

ANNUAL REPORT

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

18



PRAŽSKÁ
PLYNÁRENSKÁ

We get things moving.

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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., on business corporations and co-operatives (Corporations Act), as amended.

All the documents and materials discussed in this annual report may be viewed at the

Company's head office. Prague, 20 March 2019

*We light the way for
the people, not only
in Prague.*

We get things moving.



Introduction by the Chairman of the Board of Directors

Dear ladies and gentlemen,

The year just ended and again very emphatically reminded us all of the turbulence, the complexity, and to a great extent the game-changing nature of the period that currently reigns in the energy industry. We had to cope with many external influences, which brought difficult and many times unexpected situations. However, I am sure that we have coped with them honourably, and I proudly venture to state that we have again successfully fulfilled the objectives we set for ourselves and that we have achieved very good business results. I'm personally very pleased all the more that it happened without us having to reflect the ever-increasing price of natural gas on the wholesale markets in the retail prices for our customers, as many of our competitors did. In this respect, one of the fundamental factors was our willingness and capability to increase the efficiency of our operations and to identify reserves, which led to the savings necessary to cover the above-stated unfavourable developments.

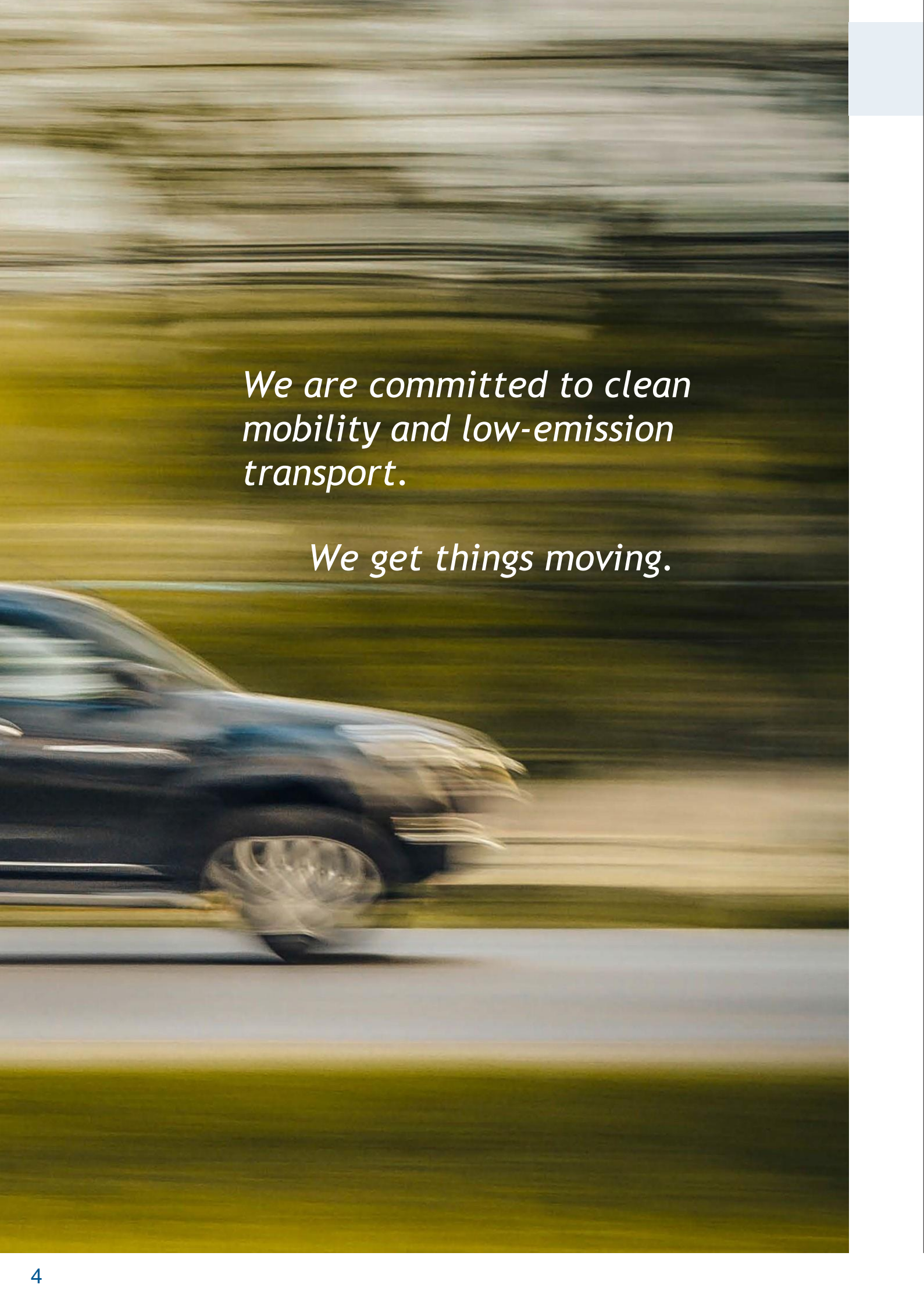
As stated in the introduction, fundamental changes are taking place in the energy sector, which are results not only of the development of energy policies but also of rapid technological developments that offer new opportunities and solutions for the changing preferences of customers. Themes such as diversification, decentralisation, renewable sources, savings, and accumulation are coming to the forefront, and we are seeing a gradual shift from fossil fuel sources to renewable sources, from centralised generation in large sources to decentralised systems. As a result, our Company is implementing major changes in the field of established business models practically on the fly, and is changing overall. This is unconditionally necessary if we want to continue being successful in the highly competitive energy market. We are already not only traders of natural gas and electric power, but we are also making an effort to present our profile as a provider of related services and clever solutions, which lead to higher customer comfort, efficient utilisation of resources, and energy savings. This is a long-term process that requires a completely new perspective and, to a certain extent, start-up thinking.

I firmly believe that we have the necessary enthusiasm, capability, and experience to enable us to overcome with all the challenges and tasks we are sure to face in the future, and that we will also be able to state at the end of 2019 that it was 'another good year'.

In conclusion, allow me, on behalf of myself and the entire management of Pražská plynárenská, a.s., to thank our customers for their confidence in us, our staff for their work well done, and our business partners for effective and faithful cooperation.

Ing. Pavel Janeček
Chairman of the Board of Directors





*We are committed to clean
mobility and low-emission
transport.*

We get things moving.

Selected Company data

The information in this section applies to the individual financial statements provided unless stated otherwise. The individual financial statements were processed according to the IFRS in the form adopted by the EU.

The average CZK/EUR exchange rate for 2018 was CZK 25.643/EUR 1 and this value is used to convert all the data in the tables (also for preceding years).

Basic information about the Company

Business name:	Pražská plynárenská, a.s. (also 'PP, a.s.' or 'the Company')
Corporate Office:	Prague 1 - Nové Město, Národní 37, Postal Code 110 00
Business ID No:	601 93 492
VAT No:	CZ60193492
Incorporation in the Commercial Register:	The Municipal Court in Prague, Section B, Insert 2337
Bank details:	ČSOB, a.s., Account No 916780043/0300
Telephone:	+420 267 171 111
Data Box ID:	au7cgs
Business Offices:	Jungmannova 31, Palác Adria, Prague 1 U Plynárny 500, Michle, Prague 4 Chelčického 1055/13, Hradec Králové Pražská 502/3, Liberec
Website:	www.ppas.cz , f prazskaplynarenskaas , v Pražská plynárenská a. s.

Company Profile

Pražská plynárenská, a.s., is the most important domestic energy suppliers and acts as a reliable energy supplier to approximately 415,000 consumption points all over the Czech Republic. It is a Czech supplier for which ensuring comfortable customer service, energy security, and a wide range of premium services, often unique in the Czech Republic, are the main priorities in relation to customers. Its competitiveness is founded on the basis of a stable and strong company, responsible approaches, and, last but not least, on the ability to resiliently and quickly respond to

the changing needs and requirements of its customers. Within the framework of the highly competitive energy market environment that can often be unclear or even incomprehensible from the viewpoint of the customer community, our Company upholds and asserts long-held values such as reliability and fair conduct.

In terms of energy use, the Company supports new, ecological, and effective technologies implemented with a view towards long-term use, especially the use of natural gas in transportation.

Importance of the Company and its contributions to the region

In addition to its business operations, Pražská plynárenská, a.s. has long been active widely beneficial activities and the development of civic society. The Company shares its success with the general public in the form of traditional and continuing support of various cultural, sports, and social projects.

Although today the Company supplies energy throughout the Czech Republic, its history is inseparably linked to the city of Prague, where its predecessor existed in the form of municipal gasworks beginning in the mid-19th century. Since 2014, the current iteration of Pražská plynárenská, a.s., just like its predecessor, is owned by the Capital City of Prague, and it can be said without exaggeration that it has come full circle.

Basic economic indicators (2014-2018)

			2014*	2015*	2016*	2017	2018
Revenues		in thousands of CZK	14,221,895	15,891,270	12,158,535	12,506,588	12,491,073
		in thousands of EUR	554,611	619,712	474,146	487,719	487,114
Pre-tax profit		in thousands of CZK	812,636	771,589	1,337,553	1,436,643	795,576
		in thousands of EUR	31,690	30,090	52,161	56,025	31,025
After tax profit		in thousands of CZK	735,471	647,051	1,155,047	1,226,959	633,955
		in thousands of EUR	28,681	25,233	45,043	47,848	24,722
Equity capital		in thousands of CZK	6,823,774	3,878,801	5,009,169	2,397,600	2,511,555
		in thousands of EUR	266,107	151,262	195,343	93,499	97,943
Registered capital		in thousands of CZK ¹	1,439,907	431,972 ³	431,972	431,972	431,972
		in thousands of EUR	56,152	16,846	16,846	16,846	16,846
Natural gas	Sales ²	in thousands of MWh	14,380.7	17,933.8	12,595.4	13,460.1	12,765.6
		in millions of m ³	1,354.5	1,684.7	1,178.0	1,262.4	1,197.7
	Number of consumption points as at 31 December		397,073	393,994	384,608	374,121	369,190
Electric power	Sales	in thousands of MWh	82.2	108.3	371.5	642.3	610.8
	Number of consumption points as at 31 December		18,267	22,988	28,991	33,853	43,912

* Economic indicators for the period 2014-2016 are reported in compliance with the Czech accounting regulations.

¹ Registered capital entered in the Commercial Register.

² The natural gas volume measured in m³ is converted into MWh using the calorific value coefficient, the value of which is obtained from NET4GAS, s.r.o., based on the monthly handover protocol.

³ The share of capital was decreased by a decision of the sole shareholder by the amount of CZK 1,007,935,000.

Securities issued as at 31 December 2018

Type	Common stock	Common stock	Common stock
Form	Bearer shares	Registered shares	Registered shares
Semblance	Book-registered	Book-registered	Book-registered
Number of pieces	950,338 pieces	489,568 pieces	1 pieces
Nominal value	CZK 300	CZK 300	CZK 300
Total emission volume	CZK 285,101,400	CZK 146,870,400	CZK 300
ISIN	CZ 0005084350	CZ 0005123190	CZ 0005123208

The negotiability of the registered shares is limited. Their owner(s) must get the approval of the General Assembly to transfer them.

bonds were issued in the total nominal amount of CZK 400,000,000. These debt securities carry a fixed interest rate of 0.90% p.a. and will mature in 2020.

On 15 June 2017, the Company issued 80 bonds on the regulated stock market (Burza cenných papírů Praha, a.s.) in the total nominal amount of CZK 400,000,000. A total of 80

The Company's LEI Code is 315700QBYOTLGRMOO11.

Ownership structure of Pražská plynárenská, a.s., as at 31 December 2018

For the entirety of 2018, Pražská plynárenská, a.s., was controlled directly by Pražská plynárenská Holding a.s. ('PPH a.s.'), with registered office at U Plynárny 500/44, Michle, 140 00 Prague 4, Business ID Number: The Capital City of Prague with registered office at Mariánské nám. 2, 110 01 Prague 1.

Capital interests

Pražská plynárenská, a.s., holds 100% capital interests in the following subsidiary companies:

- 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: Praha 4, U Plynárny 500, Postal Code 145 08
Business ID No: 274 03 505
www.ppdistribuce.cz

Pražská plynárenská Distribuce, a.s., Member of the Pražská plynárenská, a.s. Group ('PPD, a.s.'), was founded on 7 December 2005 as a subsidiary company of Pražská plynárenská, a.s. The impetus for establishing this company was the opening of the gas market in the Czech Republic as at 1 January 2007 as stipulated by law. Since then, PPD, a.s., has operated the distribution network and offered gas distribution services (which were previously provided by Pražská plynárenská, a.s.).

PPD, a.s., has a team of experienced gas experts who have long-term practical experience with the operation and construction of 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
Business ID No: 471 16 471
www.ppsd.cz

Pražská plynárenská Servis distribuce, a.s., Member of the Pražská plynárenská, a.s. Group ('PPSD, a.s.'), was established in 2005 by the merger of Praha-Paříž Rekonstrukce, a.s., and Opravy plynárenských zařízení s.r.o., which were both subsidiaries of Pražská plynárenská, a.s. The successor company was Praha-Paříž Rekonstrukce, a.s., which was subsequently renamed in 2006 to Pražská plynárenská Servis distribuce, a.s., Member of the Pražská plynárenská, a.s. Group As at 1 November 2014, the successor company PPSD, a.s., merged with the dissolved company Měření dodávek plynu, a.s.

PPSD, a.s., provides comprehensive services in the construction, servicing, repair, and maintenance of all gas facilities (pipelines, connections, control stations, measuring devices, mobile natural gas supplies, etc.) and also operates in the area of gas consumption equipment and industrial pipelines (gas distribution systems in buildings from the main gas seals to the gas appliances). The company also provides all services related to the construction of other engineering networks.

PPSD, a.s., provides gas emergency services on pipeline equipment, connections and regulating stations, consumption gas equipment, and gas pipelines for households. The Company provides gas network related material, including the

production and sale of boxes used for placing main gas seals, gas meters, and regulating household equipment, respecting various combinations according to the needs of a particular customer. Additional activities include technical sales services in the field, extrajudicial collection of receivables, and professional technical consulting operations.

Pražská plynárenská Správa majetku, a.s., Member of the Pražská plynárenská, a.s. Group

Address: U Plynárny 500/44, Michle, 140 00 Prague 4
Business ID No: 274 36 551
www.ppsm.cz

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

The main mission of PPSM, a.s., is quality and effective provision of a broad portfolio of services for the companies of the PP, a.s. Group, and for external customers, especially in the following areas: comprehensive facility management, execution of investment projects within the framework of the real estate property of the parent company, maintenance of buildings and land, fleet management and vehicle fleet management, building and operation of CNG filling stations, operation of CNG car rentals, operation of catering facilities and its own confectionery, organisation of catering events, security services, registry services, energy services, and inspection activities with regards to OSH, FP, and ecology.

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

Address: Praha 4, U Plynárny 500, Postal Code 140 00
Business ID No: 630 72 599
www.promes.cz

Prometheus, energetické služby, a.s., Member of the Pražská plynárenská, a.s. Group ('Prometheus, a.s.'), is the successor to Prometheus, energetické služby, s.r.o. By a decision of the Board of Directors of PP, a.s., executing the powers of the General Assembly of Prometheus, energetické služby, s.r.o., the legal form of the company was changed on 23 August 2011.

Prometheus, a.s., offers its customers comprehensive energy services in the field of generation and distribution of thermal energy, generation of electric power, construction of new thermal energy sources, provision of professional energy consulting in the form of preparation of building energy performance certificates, issue of energy opinions and audits, implementation of ISO 50 001, revitalisation of heat management, and other ancillary services.

Address: Praha 4, U Plynárny 500, Postal Code 141 00
Business ID No: 264 20 830
www.ise.cz

Informační služby - energetika, a.s., ('ISE, a.s.') was founded on 20 December 2000 as a limited liability company. It was established by the parent company PP, a.s., to rent hardware and software for automated data processing and to provide software, training, and consultancy activities in the areas of information technology, installation, and the maintenance and servicing of telecommunications equipment. Informační služby - energetika, s.r.o., was transformed into a joint stock company by a decision of the sole shareholder PP, a.s. The resolution of the Municipal

Information about the Company Management and Bodies

General Assembly

The General Assembly is the supreme body of the Company.

Board of Directors

The Board of Directors of PP, a.s., has four members. It is the statutory body of the Company, and it runs all the Company's operations and acts in its name. The term in office of each member is five years according to the Company Articles. The Company is represented in relation to third parties before the courts and other bodies in the full scope of the Board of Directors in such a manner that at least two members of the Board of Directors jointly represent the Company at all times.

At the meeting of the Supervisory Board of PP, a.s., held on 6 February 2018, Ing. Alois Těšitel was recalled from the position of Member of the Board of Directors and Ing. Vladimír Vavřích, MBA, was elected in his place.

The structure of the Board of Directors as at 31 December 2018 was as follows:

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. Vladimír Vavřích, MBA, Member of the Board of Directors.

The Board of Directors of PP, a.s., pursuant to Section 156(2) Civil Code has the following distribution of powers to its members:

- Ing. Pavel Janeček is the Head of Company Management,
- Ing. Milan Jádlovský is the Head of Strategy,
- Ing. Milan Cízl is the Head of Finance and Administration,
- Ing. Vladimír Vavřích, MBA, is the Head of Sales.

Supervisory Board

The Supervisory Board of PP, a.s., is the controlling body of the Company, and it oversees the performance of the powers of the Board of Directors, elects and recalls its members, and supervises the business activities of the Company. It comprises nine members, and the term in office of each member is five years according to the Company Articles. The structure of the Supervisory Board as at 31 December 2018 was as follows:

Ing. Michal Hašek, Chairman of the Supervisory Board,
Mgr. Luboš Koželuh, MBA, Vice-Chairman of the Supervisory

Court in Prague on the change became legally effective on 3 January 2005.

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

It specialises in the comprehensive creation of the infrastructure of information and communication technologies and the implementation of information systems, as well as ensuring their operation.

Information on organisational units abroad

Pražská plynárenská, a.s., had no organisational units abroad as at 31 December 2018.

Board,
Bc. Martin Čáslavka, Member of the Supervisory Board,
Petr Klepáček, Member of the Supervisory Board,
Radomír Nepil, Member of the Supervisory Board,
RNDr. Marcela Plesníková, Member of the Supervisory Board,
JUDr. Štěpán Stupčuk, Member of the Supervisory Board,
Mgr. Miroslav Vránek, Member of the Supervisory Board,
Ing. Petra Zemanová, Member of the Supervisory Board.

Audit Committee

The Audit Committee of PP, a.s., consists of three members, and the term in office of each member is four years according to the Company Articles. The Audit Committee mainly monitors the efficiency of the internal control system, the risk management system, and the internal audit, as well as the functional independence thereof. It further recommends the auditor to the Supervisory Board, assesses the auditor's independence, and monitors the procedure for compiling the financial statements.

The structure of the Audit Committee as at 31 December 2018 was as follows:

Ing. Lenka Mrázová, FCCA, Chairwoman of the Audit Committee,
Ing. Pavlína Kouřilová, Member of the Audit Committee,
Ing. Marta Ptáčková, Member of the Audit Committee.

Information about the members of the Board of Directors and the Supervisory Board (given in alphabetical order by surname)

Ing. Milan Cízl - Member of the Board of Directors responsible for management of the Finance and Administrative Department

In 2003, he graduated from the Faculty of Economics and Administration of Masaryk University in Brno and subsequently participated in a post-graduate stay at the University of Ljubljana. Upon completing his studies, he joined the consulting firm Ernst & Young, where he held various positions in the audit department and specialised in energy and financial institutions. Between 2008 and 2014, he worked for Patria Finance, a.s., in the field of financial management, first as deputy finance director and subsequently as CFO.

Between 2014 and 2016, he was the Finance Director and Vice-Chairman of the Board of Directors. In November 2016, he was elected Member of the Board of Directors of PP, a.s., and delegated to manage the Finance and Administrative Department.

Within the PP, a.s. Group, he is also a member of the Board of Directors of ISE, a.s.

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 is continuing his education in the field of finance at the University of Economics and Management in Prague. Between 2001 and 2014, he worked in various middle and senior management positions in sales, marketing, and project and process management in international companies. He was and still is a member of statutory and supervisory bodies in several joint stock companies, namely Teplárna Liberec a.s. (member of the board of directors until 2011), Správa majetkového portfolia Praha 3 a.s. (member of the board of directors until 2012), Pražské služby, a.s., (member of the board of directors until 2015), 4-Majetková a.s. (member of the board of directors until 2016). He is a co-founder and member of several non-profit organisations and initiatives including Veřejnost proti korupci. He is the creator of the Prohaiti Project, which helped in the aftermath of the earthquake in Haiti in 2010. At his place of residence he is committed to operating a forest nursery and environmental education centre through the work of a non-profit organisation. Since April 2015 he has been a Member of the Supervisory Board of PP, a.s.

Ing. Michal Hašek - Chairman of the Supervisory Board

Between 1982 and 1987, he studied at the Faculty of Mechanical Engineering at the Czech Technical University in Prague and majored in economics and engineering production management. After graduating, he worked for the Czech Trade Inspection Authority as chief commercial officer. From 1991 to 1993 he was sales manager at H. Diamonds, s.r.o. Beginning in 1993, he was engaged as a self-employed entrepreneur in business and consulting activities in the modelling of traffic systems until 2001, when he assumed the position of manager at Nexes, s.r.o., where he was also an executive officer. Beginning in 2011 he was self-employed in business and consulting services in the field of railways and other transport systems. In 2013 he began working as a commercial and technical director of model and production facilities, including management and organisation of deliveries of production units. From October 2014 to the present, he has been a councillor and chairman of the political club at the Prague City Council. Until October 2015, he was Councillor for Management of Assets and Capital Interests. In April 2015 he was elected Member of the Supervisory Board of PP, a.s., where he was subsequently elected its Chairman. In April 2016, he was elected Chairman of the Committee for European Funds of the Prague City Council.

From November 2018, he has served as a Councillor for the Municipality of Prague 7 and Chairman of its Financial Committee.

Ing. Milan Jadlovský - Vice-Chairman of the Board of Directors responsible for the management of strategy

He studied entrepreneurship and management at the VŠB-Technical University of Ostrava and has been gaining experience in the energy sector since 2002 in the sales and forecasts department of PP, a.s. Two years later, he was appointed Head of Strategic Marketing and Gas Purchases and subsequently became head of the Director General's office in 2006. In September 2007 he was appointed the director of Pragoplyn, a.s., and was also elected as a member of the board of directors of the company. In April 2014 he became its Chairman and held this position until October 2014 when Pragoplyn, a.s. merged with PP, a.s. He was elected to the Board of Directors of PP, a.s., in March 2014 and its Vice-Chairman from April of the same year.

From August to October 2014, he was the Strategy Director of PP, a.s. In October 2014, the Board of Directors delegated him to lead the Strategy Department. Beginning in 2015, he served as Head of Sales, and from February 2018, he has delegated by the Board of Directors to head the Strategy Department of PP, a.s. Within the PP, a.s. Group, he has also been a member of the supervisory boards of PPSD, a.s., and Prometheus, energetické služby, a.s., Member of the 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 graduating, he worked as a commercial and marketing manager for Cheming Pardubice (Suez). From 1997 to 2013, he worked for Explorer Capital Investment, New York, which was the sole owner of Karma a.s., where he worked from 1998 to 2013 as a director of the company. From June 1998 to 2011, he also worked for Fég Zrt., Hungary, as a management advisor. From 2004 to 2005, he also worked for Pergo (Trelleborg, Sweden). In October 2014, he was appointed manager of the Office of the Company Management of PP, a.s. He is also a member of several supervisory boards of the member companies of the PP, a.s. Group.

Petr Klepáček - Member of the Supervisory Board

After finishing his industrial high school studies in the field of furniture production in 1981, he worked as a foreman in the furniture factory of Dřevo Měřín, v.d. During the 1987/1988 school year, he worked as a pedagogue for vocational trainees at Stavební izolace Praha, s.p. Since 1988, he has worked at PP, a.s., (including its legal predecessors).

