/36, Prague 1
- Gymnázium Omská, Omská 1300/4, Prague 10 – Vršovice



- Gymnázium Budějovická, Budějovická 680, Prague 4
- Gymnázium Na Vítězné pláni, Na Vítězné pláni 1160/1, Prague 4
- Gymnázium Ústavní, Ústavní 400, Prague 8
- Gymnázium Litoměřická, Litoměřická 726/17, Prague 9 - Prosek
- Hlavní město Praha, Mariánské nám. 2, Prague 1
- Hudební divadlo v Karlíně, Křižíkova 283/10, Prague 8
- Hvězdárna a planetárium hlavního města Prahy, Královská obora 233, Prague 7
- Jedličkův ústav a Mateřská škola a Základní škola a Střední škola, V Pevnosti 13/4, Prague 2
- Kolektory Praha, a.s., Pešlova 3/341, Prague 341
- Kongresové centrum Praha, a.s., 5. května 1640/65, Prague 4
- Mateřská škola speciální Na Lysinách, Na Lysinách 41/6, Prague 4 - Hodkovičky
- Městská nemocnice následné péče, K Moravině 343/6, Prague 9
- Muzeum hlavního města Prahy, Kožná 475/1, Prague 1
- Národní kulturní památka Vyšehrad, V pevnosti 159/5b, Prague 2
- Obecní dům, a.s., nám. Republiky 1090/5, Prague 1
- Pedagogicko-psychologická poradna pro Prahu 11 a 12, Kupeckého 576/17, Prague 4
- Pohřební ústav hl. m. Prahy, Staroměstské nám. 608/10, Prague 1
- Pražská energetika, a.s., Na Hroudě 1492/4, Prague 10
- Pražská strojírna, a.s., Mladoboleslavská 133, Prague 9 - Vinoř
- 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 2807/153c, Prague 3
- Středisko praktického vyučování, Seydlerova 2451/8, Prague 5 - Nové Butovice
- Střední odborná škola civilního letectví, K Letišti 278, Prague 6 - Ruzyně
- Střední odborné učiliště gastronomie, U Krbu 521/45, Prague 10
- Střední odborné učiliště gastronomie a podnikání, Za Černým mostem 362/3, Prague 9
- Střední odborné učiliště kadeřnické, Karlínské náměstí 225/8, Prague 8 - Karlín
- Střední průmyslová škola dopravní, a.s., Plzeňská 298/217a, Prague 5
- Střední průmyslová škola elektrotechnická V Úžlabině, V Úžlabině 320/23, Prague 10
- Střední průmyslová škola elektrotechnická Ječná, Ječná 517/30, Prague 2
- Střední průmyslová škola sdělovací techniky, Panská 856/3, Prague 1
- 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 jezdeckví, U Závodíště 325/1, Prague 5 - Velká Chuchle
- Střední škola elektrotechniky a strojírenství, Jesenická 1, Prague 10 - Záběhlice
- Střední škola Náhorní, U Měšťanských škol 525/1, Prague 8
- Střední škola technická, Zelený pruh 1294/50, Prague 4
- Školní jídelna, Štefánikova 235/11, Prague 5 - Smíchov
- Technická správa komunikací hl. m. Prahy, Řásnovka 770/8, Prague 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 umělecká škola Václava Hollara, Hollarovo nám. 2, Prague 3
- Vyšší odborná škola a Střední škola slaboproudé elektrotechniky, Novovysočanská 48/280, Prague 9
- Vyšší odborná škola ekonomických studií a Střední průmyslová škola potravinářských technologií, Podskalská 365/10, Prague 2
- Vyšší odborná škola stavební a Střední průmyslová škola stavební, Dušní 17, Prague 1
- Vyšší odborná škola uměleckoprůmyslová a Střední uměleckoprůmyslová škola, Žižkovo nám. 1300/3, Prague 3
- Vyšší odborná škola zdravotnická a Střední zdravotnická škola, Alšovo nábřeží 6, Prague 1
- Základní škola, Pod Radnicí 315/5, Prague 5
- Základní umělecká škola Ilji Hurníka, Slezská 920/21, Prague 2
- Základní umělecká škola Klementa Slavického, Zderazská 60/6, Prague 5 - Radotín
- Základní umělecká škola, Biskupská 1276/12, Prague 1
- Základní umělecká škola, U Půjčovny 4, Prague 1
- Základní umělecká škola, Bajkalská 1512/11, Prague 10