At the beginning, his work focused on technical activities related to the measurement and monitoring of the energy consumption patterns of large customers. This was followed by business activities aimed at negotiating contracts and reporting for large customers; eventually he became section head, and he has remained the head of his department since 2005. Starting in November 2012, he worked in another entity within the PP, a.s. Group, the subsidiary Pragoplyn, a.s., performing similar work responsibilities focusing on large customers and individual services, and in the period from April 2014 to November 2014 whilst undergoing the merger between PP, a.s., and Pragoplyn, a.s., he was a member of the Board of Directors of Pragoplyn, a.s. He has several years of gas trading experience and is currently head of the sales department in PP, a.s. He has been a Member of the Supervisory Board of PP, a.s., since November 2015.

Mgr. Luboš Koželuh, MBA - Vice-Chairman of the Supervisory Board

In 1987, he graduated from the Faculty of Education of the University of West Bohemia in Pilsen and subsequently worked there as a university instructor until 1995. After this, he became a partner and acting manager in a company engaged in financial consulting, a position he remained in until 1998, and was also a manager in a marketing and sports business company in the area of sports projects at the national and international levels. From 1997 to 2007, he was active in professional hockey. In 1997 he began work with the Pilsen Extraliga club, and beginning in 1999 he worked for HC Sparta Prague, first as an executive and subsequently as a general director and member of the board of directors. From 2000 he was a member of the executive committee of Český svaz ledního hokeje (The Czech Ice Hockey Association), a vice-chairman of ČSLH (The Czech Ice Hockey Association), and a chief executive of Asociace profesionálních klubů ledního hokeje (Association of Professional Ice Hockey Clubs) since 2004. He became a member of management and an executive director for business development in Česká pošta, s.p., in 2010.

From 2013 to autumn 2016, he was CEO of the company STES a.s. He is currently engaged in the management of some of his own companies. From 2014 to 2016, he was a member of the Supervisory Board of PPD, a.s. In April 2015 he was elected Member of the Supervisory Board of PP, a.s., where he was subsequently also elected its Chairman. Throughout his career, he has been devoted to the development and partial management of companies with their own capital interests, mainly in marketing, sport, energy, real estate, and agriculture.

Radomír Nepil - Member of the Supervisory Board

In 2005, after completing his secondary vocational school studies in the field of informatics, he worked for an Israeli investment company on the implementation of SAP. Beginning in 2007, he was ICT Project Manager in the SPGroup holding company. In 2011, he began operations as an entrepreneur in the field of ICT and real estate investments. From 2011 to 2015, he was Executive Officer at Fisner s.r.o. From 2014 to 2018 he was a councillor for the Municipality of Prague 8. In 2015, he became a member of the supervisory board of Operátor ICT a.s., and was elected its chairman in 2016. Since 2015 he has been Chairman of the Supervisory Board of Osmá správa majetku a služeb a.s., and in 2018 he also became Chairman of the Board of the Directors of the same company. Since 2018, he has been the chairman of the supervisory board at Technologie hlavního města Prahy, a.s., which manages public lighting. He has been a Member of the Supervisory Board of PP, a.s., since January 2017.

RNDr. Marcela Plesníková - Member of the Supervisory Board

From 1981 to 1986, she completed her studies at the Faculty of Science of Charles University in Prague, where she was later continued her science training and worked as a specialist. From 1989 to 2001, she was on maternity leave. After that she worked as a pedagogue at FZŠ Mezi Školami in Prague 13, where she was, among other things, engaged in environmental care issues. In 2008 she became a member of the Representative Council of the Municipality of Prague 13, where she was a member of the environmental committee (2008-2014) and vice-chair of the committee for training and education (2010-2014). In 2014, she became Deputy Mayoress of the Municipality of Prague 13 and a member of the Prague City Council. Until April 2016, she was chairwoman of the committee for the environment, infrastructure, and technical facilities, and from April 2016 to October 2018 she was chairwoman of the committee for regional development and the territorial plan of the Prague City Council. Since October 2014, she has been a member of the education and training committee of the Prague City Council, and since October 2018 she has again served as a member of the committee for the environment, infrastructure, and technical facilities of the Prague City Council. From 2014 to 2018 she was a member of the Monitoring Committee of the Operational Programme Prague - Growth Pole of the Czech Republic. She is also the deputy chairwoman of the foundation known as Cesta ke vzdělání. From 2008 to 2010, she completed specialised studies for environmental coordinators organised by the Prague City Council. From 2003, she coordinated several projects focused on environmental care, including a project for the Ministry of Education, Youth and Sport in support of environmental education, training, and awareness (EVVO), as well as environmental training, education, and edification in Prague residential development schools with a representation of national minorities (2009-2010). She has published 29 articles in the scientific and professional press and is preparing to print 4 more publications. She has been a Member of the Supervisory Board of PP, a.s., since 2015.

JUDr. Štěpán Stupčuk - Member of the Supervisory Board

He is a graduate of the Law Faculty of Charles University in

Prague (2003). In 2007, he accomplished his rigorous examination and was awarded the title of JUDr. After completing his studies, he worked as a specialist officer and lawyer at the Ministry of the Interior of the Czech Republic, and later as legal counsel he defended the Czech Republic in legal disputes and arbitration at the Office for Government Representation in Property Affairs. He has been a member of ČSSD since 2005. In 2006, he was elected member of the Council for Prague 6 and in 2010 he became the Deputy Mayor for Municipal Assets and Legal Relations. He became a member of the Parliament of the Czech Republic in 2013. Since April 2015 he has been a Member of the Supervisory Board of PP, a.s.

Ing. Vladimír Vavřích, MBA - Member of the Board of Directors responsible for sales

In 1991, he graduated from the Czech University of Life Sciences in Prague. He subsequently completed MBA studies at the Prague Business School of the Prague University of Economics. Upon completing his studies, he worked from 1992 to 1998 for Ústecké Pivovary, a.s., where he eventually became Director of Sales and Marketing and was also appointed a member of the board of directors. From 1998 to 2004 he worked as Director of Sales Czech Republic and Slovakia at Pivovary Staropramen a.s. He entered the energetics field in 2004 as Director of Sales and Marketing and member of the board of directors of Východočeská energetika, a.s. Within the framework of the ČEZ Group, he subsequently also worked for ČEZ Prodej, s.r.o. From 2007 to 2010 he was Sales Director Czechia and Slovakia at Jan Becher, a member company of the Pernod Ricard Group. In subsequent years he worked in various managerial positions, for instance, as Director for Sales and Marketing at Granette Starorežná Distilleries a.s. He re-entered the energetics field in 2016 as a member of the board of directors and sales director at ČEZ ESCO a.s. In February 2018, he was elected to the Board of Directors PP, a.s., and was delegated to manage sales. He is still active within the framework of the PP, a.s. Group as a member of the supervisory boards of PPSM, a.s., and ISE, a.s.

Mgr. Miroslav Vránek - Member of the Supervisory Board

Upon completing his secondary vocational school studies, he worked in the period from 1990 to 1991 at Elektromont Praha, a.s., Filmový podnik hl. m. Prahy, a.s., Pražská energetika, a.s. Beginning in 1991, he began work at PP, a.s., as a technical operations officer, meter reading technician, date verifier, head of the readings department, head of technical business operations, head of the sales department, and sales director. He is currently Head of the Communications and PR Department. He has been a Member of the Supervisory Board of PP, a.s., since January 2007. He has completed master's studies in the field of social and media communication.

Ing. Petra Zemanová - Member of the Supervisory Board

From 1999 to 2004, she studied informatics and systems engineering at the Faculty of Economics and Management of the Czech University of Life Sciences in Prague. She joined PP, a.s., as an internal auditor in 2004 after six months of onboarding with respect to the entire Company. She was active in the field of internal auditing up to 2010, wherein she passed through several positions, ending up as Head of Internal Audits. Beginning in September 2010, she acquired experience in the field of sales and as head of the call centre sales support department as she oversaw changes in suppliers of energy and processing of customers' written requirements. She is currently Head of the Asset Management Department of PP, a.s. She has been a Member of the Supervisory Board of PP, a.s., since January 2017.

Report from the Board of Directors on the Company's Business Activities and State of Its Assets

The information in this section applies to the individual financial statements provided unless stated otherwise. The individual financial statements were processed according to the IFRS in the form adopted by the EU.

The average CZK/EUR exchange rate for 2018 was CZK 25.643/EUR 1, and this value is used to convert all data in the tables (also for the preceding years).

Energetics in 2018

The year just ended was marked by continued debate on the future of energetics. The core topics were new technologies, guarantees of energy security, renewable energy sources, and sustainable development. The rapid rise in energy commodity prices and the subsequent impact on the selling prices of natural gas and electric power was the major topic of public debate in this field.

The ongoing process of making necessary changes in the energetics structure is raising new questions regarding future development. On one hand, there is an unquestionable requirement for deviation from conventional energy sources to the new so-called renewable energy sources. On the other hand, there are concerns surrounding the reality of such deviation, in that it is necessary to consider requirements for ensuring the reliability of deliveries, related financial costs, prices of new technologies, and the actual meaningfulness of the entire process.

Continuing market liberalisation was also accompanied by proposals for further interconnection of the energy markets of the European Union, particularly the unification of virtual sales points, with the objective of unifying the availability and price comparability of all operators in the unified market. Additional activities focused on strengthening and protecting of the rights of energy consumers, both in a narrow sense in relation to the energy industry and the overall anchoring of the position of customers, for instance, through the GDPR.

Market competition on the energy market continued with unchanged intensity. The main focus of interest in the competition battle was not only the customer, but also the other companies in the sector.

The year just ended can generally be evaluated as a period that saw the opening of new directions of development rather than the closure of processes of change.

Information about operations and financial position

Information on main lines of business

Pražská plynárenská, a.s., trades in natural gas under Licence No 241218964 issued by the Energy Regulatory Office and in electric power under Licence No 141015380 issued by the same office.

Sales information

Year		2017	2018
Revenues from sales of the Company's own products, services, and goods	in thousands of CZK	12,023,842	11,894,853
	in thousands of EUR	468,894	463,864

Breakdown of operating revenues by activity

Type of activity (in %)	2017	2018
Revenue from sales of gas*	84.7	82.6
Revenue from sales of electricity*	9.2	10.9
Other operating revenues and income	6.1	6.5

*Licensed activity.

Capital investments

	Acquisition price in millions of CZK in 2017	
Investment expenditures in tangible fixed assets	77.2	3.0
Investment expenditures in intangible fixed assets	47.9	1.9
Total	125.1	4.9

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

Investment data for tangible fixed assets, particularly investments in the construction of CNG filling

stations, information technologies, and investments related to Company buildings on the premises at Michle and Národní. In 2018, the investments in intangible fixed assets were focused on information systems. All investments were realised in the Czech Republic.

Pre-tax profit/loss

	Actual situation	Actual situation	Comparison of facts
	2018	2017	2018/2017
Profit/loss (in millions of CZK)			
Operating economic result	788.8	1,572.1	-783.3
Financial result	6.8	-135.5	142.3
Total profit/loss	795.6	1,436.6	-641.0

	Actual situation	Actual situation	Comparison of facts
	2018	2017	2018/2017
Profit/loss (in millions of EUR)			
Operating economic result	30.7	61.3	-30.6
Financial result	0.3	-5.3	5.6
Total profit/loss	31.0	56.0	-25.0

Revenues

	Actual situation	Actual situation	Comparison of facts
	2018	2017	2018/2017
Revenues (in millions of CZK)			
Total operating revenues	12,285.3	12,380.9	-95.6
<i>of which: natural gas sales*</i>	10,152.1	10,490.1	-338.0
<i>electric power sales*</i>	1,338.6	1,136.8	201.8
Financial revenues	205.8	125.6	80.2
Total revenues	12,491.1	12,506.5	-15.4

	Actual situation	Actual situation	Comparison of facts
	2018	2017	2018/2017
Revenues (in millions of EUR)			
Total operating revenues	479.1	482.8	-3.7
<i>of which: natural gas sales*</i>	395.9	409.1	-13.2
<i>electric power sales*</i>	52.2	44.3	7.9
Financial revenues	8.0	4.9	3.1
Total revenues	487.1	487.7	-0.6

*Licensing activities.

Costs

	Actual situation	Actual situation	Comparison of facts
	2018	2017	2018/2017
Costs* (in millions of CZK)			
Total operating costs	11,496.5	10,808.8	687.7
<i>of which: consumed gas costs**</i>	6,541.7	6,353.2	188.5
<i>electric power purchase costs**</i>	601.7	545.5	56.2
Financial costs	199.0	261.1	-62.1
Total costs	11,695.5	11,069.9	625.6

	Actual situation	Actual situation	Comparison of facts
Costs* (in millions of EUR)	2018	2017	2018/2017
Total operating costs	448.3	421.5	26.8
of which: consumed gas costs**	255.1	247.8	7.3
electric power purchase costs**	23.5	21.3	2.2
Financial costs	7.8	10.2	-2.4
Total costs	456.1	431.7	24.4

*Excluding income tax on current operations.

**Licensed activities without the distribution charge.

Financial situation

In 2018, Pražská plynárenská, a.s., continued to be a financially stable company. The Company paid all its dues to customers, suppliers, banks, state institutions, and employees in good time.

The Company covers its financial needs using its own sources and loans from banks as well as other cash resources from the members of the PP, a.s. Group and the parent company PPH a.s., via the cash pooling scheme.

In June 2017, the Company issued bonds with a total nominal value of CZK 400 million with a maturity of 3 years and a coupon with a fixed interest rate of 0.90% p.a. The bonds were issued at a time of record low interest rates, and so the Company effectively secured long-term funding at a low interest rate. Thanks to this issuance, investors have become aware of Pražská plynárenská, a.s.

The structure of short-term funding is contractually secured until May 2019 and includes overdraft credit lines, an exchange programme for drawing the necessary resources in

the form bills of exchange in auctions, and a line for negotiation of bank guarantees.

In 2019, short-term financing will be renewed and a new structure of this funding will be contractually secured up to 2023. The Company has contractually secured short-term financing in the amount of CZK 4.6 billion and long-term financing in the amount of CZK 0.4 billion. Kč. These external financial resources in the total volume of CZK 5.0 billion are provided by a consortium of two banks, namely Československá obchodní banka, a.s., and Česká spořitelna, a.s.

In 2018, the current account credit lines were not utilised due to the favourable development of the Company cash flow. The Company used only the funds in the cash pool to optimally cover the cash flow requirements that were impacted by the seasonal fluctuations related to the purchase and sale of energy. As at 31 December 2018, the Company had not drawn any bank loans; on the contrary, it possessed short-term financial assets worth CZK 1,476.9 million (as at 31 December 2017 worth CZK 1,325.5 million). The increase in the position of short-term financial assets is mainly the consequence of changes in the working capital position in 2018.

Summary description of the real estate property owned by PP, a.s.

As at 31 December 2018 the Company owned property (land, buildings, and other structures) in a total amount of CZK 1,172.6 million at cost. The buildings comprise mainly real estate at the address

Národní 37/38 in Prague 1 and buildings located on the premises of Pražská plynárenská, a.s., in Prague 4 - Michle. The residual value of the real estate owned by the Company is worth CZK 732.1 million. Kč.

Natural Gas Trading

customers, deliberate choice of the product portfolio, and other rises in customer care standards.

Natural gas trading (in thousands of MWh)	2018
Purchased natural gas	12,731.2
Sales of natural gas - total	12,765.6
Sales of natural gas - licensed operations	12,732.9
Sales of CNG	32.7

The business results of the Company in 2018 were impacted by the development of the purchase prices of commodities. These built on the growth trend where, particularly in Q3, they reached a thirty-year high. They subsequently gradually increased but never reached the price levels of 2016 and 2017. The rise in commodity prices required updates to the purchasing and sales strategy. The objective was to fulfil the economic targets of the Company and keep its market share as well as to secure the market position of the Company in subsequent periods as well. The inertia of the low price expectations of part of the market that were formed in preceding periods placed higher demands on communication with

Electric power trading

Electric power trading (in thousands of MWh)	2018
Electric power purchases	612.4
Sales of electricity	610.8

Pražská plynárenská, a.s., which is traditionally perceived as a supplier of natural gas, is systematically building the image and awareness of the PP, a.s., brand as a supplier of both conventional and new energies. It responded to the activities of competitor companies

Marketing and customer care

Customer care

Pražská plynárenská, a.s., has the long-term goals of building effective communication with its customers and offering quality, affordable customer services and products.

Communication with the Company and easy clearance of customer requirements were ensured by sales offices, a customer portal, the website www.ppas.cz, a Facebook profile, and a toll-free customer telephone line, all of which were available year-round. During the year, new business offices were successfully opened in Liberec and Hradec Králové. By taking this step, Pražská plynárenská, a.s., moved even closer to its customers in those regions.

For additional communication, customers may use the services of the group contact centre, which has been undergoing major developments and transformations. Major steps have been taken to enable better telephone access for customers, as well as higher-quality care and more comfortable provision of services. During the year, a new version of the Self-Service Project was implemented with an expanded offer of products and new functionalities. Thanks to the optimisation of internal processes, a uniform and simpler approach was achieved during the clearance of customer requirements across all the communication channels. This organisational change expanded the spectrum of services provided in the active offer of products, and the Company registered increasing success.

In February 2018, the Company launched a common line for customers of the subsidiary companies PPD, a.s., and PPSD, a.s.

From May 2018, the customer service conditions were adapted in compliance with Regulation EU 2016/679 on protection of personal data (GDPR).

Also in 2018, cooperation with Česká pošta, s.p., continued. Customers have the option to use 70 branches (and by 31 January 86 branches) of Česká pošta, s.p., in Prague and its surroundings to familiarise themselves with the services of Pražská plynárenská, a.s., by way of stands displaying the services and benefits of PP, a.s. Forms are available on the stands, offering suitable products and a form for clearance of the most frequent customer requirements related to the supply of natural gas and electric power. Here, the customer can also obtain leaflets that provide information about other selected services and benefits provided by Pražská

with a price offer and offers of non-commodity products and services provided to customers in all trading segments. In 2018, one of the services most frequently used by customers were mediation of the installation of photovoltaic power plants, including the handling of grant arrangements and insurance of the photovoltaic power plants. Significant interest was also registered in the purchase of generated electric power surpluses. In this year, the Company also expanded its offer with a new product, the supply of electric power from renewable energy sources.

plynárenská, a.s.

Within the framework of this cooperation, Česká pošta, s.p., has become the collecting point for selected printed materials that the Company sends to its customers and requires to be returned.

The Company also helps out in event of unexpected incidents caused by the failure of gas or electrical appliances. The assistance service POMOC 24 was available to customers year-round; within the framework of this service, the Company paid for the repair of customers' gas and electrical appliances either partially or in full (upon the fulfilment of certain conditions).

Within the framework of additional price offers, customers can utilise the bonuses on the electricity and gas products for small customers and households. Throughout 2018, the Company offered household customers assistance service insurance for households, including assistance in emergency situations (e.g. heating, electrical, or locksmithing work), which was provided free-of-charge through Pražská plynárenská, a.s., together with certain products for a fixed period. Assistance service insurance is also provided to housing cooperatives and property owners' associations.

In cooperation with partners, Pražská plynárenská, a.s., provided customers with various additional benefits through which they could, for instance, purchase new gas boilers, heaters, services related to the operation of power facilities, or the purchase of CNG-powered vehicles under bargain conditions.

In June 2018, the Company became the first corporation on the Czech market to make it possible for customers to make advance payments and settle invoices in the Bitcoin cryptocurrency via the PP, a.s., customer portal.

Loyalty programme

Through the Company's loyalty programme 'Zákaznická karta Pražské plynárenské', customers can receive attractive discounts and benefits in various areas (e.g. travelling, sport, cultural activities, accommodation, etc.) from more than 90 project partners. The Company distributes customer cards for free, and during the year major competitions are organised for card holders with prizes including foreign tours, spa stays, and more.

Information about current discounts and benefit offers is communicated to customers through a catalogue that is included with their natural gas billing and is also available on the Company website. It is newly also possible to download the customer card in a digital format as a smart

Company magazine

The Company magazine *U Plynárny* was published throughout the year as a quarterly and was intended for current and future customers, business partners, representatives of state administration, local government authorities, and employees of PP, a.s.

Clean mobility

Use of natural gas in transport

Pražská plynárenská, a.s., continues to address the issue of clean mobility. In 2018, Pražská plynárenská, a.s., ranked among the strategic traders of CNG in the Czech Republic and continued to develop the network of CNG filling stations within the Czech republic.

Sales of CNG

In 2018, Pražská plynárenská, a.s., sold more than 2.160 million kg of CNG at its filling stations. This is an increase of more than 9% as compared with 2017. Again, this clearly shows customers' interest in CNG and alternative fuels.

CNG stations

At end of 2018, Pražská plynárenská, a.s., operated 9 filling stations. At the end of the 2018, the Company opened a public CNG station in Jičín.

Within the Capital City of Prague, the Company owns and operates a CNG station on its premises in Michle, Prague 4; at the SHELL fuel station on Švehlova ulice in Prague 10; on the premises of Pražské služby, a.s., Pod Šancemi in Prague 9; at the filling station Q100 in Prague 4 - Hodkovičky; on Evropská ulice in Prague 6 - Liboc; and at the Depot of Česká pošta, s.p., on Sazečská ulice in Prague 10. In the Central Bohemia Region, it owns CNG stations in Mirošovice u Prahy and in Úvaly.

Corporate social responsibility

Pražská plynárenská, a.s., is aware of its responsibilities not only to its business operations and the services that it provides to its customers but also to society as a whole. This applies mainly to the environment, to infrastructure, and to cultural and social life.

Thus, in addition to its strictly business activities, Pražská plynárenská, a.s. is also focused on supporting projects and entities in these areas. In addition to long-term projects, which the Company prefers and carefully chooses, it also engages in short-term or long-term aid projects where prudent. The employees of Pražská plynárenská, a.s., also participate in charity activities and development projects of all kinds. One-off and recurrent events are thus attended by employees at all levels of the Company hierarchy.

Pražská plynárenská, a.s., strives for sustainable development, environmental protection, and the alleviation of any impacts of the Company's activities on its surroundings.

The employees of Pražská plynárenská, a.s., take care of the good reputation of the Company and develop it. They comply with legal regulations and do not overlook

It spreads information about current events in the member companies of PP, a.s. Group, as well as news about services, offers, products, and activities intended for customers and partners. Individual issues are available electronically on the website www.ppas.cz.

At all of the stations listed above, customers have the option to pay with ordinary payment cards and the CNG CardCentrum card.

Pražská plynárenská, a.s., in 2018 supplied natural gas to an additional 26 CNG stations in the Czech Republic owned by private companies.

CNG vehicles

Pražská plynárenská, a.s., and its subsidiary companies, operated almost 200 CNG vehicles at the end of 2018, including CNG car rental. The Company successfully continues the joint project between the Capital City of Prague, Pražské služby, a.s., and Pražská plynárenská, a.s., relating to the operation of garbage collection and cleaning vehicles on compressed natural gas.

Pražská plynárenská, a.s., participates in the CNG CardCentrum common payment system in the territory of the Czech Republic.

Electromobility

Within the framework of long-term and systematic development of clean mobility in Pražská plynárenská, a.s., and support for the development of low-emission transport in Prague in 2018, the Company continued its activities in the field of electromobility. The target is to build charging stations in selected locations of Prague, particularly for the municipality's communal vehicles.

irregular conduct. They respect business partners and their colleagues.

In all its activities, Pražská plynárenská, a.s. declares its commitment to ethical and unimpeachable conduct and respect for human rights, the minimum adopted internal standards of which are expressed in the Code of Ethics. Pražská plynárenská, a.s., is aware of the gravity of the problem of corrupt conduct, and it is for this reason that it has adopted a set of measures that should minimise any eventual risks. Employees undergo periodic training and may utilise the whistleblowing programme - that is, contact the compliance manager personally, or submitting suggestions anonymously through the ethics line.

At the same time, Pražská plynárenská, a.s., has adopted the Trader's Code of Ethics based on the 'Specimen code of ethics of the electricity or gas trader' issued by the Energy Regulatory Office. The Trader's Code of Ethics is published on the Company website, where contact information is also provided which the general public can use to contact the Company should there be any suspicions of conduct that does not comply with this code. Objective and unbiased investigations are ensured in the course of any internal audit of Pražská plynárenská, a.s.

Environment

As regards the environment, Pražská plynárenská, a.s., focuses mainly on the improvement of the quality of the environment as a whole and all its components. The Company places great emphasis on the environment and on the fulfilment of the obligations under the ratified EU environmental legislation.