- Základní umělecká škola, Dunická 3136/1, Prague 4
- Základní umělecká škola, Na Popelce 18/1, Prague 5 - Košíře
- Základní umělecká škola, Nad Alejí 1879/28, Prague 6
- Základní umělecká škola, Klapkova 25, Prague 8
- Základní umělecká škola, Učňovská 1, Prague 9
- Zoologická zahrada hl. m. Prahy, U Trojského zámku 120/3, Prague 7
- Želivská provozní, a.s., K Horkám 16/23, Prague 10

**b) Other contracts**

- Divadlo Na zábradlí, Anenské náměstí 209/5, Prague 1 - cooperation agreement
- Domov pro seniory Krč, Sulická 1085/53, Prague 4 – contract for the sale of compressed natural gas CNG
- City of Prague, Mariánské nám. 2, Prague 1 – agreement on lease of commercial premises, agreement lease of parking spaces, agreement on lease of parking space, agreements on lease of business premises
- Kolektory Praha, a.s., Pešlova 3/341, Prague 9 – contract for the sale of compressed natural gas CNG
- Městská knihovna v Praze, Mariánské nám. 98/1, Prague 1 – lease of commercial premises contract, agreement on future loan agreement, agreement on settlement
- Městská poliklinika Praha, Spálená 12, Prague 1 – contract for the sale of compressed natural gas CNG
- Muzeum hlavního města Prahy, Kožná 475/1, Prague 1 – loan agreement on exhibits
- Palata – Domov pro zrakově postižené, Na Hřebenkách 5, Prague 5 – contract for the sale of compressed natural gas CNG
- Pražská energetika, a.s., Na Hroudě 1492/4, Prague 10 - EFET agreement (purchase/sale of natural gas), framework agreement on transfer of unused tolerance, agreements on lease of commercial premises, framework regulations for trading unused tolerance on the gas market
- Pražské služby, a.s., Pod Šancemi 444/1, Prague 9 – contract for the sale and purchase of compressed natural gas CNG, agreements on promotion and advertising, agreement on lease for CNG station
- Technická správa komunikací hl. m. Prahy, a.s., Řásnovka 770/8, Prague 1, easement for natural gas connection for the CNG station in Modřanská Street.
- TRADE CENTRE PRAHA, a.s., Blanická 1008/28, Prague 2 – agreement on lease of commercial premises, agreement on lease of business premises, agreement on lease of parking space, agreement on provision of communications services, agreement on building security
- Zoologická zahrada hl. m. Prahy, U Trojského zámku 120/3, Prague 7 - agreement on sale of compressed natural gas CNG

**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 lease of commercial premises and equipment
- c) Contract for work on provision of cleaning work and services
- d) Contract for sublease of business premises
- e) Agreement on cash-pooling in the Pražská plynárenská, a.s. Group
- f) Mandate agreement on payment of consideration to minority shareholders (the third party is Československá obchodní banka, a.s.)
- g) Agreement on monetary settlement of loss caused by Group instruction

**2.2.3. Overview of conduct in favour or at the instigation of related entities carried out by the controlled entity**

During the decisive period, Pražská plynárenská, a.s. and with its controlled entity, i.e. the subsidiary Pražská plynárenská Distribuce, a.s., member of the Pražská plynárenská, a.s. Group, concluded a transaction on the basis of the Gas distribution agreement.

Based on the decision of Pražská plynárenská Holding a.s., as the sole shareholder acting in the capacity of the general meeting of Pražská plynárenská, a.s., dated 30 March 2016, the Company paid shareholders a share in profit equal to CZK 619,851,000, whereas an advance of CZK 418,000,000 was previously paid in 2015.



In the Decisive Period, no conduct was undertaken by decision of Pražská plynárenská Holding a.s., as the sole shareholder acting in the capacity of the general meeting of Pražská plynárenská, a.s., which would impact the assets of Pražská plynárenská, a.s., the value of which would exceed 10% of the equity of Pražská plynárenská, a.s. pursuant to the last financial statements, i.e. the value of which would exceed CZK 500,917,000 based on the financial statements as at 31 December 2016.

31 May 2016 saw the full repayment of the loans provided to Pražská plynárenská, a.s. as the debtor based on Agreements on operative and non-commuted loans concluded on 22 April 2015 with the creditors Česká spořitelna, a.s., Československá obchodní banka, a. s., UniCredit Bank Czech Republic and Slovakia, a.s., and Komerční banka, a.s., whereas this Agreement was concluded based on a Group instruction given within the PPH Group (concerning the financing of group members) by the controlling entity Pražská plynárenská Holding a.s., and was specified as an action undertaken at the instigation of the controlling entity in the Annual Report for 2015.

During the Decisive Period, a pledge agreement was also concluded between Pražská plynárenská, a.s. as the pledger and Československá obchodní banka, a. s. as the pledgee, based on which a lien was established for transfer of the enterprise of Pražská plynárenská, a.s., in order to secure the debts of Pražská plynárenská Distribuce, a.s., member of the Pražská plynárenská, a.s. Group, from the Company's bonds for a total volume of CZK 2,700,000,000, issued on 14 November 2016.

### **2.3. OTHER LEGAL MEASURES**

A Memorandum on cooperation and mutual support in pre-vocational education of young people in the fields of education completed with an apprentice certificate in the Capital City of Prague has been concluded with the City of Prague. No detriment arose to the controlled entity from these relationships.

### **2.4. ASSESSMENT OF DETRIMENT INCURRED BY THE CONTROLLED ENTITY**

PP, a.s. incurred no detriment resulting from the fact of its being controlled by the controlling entity.

### **2.5. ASSESSMENT OF THE STATUTORY BODY**

The statutory body evaluated the advantages and disadvantages of relations between persons referred to in Chap. 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 entity of PP, a.s. in 2016 and PPH, a.s. controlled PP, a.s. directly. PP, a.s. was also controlled by the shareholder in PPH a.s. (Capital City of Prague), which controlled PP, a.s. through PPH, a.s. indirectly.

Pražská plynárenská, a.s. is a part of Group which includes entities engaged primarily in activities related to energy trading and distribution. Relations with the indirectly controlling entity (Capital City of Prague) must be considered significant due to the fact that Pražská plynárenská Distribuce, a. s., member of the Pražská plynárenská, a.s. Group, which is directly controlled by PP, a.s. is the main operator of natural the gas distribution system in the area of the Capital City of Prague.