Issues of air and water protection and chemical substances and waste management in the Company emphasis preventive approaches, where contamination is prevented by choosing suitable procedures. This leads to savings on costs, raw materials, and energies, savings that are also achieved by the systematic environmental education and training of employees in the form of e-learning, which are major components of Pražská plynárenská, a.s. policy.

Remediation of environmental burdens in PP, a.s.

Most of the ecological burdens from 1926 to 1975 have been eliminated in cooperation with the Ministry of the Environment. The costs of fulfilling these ecological obligations were paid by the State on a contract basis through the Ministry of Finance of the Czech Republic. One last ecological burden remains on the premises of Pražská plynárenská, a.s., in Michle. This concerns contaminated soil in the area under the former diesel line, which must be remediated. In 2018, negotiations regarding the completion of this remediation project with the Ministry of Finance of the Czech Republic and the Ministry of the Environment continued. Pražská plynárenská, a.s., requested that the Ministry of Finance of the Czech Republic organise a tender for the completion of a survey, including updating the risk assessment, that would form the basis for preparation of the project documentation for completion of this remediation project through Pražská plynárenská, a.s.

The Ministry of Finance of the Czech Republic accepted the request of Pražská plynárenská, a.s., and the recommendations of the Oblastní inspektorát ČIŽP and ordered the preparation of project documentation for the purpose of selecting a contractor to complete a survey of the remediation of ecological loads in the locality of the diesel line and its surroundings. This project documentation was processed and submitted to the Ministry of Finance of the Czech Republic. Future procedures will be determined on the basis of the results of the above-stated survey.

According to the requirement of the ČIŽP, in 2018 Pražská plynárenská, a.s., performed regular monitoring of ground water on the Pražská plynárenská, a.s., premises in Michle, just as it had in previous years. The results of the performed analyses confirmed the stabilised condition of the location.

Sponsoring activities and donations

Pražská plynárenská, a.s., supported a wide range of diverse projects in the fields of professional and recreational sports, arts, and social and charitable activities as part of its sponsoring activities and projects having to do with new technologies. Long-term support of events for the general public are the preferred modes of support.

The Smečka Gallery

The Smečka Gallery has been on the Prague art scene for 13 years. In this period, 65 art shows and thematic exhibitions of major Czech artists have been held in the gallery. In 2018, five vernissages of the following exhibitions were held:

- František Kobliha / *Ženy mých snů* (*My dream women*)
- Zdeněk a Marie Preclíkovi / *Duše* (*Soul*)
- Jaroslav Štědra / *Proměny* (*Transformations*)
- *Our collages* - an exhibition of works from the collections of Pražská plynárenská, a.s.
- Miroslav Horníček / *Koláže* (*Collages*)

In addition to regular vernissages of individual exhibitions, the gallery also presented guided tours with the participation of the artists or curators. The vernissages were attended by personalities from social, cultural, and public life and were accompanied by live musical presentations.

Many reports and spots have been broadcast from these vernissages both on TV and radio; articles and reviews have also been published in newspapers and other periodicals. Catalogue containing colour reproductions were published for visitors to each exhibition. Some exhibition projects were supplemented with recorded monographs about the authors or fairy tales for children on TV.

To summarise the role of the gallery on the Prague scene, we can state that the number of visitors to the exhibitions in the gallery increases every year and that the exhibitions are very positively evaluated by art experts and the lay public. Throughout its existence, the Smečka Gallery has entered the consciences of not only Prague residents but also visitors from all over the country who repeatedly visit the gallery in pursuit of quality cultural experiences and pleasant moments.

Gas Museum

Since 1999, Pražská plynárenská, a.s., has operated on its Michle premises the only museum in the Czech Republic devoted to the gas industry. It is located in one of the historical technology buildings of the former Michle gas plant. It raises awareness of the gas industry and is a sought-after destination for school trips by elementary and secondary classes, professionals, foreign visitors, and ordinary citizens, anyone who is interested in history in general and in the development of technology and energetics. It acquaints visitors with the history and development of the Czech and worldwide gas industries, from their beginnings to the present. The Museum is divided into a number of sections - including the extraction and production of gas and its use for a wide variety of purposes. Original artefacts, models of gas industry and gas facilities, historic gas appliances, and historical documents - catalogues, publications, and photographs - can all be found here. The museum's attractions also include a reconstructed model of Michle gas plant as it was in 1937 at a scale of 1 : 100.

Cooperation with the municipalities in the Capital City of Prague continued successfully, particularly with the municipality corporations the Prague City Museum and the Prague City Gallery. The already traditional pre-Christmas walk with the lamp lighter and the igniting of the historical gas lamps of Charles Bridge during Advent attracted a record number of participants this year.

In cooperation with the Czech Tourism Club, the Company organised several walks in 2018 that communicated interesting topics about the history of the gas industry in the city of Prague.

Already in its fourth year, Prague Museum Night attracted a record number of visitors in June 2018 to the Gas Museum. The most impressive demonstrations coinciding with this event ironing using gas-fired irons as well as hair curling and coffee roasting using gas.

In 2018, the museum collections were enriched with many interesting historical documents and exhibits from the Czech Republic and abroad. Many exhibits were professionally restored, among them selected

historical appliances repaired to their original level of functioning such that it is now possible to demonstrate how gas was used in the past.

Informatics

The year 2018 had the spirit of change, driven by requirements for improvements of the service quality, expansions of business processes, and updates in approaches to serving customers. One of the most significant changes was the consolidation of processes and customer information systems into a single system. This is a significant step toward simplifying customer service and related internal processes in the areas of invoicing, marketing, and reporting.

Another challenge that was successfully overcome was the transformation and perception of the processes related to the protection of customers' personal data. The comprehensive solution had an impact on the regulation of the processes in the Pražská plynárenská, a.s. Group, whose

integral components and information systems were modified for the purpose of achieving transparency and effective administration of personal data according while complying with legislative requirements.

A no less important change was the initiation of the design and implementation of the optimisation of the management of financial resources for the purpose of improving the quality of the management of financial flows.

Changes made in the informatics are the result of the Company's intent to fulfil its digital strategy, which has been positively reflected in the renewed perception by customers of the Company as one that listens to the needs of its customers and provides tools for implementation the requested changes.

Human resources management

HR work and the social field

As at 31 December 2018, Pražská plynárenská, a.s., employed a total of 366 people.

In social affairs, emphasis was put on preventive medical care. Employees underwent regular medical examinations according to their occupations. All employees were offered vaccinations against influenza, and some groups of employees were also offered vaccinations against viral hepatitis types A and B.

The employees of PP, a.s., who were assigned to the 'talents' group based on the development centre will participate in a year-long development programme with the objective, among other things, of motivating, stabilising, and supporting their perception of new development opportunities and directions, as well as strengthening loyalty. Through team building activities and informal meetings, cooperation between employees was supported across the PP, a.s. Group. Continuing development was also encouraged among a group of management employees who accomplished a similar programme in 2017.

To maintain relations with employees on maternity and parental leave, the Company operates a web portal that is partially connected to the Intranet and provides these employees with useful information.

Collective bargaining

The labour law, wage, and other entitlements of the employees of PP, a.s., were fulfilled in compliance with the Collective Agreement in force from 1 January 2017 to 31 January 2019. In the area of labour law relations, employees were, for example, given leave that was one week longer than the period stipulated under the Labour Code and were able to utilise the plant catering services. Employees are also offered cafeteria-type benefits (according to the applicable Collective Agreement).

Occupational safety and health, fire protection

Occupational safety and health (OSH) in the management and performance of working activities in PP, a.s., is a field that deals with the issue of undesirable impacts of work activities on the health of employees by implementing technical, organisational, and training measures.

The related comprehensive securing of fire protection (FP) creates conditions for effective protection against fires and other extraordinary events and naturally minimises hazards to life, health, and assets on the premises and in workplaces of PP, a.s. No fires were registered on Company premises in 2018.

The internal acts of the Group companies relating to OSH and FP are regularly updated according to the wording of the applicable legal regulations and ensure compliance of the labour law relationship between the employer and employees.

In close cooperation with the provider of the occupational health services, the issues of categorisation of labour, health fitness of the employees to perform work, solved occupational injuries, performed supervision in the workplace, and regular OSH and FP inspections are being discussed. In consequence of the above-stated, it is possible to state that no occupational injuries were registered in 2018.

In 2018, 129 OSH and FP inspections were conducted in Pražská plynárenská, a.s. These concerned compliance with safety and fire conditions in the workplaces and all other premises as well as all the roads within the premises of the PP, a.s. Group. The deficiencies stated in the conclusions of the inspection protocols were remedied in time and measures were adopted to ensure that they would not recur.

Inspections from the state professional supervision of the Regional Labour Inspectorate, Fire Rescue Service of the Czech Republic, and SIBP UNIOS were not conducted in PP, a.s. in 2018. The Regional Hygiene Station of the Capital City of Prague supervised observance of the

conditions of labour categorisation and no deficiencies were found and no reminders were made. The supervisory authorities stated a high level of organisation in the area of OSH and FP, both in terms of systemic processing and practical implementation.

Risk management

Pražská plynárenská, a.s., maintains a comprehensive risk management system. It includes the identification of risks at all levels, the regular assessment thereof, and ensuring timely responses from the Company targeted at eliminating risk exposure. Risk management also includes insurance strategy, particularly property insurance and liability of the Company for damage caused to third parties.

Pražská plynárenská, a.s., applies multi-stage internal assurance services where the individual supervisory positions are subordinated to the Company Management or act at the same level as the Company Management as an autonomous body. The spheres of influence of the individual executors include financial controlling, occupational safety and health, IT security, legal issues, and risk management and compliance, whereas these functions are components of the so-called second line of defence. The third level is the internal audit department, which is directly subordinate to the Chairman of the Board of Directors of Pražská plynárenská, a.s. The Internal Audit Department is simultaneously liable to the Audit Committee, which is an autonomous body that operates outside the organisational structure of PP, a.s.

The Internal Audit Department acts in compliance with the tasks assigned to it by the Board of Directors of PP, a.s. In particular it investigates and processes individual internal audits, which it presents to the Company Management of PP, a.s., for approval and implementation of the ascertained remedial measures. Within the scope of this activity, the Company also uses the comprehensive audit universe, which assesses the gravity of the individual audit suggestions. The internal audit also fulfils the function of corporate and criminal compliance. Employees can anonymously report any matter of investigation via the ethics line should they have suspicions of conduct that does not comply with internal acts of management or the Company's internal Code of Ethics.

Pražská plynárenská, a.s., has adopted the Trader's Code of Ethics and thus voluntarily accepts the policies declared by the ERO. The body responsible for compliance of the Company with this Trader's Code of Ethics is also the Internal Audit Department.

Components of the Trader's Code of Ethics are also the contact data allowing the submission of suggestions for investigation. Information relating to the above is published on the website of Pražská plynárenská, a.s.

Information about research or development of new products or procedures in the current accounting period

Pražská plynárenská, a.s., did not engage in any research or development of new products or procedures.

Report on the Business Activities of the Pražská plynárenská, a.s. Group

The information in this section applies to the consolidated financial statements provided unless stated otherwise. The consolidated financial statements were processed according to the IFRS in the form adopted by the EU.

The average CZK/EUR exchange rate for 2018 was CZK 25.643/EUR 1, and this value is used to convert all data in the tables (also for the preceding years).

Information about operations and financial position

The Pražská plynárenská, a.s. Group, ('PP, a.s. Group' or 'Group') comprises the parent Company Pražská plynárenská, a.s., and all its subsidiary companies:

- Pražská plynárenská Distribuce, a.s., Member of the Pražská plynárenská, a.s. Group, ('PPD, a.s.'),
- Pražská plynárenská 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, a.s.'),
- Informační služby - energetika, a.s. ('ISE, a.s.').

The Group's major scope of business is the sale and distribution of natural gas and sale of electricity.

Other Group business activities are:

- Building construction and maintenance, service and repair of gas equipment;
- Provision of services in the field of research into the cause of natural gas losses, measuring and metrology in the gas industry;
- Generation and distribution of energy;
- Provision of services related to information technologies and the purchase and sale of hardware and software;
- Rendering services relating to the management and maintenance of movable and immovable property.

Pre-tax consolidated profit/loss

	Actual situation	Actual situation	Comparison of facts
	2018	2017	2018/2017
Consolidated profit/loss (in millions of CZK)			
Operating economic result	1,295.7	2,235.1	-939.4
Financial result	-16.4	-163.1	146.7
Total profit/loss	1,279.3	2,072.0	-792.7

	Actual situation	Actual situation	Comparison of facts
	2018	2017	2018/2017
Consolidated profit/loss (in millions of EUR)			
Operating economic result	50.5	87.2	-36.7
Financial result	-0.6	-6.4	5.8
Total profit/loss	49.9	80.8	-30.9

	Actual situation	Actual situation	Comparison of facts
Consolidated revenues (in millions of CZK)	2018	2017	2018/2017
Total operating revenues	12,509.6	12,625.1	-115.5
<i>of which: revenues from natural gas sales and distribution*</i>	10,788.4	11,208.1	-419.7
<i>electric power sales*</i>	1,333.8	1,131.9	201.9
Financial revenues	202.5	124.9	77.6
Total revenues	12,712.1	12,750.0	-37.9

	Actual situation	Actual situation	Comparison of facts
Consolidated revenues (in millions of EUR)	2018	2017	2018/2017
Total operating revenues	487.8	492.3	-4.5
<i>of which: revenues from natural gas sales and distribution*</i>	420.7	437.1	-16.4
<i>electric power sales*</i>	52.0	44.1	7.9
Financial revenues	7.9	4.9	3.0
Total revenues	495.7	497.2	-1.5

*Licensing activities.

Consolidated costs

	Actual situation	Actual situation	Comparison of facts
Consolidated costs* (in millions of CZK)	2018	2017	2018/2017
Total operating costs	11,213.9	10,390.0	823.9
<i>of which: consumed gas costs**</i>	6,727.3	6,591.6	135.7
<i>electric power purchase costs**</i>	607.8	550.1	57.7
Financial costs	218.9	288.0	-69.1
Total costs	11,432.8	10,678.0	754.8

	Actual situation	Actual situation	Comparison of facts
Consolidated costs* (in millions of EUR)	2018	2017	2018/2017
Total operating costs	437.3	405.2	32.1
<i>of which: consumed gas costs**</i>	262.3	257.1	5.2
<i>electric power purchase costs**</i>	23.7	21.5	2.2
Financial costs	8.5	11.2	-2.7
Total costs	445.8	416.4	29.4

*Excluding income tax on current operations.

**Licensed activities without the distribution charge.

Financial situation

The Group covers its financial needs from its own sources and through borrowing from financing banks. The available funds are centralised within the scope of cash pooling, which allows for the optimisation and simplification of Group financial management. This mainly makes it possible to reduce debts to banks and thus save on interest costs.

In June 2017, the Company issued bonds with a total nominal value of CZK 400 million with a maturity of 3 years and a coupon with a fixed interest rate of 0.90% p.a. The bonds were issued at a time of record low interest rates, and so the Company effectively secured long-term funding at a low interest rate.

In 2016 the financing of Pražská plynárenská, a.s. and PPD, a.s. was restructured by utilising the situation on the financial markets, resulting in significant savings on interest costs for PP, a.s., and securing long-term external funding in the form of bonds issued by PPD, a.s. with a maturity until 2023.

PP, a.s., has negotiated contractual short-term financing in a total volume of CZK 4.6 billion and long-term financing in the amount of CZK 0.4 billion. KČ. PPD, a.s., issued bonds in 2016 in the total nominal value of CZK 2.7 billion with a maturity of 7 years and a coupon with a fixed interest yield of 0.70% p.a.

Short-term and long-term external funding in the form of bond issuances are fully funded by Československá obchodní banka, a.s., and Česká spořitelna, a.s.

Research and development activities

None of the member companies of the PP, a.s. Group engaged in any research or development of new products or procedures.

Corporate social responsibility

The PP, a.s. Group is aware of its responsibilities not only to its business operations and the services that it provides to its customers but also to society as a whole. This applies mainly to the environment, to infrastructure, and to cultural and social life.

Thus, in addition to its strictly business activities, the PP, a.s. Group is also focused on supporting projects and entities in these areas. Thus in addition to long-term projects, which the Group prefers and carefully chooses, it also engages in short-term or long-term projects where prudent. The employees of Pražská plynárenská, a.s., also participate in charity activities and development projects of all kinds.

The PP, a.s. Group strives for sustainable development, environmental protection, and the alleviation of any impacts of the Group's activities on its surroundings.

Group employees take care of the good reputation of the PP, a.s. Group, and develop it. They comply with legal regulations and do not overlook irregular conduct. They respect business partners and their colleagues. In all its activities, the Group declares its commitment to ethical and unimpeachable conduct and respect for human rights, the minimum adopted internal standards of which are expressed in the Code of Ethics. The PP, a.s. Group companies are aware of the gravity of the problem of corrupt conduct, and it is for this reason that they have adopted a set of measures that should minimise any eventual risks. Employees undergo periodic training and may utilise the whistleblowing

programme - that is, contact the compliance manager personally, or submitting suggestions anonymously through the ethics line.

At the same time, Pražská plynárenská, a.s., has adopted the Trader's Code of Ethics based on the 'Specimen code of ethics of the electricity or gas trader' issued by the Energy Regulatory Office. The Trader's Code of Ethics is published on the Company website, where contact information is also provided which the general public can use to contact the Company should there be any suspicions of conduct that does not comply with this code. Objective and unbiased investigations are ensured in the course of any internal audit of Pražská plynárenská, a.s.

Environment

The policies and objectives as regards the environmental are included in the processes and decisions of Pražská plynárenská, a.s., and all the Group member companies.

For example, in 2018 PPSD, a.s., which provides comprehensive services in the area of building construction and service and repairs and maintenance of all gas facilities, retained its ISO 14001 Certificate, which specifies the requirements of its environmental management system.

During 2018, the operations of the Group did not result in a penalties from the state administration authorities, not even in an extraordinary situation that could have a negative impact on the environment.

Human resources management

HR work and the social field

As at 31 December 2018 the Group employed a total of 902 people.

In social affairs, emphasis was put on preventive medical care. Employees underwent regular medical examinations according to their occupations. All employees were offered vaccinations against influenza, and some groups of employees were also offered vaccinations against viral hepatitis types A and B

Group employees who were assigned to the 'talents' group based on the development centre will participate in a year-long development programme with the objective, among other things, of motivating, stabilising, and supporting their perception of new development opportunities and directions, as well as strengthening loyalty. Through team building activities and informal meetings, cooperation between employees was supported across the Group. Continuing development was also encouraged among a group of management employees who accomplished a similar programme in 2017.

To maintain relations with employees on maternity and parental leave, the Company operates a web portal that is partially connected to the Intranet and provides these employees with useful information.

Collective bargaining

The labour law, wage, and other entitlements of the employees of the Group were fulfilled in compliance with the Collective Agreement in force from 1 January 2017 to 31 January 2019. In the area of labour law relations, employees were, for example, given leave that was one week longer than the period stipulated under the Labour Code and were able to utilise the plant catering services. Employees are also offered cafeteria-type benefits (according to the applicable Collective Agreement).

Occupational safety and health, fire protection

Occupational safety and health and fire protection in Pražská plynárenská, a.s., corresponds with the occupational health and safety and fire protection in all the Group companies.

Risk management

The Group companies have an established risk management system. It includes the identification of risks at all levels of management and the evaluation thereof, thus ensuring timely responses targeted at eliminating risk exposures. An integral part of risk management is also the insurance strategy, which covers the assets and liabilities of the Group companies in risky situations.

Pražská plynárenská, a.s., applies multi-stage internal assurance services in the Group, where the individual supervisory positions are subordinated to the Company Management or act at the same level as the Company Management as an autonomous body. The spheres of influence of the individual executors include financial controlling, occupational safety and health, IT security, legal issues, and risk management and compliance, whereas these functions are components of the so-called second line of defence. The third level is the internal audit department, which is directly subordinate to the Chairman of the Board of Directors of Pražská plynárenská, a.s. The Internal Audit Department is simultaneously liable to the Audit Committee of Pražské plynárenské, a.s., which is an autonomous body that operates outside the organisational structure of Pražské plynárenské, a.s.

The Internal Audit Department acts in compliance with the tasks assigned to it by the Board of Directors of PP, a.s. In particular it investigates and processes individual internal audits, which it presents to the Company Management of PP, a.s., for approval and implementation of the ascertained remedial measures. Within the scope of this activity, the Company also uses the comprehensive audit universe, which assesses the gravity of the individual audit suggestions. The internal audit also fulfils the function of corporate and criminal compliance. Group employees can anonymously report any matter of investigation via the ethics line should they have suspicions of conduct that does not comply with the internal acts of management or the Company's adopted internal Code of Ethics.

The system for ensuring occupational safety and health as well as fire protection is an integral and significant component of the management of the Pražská plynárenská, a.s. Group. Due to the consistent application and observance of legislative and other requirements when giving information to and training employees, as well as to the preventive actions and inspections of the premises and workplaces of the Group, the undesirable impacts of occupational activities on the health and safety of employees are being eliminated or minimised.

In 2018, the Group underwent 64 OSH and FP audits and 6 occupational injuries were registered.

Inspections from the state professional supervision of the Regional Labour Inspectorate, Fire Rescue Service of the Czech Republic, and SIBP UNIOS were not conducted in the PP, a.s. Group in 2018. Nevertheless, consultations on issues concerning the operations of the Company in the competency of supervision by the above-stated bodies were held at various meetings and negotiations.

The Regional Hygiene Station of the Capital City of Prague supervised observance of the conditions of labour categorisation in the individual Group companies and no deficiencies were found and no reminders were made.

Pražská plynárenská, a.s., has adopted the Trader's Code of Ethics and thus voluntarily accepts the policies declared by the ERO. The body responsible for compliance of the Company with this Trader's Code of Ethics is also the Internal Audit Department.

Components of the Trader's Code of Ethics are also the contact data allowing the submission of suggestions for investigation. Information relating to the above is published on the website of Pražská plynárenská, a.s.

Financial risks

There is a credit risk arising to the Group as a consequence of business conducted with VO, SO, and MODOM customers. These business relations with large-scale customers are evaluated according to fulfilment of the contractual conditions. The primary indicator of riskiness is non-observance of the payment conditions and duration of payment delay. The renewal of contractual relationships particularly in the case of traders with end customers is assessed according to historical experience and also on the basis of continuous personal meetings with these subjects. Cash collection from customers for natural gas sold is encouraged partly by the system of advance payments and partly by the claims collection process.

The goal for liquidity risk management is to keep a balance between financing operating activities and financial flexibility to meet trade payables and liabilities to creditors of the Group on time. Management of the Group minimises liquidity risk (i.e. the risk of a lack of cash to pay liabilities) by continuous ongoing management and planning of future cash flows. Based on this 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 market positions are important for cautious management of liquidity risk.