### **2.6. OTHER FACTS**

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

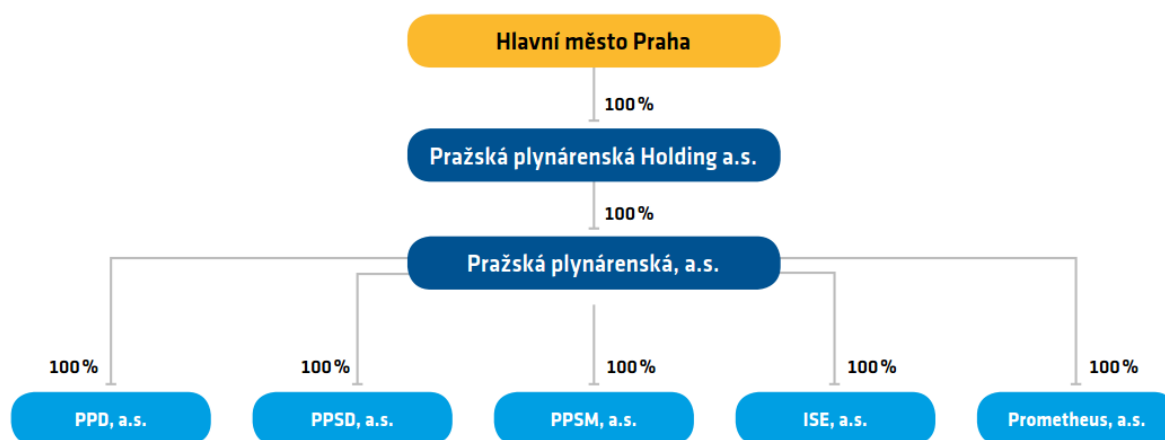
In 2016, cooperation continued between Pražská plynárenská, a.s. and Pražská energetika, a. s. within the "Together for Prague" project under the auspices of Prague City Council. Specifically, this cooperation concerned the joint business offices, the call centre line and joint meter readings.

#### **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 of Directors or Supervisory Board in favour of the controlling entity or the entity controlled by the same controlling entity.



## 2. GRAPHIC DEPICTION OF RELATIONS BETWEEN PRAŽSKÁ PLYNÁRENSKÁ, a.s. AND RELATED ENTITIES AS AT 31 DECEMBER 2016





## ABBREVIATIONS

a.s.	Joint-stock company
AMU	Academy of Musical Arts in Prague
OHS	Occupational health and safety
CFO	Chief Financial Officer
CNG	Compressed natural gas
CZK	Czech koruna
Acc. no.	Account number
CNB	Czech National Bank
CR	Czech Republic
ČSLH	Czech Ice Hockey Association
ČSOB, a.s.	Československá obchodní banka, a.s.
ČSSD	Czech Social Democratic Party
ČVUT	Czech Technical University in Prague
TFA	Tangible fixed assets
DIČO	Tax identification number
IFA	Intangible fixed assets
DOM	Domestic customer – natural person using gas for their personal needs related to housing or for the personal needs of household members
VAT	Value added tax
ERO	Energy Regulatory Office
EU	European Union
EUR	Euro - common currency of the European Union
EVVO	Environmental education, upbringing and awareness
FZŠ	Elementary school faculty
GmbH	Gesellschaft mit beschränkter Haftung (German abbreviation of limited liability company)
City of Prague	Capital City of Prague
IAS/IFRS	International Accounting Standards
IČO	Company identification number
ISE, a.s.	Informační služby - energetika, a.s.
ISIN	Identification number under which a share was kept in the Securities Centre / Central Securities Depository, a.s.
IT	Information technology
CZK	Czech koruna
kg	kilogram
unit	unit
kWh	kilowatt hour
m <sup>3</sup>	cubic metre
MČ	City district
mil.	million
bil.	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
MŠMT	Ministry of Education, Youth and Sports
MWh	Megawatt hour
OSVČ	Self-employed individual
OTE	Market operator
FP	Fire prevention
PP, a.s.	Pražská plynárenská, a.s.



PPD, a.s.	Pražská plynárenská Distribuce, a.s., 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., member of the Pražská plynárenská, a.s. Group
PPSM, a.s.	Pražská plynárenská Správa majetku, a.s., member of the Pražská plynárenská, a.s. Group
PR	Public Relations
Prometheus, a.s.	Prometheus, energetické služby, a.s., member of the Pražská plynárenská, a.s. Group
Post code	Post code
PwC	PricewaterhouseCoopers
s. p.	State enterprise
s. r. o.	Limited liability company
Coll.	Collection of laws of the Czech Republic
SO	Medium-sized customer – natural person or legal entity whose gas consumption facility is connected to the transmission or distribution system and whose annual consumption at the offtake point exceeds 630 MWh and annual gas offtake does not exceed 4 200 MWh
Tel.	Telephone number
'000	thousand
TU	Technical university
TV	television
Earnings (VH)	Earnings
VO	Large customer – natural person or legal entity whose gas consumption facility is connected to the transmission or distribution system and whose annual gas consumption at the offtake point exceeds 4 200 MWh
VŠE	University of Economics in Prague
ZHMP	Prague City Council
ZOK	Act No. 90/2012 Coll., on commercial companies and cooperatives (Act on Commercial Corporations)
ZTP/P	Persons particularly seriously handicapped / with guide