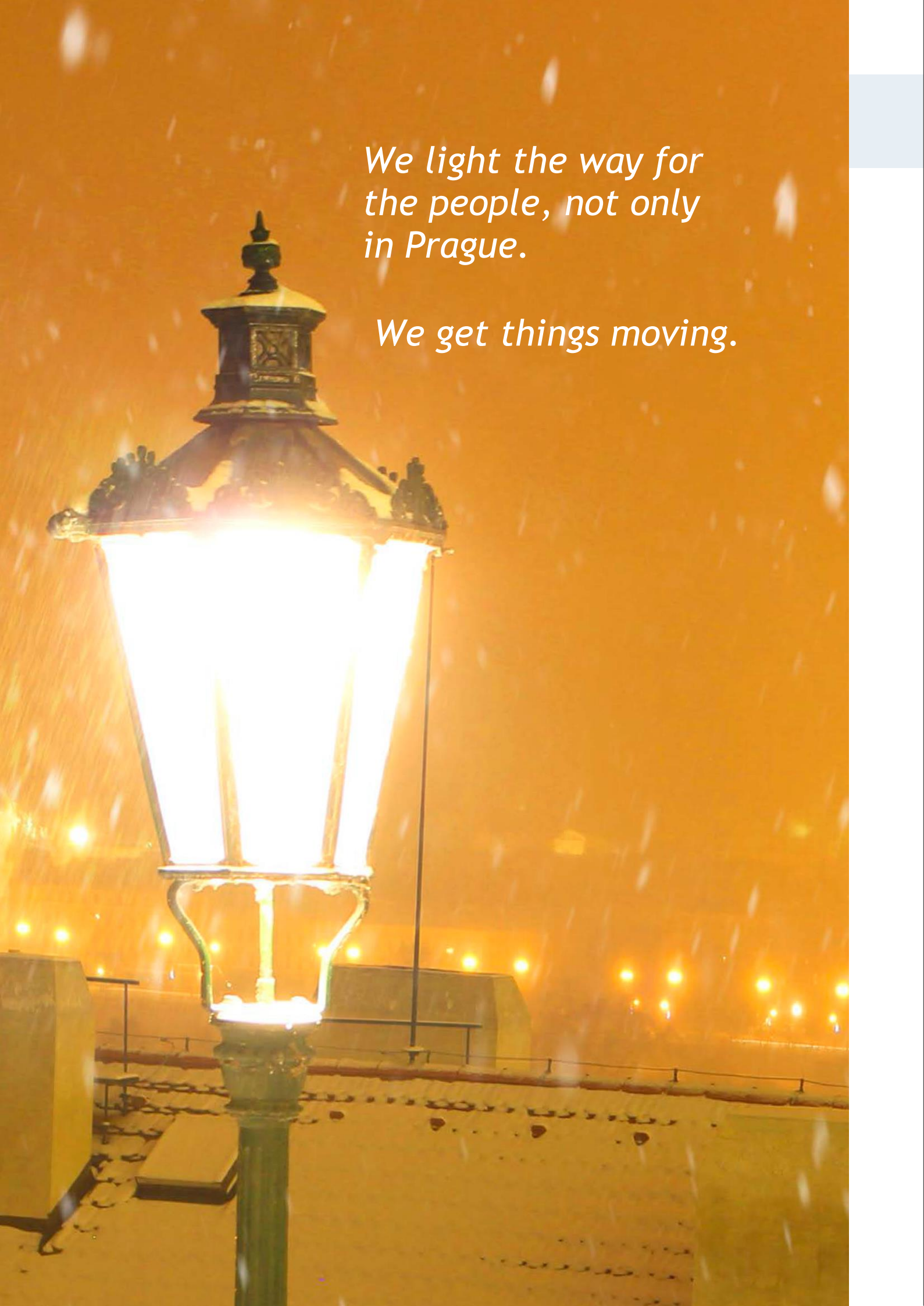
The goal of interest rate risk management is to eliminate risk emerging from interest rate fluctuations of interest-bearing financial liabilities and receivables using an appropriate structure.

Movements in exchange rates represent a risk due to the fact that the Group purchases part of its gas in foreign currencies. The choice of currency for realised purchases for forward purchases is fully dependent on the overall commercial conditions offered. 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 for all transactions that have different purchase and selling currencies. The Group actively manages this risk through monitoring foreign exchange developments, and through the management of commodity purchases in foreign currency it hedges itself against long-term currency risk.

Information on organisational units abroad

None of the Group companies had organisational units abroad as at 31 December 2018.

A close-up, low-angle shot of a traditional, ornate street lamp. The lamp is illuminated, casting a warm, golden glow. It has a multi-paned glass enclosure and a decorative metal frame. The background is a snowy night scene with falling snow visible as white streaks. In the distance, other streetlights and a building are visible through the snow. The overall atmosphere is serene and wintry.

*We light the way for
the people, not only
in Prague.*

We get things moving.

Important events at the beginning of 2019

Pražská plynárenská, a.s., successfully defended its prestigious Czech Business Superbrands title in 2019.

On 1 March 2019, the sole shareholder of the Company, on behalf of the General Assembly, decided to recall Members of the Supervisory Board of Pražská plynárenská, a.s., Ing. Michal Hašek; Bc. Martin Čáslavka; Mgr. Luboš Koželuh, MBA; Mr. Radomír Nepil; RNDr. Marcela Plesníková; and JUDr. Štěpán Stupčuk. Effective 2 March 2019, Mgr. Reda Ifrah; Mr. Ivo Kramoliš; Mgr. Václav Kučera; Mgr. Jindřich Lechovský; Mr. Matěj Turek, CFA; and Ing. Lukáš Wagenknecht were elected to the vacant positions.

In the first half of Q1 2019, the Company acquired a stake in MONTSERVIS PRAHA, a.s., which is mainly engaged in the construction and reconstruction of housing block and household boiler facilities as well as the management and operation of power facilities. Acquisition of this company will make it possible for the PP, a.s. Group to continue its development in the fields of generation and distribution of thermal energy, construction of thermal energy sources, and related energy services.

Expected Group development

Even in the coming period, intensive market competition will continue in the area of sales of electricity and gas. The purchase prices of electricity and natural gas will continue to play a major role. However, the volatility of the prices of both commodities is often impacted by conflicting influences. The rise in the prices of emission allowances, crude oil, and coal, as well as the shut-down of conventional sources in France and Germany, will significantly affect commodity prices. The awareness of customers of the possibilities of price arbitration is progressively growing, and emphasis on negotiated conditions is strengthening.

These factors will increase pressure on individual traders and will create new challenges for management of the purchasing positions of both energies and achievement of the expected business results.

Trade in energies in the coming year will continue to be an object of interest of the state administration authorities, lawmakers, and regulatory authorities. Pražská plynárenská, a.s., expects new legislative regulations, an effort to at least partially regulate the free market, further deepening consumer protections and also increasing pressure to ensure the availability and reliability of deliveries. Uncertainty about future developments may result in stricter regulation of the wholesale market in order to ensure the bargain prices of both energies for all customers.

A new amendment to the Energy Act was submitted in 2018. The changes proposed in this amendment will, in future years, have a major impact on the business operations of energy suppliers.

The objective of the proposed changes is mainly to strengthen the position of the consumer in the contractual relationship.

Interest continues to rise in the use of energy from RES, increasing the cleanliness of the atmosphere and reducing emissions of greenhouse gases. An ever-increasing number of companies, as well as many individuals, want to express their attitude to the environment through their purchase of energy from RES. There is also rising customer interest in generating their own electricity and related, at least partial, energy self-sufficiency. For this reason, PP, a.s., in cooperation with its partners, will continue to develop this area of services and products, such as installation of photovoltaic power plants, heat pumps, etc.

As is clear from market research, customers evaluate the quality of their suppliers mainly according to their online communication capabilities, the option to submit requests electronically, the complexity of the contractual documentation, and the clarity of the billing. For this reason, in 2019 Pražská plynárenská, a.s., will review its internal processes with the goal digitalising them to the greatest possible extent. The objective of PP, a.s., is to simplify and speed up the provision of services to

customers while at the same time maintaining the highest possible standards of quality and customer comfort. The Pražská plynárenská, a.s. Group will continue to support the development of clean mobility and will gradually expand its offer of alternative fuels and technologies building on the National Action Plan for Clean Mobility approved by the Government of the Czech Republic in November 2015 and in compliance with the Smart Prague Project.

Pražská plynárenská, a.s., will, as a major municipal company, continue to actively support and propose steps to improve the environment in Prague, which is afflicted by a high traffic and emission load. In cooperation with the municipal companies, it will continue to implement ecological and economical measures in the area of vehicle fleet operations with particular focus on CNG vehicles. It will offer natural gas for public buses, post vehicles, taxi vehicles, police vehicles, waste collection vehicles, vehicles for street cleaning, and supply vehicles in the territory of Prague. PP, a.s., is also gradually expanding its cooperation in the use of CNG vehicles in the private sector.

The main target of PPD, a.s., in the area of managing and operating distribution systems in Prague is still ensuring the reliable and safe operation of gas facilities. Emphasis will be placed mainly on the rehabilitation and recovery of gas equipment and measuring equipment. The year just ended was another year of dynamic changes targeted at the long-term transformation of the entire Group and the European energy industry as a whole. It was the third year of the 4th regulatory period, a five-year stretch that ends in 2020. Many major changes in Czech legislation were in-process, including the Energy Act and the Act on Supported Sources of Energy. In the European Union, many regulations were gradually discussed and passed in 2018 comprising the 'winter energy package', which lays out new rules, particularly for electric power industry. These rules will be the basis for a subsequent gas industry package, which should set the new framework for the gas industry in 2020. In 2019, preparation will begin for the policies for price regulations in the 5th regulatory period. The Company wants to be involved very actively in the formulation of these policies and will aim to maintain the pro-investment configuration of regulation. From the viewpoint of long-term maintenance of the security and reliability of the gas network in the territory of the Capital City of Prague, this objective is fundamental.

The primary goal of PPSD, a.s., for 2019 is to offer and provide comprehensive, high-quality, and professional services within the framework of safe and reliable operations of the distribution network for its most significant customer, which is PPD, a.s. A further goal will then be the growth and development of services for customers outside the PP, a.s. Group, with maximum emphasis on the application of new technologies and the professional qualifications of all personnel resources.

Additional objectives of the Group include intensive growth and development in the field of the sale of heat energy and co-generation of electricity and heat. The decisive factor for the fulfilment of this goal is the intensity of the growth of the portfolio of operated resources, the ratio of which mainly depends on the plan of investments and assumed acquisition activity. Great emphasis will be placed on the development of energy consultancy services and the implementation of new technologies - solar power generation, water heating, heat pumps, etc.

In 2019, stable development of the financial situation in the Group is expected. The group has secured short-term external funding in the amount of CZK 4.6 billion from a consortium of banks (Československá obchodní banka, a.s., and Česká spořitelna, a.s.). The long-term sources of external funding are the re-issuance of the PPD, a.s., bonds from November 2016 and the PP, a.s., bonds from June 2017. It is expected that the drawing of external funds will be minimal due to the current financial position of the PP, a.s. Group. In 2019, short-term financing will be renewed and a new structure of this funding will be contractually secured up to 2023.

Also in 2019, Pražská plynárenská, a.s., will devote intensive attention to the topic of all-Group compliance. This is an area that is very lively in the legal and corporate environment, and one that is also developing quickly thanks to case law. The PP, a.s. Group intends to respond to this trend and continue to develop the current compliance concept. An all-Group regulation will be issued institutionally that will act as an umbrella for the issue, set the primary policies, and define responsibilities. At the same time, the practical part of carrying out compliance will also be strengthened by preparations of additional e-learning courses.



*We supply energy to
415,000 consumption
points.*

We get things moving.

Financial Section

- Individual Financial Statements for the year ended 31 December 2018
compiled according to the International Financial Reporting Standards (IFRS) in the format accepted by the European Union
- Notes on the Individual Financial Statements for the year ended 31 December 2018
compiled according to the International Financial Reporting Standards (IFRS) in the format accepted by the European Union
- Consolidated Financial Statements for the year ended 31 December 2018
compiled according to the International Financial Reporting Standards (IFRS) in the format accepted by the European Union
- Notes on the Consolidated Financial Statements for the year ended 31 December 2018
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*We take care to ensure that
your children get the best
care.*

We get things movin



Individual Financial Statements

Statement of financial position as at 31 December 2018

Compiled in compliance with the IFRS in the wording adopted by the EU

(in thousands of CZK)	Note:	31/12/2018	31/12/2017	1/1/2017
ASSETS				
Fixed assets				
Land, buildings, and equipment	7.1	890,342	874,457	891,325
Intangible assets	7.2	73,939	53,943	65,667
Investments in subsidiaries	7.3	1,336,002	1,336,002	1,336,002
Deferred tax receivable	7.12	0	18,274	16,673
Other fixed assets		120	98	95
Total fixed assets		2,300,403	2,282,774	2,309,762
Short-term assets				
Inventories	7.4	891,850	796,289	800,118
Trade and other receivables	7.5	2,071,171	2,039,395	2,173,803
Cash and cash equivalents	7.6	1,476,852	1,325,543	107,923
Other assets		164,393	140,419	51,039
Paid income tax advance	7.13	123,210	236	0
Total short-term assets		4,727,476	4,301,882	3,132,883
TOTAL ASSETS		7,027,879	6,584,656	5,442,645
EQUITY AND LIABILITIES				
Equity capital				
Registered capital	7.7	431,972	431,972	431,972
Retained earnings		2,079,583	1,965,628	1,258,669
Total share capital		2,511,555	2,397,600	1,690,641
Long-term liabilities				
Trade liabilities and other long-term liabilities		632	436	541
Bonds	7.11	400,526	399,574	0
Deferred tax liability	7.12	25,110	0	0
Total long-term liabilities		426,268	400,010	541
Short-term liabilities				
Trade payables and advances received	7.9 + 7.10	2,731,244	2,391,285	2,545,083
Bank loans	7.11	0	0	40,794
Other liabilities	7.9	1,029,305	1,241,009	1,038,679
Due income tax	7.13	0	0	34,784
Other tax liabilities	7.13	85,480	88,493	75,235
Provisions	7.14	244,027	66,259	16,888
Total short-term liabilities		4,090,056	3,787,046	3,751,463
TOTAL EQUITY AND LIABILITIES		7,027,879	6,584,656	5,442,645

Statement of comprehensive income for the year ended 31 December 2018

Compiled in compliance with the IFRS in the wording adopted by the EU

(in thousands of CZK)	Note:	2018	2017
Sales	7.15	11,894,853	12,023,842
Purchased gas, electricity, materials, and services connected with gas and electricity supplies	7.16	10,338,638	9,851,706
Other operating income	7.17	390,447	357,099
Personnel costs	7.18	353,128	326,072
Amortisation of intangible and tangible fixed assets	7.19	89,177	109,637
Other operating costs	7.20	715,522	521,381
Operating profit/loss		788,835	1,572,145
Financial costs	7.21	199,032	261,149
Financial revenues	7.22	205,773	125,647
Financial profit/loss		6,741	-135,502
Pre-tax profit		795,576	1,436,643
Income tax	7.23	161,621	209,684
Profit/loss after tax for the period		633,955	1,226,959
Total comprehensive income		633,955	1,226,959

Statement of changes in equity for the year ended 31 December 2018

Compiled in compliance with the IFRS in the wording adopted by the EU

(in thousands of CZK)	Registered capital	Retained earnings	Total
Note	7.7		
Position as at 1 January 2017	431,972	1,258,669	1,690,641
Profit/loss after tax for the period	0	1,226,959	1,226,959
Total comprehensive income	0	1,226,959	1,226,959
Transactions with owners of the Company:			
Dividends paid	0	-520,000	-520,000
Position as at 31 December 2017	431,972	1,965,628	2,397,600
Profit/loss after tax for the period	0	633,955	633,955
Total comprehensive income	0	633,955	633,955
Transactions with owners of the Company:			
Dividends paid	0	-520,000	-520,000
Balance as at 31 December 2018	431,972	2,079,583	2,511,555

Cash flow statement for the year ended 31 December 2018

Compiled in compliance with the IFRS in the wording adopted by the EU

(in thousands of CZK)	2018	2017
Pre-tax profit	795,576	1,436,643
Adjustments to profit before tax	-84,973	-89,858
Depreciation of fixed assets	89,177	109,637
Write-offs of receivables	119,270	31,604
Change in the position of adjustments and reserves	102,262	33,527
Profit from sales of fixed assets	-2,277	-928
Net interest	1,065	2,757
Revenues from dividends and profit shares	-345,942	-330,853
Other non-cash movements (revaluation of derivatives)	-48,528	64,398
Net cash flows from operations before tax and changes in working capital	710,603	1,346,785
Change in working capital needs	132,812	-120,047
Changes in the position of receivables from operations	-100,863	29,914
Change in liabilities from operations	329,236	-153,790
Movement in inventories (gross)	-95,561	3,829
Net cash flow from operations before tax	843,415	1,226,738
Interest paid	-14,665	-2,591
Interest received	15,780	1,652
Income tax on current activities and additional tax paid minus tax refunds	-241,838	-246,331
Net cash flow from operations	602,692	979,468
Acquisition cost of fixed assets	-125,145	-82,236
Revenues from sales of fixed assets	3,155	1,096
Shares of profit received (+)	345,942	330,853
Loan repayments	-23	-35
Net cash flow from investments	223,929	249,678
Revenue from long-term liabilities	304	103
Payment of long-term liabilities	-108	-208
Bond yields	0	398,192
Repayment of short-term bank loans*	0	-40,794
Change in the position of the loan from the parent and subsidiary companies*	-155,508	151,181
Dividends paid	-520,000	-520,000
Net cash flows from financing activities	-675,312	-11,526
Balance of cash and cash equivalents at beginning of accounting period	1,325,543	107,923
Net change in cash and cash equivalents for the accounting period	151,309	1,217,620
Balance of cash and cash equivalents at end of accounting period	1,476,852	1,325,543

* Cash flows from a loan from the parent company PPH and its subsidiary companies and short-term bank loans are reported as net because they constitute cash income and payments with quick turnover and short-term maturity.

Notes on the Financial Statements

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

Pražská plynárenská, a.s., (hereinafter referred to as the 'Company') was incorporated on 31 December 1993 and has its registered office at the address Prague 1 - Nové Město, Národní 37/38, Post Code 110 00, Czech Republic.

The Company's ID number is 601 93 492. The LEI of the Company is 315700QBYOTLGRRM0011.

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

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, the Company Management believes that it has sufficient financial capacity to continue its business for at least 12 months from the date of the signing of these financial statements.

2. Rules for compilation of the financial statements

Declaration of Conformity

These independent financial statements (hereinafter also referred to as the 'financial statements') were compiled in compliance with the International Financial Reporting Standards (IFRS) in the wording adopted by the European Union (EU) and provide a fair and true picture of the Company's financial position as at 31 December 2018, including its profit/loss and cash flows for the year ended 31 December 2018.

The financial reports, excluding the cash flow statement, are prepared on the accrual accounting basis.

The overview of the financial procedures applied is given in Note 4.

These financial statements were approved by the statutory body on 19 March 2019.

In the compilation of the financial statements, the Company used the standards and interpretations that should mandatorily be applied to the period beginning on 1 January 2018.

First adoption of the IFRS

These financial statements are the first financial statements of the Company to be compiled according to the IFRS. The reason for the application of the IFRS is the acceptance of bonds issued by the Company for trading on the Prague Stock Exchange (Burza cenných papírů Praha, a. s.), whereas the date of transition is 1 January 2017.

1.1. Major shareholders of the Company

The sole shareholder controlling the Company as at 31 December 2018 and 31 December 2017 and 1 January 2017, is Pražská plynárenská Holding a.s. ('PPH a.s.'), which is the final parent company controlled by the Capital City of Prague

Based on the IFRS 1 requirements, the Company, in the preparation of the first financial statements according to the IFRS, applied the accounting rules in force as at 31 December 2018 to the current and comparative accounting period.

Obligatory exemptions from the rule of full retrospective application:

- Estimates

IFRS 1 requires the estimate as at 1 January 2017 and 31 December 2017 in the financial statements according to the IFRS to be identical to the estimates in the financial statements compiled according to the initial reporting framework.

The Company compiles the consolidated financial statements for the Pražská plynárenská, a.s. Group according to the IFRS. For compilation of the independent financial statements, the Company adopted the financial values of the assets and liabilities from the consolidated financial statements. The Company did not utilise any other optional exemptions from the rule of retrospective application.

The following reconciliation of equity capital as at 1 January 2017 and 31 December 2017 and reconciliation of the full profit/loss for the accounting period ended 31 December 2017 provides the quantification effect of the transition from the Czech Accounting Standards to the IFRS.

Reconciliation of equity capital

(in thousands of CZK)	1 January 2017	31 December 2017
Total equity capital according to Czech accounting legislation	5,009,169	6,049,839
Investments in subsidiaries	-3,335,003	-3,747,258
Impact of application of IFRS 9 and IFRS 15	18,270	97,321
Other	-1,795	-2,302
Total equity capital according to IFRS	1,690,641	2,397,600

Reconciliation of the full profit/loss

(in thousands of CZK)	2017
Profit/loss according to Czech accounting legislation	1,186,740
Profit shares paid to the Company Management, allocations to funds	-37,500
Impact of application of IFRS 9 and IFRS 15	79,051
Other	-1,332
Full profit/loss according to IFRS	1,226,959

The major regulations upon transition from the Czech Accounting Standards to the IFRS relate to the following items:

a) Investments in subsidiaries

In the financial statements according to the Czech Accounting Standards, investments in subsidiary and affiliated companies are valued using the equivalence method, that is, as a ratio of the equity capital of these companies. In the financial statements according to the IFRS, investments in subsidiary companies are valued at historical prices adjusted by the cumulated losses from debasement.

b) Impact of application of IFRS 9 and IFRS 15

On the basis of the performed analyses, the Company processed the impacts of IFRS 9 on the current and comparable information as at 31 December 2017 and as at 1 January 2017. As at 31 December 2018, 31 December 2017, and 1 January 2017, the Company reported provisions for financial assets taking into consideration the anticipated credit losses for all financial assets taking into consideration the expected economic development and development of unemployment based on historical experience. The equity capital was appropriately lowered as at 31 December 2017 by CZK 14,032,000 and as at 1 January 2017 by CZK 14,886,000.

On the basis of the performed analyses, the Company reflected the impacts of IFRS 15 on the current and comparable information as at 31 December 2017 and as at 1 January 2017. Discounts/bonuses provided to customers are accrued for the duration of the given contracts after 1 January 2018 and 1 January 2017, and the value of the equity capital is accordingly raised as at 31 December 2017 by CZK 60,147,000 and as at 1 January 2017 by CZK 23,471,000.

As at 31 December 2017 and 1 January 2017, the Company further capitalises the time-specific part of the commission paid to business representatives and mediators for acquiring customers, which were reported in the income statement prior to these dates and apply to contracts with customers in force after 1 January 2017. These capitalised costs are depreciated for the duration of the individual contracts. The equity capital was appropriately raised as at 31 December 2017 by CZK 51,206,000 and as at 1 January 2017 by CZK 9,985,000.

c) Profit shares paid to Company Management, allocations to funds

In the financial statements according to the Czech Accounting Standards, the shares of profits paid to the Company Management and allocations to funds are paid from the after-tax profit. In the financial statements according to the IFRS, the shares of the profit paid to the Company Management and allocations to funds are reported as losses in the total comprehensive income for the given period.

3. Application of new and amended International Financial Reporting Standards (IFRS)

3.1. Newly issued standards, amendments to the standards, and their interpretations, which are still ineffective and were not applied prematurely by the Company

The following standards, amendments to the standards, and interpretations, which may have a significant impact on the financial statements of the Company, will be mandatory for the future accounting periods according to the data given below depending on their approval by the European Union.

- IFRS 16, Leases (approved by the European Union, effective for periods beginning 1 January 2019).

The new IFRS 16 fully replaces accounting requirements for leases according to IAS 17. Major changes mainly comprise the recognition of leases on the side of the lessee. IFRS 16 introduces a single lessee accounting model for recognition of all lease transactions. Lessees will be required to recognise an asset - the right to use an asset - on the balance sheet and report a lease liability against it. The requirements on the lessor side are more or less comparable with IAS 17.

The Company assumes that the new IFRS 16 will mainly impact the volume of reported fixed assets, long-term liabilities, depreciation, interest costs, and rental costs. The Company will continuously perform and analyse all the impacts of the new standard. The Company estimates that in consequence of this transition to the new standard, the volume of reported fixed assets and long-term liabilities will rise by an insignificant amount. Furthermore, the future income statement will be characterised by a rise in depreciation and interest costs as well as a reduction in rental costs.

Other new standards, amendments, interpretations, and improvement of existing standards that will be mandatory for future accounting periods will have an insignificant or no impact on the financial statements of the Company.

Valuation method

The financial statements were prepared on the basis of historical prices apart from the cases stated below.

Reporting and functional currency

These financial statements are presented in Czech crowns (CZK), which is the Company's current functional currency. The financial information reported in CZK was rounded up to whole thousands.

Accounting period

The accounting period for compilation of these financial statements is the period from 1 January 2018 to 31 December 2018. The Company's current accounting period is the calendar year ending 31 December.

Comparative period

For the purposes of the Statement of Financial Position, the comparative period chosen was the position as at 31 December 2017 and the position as at 1 January 2017; for the profit/loss, changes in equity capital, and statement of cash flows, results for the period from 1 January 2017 to 31 December 2017 were applied.