# AUDITOR'S REPORT

## ***Independent auditor's report*** **to the shareholder in Pražská plynárenská, a.s.**

### *Auditor's statement*

We have audited

- the accompanying financial statements of Pražská plynárenská, a.s., with its registered office at Národní 37, Prague 1 – Nové Město (the "Company"), and its subsidiaries (collectively the "Group") compiled on the basis of the International Financial Reporting Standards, as adopted by the European Union, consisting of the consolidated statement of financial position as at 31 December 2016, the consolidated statement of comprehensive earnings, overview of changes in equity and cash flow for the year ending on 31 December 2016, and the notes to these consolidated financial statements, including a summary of significant accounting policies and other explanatory information;
- the accompanying individual financial statements of the Company compiled on the basis of Czech accounting legislation, consisting of the balance sheet as at 31 December 2016, the profit and loss statement, overview of changes in equity and cash flow statement for the year ending on 31 December 2016, and notes to these financial statements, including a summary of significant accounting policies and other explanatory information.

In our view:

- the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, its consolidated financial performance and its consolidated cash flow for the year ending on 31 December 2016 in accordance with the International Financial Reporting Standards, as adopted by the European Union;
- the accompanying individual financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, its financial performance and cash flow for the year ending on 31 December 2016 in accordance with Czech accounting legislation.

The consolidated and individual financial statements are hereinafter collectively referred to as the financial statements.

### *Statement references*

We conducted the audit in accordance with the Act on Auditors and auditing standards of the Chamber of Auditors of the Czech Republic, those being the International Standards of on Auditing (ISA), potentially supplemented and adjusted by related application clauses. Our responsibility stipulated by these regulations is described in detail in the section *Auditor's responsibility for auditing the financial statements*. In accordance with the Act on Auditors and Code of Ethics for Auditors and Accounting Experts issued by the International Ethics Standards Board for Accountants (IESBA) and adopted by the Chamber of Auditors of the Czech Republic, we are independent of the Group and Company and have also met other ethical requirements arising from the aforementioned regulations. We believe that the evidential information we have obtained provides an adequate and suitable basis for the expression of our statement.

### *Other information*

Other information in compliance with Section 2(b) of the Act on Auditors refers to the information provided in the annual report outside of the financial statements and our audit report. The Company's board of directors is liable for other information.

Our opinion of the financial statements does not apply to the other information. Nevertheless, our obligations related to auditing the financial statements also include becoming familiar with the other information and considering whether the other information is in significant discord with the financial statements or our knowledge of the Group and Company, acquired during the audit, or whether this information appears to be fundamentally



incorrect. We also assess whether the other information in all relevant regards was compiled in accordance with the applicable legal regulations. This assessment refers to whether the other information meets the requirements of legal regulations for formalities and procedure in compiling the other information in the context of relevance, i.e. whether potential failure to fulfil the said requirements would be capable of influencing the judgement made on the basis of other information.

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**to the shareholder in Pražská plynárenská, a.s.**  
**Independent auditor's report**

Based on the performed procedures, to the degree to which we are able to judge, we state that

- the other information which describes facts which are the subject of reporting in the financial statements is in all relevant respects in compliance with the financial statements and
- the other information was processed in accordance with legal regulations.

We are also obliged to state whether, based on our findings and knowledge of the Group and Company which we obtained in performing the audit, the other information contains any material misstatements. Within the framework of the aforementioned procedures, we did not find any material misstatements in the other information received.