Use of estimates and value judgements

During the preparation of the financial statements according to the IFRS, the Company Management makes estimates and value judgements as well as assumptions, which impact the application of the accounting procedures and the reported volumes of assets and liabilities, revenues, and costs. The actual results may differ from these estimates.

The estimates and assumptions are reviewed continuously. The review of accounting estimates are taken into consideration in the period in which the given estimate was reviewed, and in all concerned future periods.

Information on the fundamental judgements during application of the accounting procedures, which have a more significant impact on the amounts reported in the financial statements, are stated in the following notes:

- Note 4.18.1 - Unbilled gas supplies,
- Note 4.18.2- Unbilled electricity.

4. Basic assumptions for preparation of the consolidated financial statements and significant accounting policies

The accounting procedures stated below were used consistently in all the accounting periods reported in these financial statements.

4.1. Intangible assets

4.1.1. Recognition and measurement

Separately acquired intangible assets are recognised at cost, less accumulated amortisation and impairment losses.

4.1.2. Amortisation

Intangible assets are amortised applying the straight-line method over their estimated useful lives as shown in the following table:

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

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

4.2. Land, buildings, and equipment

4.2.1. Recognition and measurement

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

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

The costs related to acquisition include direct costs incurred in the delivery and bringing of the assets into working condition, and the costs associated with dismantling, removing, or demolishing existing buildings and equipment.

The repair and maintenance costs of property, buildings, and equipment are recognised in the statement of comprehensive income in the period in which they occurred.

Subsequent expenditures are included at net book value or recognised as separate assets, if the Company may get financial gain in respect to this item and if the price of the item can be measured reliably.

4.2.2. Depreciation

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

Land owned by the Company is not depreciated.

always reviewed at the end of the accounting period and is stated in the table below:

Tangible asset category	Service life (number of years)
Buildings	50
Trucks	8
Passenger cars	4
Computer equipment	4
Inventories	2-8

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

Leased assets are depreciated for their assumed service life just like owned assets or over the period of the lease, if this period is shorter.

4.2.3. Disposals

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

4.2.4. Impairment

Upon each occurrence of events or changes that indicate or may result in the rise of the book value of land, buildings, or equipment as well as other non-financial assets including intangible assets to a value that exceeds their recoverable value, a review is done to determine whether the assets have been impaired. Tangible and intangible assets that are still not available for use are annually assessed to determine whether have been impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

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

4.3. Investments in subsidiaries

Subsidiaries are all companies controlled by the Company, that is, if it is exposed to variable revenues or it is entitled to them on the basis of its own involvement in the given unit and may influence these revenues due to its own powers and if it has power over the unit or has invested in it (i.e. if it has existing rights that form the basis for current capability to control the operations that significantly impact the revenues of such a unit).

Investments in subsidiaries are valued at acquisition price, less the impairment loss.

Transaction costs are capitalised as a component of the acquisition price. Transaction costs are costs directly related to the acquisition of the investments, such as legal fees, transfer taxes, and other acquisition-related costs.

Investments are adjusted by debasement any time there is a reason that the accounting value of the investments may not be realised. In the event the recoverable value of the investment is less than its book value, the book value is reduced to the recoverable value.

4.4. Inventories

Inventories are recognised at acquisition cost or recoverable value, whichever is lower. The acquisition cost of the inventories includes the acquisition price and expenses incurred in bringing inventories to their present condition and location.

The price of natural gas compressed into underground gas storage is determined on the basis of supplier invoices received for the given month. The price of stored gas is calculated under the allocation model based on the movement of gas in the storage facility and based on the invoices received for the given month, which is also the price of the extracted natural gas in the month following the given month.

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

4.5. Financial assets

The Company classifies its financial assets according to IFRS 9 into the following categories:

- financial assets at incurred cost (debt instruments),
- financial assets at fair value posted to profit or loss.

4.5.1. Financial liabilities at incurred cost

Classification of financial assets upon first entry depends on the characteristics of the contractual cash flows of the financial assets and the business model of the Company for their management.

The Company values the financial assets at incurred cost if both of the following conditions are fulfilled:

- the financial asset is held within the framework of the business model with the objective of holding the financial asset for the purpose of getting contractual cash flows, and
- the contractual conditions of the financial assets lead to the set data of the cash flows, which are exclusively repayments of the principal and interest on the outstanding principal.

Gains and losses from derecognition, modification, or impairment of assets are reported in the profit or loss.

The financial assets of the Company at incurred cost include the trade and other receivables, cash and cash equivalents, as well as other financial assets in the Statement of Financial Position.

The Company reports an adjusting entry for Expected Credit Losses (ECL) for all the financial assets at incurred cost.

In the case of trade receivables and contractual asserts, the Company in the calculation of ECL applies the simplified approach and reports adjusting entries in the amount of the full life ECL at each financial statements date. The Company created a matrix of adjusting entries, which is based on historical experience with credit losses and is adjusted by outlook information specific for the debtors and economic environment, which is the expected GDP growth and a change is expected in the unemployment rate.

The impairment loss is reported in the profit or loss. Unrecoverable trade receivables are depreciated contra the adjustment entries. The Company depreciates receivables after taking all legal steps associated with the collection or sale of debts. Subsequently, the paid amounts for receivables already written off are reported in the profit or loss.

The Company uses a three-level ECL. In the first reporting of the financial assets, if there is no evidence of failure, the Company assigns the financial assets to Level 1. If a significant increase in the credit risk has occurred since the date of first reporting, the Company will assign such a financial asset to Level 2.

If the financial asset fulfils the definition of failure, the Company transfers it to Level 3.

The Company considers potential failure as a situation in which it will not be able to collect all the outstanding amounts according to the initially negotiated conditions. The Company considers failure indicators to be major financial problems on the part of the debtor, the probability that the debtor will enter into bankruptcy or financial restructuring.

Application of the simplified approach using the impairment matrix

In the case of trade receivables without a significant financing element, the Company defines the volume of the adjusting entries according to the matrix. This matrix is based on the application of a reasonable degree of losses on unpaid trade receivable balances (i.e. age analysis of the receivables).

When determining the size of the adjusting entries by simplified procedure, the Company takes the following steps. The Company first divides its individual trade receivables into groups with characteristics similar to credit risk. In the second step, the Company sets a ratio of historical loss for each group with a similar credit risk. This ratio is determined for 3 consecutive accounting periods. At the next step, the Company determines the expected losses for each group of receivables, which is further divided into partial categories according to the number of days that they are overdue. At the last step, the Company will enumerate the adjusting entries on the basis of the current gross volume of trade receivables multiplied by the ratio of expected losses.

If the trade receivable is qualified as unrecoverable, a 100% adjusting entry is created for it. The creation of adjusting entries is posted to profit or loss.

4.5.2. Financial assets at fair value posted to profit or loss

Derivative financial instruments are, upon first posting, reported at fair value as at the date of negotiation of the contract and subsequently revalued at fair value. The method for reporting the final profit or loss depends on whether the given derivative is classified as a securing derivative or as a trade derivative.

The Company uses currency forwards to secure the expected cash flows and currency and price risks. The financial assets posted at fair value to the profit or loss are initially reported at fair value and subsequently valued at fair value. The unrealised profits and losses from the revaluation of financial assets at fair value, just like the realised profits and losses, are posted to profit or loss. All derivatives are classified as other assets if their fair value is positive, and as other liabilities if their fair value is negative. Changes in fair value are directly reported to profit or loss.

The Company's Treasury Department monitors the currency risk of the Company and the banks so as to ensure that this risk is as small as possible. Fair values are obtained from quoted market prices, discounted cash flow models, and option pricing models as appropriate.

4.6. Cash and cash equivalents

Cash and cash equivalents include cash on hand, call deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less that are held for the purpose of covering current liabilities.

4.7. Equity capital

4.7.1. Registered capital

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

4.7.2. Profit funds

Statutory reserve funds are created from the profit of the Company.

Usage of funds created from profit is in accordance with the Company's Articles of Incorporation.

4.8. Financial liabilities

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

Financial liabilities are classified according to the character of the contractual arrangements. Financial liabilities comprise mainly trade payables, short-term bank loans, overdraft accounts, loans and credit from the parent company, and other liabilities.

Short-term trade liabilities and other financial liabilities, excluding liabilities at fair value reported in the profit or loss, are initially reported at fair value and subsequently valued at book value using the effective interest rate method.

4.8.1. Financial liabilities posted at fair value to the

profit or loss

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

Derivatives are the only type of financial liabilities recognised at fair value through gain or loss of the Company.

4.8.2. Other financial liabilities

Other financial liabilities are initially recognised at fair value and subsequently measured at incurred cost discounted at the effective interest rate. The portion of non-current liabilities with contracted maturity within one year are classified in short-term liabilities.

4.8.3. Trade payables

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

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

Trade payables are initially recognised at fair value and subsequently measured at incurred cost discounted at the effective interest rate.

4.9. Unbilled supplies and advances received

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

4.10. Bank loans

Loans and financial aid are initially recognised at fair value, which is equal to the fair value of the received performance, less the costs related to the provision of a loan or financial aid. Interest-bearing bank loans and other short-term financial borrowings are subsequently recognised at incurred cost considering the materiality principle and using the effective interest rate method. Any difference between proceeds (less transaction costs incurred) and redemption value is recognised in profit or loss over the period of the loan using the effective interest rate method. Borrowing costs related to a particular asset are capitalised into the acquisition costs of the asset.

4.10.1. Lending costs

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

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

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

4.11. Bonds

The Company initially recognises the issued debt securities and subordinate liabilities at fair value on the date of their creation. After initial recognition, these financial liabilities are valued at incurred cost using the effective interest rate.

4.12. Provisions

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

Provisions are measured as the best estimate of expenditures expected to be required to settle the obligation at the reporting date, considering risks and uncertainties connected with the obligation. Provisions not drawn in the following year are recognised as at the balance sheet date at their discounted value in case the impact of the discount as at the balance sheet date is significant.

Market interest rates are used for discounting.

4.13. Revenues from contracts with customers

The Company reports revenue if the obligation to fulfil by transfer of the promised goods or services to the customer, who gains control over this asset, entails the supply of services and goods and their acceptance by the customer.

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

Some one-off discounts and bonuses do not fulfil the definition of an independent liability to be fulfilled, but represent pre-payment for future services. These one-off discounts and bonuses lead to the reporting of contractual assets, which are subsequently amortised for the residual contract term.

If these discounts and bonuses for the service provided during the contract term is non-uniform, and the monthly service is provided to the customer uniformly, the total revenues from the services are reported on a uniform basis.

In this case, the constant monthly revenues will also be reported in compliance with the IFRS 15. The discount may be provided at the beginning or during the contract term. The discounts and bonuses may be provided gradually, which means that the size of the discount changes during the minimum term of the contract. The discounts and bonuses are reported during the contract term on linear basis through the contractual asset, which is created in the period of lower payments and subsequently amortised over the residual contract term.

When posting contractual assets within the framework of the model of expected loss according to the IFRS 9, the customer's credit risk is considered.

Contractual costs

The Company treats the commission for business representatives in the same manner as it treats the discounts and bonuses.

The commission is considered to be an incremental cost for negotiation of a contract and is thus posted to cost. These costs are amortised over the agreed customer holding time.

It is typical in the domestic market to conclude combined services agreements with customers where the total price is billed to the customer, both for the commodity and the distribution services, which the trader has purchased from the given distribution company. The Company also acts in this manner towards its own customers and is thus considered the principal, and for this reason it separately reports the revenues from the distribution fee and services.

4.13.1. Revenues from sales and distribution of gas

Revenue from natural gas supplies is recognised when the commodity is delivered. Revenue from sales of natural gas on the liberalised market is measured based on the commodity value reflecting all costs for natural gas purchases and the gross margin that covers the costs of electricity trade and profit, and the cost of other energy services related to gas deliveries to the customer in the required quantity and at the required time.

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

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

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

Gas supply and distribution to high-volume and middle-volume customer categories are billed on a monthly basis according to the measured consumption. Gas supplies to low-volume customer categories ('MO') and households ('DOM') are billed periodically once every 12 months (according to Article 15, Act No 70/2016 Coll.), 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' (see Notes 4.18.1 and 5.1). The amount of unbilled gas is calculated from the total amount of purchased gas in the particular year based on past behaviour of individual customers and is valued in relation to the valid price list of the Company, or to individually set prices and products.

4.13.2. Revenues from sales of electricity

Revenue from sales of electricity 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.

The electricity price consists of two components, regulated and non-regulated items. The regulated component is composed of the price for electricity distribution and the regulated services. The individual items are published by ERO according to its price decisions. The price level for individual items can vary by distributor.

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

Electricity supply and distribution to middle-volume customer categories - households ('MOO') - and middle-volume customer categories - entrepreneurs ('MOP') - are billed based on the measured consumption of each offtake point, which is performed in the reading cycle set by the relevant provider of the distribution network. Electricity supplies to categories MOO and MOP with Type C readings are billed periodically once within 12 months based on the reading of the consumption of each offtake point, based on customer self-reading. In the case of Type B reading in categories MOO and MOP, the electricity supplies are billed on a monthly basis according to the reading of the consumption of each offtake point (according to the provisions of Section 15, Decree No 70/2016 Coll., and the provisions of Section 3, Decree No 152/2016 Coll.).

Revenues from MOO and MOP categories consist of actually billed revenues and revenues from 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 individually set prices and products.

Electricity supply and distribution to high-volume categories ('VO'), whose offtake points are at high or very high voltage levels, are billed on a monthly basis according to the measured consumption. Revenues from VO consist of actually billed revenues.

4.13.3. Revenues from sales of goods

Sales are recognised on the date of the release of the goods from the warehouse and are reported less discounts and ex-VAT.

4.13.4. Revenues from sales of other services and other revenues

Sales are recognised on the date of provision of the services and are reported less discounts and ex-VAT.

Revenues from miscellaneous services are mainly revenues from rent and services.

4.14. Leases

Leases of property, buildings, and equipment where the majority of the risks and rewards of ownership have been transferred to the Company are classified as finance leases.

. Financial leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated a limit for settlement of the liability and financial cost. A related lease liability is recognised as a long-term or short-term liability in the statement of financial position. Interest is charged directly to the statement of comprehensive income over the lease period so as to achieve a constant rate of interest on the liability. The assets acquired via financial leases are recorded in the statement of financial position and depreciated over their estimated useful lives.

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

4.15. Foreign currency conversions

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

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

4.16. Employee Benefits

4.16.1. Contributions to the state pension scheme

The Company pays contributions for its employees into the state pension system, which is managed on the basis of a defined contribution plan. The Company has no other liabilities related to the state pension scheme after paying contributions in the amount defined by law.

4.16.2. Additional pension and life insurance

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

4.16.3. Other benefits

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

4.16.4. Termination benefits

The Company also provides termination benefits to its executives. These benefits are granted if certain conditions are met, namely compliance with non-compete and confidentiality clauses. Amounts are determined based on the executive's monthly pay. The Company recognises the liability for the termination benefits as at the date when it can no longer withdraw the offer, i.e. as at the signature date of the performance contract.

4.17. Taxes

Income tax comprises current and deferred tax.

4.17.1. Current tax

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

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

4.17.2. Deferred tax

Deferred tax is recognised on all temporary differences between the carrying amount of an asset or liability in the statement of financial position and their tax bases. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination. A deferred tax receivable is recognised if it is probable that taxable profit will be earned in the future, which will allow application of these temporary differences.

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

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

4.18. Significant accounting estimates and main sources of uncertainty about the estimates

Preparing the financial statements requires using estimates and assumptions that affect the figures for the financial position presented as at the reporting date and the financial performance for the reporting period in question. The estimates and assumptions are calculated on the basis of all relevant available information. Nevertheless, as implied by the nature of an estimate, the real values may differ from the estimates in the future.

4.18.1. Unbilled gas supplies

The Company Management considers the determination of unbilled gas supplies and the distribution fees to low-volume customers and households ('MODOM') to be the most significant areas 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 the Company's own consumption

in the given period. This estimate is then reduced by gas supplies for MODOM categories that have already been invoiced for the given period.

The gas supplies unbilled to industrial consumers and medium-scale consumers are also recognised in the accounting estimates. These estimates do not carry any risk because they are created on the basis of actual gas meter readings.

Sensitivity analysis:

The percentage ratio of losses to the distributed amount used for calculation of the unbilled gas in 2018 is 2.22%. The median ratio of the balance difference to the distributed amount for the last 6 years is equal 2.36%. If the ratio of losses to the total amount of gas distributed in 2017 was equal to the long-term average, then it was less (greater) by 0.21 percentage points (while all other variables would remain unchanged) and pre-tax profit as at 31 December 2018 would be CZK 7.0 million higher (lower) under the influence of higher (lower) revenues in the unbilled gas supplies.

4.18.2. Unbilled electric power supplies

Similarly as applies to the natural gas commodity, the Company Management considers the determination of the amount of unbilled electricity and distribution costs for the small consumers category and households as an important area for the use of estimates.

This estimate is determined using the balancing method, as the difference between total electricity purchases and sales of electricity invoiced on monthly basis to customers and the Company's own consumption during the period in question. Within the framework of the accounting estimates, estimates relating to bulk consumers are also reported, but these estimates represent a minimum degree of risk because they are based on already factually billed items. Through these estimates, they are only transferred to the corresponding accounting period.

Sensitivity analysis:

Purchasing electricity for the MOP and MOO customer categories is done on annual basis, but a large percentage of customers in these categories are contracted for 24- to 36-month products. The sensitivity analysis simulates the change in the purchase price of the commodity for these customers by EUR 1 (while all other variables remained the same). Profit before tax as at 31 December 2018 upon increase/reduction of the purchase price for these customer categories would be lower (higher) by CZK 8.2 million. ll Kč.

5. Financial Risk Management

5.1. Credit Risk

The selection of counterparties for transactions with the financial resources of the Company is limited to very creditworthy institutions and is regulated according to the procedures and directives stipulated in the investment strategy approved by the Company's General Assembly. The Company performs only financial transactions whose originator or underwriter has a secure, creditworthy assessment by the competent autonomous global rating agencies on the investment scale and for whom it is also possible to continuously monitor the credit quality indicators through the financial market.

The credit risk associated with the counterparties in business transactions is managed by the Company using various tools such as insurance, credit limits, differential collection process, etc.

In the case of cash, cash equivalents, and short-term bank financing, the concentration of credit risk is limited by the fact that the Company deposits cash in significant credit institutions. Credit risk in the case of trading and other receivables, as well as other financial assets, is also limited thanks to risk management tools and the debt collection process.

Trade and other receivables

IFRS 9 introduced a new model of expected impairment loss, which requires more timely identification of credit losses. The standard specifically requires the accounting units to report the expected credit losses. The Company creates an adjusting entry that represents the estimate of expected credit loss to the trade receivables, other receivables, and contractual assets. Cash and cash equivalents are also subject to the requirements for reduction of value according to the IFRS 9; nevertheless, the ascertained loss from reduction of value was insignificant.

Impairment losses are reported in such a manner as to cover

The table summarises the complete overview of trade and other receivables less credit risk:

Type of receivable (in thousands of CZK)	31 December 2018	31 December 2017	1 January 2017
Trade receivables from third parties	529,640	733,609	774,453
Trade receivables from subsidiaries	330,783	327,995	337,794
Trade receivables from other affiliates	503	78	103
Financial trade receivables	860,926	1,061,682	1,112,350
Allowances for trade receivables	-216,514	-299,019	-311,969
Net trade receivables - financial	644,412	762,663	800,381
Unbilled deliveries	1,395,597	1,242,103	1,279,975
Allowances for unbilled deliveries	-13,644	-14,076	-12,258
Total trade and other receivables - financial	2,026,365	1,990,690	2,068,098
Short-term operational advances made	47,722	48,524	105,813
Other receivables - refinancing	16,776	12,388	16,756
Allowances for other receivables and advances paid	-19,692	-12,207	-16,864
Total trade and other receivables - refinancing	44,806	48,705	105,705
Total trade and other receivables - short-term	2,071,171	2,039,395	2,173,803

both individually significant exposure to credit risk and portfolio loss in the case of assets for which impairment is not assessed individually. Objective proof of receivables portfolio impairment includes the past experience of the Company with collection of payments, changes in the internal and external assessments of customers, the Company's current position, and insights into the economy during the expected service life of the receivables.

In the case of financial assets, which include cash and cash equivalents, loans, term deposits, trade receivables, and other receivables, exposure of the Company to credit risk is established from the potential failure of the counterparty and is maximally equal to the book value of these financial assets.

The Company values its financial investments as at each balance sheet date to ascertain whether objective evidence of impairment exists. Financial investments are considered impaired if the objective evidence indicates that one or more events have negatively affected the estimated future cash flows of this investment. Significant financial assets are tested individually for impairment. The remaining financial assets are evaluated on a portfolio basis in groups that have similar characteristics in terms of credit risk. The impairment loss on financial assets is calculated as the difference between its book value and the current value of estimated cash flows discounted at the initial effective interest rate. All impairment losses are recognised in the profit or loss. Impairment loss is derecognised if the derecognition is objectively related to events that occurred after reporting the loss. Derecognition of an impairment loss is reported in the profit or loss.

Trade receivables from customers with a higher credit risk are to a certain extent secured by lien in the form of advances received.

The Company creates an adjusting entry that represents the estimate of expected credit loss to the trade receivables, unbilled gas deliveries to other receivables, and contractual assets.

The structure of allowances for trade and other receivables by category is shown in the following tables according to the interest risk impairment:

31 December 2018:

Allowances for receivables (in thousands of CZK)	Expected interest risk impairment			
	Level 1	Level 2	Level 3	Total
Cat. MO	4,617	745	65,410	70,772
Cat. DOM	1,765	759	88,594	91,118
Cat. VO	6,047	40	43,773	49,860
Cat. Other	6,201	511	31,388	38,100
Total	18,630	2,055	229,165	249,850

31 December 2017:

Allowances for receivables (in thousands of CZK)	Expected interest risk impairment			
	Level 1	Level 2	Level 3	Total
Cat. MO	5,562	3,264	93,682	102,508
Cat. DOM	2,714	1,138	105,711	109,563
Cat. VO	4,255	135	15,715	20,105
Cat. Other	4,542	1,182	87,402	93,126
Total	17,073	5,719	302,510	325,302

1 January 2017:

Allowances for receivables (in thousands of CZK)	Expected interest risk impairment			
	Level 1	Level 2	Level 3	Total
Cat. MO	4,782	1,841	105,374	111,997
Cat. DOM	3,150	1,888	110,105	115,143
Cat. VO	5,770	1,228	11,747	18,745
Cat. Other	3,885	638	90,683	95,206
Total	17,587	5,595	317,909	341,091

Cash and cash equivalents and other financial assets

The Company makes only short-term cash deposits (cash, deposit bills, term deposits, and REPO operations). The Company transfers its free cash to financial instruments. Selecting the counterparties for financial transactions with cash is limited to parties with high creditworthiness.

The Company performs only financial transactions whose originator or underwriter has a secure assessment of creditworthiness

by the competent autonomous global rating agencies on the investment scale and for whom it is also possible to continuously monitor the credit quality indicators through the financial market.

The Company has a concentration of credit risk toward its banks that is regulated by the Czech National Bank.

Cash and cash equivalents are also subject to the requirements for reduction of value according to the IFRS 9; nevertheless, the ascertained loss from reduction of value was insignificant.

Long-term rating by Moody's (in thousands of CZK)	Bank rating	31 December 2018	31 December 2017	1 January 2017
Cash on hand	not assigned	1,613	3,529	3,899
Money in bank accounts	A1	475,239	822,014	104,024
Short-term investments - bills	A1	1,000,000	500,000	0
Total exposure of cash, cash equivalents, and other financial assets		1,476,852	1,325,543	107,923

5.2. Liquidity risk

Liquidity risk is the risk that the accounting entity will not fulfil the obligations arising from its financial liabilities.

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

The Company Management minimises 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 cash flows is the preparation of a mid-term plan, which is prepared annually for a three-year period. The cash flow plan for the following year is subsequently divided into individual days and kept up to date. Based on this detailed forecast, the Company ensures that a sufficient level of liquid cash is available to settle its liabilities. The availability of funding and the possibility of closing market positions are important for cautious management of liquidity risk.

The Company Management monitors the liquidity and its development on the basis of weekly reports; the Company Management also receives short-term liquidity forecasts.

The current structure of the short-term external funding of the Company was created in connection with the refinancing of external

funding in May 2016 and is contractually secured up to May 2019. It includes overdraft credit lines, an exchange programme for drawing the necessary resources in the form bills of exchange in auctions, and a line for negotiation of bank guarantees. These external financial resources are provided by a consortium of two banks, i.e. Československá obchodní banka, a.s., and Česká spořitelna, a.s.

In connection with refinancing, the Company concluded the following contracts with Československá obchodní banka, a.s., and Česká spořitelna, a.s.:

- Agreement on the Establishment of a Lien between the Company and Československá obchodní banka, a.s.;
- Agreement on the Establishment of a Lien on the Company's plant between the Company and Česká spořitelna, a.s.;
- Agreement on the Establishment of a Lien on the receivables under bank account management agreements between the Company and Československá obchodní banka, a.s.;
- Agreement on the Establishment of a Lien on the receivables under bank account management agreements between the Company and Česká spořitelna, a.s.;
- Agreement Establishing a Ban on Burdening and Alienation between the Company and Československá obchodní banka, a.s.

The structure of short-term financing as at 1 January 2017:

	Limit (in thousands of CZK)	From	To	Interest rate
Overdraft credit lines	900,000	24/5/2016	24/5/2019	floating
Guarantee line	700,000	24/5/2016	24/5/2019	fixed
Exchange programme	3,400,000	24/5/2016	24/5/2019	floating
Total	5,000,000			

The credit lines as at 1 January 2017 were drawn in the form of an overdraft in the amount of CZK 40,794,000. Kč. Furthermore, as at 1 January 2017 funds were drawn

from the parent company PPH a.s., in the amount of CZK 905,847,000 that represent liabilities from the title of cash pooling.

The structure of short-term financing as at 31 December 2017 and 31 December 2018:

	Limit (in thousands of CZK)	From	To	Interest rate
Overdraft credit lines	900,000	24/5/2016	24/5/2019	floating
Guarantee line	700,000	24/5/2016	24/5/2019	fixed
Exchange programme	3,000,000	24/5/2016	24/5/2019	floating
Total	4,600,000			

The credit lines in 2017 were drawn in the form of an overdraft (as at 31 December 2017 in the amount of CZK 0). Kč). The average interest rate on the overdraft loan in 2017 was 0.42% p.a. Furthermore, the Company as at 31 December 2017 drew funds from the subsidiary companies and the parent company PPH a.s., in the amount of CZK 1,057,028,000 that represent liabilities from the title of cash pooling. The average interest rate between the Company, the subsidiary companies, and the parent company for 2017 was 0.27% p.a.

In 2018 no overdraft credit lines were drawn. As at 31 December 2018, funds were drawn from the subsidiary companies and the parent company PPH a.s., only in the amount of CZK 901,520,000 that represent liabilities from the title of cash pooling. The average interest rate between the Company, the subsidiary companies, and the parent company for 2018 was 1.07% p.a.

The structure of long-term financing as at 1 January 2017 and 31 December 2018:

	Limit (in thousands of CZK)	From	To	Interest rate
PPAS Bond 0.90/2020, ISIN CZ0003516809	400,000	15/6/2017	15/6/2020	fixed

On 15 June 2017 the Company issued 80 bonds of total nominal worth CZK 400 million with a maturity of 3 years and a coupon with a fixed interest yield of 0.90% p.a. The bonds were accepted for trading on the regulated stock market (Prague Stock Exchange - Burza cenných papírů Praha, a.s.). The issue rate of these bonds was 99.548% and the issue yield was CZK 398,192,000. Kč. The issued bonds were purchased by Česká spořitelna, a.s., and Československá obchodní banka, a.s. No pre-emptive right of purchase or right of exchange are attached to the bonds. The bonds may be freely negotiable and their transferability is unlimited. The issuer may redeem the bonds at any time on the market or otherwise at any price. A component of the process of issuing of the bonds on the regulated stock market was issuing the Bond Prospectus. The prospectus was approved by the Czech National Bank on 9 July 2017.

In connection with the Company's bond issue, the volume of short-term funding was cut by the volume of issued bonds in the amount of CZK 0.4 billion so as to prevent an increase of the

total external funding volume. The Company has contractually secured short-term financing in the amount of CZK 4.6 billion and long-term financing in the amount of CZK 0.4 billion. Kč. These external financial resources in the total volume of CZK 5.0 billion are provided by a consortium of two banks, i.e. Československá obchodní banka, a.s., and Česká spořitelna, a.s.

Within the framework of the issuance of Company bonds, the following contracts were concluded with Československá obchodní banka, a.s., and Česká spořitelna, a.s.:

- Amendment No 1 to the Exchange Program Contract of 24 May 2016,
- Framework Agreement on Receipt of Investment Instruments for Trading on the Stock Market,
- Agreement on Management of the Issuance and Handling of Payments,
- Agreement on Subscription and Purchase of Bonds.

Bonds:

Bond title	Nominal value of the issue (in thousands of CZK)	Issue rate (%)	Date of maturity	Coupon rate p.a. (%)	Coupon maturity	Book value as at 31/12/2018 (in thousands of CZK)	Book value as at 31/12/2017 (in thousands of CZK)	Book value as at 1/1/2017 (in thousands of CZK)
PPAS Bond 0.90/2020 ISIN CZ0003516809	400,000	99.548	15/6/2020	0.90	annual	400,526	399,574	0

The book value of the bank loans and bonds have the following structure:

(in thousands of CZK)	Book value		
	As at 31/12/2018	As at 31/12/2017	As at 1/1/2017
PPAS Bond 0.90/2020, ISIN CZ0003516809	400,526	399,574	0
Short-term bank loans	0	0	40,794

The book value of the bank loans and bonds is close to their real value.

Drawing short-term bank loans allows the Company to optimise its coverage of seasonal fluctuations in cash flows, which accompany the purchase and sale of energy.

An integral part of Company funding is the utilisation of the financial resources of the PP, a.s. Group, and the PPH a.s., companies aggregated in cash pooling. Using these free resources results in a reduction in drawing short-term loans from the banks.

In connection with the conditions under the loan agreements and bond issuance conditions concluded in 2016 and 2017, financial indicators are monitored at the consolidated PP, a.s. Group data level. In the event of their non-fulfilment, the banks may request premature loan repayment and bond redemption. These indicators were fulfilled as at 31 December 2018, 31 December 2017, and 31 December 2016. Details are provided in Note 6.

Impact of the cost interest related to the bonds on the profit or loss as at 31 December 2018: CZK 4,203,000 (as at 31 December 2017: CZK 2,288,000). Kč).

The liquidity position is supported by the system of advance payments, whereas the high-volume and middle-volume categories pay advances several times during the month, the low-volume category and households pay advances monthly or quarterly. For all categories, the setting of the advances takes historical consumption into consideration (from March 2017, an algorithm based on three-year historical consumption is used), seasonal character of the gas consumption, and price

The following tables show the liabilities grouped by residual period to contractual maturity as at 31 December 2018, 31 December 2017, and 1 January 2017. The size of the liabilities shown in the tables is equivalent to the non-discounted cash flows, including interest, where relevant. The interest is based on the loan amount as at 31 December 2018 and the interest rates in force on the financial market as at 31 December 2018 (including bank margin).

31 December 2018:

(in thousands of CZK)	0-3 months	3-6 months	6-12 months	1-3 years	3-5 years	Total
Derivatives (currency forwards and commodity futures)	5,075,735	723,069	1,117,321	460,301	0	7,376,426
Bonds	0	3,600	0	403,600	0	407,200
Trade and other liabilities	2,375,542	27	54	577	0	2,376,200
Loans from subsidiaries and PPH a.s. - cash pooling	901,565	0	0	0	0	901,565
Total	8,352,842	726,696	1,117,375	864,478	0	11,061,391

31 December 2017:

(in thousands of CZK)	0-3 months	3-6 months	6-12 months	1-3 years	3-5 years	Total
Derivatives (currency forwards and commodity futures)	1,133,362	663,461	967,783	899,233	0	3,663,839
Bonds	0	3,600	0	407,200	0	410,800
Trade and other liabilities	2,112,689	27	54	319	62	2,113,151
Loans from subsidiaries and PPH a.s. - cash pooling	1,057,044	0	0	0	0	1,057,044
Total	4,303,095	667,088	967,837	1,306,752	62	7,244,834

1 January 2017:

(in thousands of CZK)	0-3 months	3-6 months	6-12 months	1-3 years	3-5 years	Total
Derivatives (currency forwards)	909,112	640,502	37,298	9,648	0	1,596,560
Bank loans	40,794	0	0	0	0	40,794
Trade and other liabilities	2,214,915	27	54	216	170	2,215,382
Loans from subsidiaries and PPH a.s. - cash pooling	905,851	0	0	0	0	905,851
Total	4,070,672	640,529	37,352	9,864	170	4,758,587

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

Guarantees concluded

The Company has secured its financial liabilities with Československá obchodní banka, a.s., as at 31 December 2018:

- to the benefit of TRADE CENTRE PRAHA a.s., up to an amount of CZK 500,000 (under the Agreement on Combined Supplies of Natural Gas of 25 July 2017); 7. 2017);
- to the benefit of OTE, a.s., up to an amount of CZK 187,000,000 (under the Agreement on Settlement of Deviations No AP 006/09 of 11 December 2009);
- to the benefit of OTE, a.s., up to an amount of CZK 22,000,000 (under the Agreement on Settlement of Deviations No A3602/14 of 4 December 2014 and the Agreement on Entry into the Organised Short-Term Electricity Market No B3602/14 of 4 December 2014).

As at 31 December 2017, the Company had its financial liabilities secured with Československá obchodní banka, a.s. to the benefit of TRADE CENTRE PRAHA a.s., up to an amount of CZK 500,000 under the Agreement on Combined Supplies of Natural Gas of 25 July 2017.

As at 1 December 2017, the Company had its financial liabilities secured with Československá obchodní banka, a.s. to the benefit of RWE Supply Trading GmbH, up to an amount of EUR 10,000,000 from the title of operations on the gas market.

These liabilities are not included in the balance sheet.

5.3. Market risk

5.3.1. 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 emerging from interest rate fluctuations of interest-bearing financial liabilities and receivables using an appropriate structure.

The Company Management monitors interest rate risk on the basis of regular reporting, which includes information about the current interbank interest rates (mainly PRIBOR) and assessment of actual interest expenses. The Company Management is provided with short-term forecasts of these interest rates. All the individual short-term loan drawings in 2017 and 2016 have floating interest rates derived from the applicable PRIBOR. In 2018, the Company did not draw short-term bank loans, but used cash from the subsidiary companies and PPH a.s., within the scope of cash pooling.

Sensitivity analysis:

If the interest rate had increased/decreased by 10 basic points with all other variables held constant as at 1 January 2018, profit before tax as at 31 December 2018 would have been CZK 1,010,000 lower/higher as a result of the increased interest expense (as at 31 December 2017: CZK 934,000; as at 31 December 2016: CZK 1,015,000). Kč).

5.3.2. Exchange rate risk

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

Movements in exchange rates represent a risk due to the fact that the Company purchases a significant portion of its gas and electricity in foreign currency (about 97% of the total volume of the natural gas and electricity purchased). The choice of currency for purchases made in forward purchases is fully

dependent on the overall commercial conditions offered. In the case of these purchase contracts, hedging against the exchange rate risk resulting from these purchase contracts is exercised up to 100% of the purchased volume in the form of currency forwards at the bank. All spot purchase transactions are made in EUR, while a certain portion of these purchases are sold in EUR, or the purchase is made to the portfolio of customers at the listed price using the exchange rate in force on the purchase date. The Company actively manages this risk through monitoring foreign exchange developments and through the above management of natural gas and electricity purchases in foreign currency, it hedges itself against long-term currency risk.

The fluctuation of exchange rates constitutes a further risk as the Company keeps receivables and payables in foreign currencies.

Sensitivity analysis:

If the CZK/EUR exchange rate as at 31 December 2018 had weakened (increased) / strengthened (dropped) by 0.5 CZK/EUR 1 with all other variables held constant as at 31 December 2018, profit before tax as at 31 December 2018 as a result of revaluation of receivables in EUR would have been CZK 140,253,000 higher/lower (as at 31 December 2017: CZK 68,387,000; as at 31 December 2016: CZK 29,463,000). Kč).

If the CZK/EUR exchange rate had weakened (increased) / strengthened (dropped) by 0.5 CZK/EUR 1 with all other variables held constant as at 31 December 2018, profit before tax as at 31 December 2018 as a result of revaluation of liabilities in EUR would have been CZK 419,000 lower/higher (as at 31 December 2017: CZK 401,000; as at 31 December 2016: CZK 296,000). Kč).

If the CZK/EUR exchange rate had weakened (increased) / strengthened (dropped) by 0.5 CZK/EUR 1 with all other variables held constant as at 31 December 2018, profit before tax as at 31 December 2018 as a result of revaluation of receivables in EUR would have been CZK 2,277,000 higher/lower (as at 31 December 2017: CZK 1,838,000; as at 31 December 2016: CZK 2,029,000). Kč).

(in thousands of CZK)	increase of 0.5 CZK/EUR			decrease of 0.5 CZK/EUR		
	2018	2017	2016	2018	2017	2016
Forward purchases in EUR	140,253	68,387	29,463	-140,253	-68,387	-29,463
Liabilities in EUR	-419	-401	-296	419	401	296
Receivables in EUR	2,277	1,838	2,029	-2,277	-1,838	-2,029
Impact on profit before tax	142,111	69,824	31,196	-142,111	-69,824	-31,196

5.4. Fair value estimate

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

As at the end of the reporting period, the Company classified its financial assets and liabilities at fair value through profit or loss under Level 2 featuring entry data used to determine the fair value (see Note 5.1.)

The book values of short-term receivables after deducting their impairment and short-term liabilities, bonds, and loans are close to their fair values.

5.5. Offsetting financial instruments

31 December 2018:

(in thousands of CZK)	Gross value of the statement of financial position:	Gross amount of credit in the statement of financial position	Net amount after reconciliation of the statement of financial position:	The amount subject to master netting agreements and similar arrangements in the statement of financial position	Total net exposure
Trade and other receivables	2,026,365	0	2,026,365	191,811	1,834,554
Trade and other financial liabilities	2,163,397	0	2,163,397	191,811	1,971,586

31 December 2017:

(in thousands of CZK)	Gross value of the statement of financial position:	Gross amount of credit in the statement of financial position	Net amount after reconciliation in the statement of financial position	The amount subject to master netting agreements and similar arrangements in the statement of financial position	Total net exposure
Trade and other receivables	1,990,690	0	1,990,690	102,945	1,887,745
Trade and other financial liabilities	2,184,653	0	2,184,653	102,945	2,081,708

1 January 2017:

(in thousands of CZK)	Gross value of the statement of financial position:	Gross amount of credit in the statement of financial position	Net amount after reconciliation in the statement of financial position	The amount subject to master netting agreements and similar arrangements in the statement of financial position	Total net exposure
Trade and other receivables	2,068,098	0	2,068,098	79,458	1,988,640
Trade and other financial liabilities	2,141,577	0	2,141,577	79,458	2,062,119

5.6. Net profit and losses from financial instruments

(in thousands of CZK)	2018	2017	2016
Trade receivables (particularly depreciation of receivables and creation of provisions)	-39,475	-20,147	-24,234
Cash and cash equivalents	1,669	-8,518	-8,209
Other financial assets	-1,726	854	-14,886
Bonds (particularly cost interest)	-4,580	-2,520	0
Financial derivatives	9,016	-119,937	14,210
Bank loans (particularly cost interest)	-2,358	-2,460	-14,520
Other financial liabilities	5,548	4,901	-396
Net gains (+) / losses (-) reported on the income statement	-31,906	-147,827	-48,035
Financial derivatives in other comprehensive income (settlement)	0	0	0
Net gains (+) / losses (-) reported in other comprehensive income	0	0	0
Total net gains (+) / losses (-)	-31,906	-147,827	-48,035

6. Capital Management

Optimal capitalisation of the Company balances between capital gains and the ability to cover all mature liabilities.

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

In connection with the conditions under the loan agreements and bond issuance conditions concluded in 2016 and 2017, the following financial indicators are monitored:

- the ratio of net debt to EBITDA (at the PP, a.s. Group consolidated data level),
- CAPEX (for the Company and PPD, a.s.).

The goal of the Company is to achieve such business results as to fulfil these financial indicators. In the event of their non-fulfilment, the banks may request premature loan repayment and bond redemption. These indicators were fulfilled as at 31 December 2018, 31 December 2017, and 31 December 2016.

7. Notes on the financial statements

7.1. Land, buildings, and equipment

(in thousands of CZK)	Land	Buildings and other constructions	Movables and sets of movables	Vehicles (means of transport)	Computer equipment and other hardware	Other tangible fixed assets	Incomplete tangible fixed assets	Advances for tangible fixed assets	Total
Acquisition value									
Position as at 1/1/2017	76,890	1,069,445	239,565	30,785	161,127	38,569	10,351	19,622	1,646,354
Purchases	0	0	0	0	0	0	61,548	9,660	71,208
Transfers	0	1,797	19,950	9,590	12,043	1,744	-45,124	0	0
Decreases	0	0	-3,592	-5,621	-6,330	0	-136	-26,781	-42,460
Position as at 31/12/2017	76,890	1,071,242	255,923	34,754	166,840	40,313	26,639	2,501	1,675,102
Purchases	0	0	0	0	0	0	79,424	530	79,954
Transfers	0	24,485	19,730	8,309	9,221	48	-61,793	0	0
Decreases	0	0	-5,198	-9,497	-43,404	-222	-289	-2,981	-61,591
Position as at 31/12/2018	76,890	1,095,727	270,455	33,566	132,657	40,139	43,981	50	1,693,465
Accumulated depreciation, impairment, depreciation, recharging									
Position as at 1/1/2017	0	394,518	210,782	17,255	128,522	3,952	0	0	755,029
Depreciation	0	22,878	15,582	7,251	14,829	303	0	0	60,843
Adjustment items	0	-23	-31	0	0	0	0	0	-54
Accumulated depreciation for disposals	0	0	-3,592	-5,453	-6,128	0	0	0	-15,173
Position as at 31/12/2017	0	417,373	222,741	19,053	137,223	4,255	0	0	800,645
Depreciation	0	23,153	13,874	7,396	14,856	545	0	0	59,824
Adjustment items	0	-23	-31	0	0	0	0	0	-54
Accumulated depreciation for disposals	0	0	-5,198	-8,468	-43,404	-222	0	0	-57,292
Position as at 31/12/2018	0	440,503	231,386	17,981	108,675	4,578	0	0	803,123
Net book value 2017	76,890	653,869	33,182	15,701	29,617	36,058	26,639	2,501	874,457
Net book value 2018	76,890	655,224	39,069	15,585	23,982	35,561	43,981	50	890,342

The Company has pledged the plant of Pražská plynárenská, a.s., in the amount of CZK 4.6 billion, or the PP, a.s. Group has pledged the plant of Pražská plynárenská, a.s., in the amount of CZK 7.3 billion, i.e. CZK 4.6 billion within the framework of short-term funding and CZK 2.7 billion within the framework of the re-issuance of the bonds of the subsidiary Pražská plynárenská Distribuce, a.s., Member of the Pražská plynárenská, a.s. Group, in compliance with the Agreement Establishing a Lien on the Plant that was negotiated within the scope of refinancing in 2016 and in compliance with Amendment No 1 to the Agreement on the Exchange Program, which defines the reduction

of the maximum volume of the given exchange programme in the amount of CZK 3 billion by CZK 0.4 billion.

7.2. Intangible assets

(in thousands of CZK)	Software	Assessable rights	Intangible fixed assets under construction	Total
Acquisition value				
Position as at 1/1/2017	686,832	11,413	1,893	700,138
Purchases	0	0	37,096	37,096
Transfers	27,194	218	-27,412	0
Decreases	0	0	0	0
Position as at 31/12/2017	714,026	11,631	11,577	737,234
Purchases	0	0	49,349	49,349
Transfers	27,062	0	-27,062	0
Decreases	0	0	0	0
Position as at 31/12/2018	741,088	11,631	33,864	786,583
Accumulated depreciation, depreciation, impairment				
Position as at 1/1/2017	627,019	7,478	0	634,497
Depreciation	45,275	3,519	0	48,794
Accumulated depreciation for disposals	0	0	0	0
Position as at 31/12/2017	672,294	10,997	0	683,291
Depreciation	28,942	411	0	29,353
Accumulated depreciation for disposals	0	0	0	0
Position as at 31/12/2018	701,236	11,408	0	712,644
Net book value 2017	41,732	634	11,577	53,943
Net book value 2018	39,852	223	33,864	73,939

The average residual amortisation period of software is 1 year and 5 months. Incomplete intangible fixed assets were tested for impairment by the end of the period.

The option for future use was analysed and no impairment was identified.

7.3. Investments in subsidiaries

The Company held shares in the following subsidiary companies as at 1 January 2017, 31 December 2017, and 31 December 2018:

Pražská plynárenská Distribuce, a.s., Member of the Pražská plynárenská, a.s. Group, Registered office: U Plynárny 500, Prague 4, Postal 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, Postal Code 140 00

Pražská plynárenská Správa majetku, a.s.,
Member of the Pražská plynárenská, a.s. Group
Registered office: U Plynárny 500, Prague 4, Postal Code 145 08

Prometheus, energetické služby, a.s.,
Member of the PP, a.s. Group
Registered office: U Plynárny 500, Prague 4, Postal Code 140 00

Informační služby energetika, a.s.
Registered office: U Plynárny 500, Prague 4, Postal Code 141 00

Domestic	Number of shares (in pcs)	Book value of the capital interests (in thousand CZK)	Holding (%)	Share of the voting rights (%)	Business site
Pražská plynárenská Distribuce, a.s., Member of the Pražská plynárenská, a.s. Group	5,207	1,178,348	100	100	Czech Republic
Pražská plynárenská Servis distribuce, a.s., Member of the Pražská plynárenská, a.s. Group	202,106	30,458	100	100	Czech Republic
Pražská plynárenská Správa majetku, a.s., Member of the Pražská plynárenská, a.s. Group	10	2,200	100	100	Czech Republic
Prometheus, energetické služby, a.s., Member of the Pražská plynárenská, a.s. Group	128	124,896	100	100	Czech Republic
Informační služby energetika, a.s.	20	100	100	100	Czech Republic
Book value		1,336,002			

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

7.4. Inventories

Inventories represent mainly gas stored in the gas storage. This gas was extracted in 2018 and recognised as consumption in the amount of CZK 772,671,000 (in 2017: CZK 584,707,000; in 2016: CZK 1,024,205,000).

No surpluses and/or shortfalls in inventories were found during stock-taking in 2018.

7.5. Short-term and other receivables

Type of receivable (in thousands of CZK)	31 December 2018	31 December 2017	1 January 2017
Trade receivables from third parties	529,640	733,609	774,453
Trade receivables from subsidiaries	330,783	327,995	337,794
Trade receivables from other affiliates	503	78	103
Financial trade receivables	860,926	1,061,682	1,112,350
Allowances for trade receivables	-216,514	-299,019	-311,969
Net trade receivables - financial	644,412	762,663	800,381
Unbilled deliveries	1,395,597	1,242,103	1,279,975
Allowances for unbilled deliveries	-13,644	-14,076	-12,258
Total trade and other receivables - financial	2,026,365	1,990,690	2,068,098
Short-term operational advances made	47,722	48,524	105,813
Other receivables - refinancing	16,776	12,388	16,756
Allowances for other receivables and advances paid	-19,692	-12,207	-16,864
Total trade and other receivables - refinancing	44,806	48,705	105,705
Total trade and other receivables - short-term	2,071,171	2,039,395	2,173,803

Short-term operating advances provided to individual suppliers for natural gas and electricity purchases and purchases of gas distribution services were offset with anticipated payables created. In 2018 the offset amount of advances with anticipated payables was CZK 1,138,951,000 (2017: 1,059,283,000; 2016: CZK

984,502,000).

Outstanding trade receivables have not been secured. Receivables from related parties are analysed in Note 7.25.