*Responsibility of the Board of Directors and Supervisory Board of the Company for the financial statements*

The Company's board of directors is responsible for compiling the consolidated financial statements, which provide a true and fair view in accordance with the International Financial Reporting Standards, as adopted by the European Union, and for compiling individual financial statements which provide a true and fair view in accordance with Czech accounting legislation, and for such internal controls as it considers necessary to enable the compiling of financial statements that are free from material misstatement, whether due to fraud or error.

In compiling the financial statements, the Company's board of directors is obliged to assess whether the Group and Company are capable of continuous existence, and if relevant to describe in the notes to the financial statements any matters concerning their continuous existence and application of the assumption of continuous existence when compiling the financial statements, with the exception of cases when the board of directors plans to dissolve the Group or Company or terminate their activity, respectively when it has no realistic option other than to do so.

The Company's supervisory board is responsible for overseeing the process of financial reporting.

*Auditor's responsibility for auditing the financial statements*

Our objective is to gain adequate certainty that the financial statements as a whole are free from material misstatements due to fraud or error, and to issue an audit report containing our opinion. Adequate certainty is a high degree of certainty, yet it does not guarantee that the audit performed in accordance with the aforementioned regulations will reveal the potential existence of material misstatements in all cases of financial statements. Misstatements may arise due to fraud or error, and are considered material if it can realistically be assumed that, individually or in summary, they could influence the economic decisions adopted by the users of financial statements on their basis.

In performing the audit in accordance with the aforementioned regulations, it is our obligation to apply expert judgement and maintain professional scepticism throughout the entire audit. It is also our responsibility:

- To identify and evaluate the risks of material misstatement of the financial statements, whether due to fraud or error, to propose and implement auditing procedures which react to these risk and obtain adequate and suitable evidential information in order to provide a basis for our audit. The risk that we do not identify a material misstatement due to fraud is higher than the risk of failing to identify a material misstatement due to error, because fraud may involve secret agreements, falsification, deliberate omission, untrue representations or the evasion of internal controls.
- To become familiar with the internal control systems of the Group and Company which are relevant to the audit in such a scope, so as to propose suitable auditing procedures with regard to the given circumstances, but not to express an opinion on the efficiency of these internal control systems.
- To assess the suitability of the applied accounting principles, adequacy of performed accounting estimates and information, which the Company's board of directors provided in the notes to the financial statements in this context.



- To assess the suitability of the applied assumption of continuous existence when compiling the financial statements by the board of directors, and whether with regard to the collected evidential information there is any material uncertainty arising from the events or conditions, which could cast significant doubt on the ability of the Group and Company to maintain continuous existence. If we come to the conclusion that such significant uncertainty exists, it is our obligation to point out in our report the information provided in this context in the notes to the financial statements, and if this information is inadequate, to express a modified opinion. Our conclusions concerning the ability of the Group and Company to maintain continuous existence are based on the evidential information we obtained before the date of our report. Nevertheless, future events or conditions may lead to the Group or Company losing its ability of continuous existence.
- To evaluate the overall presentation, structure and content of the financial statements, including the notes, and whether the financial statements reflect the reference transactions and events in a manner that leads to truthful view.
- To collect sufficient and adequate evidential information about the financial information concerning the Company or business activities within the Group, in order to express an opinion of the consolidated financial statements. We are responsible for managing the Group audit, overseeing and implementing it. The statement of the opinion remains our exclusive responsibility.

Our obligation is to inform the board of directors and persons responsible for Company management, among other things, of the planned scope and timing of the audit and important findings made during the course of the audit, including identified material misstatements in the internal control systems.

14 March 2017

*PricewaterhouseCoopers Audit*

Represented by

*illegible signature*

Ing. Václav Prýmek  
Partner

*illegible signature*

Ing. Petra Bočáková  
Statutory Auditor, Reg. No. 2253