Movements in the allowance account of trade and other receivables can be analysed as follows:

Allowances for receivables (in thousands of CZK)	31 December 2018	31 December 2017	1 January 2017
Initial balance as at 1 January	325,302	341,091	337,914
Creation of an allowance for receivables	45,532	17,493	40,878
Use of the allowance	120,984	33,282	37,701
Final balance as at 31 December	249,850	325,302	341,091

The structure of allowances for trade and other receivables by category is shown in the following tables according to the interest risk impairment:

31 December 2018:

Allowances for receivables (in thousands of CZK)	Expected interest risk impairment			
	Level 1	Level 2	Level 3	Total
Cat. MO	4,617	745	65,410	70,772
Cat. DOM	1,765	759	88,594	91,118
Cat. VO	6,047	40	43,773	49,860
Cat. Other	6,201	511	31,388	38,100
Total	18,630	2,055	229,165	249,850

31 December 2017:

Allowances for receivables (in thousands of CZK)	Expected interest risk impairment			
	Level 1	Level 2	Level 3	Total
Cat. MO	5,562	3,264	93,682	102,508
Cat. DOM	2,714	1,138	105,711	109,563
Cat. VO	4,255	135	15,715	20,105
Cat. Other	4,542	1,182	87,402	93,126
Total	17,073	5,719	302,510	325,302

1 January 2017:

Allowances for receivables (in thousands of CZK)	Expected interest risk impairment			
	Level 1	Level 2	Level 3	Total
Cat. MO	4,782	1,841	105,374	111,997
Cat. DOM	3,150	1,888	110,105	115,143
Cat. VO	5,770	1,228	11,747	18,745
Cat. Other	3,885	638	90,683	95,206
Total	17,587	5,595	317,909	341,091

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

Trade and other receivables (in thousands of CZK)	31 December 2018	31 December 2017	1 January 2017
Change in allowance for existing receivables	-75,506	-15,844	3,123
Trade receivables written-off	118,674	31,602	35,842
Total net loss from trade receivables	43,168	15,758	38,965

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

7.6. Cash and cash equivalents

The Company acquired the corporate bills of ČSOB Leasing as at 17 December 2018. This concerned 10 bills of exchange totalling CZK 1,000,000,000 due on 2 January 2019. The yield to maturity was 0.50% p.a. This financial operation optimised the Company's cash-flow positions

in the bank accounts in relation to the obligatory payments of the banks to the resolution fund according to the applicable legislation as at 31 December 2018.

The structure of cash and cash equivalents is shown below:

Cash and cash equivalents (in thousands of CZK)	31 December 2018	31 December 2017	1 January 2017
Cash on hand	1,613	3,529	3,899
Money in bank accounts	475,239	822,014	104,024
Short-term investments - bills	1,000,000	500,000	0
Total	1,476,852	1,325,543	107,923

The book value of short-term investments is close to their fair value.

7.7. Registered capital

Form of shares	2018		2017		2016	
	Number of pieces	Nominal value (CZK)	Number of pieces	Nominal value (CZK)	Number of pieces	Nominal value (CZK)
Bearer shares	950,338	300	950,338	300	950,338	300
Registered shares	489,569	300	489,569	300	489,569	300
Total	1,439,907		1,439,907		1,439,907	
Total share capital		431,972,100		431,972,100		431,972,100

Bearer shares are issued in book-registered form.

The registered shares are issued in book-registered 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. All the shares are fully paid-up. Shareholders have both rights and obligations. The basic duty of the shareholders is the obligation to deposit. The rights of shareholders include:

- Right to a share of the profit
- Right to vote,

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

7.8. Profit funds

The Company is fully governed by the new Corporations Act and utilised the option not to create a reserve fund. Usage of funds created from profit is in accordance with the Company's Articles of Incorporation.

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

On 4 April 2018 the parent company PPH a.s., as the sole shareholder of the Company acting in the power of the general meeting of the shareholders, approved the Company's financial statements for 2017 and decided about the allocation of the profit earned in 2017 in the amount of CZK 1,186,740,000 and distribution of dividends to in the amount of CZK 520,000,000 to the shareholders.

The Company proposed distribution of the profit for 2018 by the date of issue of these financial statements.

7.9. Trade payables, advances, principal received and other liabilities - current

Trade payables, advances, principal received - current (in thousands of CZK)	31 December 2018	31 December 2017	1 January 2017
Trade payables to third parties	1,179,304	1,016,577	1,194,382
Trade payables to subsidiaries	55,691	35,040	34,025
Trade payables to other related parties	148	77	295
Current operating advances and principal received (non-financial liabilities)	1,496,101	1,339,591	1,316,381
Trade payables, advances received and principal - total	2,731,244	2,391,285	2,545,083

Other liabilities (in thousands of CZK)	31 December 2018	31 December 2017	1 January 2017
Loans from related companies	901,520	1,057,028	905,847
Liabilities from derivatives	24,999	74,139	5,236
Other financial liabilities	1,735	1,792	1,792
Total financial liabilities	928,254	1,132,959	912,875
Payables to employees	91,980	99,830	116,566
Liabilities for social insurance	7,168	6,757	7,375
Other liabilities - non-financial	1,903	1,463	1,863
Non-financial liabilities - total	101,051	108,050	125,804
Other liabilities - total	1,029,305	1,241,009	1,038,679

Total trade payables and advances received - current (by maturity) (in thousands of CZK)	Trade payables	Short-term advances received and principal	Contingent liability Accounts	Total
Position as at 1/1/2017	82,983	1,316,381	1,145,719	2,545,083
of which: due within 6 months	82,983	1,316,381	1,145,719	2,545,083
Position as at 31/12/2017	85,261	1,339,591	966,433	2,391,285
of which: due within 6 months	85,261	1,339,591	966,433	2,391,285
Position as at 31/12/2018	88,840	1,496,101	1,146,303	2,731,244
of which: due within 6 months	88,840	1,496,101	1,146,303	2,731,244
Total as at 31 December 2016	82,983	1,316,381	1,145,719	2,545,083
Total as at 31 December 2017	85,261	1,339,591	966,433	2,391,285
Total as at 31 December 2018	88,840	1,496,101	1,146,303	2,731,244

Payables to related parties are given in greater detail in Note 7.25.

Trade payables and other liabilities have not been secured by any Company assets.

As at 31 December 2018, funds were drawn from the parent company PPH a.s., in the amount of CZK 51,493,000 (as at 31 December 2017: CZK 38,584,000; as at 31 December 2016: CZK 29,390,000) and from subsidiaries in the amount of CZK 850,027,000 (as at 31 December 2017: CZK 1,018,444,000; Kč; as at 31 December 2016: CZK 876,457,000), which are payables from the title of cash pooling. The average cash pooling interest rate for 2018 was 1.07% p.a. (for 2017: 0.27% p.a.; for 2016: 0.18% p.a.).

The book value of the trade payables and other liabilities is close to their fair value.

Dues to employees also include liabilities from the title of wages and unpaid future performance of the members of the statutory bodies of the Company according to the contract on performing the function of an executive (Note 4.16.4) in the amount of CZK 30,964,000 (2017: CZK 30,243,000; 2016: CZK 37,167,000).

7.9.1. Derivatives

7.9.1.1. Financial derivatives for trading

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

	31 December 2018			31 December 2017		
	Fair value		Nominal value	Fair value		Nominal value
	Positive	Negative		Positive	Negative	
(in thousands of CZK)						
Currency forwards	13,154	34,261	7,276,938	210	69,845	3,572,602
Commodity futures	0	3,892	99,488	0	4,504	91,237

	1 January 2017		
	Fair value		Nominal value
	Positive	Negative	
(in thousands of CZK)			
Currency forwards	439	5,675	1,596,560
Commodity futures	0	0	0

The Company trades the gas commodity on PowerNext, with physical delivery. In 2018, the Company started trading electricity on the EEX, which has a financial settlement system.

The financial revenues of operations with derivatives reported in the profit or loss are for 2018 in the amount of CZK 9,300,000 (for 2017 the financial yield was CZK 119,957,000; for 2016 the financial yield was CZK 14,212,000). Kč).

7.10. Unbilled supplies and advances received

31 December 2018 (in thousands of CZK)	Cat. DOM	Cat. MO	Cat. VO/SO	Other	Total
Unbilled deliveries	1,747,447	1,005,624	643,151	393,861	3,790,083
Advance payments received	-1,957,293	-1,362,113	-262,723	-292,786	-3,874,915
Clearing of Accounts	1,575,919	546,240	143,480	128,847	2,394,486
Unbilled deliveries - after offset	171,528	459,384	499,671	265,014	1,395,597
Advances received - after offset	-381,374	-815,873	-119,243	-163,939	-1,480,429

31 December 2017 (in thousands of CZK)	Cat. DOM	Cat. MO	Cat. VO/SO	Other	Total
Unbilled deliveries	1,904,695	941,320	496,211	293,916	3,636,142
Advance payments received	-2,009,549	-1,262,530	-207,657	-225,931	-3,705,667
Clearing of Accounts	1,658,763	466,361	159,725	109,190	2,394,039
Unbilled deliveries - after offset	245,932	474,959	336,486	184,726	1,242,103
Advances received - after offset	-350,786	-796,169	-47,932	-116,741	-1,311,628

1 January 2017 (in thousands of CZK)	Cat. DOM	Cat. MO	Cat. VO/SO	Other	Total
Unbilled deliveries	1,928,084	991,317	598,658	242,159	3,760,218
Advance payments received	-2,073,365	-1,287,273	-220,226	-204,554	-3,785,418
Clearing of Accounts	1,647,861	529,659	184,278	118,445	2,480,243
Unbilled deliveries - after offset	280,223	461,658	414,380	123,714	1,279,975
Advances received - after offset	-425,504	-757,614	-35,948	-86,109	-1,305,175

7.11. Bank loans and bonds

The structure of short-term financing as at 1 January 2017:

	Limit (in thousands of CZK)	From	To	Interest rate
Overdraft credit lines	900,000	24/5/2016	24/5/2019	floating
Guarantee line	700,000	24/5/2016	24/5/2019	fixed
Exchange programme	3,400,000	24/5/2016	24/5/2019	floating
Total	5,000,000			

The credit lines as at 1 January 2017 were drawn in the form of an overdraft in the amount of CZK 40,794,000. Kč. Furthermore, as at 1 January 2017 funds were drawn from the parent company PPH a.s., in the amount of CZK 905,847,000 that represent liabilities from the title of cash pooling.

On 15 June 2017, the Company emitted bonds of total nominal worth CZK 400 million with a maturity of 3 years and a coupon with a fixed interest yield of 0.90% p.a.

In connection with the Company bond issue, the volume of short-term funding was cut by the volume of issued bonds so as to prevent increase of the total external funding volume. The Company has contractually secured short-term financing in the amount of CZK 4.6 billion and long-term financing in the amount of CZK 0.4 billion. Kč. These external financial resources in the total volume of CZK 5 billion are provided by a consortium of two banks, i.e. Československá obchodní banka, a.s., and Česká spořitelna, a.s.

The structure of short-term financing as at 31 December 2017 and 31 December 2018:

	Limit (in thousands of CZK)	From	To	Interest rate
Overdraft credit lines	900,000	24/5/2016	24/5/2019	floating
Guarantee line	700,000	24/5/2016	24/5/2019	fixed
Exchange programme	3,000,000	24/5/2016	24/5/2019	floating
Total	4,600,000			

The credit lines in 2017 were drawn in the form of an overdraft (as at 31 December 2017 in the amount of CZK 0). Kč). The average interest rate on the overdraft loan in 2017 was 0.42% p.a. Furthermore, the Company as at 31 December 2017 drew funds from the subsidiary companies and the parent company PPH a.s. in the amount of CZK 1,057,028,000 that represent liabilities from the title of cash pooling. The average interest rate between the Company, the subsidiary companies, and the parent company for 2017 was 0.27% p.a.

In 2018 no overdraft credit lines were drawn. As at 31 December 2018, funds were drawn from the subsidiary companies and the parent company PPH a.s., only in the amount of CZK 901,520,000 that represent liabilities from the title of cash pooling. The average interest rate between the Company, the subsidiary companies, and the parent company for 2018 was 1.07% p.a.

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

The structure of long-term financing as at 1 January 2017, 31 December 2017, and 31 December 2018:

	Limit (in thousands of CZK)	From	To	Interest rate
PPAS Bond 0.90/2020, ISIN CZ0003516809	400,000	15/6/2017	15/6/2020	fixed

The structure of the book and real value of the bank loans and bonds is as follows:

(in thousands of CZK)	Book value		
	As at 31/12/2018	As at 31/12/2017	As at 1/1/2017
PPAS Bond 0.90/2020, ISIN CZ0003516809	400,526	399,574	0
Short-term bank loans	0	0	40,794

The details of the bank loans and bonds issued are given in Notes 4.10 and 4.11.

In connection with the conditions under the loan agreements and bond issuance conditions concluded in 2016 and 2017, financial indicators are monitored at the consolidated PP, a.s. Group data level. In case of their

non-fulfilment, the banks may request premature loan repayment and bond redemption. These indicators were fulfilled as at 31 December 2018, 31 December 2017, and 31 December 2016. Details are provided in Note 6.

The book value of the bank loans and bonds is close to their real value.

Overview of the movement of liabilities from financial operations - additional comment to the cash flow statement:

(in thousands of CZK)	31 December 2017	Cash flows	Non-cash flows - Revaluation of liabilities using the effective interest rate method	31 December 2018
Bank overdrafts	0	0	0	0
PP, a.s., bonds	399,574	-3,600	4,552	400,526
Loan from the parent and subsidiary companies - cash pooling (see point 7.9.)	1,057,028	-155,508	0	901,520
Total	1,456,602	-159,108	4,552	1,302,046

(in thousands of CZK)	1 January 2017	Cash flows	Non-cash flows - Revaluation of liabilities using the effective interest rate method	31 December 2017
Bank overdrafts	40,794	-40,794	0	0
PP, a.s., bonds	0	398,192	1,382	399,574
Loan from the parent and subsidiary companies - cash pooling (see point 7.9.)	905,847	151,181	0	1,057,028
Total	946,641	508,579	1,382	1,456,602

The method and fulfilment of the covenant is described in detail in Note 6.

7.12. Deferred tax receivables and liabilities

Compensation of deferred tax assets and liabilities was as follows:

(in thousands of CZK)	31 December 2018	31 December 2017	1 January 2017
Deferred tax asset to be recovered after more than 12 months	83	12	104
Deferred tax asset to be recovered within 12 months	26,308	49,177	46,965
Deferred tax liability payable after more than 12 months	-51,501	-30,915	-30,396
Net deferred tax payable (-) / tax receivable (+)	-25,110	18,274	16,673

The deferred tax was calculated at 19% (the rate enacted for 2017 and subsequent years).

Deferred tax liability (-) and deferred tax receivable (+) (in thousands of CZK)	31 December 2018	31 December 2017	1 January 2017
Tax liability deferred due to different book values of fixed assets	-48,097	-30,060	-30,055
Tax non-deductible part of allowances for receivables	8,724	22,317	24,672
Provisions and other temporary differences	2,405	13,339	7,818
Obligations to employees and board members	11,858	12,678	14,238
Total	-25,110	18,274	16,673

Deferred tax liability (-) and deferred tax receivable (+) (in thousands of CZK)	Difference in the residual prices of fixed assets	Tax non-deductible part of allowances to receivables	Obligations to employees and board members	Other	Total
1 January 2017	-30,054	24,672	14,238	7,817	16,673
profit (+) / loss (-)	-6	-2,355	5,521	-1,559	1,601
31 December 2017	-30,060	22,317	19,759	6,258	18,274
profit (+) / loss (-)	-18,037	-13,593	-10,934	-820	-43,384
31 December 2018	-48,097	8,724	8,825	5,438	-25,110

7.13. Income tax due and other tax liabilities

Tax liabilities (in thousands of CZK)	Income tax payable (-) / receivable (+)	Other tax liabilities
Book value		
Position as at 1/1/2017	-34,784	-75,235
Position as at 31/12/2017	236	-88,493
Position as at 31/12/2018	123,210	-85,480

Other tax liabilities in 2018 consist of personal income tax in the amount of CZK 2,832,000 (2017: CZK 2,457,000; 2016: CZK 2,791,000), VAT in the amount of CZK 76,900,000 (2017: CZK 80,781,000; 2016: CZK 67,253,000) and other taxes and charges in the amount of CZK 5,570,000 (2017: CZK 5,255,000; 2016: CZK 5,191,000).

7.14. Provisions

Provisions (in thousands of CZK)	Short-term
Book value	
Position as at 1/1/2017	16,888
Creation of provisions	49,443
Reversals of provisions	-72
Use of provisions	0
Position as at 31/12/2017	66,259
Creation of provisions	225,844
Reversals of provisions	-2,772
Use of provisions	-45,304
Position as at 31/12/2018	244,027
Net book value 2017	66,259
Net book value 2018	244,027

Short-term provisions include mainly the provisions for remediation and potential tax liabilities from the title of VAT.

7.15. Sales

Sales (in thousands of CZK)	2018	2017
Sale of natural gas	7,681,963	8,132,295
Sale of gas distribution	2,468,319	2,357,085
Sales of CNG	44,470	39,530
Unused tolerance	1,773	769
Sale of electricity	610,942	552,387
Sale of electricity distribution	727,688	584,426
Other services	358,722	356,027
of which, revenues from catering	16,541	15,424
of which: revenues from property leases	47,322	53,739
of which: revenues from other services (mainly SLAs)	294,859	286,864
Sale of goods and products (services)	976	1,323
Total	11,894,853	12,023,842

7.16. Purchased gas, electricity, materials and services connected with gas and electricity supplies

Purchased gas, electricity, materials and services connected with gas and electricity supplies (in thousands of CZK)	2018	2017
Costs of gas purchases	6,568,236	6,374,812
of which: gas reservoir costs	169,470	185,513
Gas distribution fee	2,452,336	2,353,560
Costs of electricity purchases	604,334	547,618
Electricity distribution fee	713,732	575,716
Total	10,338,638	9,851,706

7.17. Other operating income

Other operating revenues (in thousands of CZK)	2018	2017
Profit from sales of fixed assets	2,277	928
Income from contractual fines and default interest	23,999	7,953
Income from write-off of receivables	2,340	1,680
Income from write-off of lapsed liabilities	6,676	6,060
Court fee compensations	6,660	7,146
Benefits from insurance (indemnity)	683	953
Shares of the profit	345,942	330,853
Other operating income	1,870	1,526
Total	390,447	357,099

7.18. Personnel costs

Personnel costs (in thousands of CZK)	2018	2017
Employees	267,364	249,170
Members of statutory bodies	81,555	76,818
Future benefits to members of statutory bodies under contracts (Note 4.16.4.)	4,209	84
Total	353,128	326,072

Related parties to the Company are also key management personnel, who are the members of statutory bodies.

In the years 2017 and 2018 no loans or credit were provided to members of the Board of Directors, and other members of Company Management. Company cars, computer and telecommunication equipment are made available for use by the board members and other management.

In 2018, the personnel costs of statutory bodies include also paid dividends to members of statutory bodies in the amount of CZK 39,000,000 (2017: CZK 36,000,000) and consideration was paid according to the executive contracts (see Note 4.16.4.) in the amount of CZK 3,488,000 (2017: CZK 3,478,000). Kč).

Contributions to the State pension scheme (on the basis of defined contributions) in 2018 amounted to CZK 45,696,000 (2017: CZK 42,310,000). Kč).

7.19. Amortisation of intangible and tangible fixed assets

Amortisation of intangible and tangible fixed assets (in thousands of CZK)	2018	2017
Depreciation of buildings and other constructions	23,153	22,878
Depreciation of movables and sets of movables	13,874	15,582
Depreciation of vehicles	7,396	7,251
Depreciation of IT equipment and other hardware	14,856	14,829
Depreciation of tangible fixed assets	545	303
Depreciation of intangible assets	29,353	48,794
Total	89,177	109,637

7.20. Other operating costs

Other operating costs (in thousands of CZK)	2018	2017
Consumption of materials and energy	23,772	23,215
Costs of goods	782	1,278
Services	444,654	410,679
of which: asset repair and maintenance costs	861	1,154
of which: claims collection costs	19,483	23,464
of which: promotion, advertising and marketing costs	98,988	91,302
of which: operating lease payments	7,987	12,990
of which: IT systems management and repair costs	128,722	115,065
of which: business representatives' commission costs	29,539	17,492
of which: consulting costs	28,249	17,316
of which: building operational costs	39,852	44,471
of which: catering costs	10,976	10,752
of which: costs of other services	79,997	76,673
Taxes and levies	11,466	13,372
Allowances and write-off of receivables	45,478	17,439
Others (mainly other provisions in the table above that are not stated elsewhere)	189,370	55,398
Total	715,522	521,381

Information on the auditors' fees is disclosed in the notes on the consolidated financial statements of Pražská plynárenská Holding a.s., as at 31 December 2018.

7.21. Financial costs

Financial indicators (in thousands of CZK)	2018	2017
Interest expense	15,310	4,879
Derivative transactions expense	149,490	221,167
Bank charges	7,077	8,419
Other financial costs (mainly exchange losses)	27,155	26,684
Total	199,032	261,149

7.22. Financial revenues

Financial indicators (in thousands of CZK)	2018	2017
Interest income	14,245	2,121
Derivative transactions income	158,791	101,211
Other financial revenues (mainly exchange gains)	32,737	22,315
Total	205,773	125,647

7.23. Income tax

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

(in thousands of CZK)	2018	2017
Income tax - current	118,378	209,066
Income tax - previous years adjustment	-142	2,220
Income tax - deferred	43,385	-1,602
Income tax - comprehensive income	161,621	209,684

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

(in thousands of CZK)	2018	2017
Pre-tax profit	795,576	1,436,642
Income tax at the statutory rate of 19%	151,159	272,962
Non-taxable income	-70,318	-63,822
Tax non-deductible expenses	61,637	10,952
Gifts	-1,022	-803
Other	20,165	-9,605
Total income tax	161,621	209,684

7.24. Dividends paid

On 16 May 2018 a dividend was paid in the amount of CZK 520,000,000 (CZK 361 per share), in 2017: CZK 520,000,000 (CZK 361 per share).

7.25. 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 Company was involved in the following transactions with related parties:

Subsidiary companies	2018	2017
Revenues (in thousands of CZK)		
Revenues from sale and distribution of gas and electricity	161,071	166,885
Revenues from sale of services	333,041	321,511
Revenues from the sale of fixed assets	1,662	0
Revenues from the sale of goods and material	179	114
Shares of the profit	345,942	330,853
Other revenue	4,065	854
Total revenues	845,960	820,217

Subsidiary companies	2018	2017
Costs (in thousands of CZK)		
Consumption of material	16,138	13,845
Gas distribution fee	1,494,540	1,549,829
Purchase of other services	238,710	216,886
Other costs	10,014	2,417
Total costs	1,759,402	1,782,977

Controlling entity	2018	2017
Revenues (in thousands of CZK)		
Revenues from sale of services	894	914
Total revenues	894	914

Controlling entity	2018	2017
Costs (in thousands of CZK)		
Other costs	1,006	136
Total costs	1,006	136

Ultimate parent company	2018	2017
Costs (in thousands of CZK)		
Purchase of other services	0	30
Total costs	0	30

Other related parties	2018	2017
Revenues (in thousands of CZK)		
Revenues from sale of services	203	246
Total revenues	203	246

Other related parties	2018	2017
Costs (in thousands of CZK)		
Purchase of other services	11,770	13,896
Total costs	11,770	13,896

The Group reported the following balances with related parties:

Subsidiary companies	31 December 2018	31 December 2017	1 January 2017
Receivables and payables (in thousands of CZK)			
Trade receivables	330,783	327,995	337,794
Short-term advances paid*	842,650	861,156	874,288
Estimated receivables	22,289	28,258	34,245
Other receivables and accruals	15,634	13,957	2,589
Total receivables	1,211,356	1,231,366	1,248,916
Trade payables	52,667	31,419	32,771
Short-term advances received*	11,739	18,685	21,816
Estimated payables	3,024	3,621	1,254
Financial resources from subsidiaries	850,027	1,018,444	876,457
Other payables and accruals	1,299	460	119
Total accounts payable	918,756	1,072,629	932,417

*balances presented with VAT.

Controlling entity	31 December 2018	31 December 2017	1 January 2017
Receivables and payables (in thousands of CZK)			
Trade receivables	21	0	25
Contingent asset accounts	0	26	45
Total receivables	21	26	70
Short-term advances received*	0	24	24
Financial resources from PPH a.s.	51,493	38,584	29,390
Other payables and accruals	80	18	0
Total accounts payable	51,573	38,626	29,414

*balances presented with VAT.

Other related parties	31 December 2018	31 December 2017	1 January 2017
Receivables and payables (in thousands of CZK)			
Trade receivables	482	78	78
Short-term advances paid*	222	1,570	0
Total receivables	704	1,648	78
Trade payables	148	77	295
Long-term advances received*	10	10	10
Total accounts payable	158	87	305

*balances presented with VAT.

The Company in all monitored periods did not report any balances as at the decisive date in relation to the ultimate parent company.

Dividends paid to shareholders in 2018 and 2017 are disclosed in Note 7.24.

Transactions made with the Group's management are disclosed in Notes 7.18 and 7.9.

7.26. Regulatory framework

As at 1 January 2007, the Company in line with the requirements of the European Directives on the liberalisation of the gas market and amendment of the Energy Act unbundled part of its operations and transferred the part of the enterprise related to the distribution of natural gas to its subsidiary company. This resulted in the legal division of the distribution network operator from the vertically integrated gas company and the establishment of the subsidiary company Pražská plynárenská Distribuce, a.s., Member of the Pražská plynárenská, a.s. Group, which took over the role of distribution network operator. Under the granted licences, the Company trades in natural gas and electricity.

- Gas and electricity trading (the trader is not subject to price regulation).

The gas and electricity market is fully liberalised, and all customers thus have the option to choose their own supplier.

7.27. Contractual and other future commitments

The expenditure on acquisition of tangible and intangible assets contracted as at 31 December 2018, which has not yet been incurred amounts to CZK 80,284,000 (2017: CZK 6,256,000). Kč).

Subsidiaries (in thousands of CZK)	2018	2017
Up to 1 year	530	5,082
1-3 years	1,886	0
Total	2,416	5,082

Other companies (in thousands of CZK)	2018	2017
Up to 1 year	1,394	1,054
1-3 years	76,474	120
Total	77,868	1,174

Operating leasing expenditures charged to the statement of comprehensive income are recognised in row Services in Note 7.20.

The Company leases gas storage, tangible and intangible

The Company is engaged in the purchase and sale of gas and electricity (commodities) including related operations. The Company revenue according to type of business relationship is either only turnover for a sold commodity, or turnover from a sold commodity and the distribution service.

The customers have the right to choose a commodity supplier. If they select a supplier whose delivery territory is not in the area of physical consumption of the commodity, they pay such a supplier only for the supplied commodity. The distributor whose territory is the site of the consumption point pay for the distribution and system services (hereinafter the services) related to the delivery of the commodity. The customer may conclude a comprehensive service contract, and in such case the supplier will also mediate the provision of the distribution service.

The commodity price is contractual (unregulated), while the price of the services is regulated. The distribution service price is regulated by the Energy Regulatory Office.

assets under non-cancellable operating lease agreements.

The leases are contracted for terms between 1 and 10 years, and the majority of the lease agreements are renewable at the end of the lease period.

The future aggregate minimum lease payments under non-cancellable agreements (without valid VAT) as at 31 December 2018 amounted to CZK 605,882,000 (as at 31 December 2017: CZK 472,132,000). Kč).

(in thousands of CZK)	2018	2017
Up to 1 year	169,209	185,818
1-3 years	203,082	233,582
3-5 years	153,826	46,497
Above 5 years	79,765	6,235
Total	605,882	472,132

8. Other facts

8.1. Contingent liabilities

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

The Company 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 on record.

The Company Management is not aware of any important potential Company liabilities as at 31 December 2018 apart from the potential liabilities mentioned in Note 7.14.

8.2. Events after date of the financial statements

On 1 March 2019, the sole shareholder of the Company, on behalf of the General Assembly, decided to recall Members of the Supervisory Board of the Company, Ing. Michal Hašek; Bc. Martin Čáslavka; Mgr. Luboš Koželuh, MBA; Mr. Radomír Nepil; RNDr. Marcela Plesníková; and JUDr. Štěpán Stupčuk. Effective 2 March 2019, Mgr. Reda Ifrah; Mr. Ivo Kramoliš; Mgr. Václav Kučera; Mgr. Jindřich Lechovský; Mr. Matěj Turek, CFA; and Ing. Lukáš Wagenknecht were elected to the vacant positions.

In the first half of Q1 2019, the Company acquired a stake in MONTSERVIS PRAHA, a.s., which is mainly engaged in the construction and reconstruction of housing block and household boiler facilities as well as the management and operation of power facilities.

No further events occurred after 31 December 2018 that had a significant impact on the financial statements.

8.3. Authorisation of the financial statements

The financial statements were authorised by the Company Board of Directors for publishing and issue on the date stated below. The financial statements authorised in this manner may be supplemented or amended upon request and approved by the sole shareholder at the General Meeting.

Prague, 20 March 2019

Ing. Pavel Janeček
Chairman of the Board
of Directors

Ing. Milan Cízl
Member of the Board of Directors

A minimalist interior scene. On the left is a dark grey wall. To the right, a white shelf is mounted on the wall. On the shelf sits a white cylindrical pot containing a green plant with long, pointed leaves. Below the shelf, a white radiator is visible. The background is a bright, overexposed window area. The overall aesthetic is clean and modern.

*We help
new life into the world.*

We get things moving.

Consolidated Financial Statements

Consolidated statement of financial position as at 31 December 2018

Compiled in compliance with the IFRS in the wording adopted by the EU

(in thousands of CZK)	Note:	31 December 2018	31 December 2017
ASSETS			
Fixed assets			
Land, buildings, and equipment	6.1	7,047,961	6,673,492
Intangible assets	6.2	87,173	52,429
Other fixed assets		1,487	1,687
Fixed assets - total		7,136,621	6,727,608
Short-term assets			
Inventories	6.3	922,382	824,960
Trade and other receivables	6.4	1,919,412	1,765,278
Other tax receivables		0	0
Cash and cash equivalents	6.5	1,478,480	1,328,211
Other assets		216,033	145,820
Paid income tax advance	6.13	130,051	0
Short-term assets - assets		4,666,358	4,064,269
TOTAL ASSETS		11,802,979	10,791,877
EQUITY AND LIABILITIES			
Equity capital			
Registered capital	6.6	431,972	431,972
Profit funds	6.7	238,960	238,960
Retained earnings		3,847,041	3,419,213
Equity - total		4,517,973	4,090,145
Long-term liabilities			
Trade liabilities and other long-term liabilities	6.8	8,625	834
Bonds	6.11	3,061,321	3,051,809
Deferred tax liability	6.12	494,492	414,785
Long-term liabilities - total		3,564,438	3,467,428
Short-term liabilities			
Trade payables and advances received	6.9 + 6.10	3,049,907	2,599,369
Other liabilities	6.9	285,884	320,224
Due income tax	6.13	0	38,784
Other tax liabilities	6.13	96,954	99,468
Provisions	6.14	287,823	176,459
Short-term liabilities - total		3,720,568	3,234,304
TOTAL EQUITY AND LIABILITIES		11,802,979	10,791,877

Consolidated statement of comprehensive income for the year ended 31 December 2018

Compiled in compliance with the IFRS in the wording adopted by the EU

(in thousands of CZK)	Note:	2018	2017
Sales	6.15	12,446,364	12,585,902
Purchased gas, electricity, materials, and services connected with gas and electricity supplies	6.16	9,002,975	8,517,676
Other operating income	6.17	63,190	39,203
Personnel costs	6.18	758,009	685,675
Amortisation of intangible and tangible fixed assets	6.19	384,142	418,009
Other operating costs	6.20	1,068,744	768,653
Operating profit/loss		1,295,684	2,235,092
Financial costs	6.21	218,885	288,013
Financial revenues	6.22	202,493	124,949
Financial profit/loss		-16,392	-163,064
Pre-tax profit		1,279,292	2,072,028
Income tax	6.23	331,464	386,598
Profit/loss after tax for the period		947,828	1,685,430
Total comprehensive income		947,828	1,685,430

Consolidated statement of changes in equity for the year ended 31 December 2018

Compiled in compliance with the IFRS in the wording adopted by the EU

(in thousands of CZK)	Registered capital	Profit funds	Retained earnings	Total
Note	6.6	6.7		
Position as at 1 January 2017	431,972	238,960	2,235,510	2,906,442
Impact of the application of the IFRS 9 and IFRS 15			18,273	18,273
Profit/loss after tax for the period	0	0	1,685,430	1,685,430
Other comprehensive income	0	0	0	0
Total comprehensive income	0	0	1,685,430	1,685,430
Transactions with owners of the Company:				
Dividends paid	0	0	-520,000	-520,000
Interim dividends paid	0	0	0	0
Balance as at 31 December 2017	431,972	238,960	3,419,213	4,090,145
Profit/loss after tax for the period	0	0	947,828	947,828
Total comprehensive income	0	0	947,828	947,828
Transactions with owners of the Company:				
Dividends paid	0	0	-520,000	-520,000
Balance as at 31 December 2018	431,972	238,960	3,847,041	4,517,973

Consolidated statement of cash flows for the year ended 31 December 2018

Compiled in compliance with the IFRS in the wording adopted by the EU

(in thousands of CZK)	2018	2017
Pre-tax profit	1,279,292	2,072,028
Adjustments to profit before tax	514,016	472,815
Depreciation of fixed assets	384,142	418,009
Write-offs of receivables	119,378	32,457
Change in the position of adjustments and reserves	39,221	-68,788
Profit from sales of fixed assets	-3,188	-1,977
Net interest	22,991	28,716
Other non-cash movements (revaluation of derivatives)	-48,528	64,398
Net cash flows from operations before tax and changes in working capital	1,793,308	2,544,843
Change in working capital needs	80,210	-50,672
Changes in the position of receivables from operations	-270,976	-846,885
Change in liabilities from operations	449,260	789,510
Movement in inventories (gross)	-98,074	6,703
Net cash flow from operations before tax	1,873,518	2,494,171
Interest paid	-24,770	-19,437
Interest received	12,283	865
Income tax on current activities and additional tax paid minus tax refunds	-421,349	-394,431
Net cash flow from operations	1,439,682	2,081,168
Acquisition cost of fixed assets	-794,295	-715,779
Revenues from sales of fixed assets	4,182	4,730
Credit and loans to associates	0	-58
Net cash flow from investments	-790,113	-711,107
Revenue from long-term liabilities	12,162	1,048
Payment of long-term liabilities	-4,371	-1,148
Bond yields	0	398,192
Repayment of short-term bank loans*	0	-40,794
Change in the position of the loan from the parent company PPH a.s.*	12,909	9,194
Dividends paid	-520,000	-520,000
Net cash flows from financing activities	-499,300	-153,508
Balance of cash and cash equivalents at beginning of accounting period	1,328,211	111,658
Net change in cash and cash equivalents for the accounting period	150,269	1,216,553
Balance of cash and cash equivalents at end of accounting period	1,478,480	1,328,211

Cash flows from a loan from the parent company PPH a.s. and short-term bank loans are reported net because they constitute cash income and payments with quick turnover and short-term maturity.

Notes on the Consolidated Financial Statements

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

Pražská plynárenská, a.s., (hereinafter referred to as the 'Company') was incorporated on 31 December 1993 and has its registered office at the address Prague 1 - Nové Město, Národní 37, Post Code 110 00, Czech Republic.

The Company's ID number is 601 93 492. The LEI of the Company is 315700QBYOTLGRMO011.

1.1. Definition of the 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/distribution of natural gas and the sale of electricity.

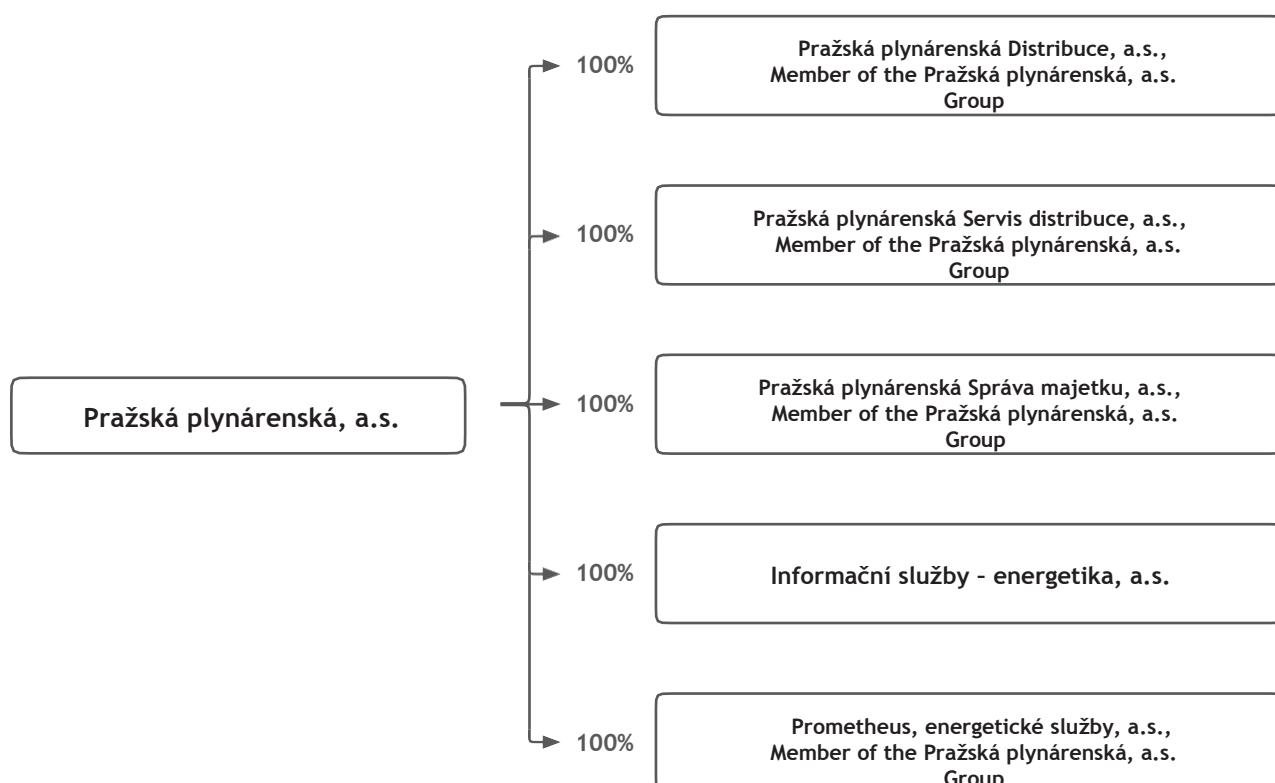
Other Group business activities are:

- Provision of services related to information technologies and the purchase and sale of hardware and software;

- Provision of services in the field of research into the cause of natural gas losses, measuring and metrology in the gas industry;
- Service, maintenance, repairs and construction of gas facilities;
- provision of services in the field of administrative management and organisational maintenance management in relation to the movable assets and real estate property.
- Generation and distribution of energy.

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.

Organisational structure of the Group as at 31 December 2018 and 31 December 2017:



1.2. Organisational structure of the Company's Board of Directors and Supervisory Board as at 31 December 2018

Structure 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. Vladimír Vavřich, MBA, Member of the Board of Directors

Structure 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
RNDr. Marcela Plesníková, Member of the Supervisory Board
JUDr. Štěpán Stupčuk, Member of the Supervisory Board
Mgr. Miroslav Vránek, Member of the Supervisory Board
Petr Klepáček, Member of the Supervisory Board
Radomír Nepil, Member of the Supervisory Board
Ing. Petra Zemanová, Member of the Supervisory Board

Composition of the Audit Committee:

Ing. Lenka Mrázová, FCCA, Chairwoman of the Audit Committee
Ing. Pavlína Kouřilová, Member of the Audit Committee
Ing. Marta Ptáčková, Member of the Audit Committee

At the meeting of the Supervisory Board of the Company, held on 6 February 2018, Ing. Alois Těšitel was recalled from the position of Member of the Board of Directors and Ing. Vladimír Vavřich, MBA, was newly elected in his place.

No other significant changes entered in the commercial register took place in the period under consideration.

1.3. Major shareholders of the Company

The sole shareholder controlling the Company as at 31 December 2018 and 31 December 2017, is Pražská plynárenská Holding a.s. ('PPH a.s.'), which is the final parent company controlled by the Capital City of Prague.

2. Application of new and amended International Financial Reporting Standards (IFRS)

2.1. The Group applied the following standards and amendments to the standards

Applied during the year (full retrospective approach):

IFRS 9, Financial Instruments (amended in July 2014, effective for the year beginning on 1 January 2018 or later). The standard includes a model for classification and pricing, model of impairment based on an 'expected loss' and significantly regulates the approach to hedge accounting.

IFRS 15, Revenues from contracts with customers (issued in May 2014, effective for the year beginning on 1 January 2018 or later). The standard replaces the IAS 18, which covered the contracts on sale of goods and services and the IAS 11, which covered long-term contracts. The IFRS 15 is based on the principle that the revenue is interpreted at the moment of transfer of control of the goods or services to the customer.

The other adopted amendments and interpretations do not have a significant impact on the financial statements of the Group.

2.2. Newly issued standards, amendments to the standards and their interpretations, which are still ineffective and were not applied prematurely by the Group

The following standards, amendments to the standards and interpretations, which may have a significant impact on the consolidated financial statements of the Company will be mandatory for the future accounting periods according to the data given below depending on their approval by the

European Union.

- IFRS 16, Leases (approved by the European Union, effective for periods beginning 1 January 2019).

The new IFRS 16 fully replaces accounting requirements for leases according to IAS 17. Major changes mainly comprise the recognition of leases on the side of the lessee. IFRS 16 introduces a single lessee accounting model for recognition of all lease transactions. Lessees will be required to recognise an assets - right to operate the asset and lease liabilities. The requirements on the lessor side are more or less comparable with IAS 17.

The Group assumes that the new IFRS 16 will mainly impact the volume of reported fixed assets, long-term liabilities, depreciation, interest costs and rental costs. The Group will continuously performs and analyses all the impacts of the new standard. The Group estimates that in consequence of transition to the new standard, the volume of reported fixed assets and long-term liabilities will rise by an insignificant amount. Furthermore, the future income statement will be characterised by a rise in depreciation and interest costs as well as a reduction in rental costs.

Other new standards, amendments, interpretations and improvement of existing standards, which will be mandatory for the future accounting periods will have an insignificant or no impact on the consolidated financial statements of the Group.

3. Basic assumptions for preparation of the consolidated financial statements and significant accounting policies

3.1. Declaration of Conformity

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations as adopted by the European Union applicable in 2018.

3.2. Basis of preparation of consolidated financial statements

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

3.3. Functional and presentation currency of the 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 (so-called 'functional currency').

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

3.4. Consolidation basis

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 controls.

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

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

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

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

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

3.5. Intangible assets

3.5.1. Recognition and measurement

Separately acquired intangible assets are recognised at cost, less accumulated amortisation and impairment losses.

3.5.2. Amortisation

Intangible assets are amortised applying the straight-line method over their estimated useful lives as shown in the following table:

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

The expected useful life and the amortisation 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. Recognition and measurement

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

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

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

The repair and maintenance costs of property, buildings, and equipment are recognised in the consolidated statement of comprehensive income in the period in which they occurred.

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

3.6.2. Depreciation

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

Land owned by the Group is not depreciated.

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

Tangible asset category	Service life (number of years)
Buildings (except regulating station buildings)	50
Regulating station buildings	30
Gas pipelines, pipeline branch connections	40
Technological boiler equipment	15
Regulating stations - technology	10
Gas meters and regulators	10
Trucks	8
Passenger cars	4
Computer equipment	4
Inventories	2-8

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

Leased assets are depreciated for their assumed service life just like owned assets or over the period of the lease, if this period is shorter.

3.6.3. Disposals

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

3.7. Impairment of non-financial assets

Upon each occurrence of events or changes that indicate or may result in the rise of the book value of land, buildings, or equipment as well as other non-financial assets including intangible assets to a value that exceeds their recoverable value, a review is done to determine whether the assets have been impaired. Tangible and intangible assets not yet available for use are reviewed for impairment annually. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

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

3.8. Inventories

Inventories are recognised at acquisition cost or recoverable value, whichever is lower. The acquisition cost of the inventories includes the acquisition price and expenses incurred in bringing inventories to their present condition and location.

The price of natural gas compressed into the underground gas storage is determined on the basis of supplier invoices received for the given month. The price of stored gas is calculated under the allocation model based on the movement of gas in the storage facility and based on the invoices received for the given month, which is also the price of the extracted natural gas in the month following the given month.

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

3.9. Financial assets

The Group classifies its financial assets according to the IFRS 9 into the following categories:

- financial assets at incurred cost (debt instruments),
- financial assets at fair value posted to profit or loss.

3.9.1. Financial liabilities at incurred cost

Classification of financial assets upon first entry depends on the characteristics of the contractual cash flows of the financial assets and the business model of the Group for their management.

The Group values the financial assets at incurred cost if both of the following conditions are fulfilled:

- the financial asset is held within the framework of the business model with objective to hold the financial asset for the purpose of getting contractual cash flows,
- the contractual conditions of the financial assets lead to the set data of the cash flows, which are exclusively repayments of the principal and interest on the outstanding principal.

Gains and losses from derecognition, modification, or impairment of assets are reported in the profit or loss.

The financial assets of the Group at incurred cost include the trade and other receivables, cash and cash equivalents as well as other financial assets in the Statement of Financial Position.

The Group reports an adjusting entry for Expected Credit Losses (ECL) for all the financial assets at incurred cost.

In the case of trade receivables and contractual assets, the Group in the calculation of ECL applies the simplified approach and reports adjusting entries in the amount of the full life ECL at each financial statements date. The Group created a matrix of adjusting entries, which is based on historical experience with credit losses and is adjusted by outlook information specific for the debtors and economic environment, which is the expected GDP growth and a change is expected in the unemployment rate.

The impairment loss is reported in the profit or loss. Unrecoverable trade receivables are depreciated contra the adjustment entries. The Group depreciates receivables after taking all legal steps associated with the collection or sale of debts. Subsequently, the paid amounts for receivables already written off are reported in the profit or loss.

The Group has a three-level ECL. In the first reporting of the financial assets, if there is no evidence of failure, the Group assigns the financial assets to Level 1. If a significant increase in the credit risk has occurred since the date of first reporting, the Group will assign such a financial asset to Level 2. If the financial asset fulfils the definition of failure, the Group transfers it to Level 3.

The Group considers potential failure as a situation in which it will not be able to collect all the outstanding amounts according to the initially negotiated conditions. The Group considers the failure indicators as major financial problems on the part of the debtor, probability that the debtor will enter into bankruptcy or financial restructuring.

Application of the simplified approach using the impairment matrix

In the case of trade receivables without a significant financing element, the Group defines the volume of the adjusting entries according to the matrix. This matrix is based on the application of a reasonable degree of losses on unpaid trade receivable balances (i.e. age analysis of the receivables).

When determining the size of the adjusting entries by simplified procedure, the Group takes the following steps. The Group first divides its individual trade receivables into groups with characteristics similar to credit risk. In the second step, the Group sets a ratio of historical loss for each group with a similar credit risk. This ratio is determined for 3 consecutive accounting periods. At the next step, the Group determines the expected losses for each group of receivables, which is further divided into partial categories according to the number of days that they are overdue. At the last step, the Group will enumerate the adjusting entries on the basis of the current gross volume of trade receivables multiplied by the ratio of expected losses.

If the trade receivable is qualified as unrecoverable, a 100% adjusting entry is created for it. The creation of adjusting entries is posted to profit or loss.

3.9.2. Financial assets at fair value posted to profit or loss

Derivative financial instruments are, upon first posting, reported at fair value as at the date of negotiation of the contract and subsequently revalued at fair value. The method for reporting the final profit or loss depends on whether the given derivative is classified as a securing derivative or as a trade derivative.

The Group uses currency forwards to secure the expected cash flows, currency and price risks. The financial assets posted at fair value to the profit or loss are initially reported at fair value and subsequently valued at fair value. The unrealised profits and losses from the revaluation of financial assets at fair value, just like the realised profits and losses, are posted to profit or loss. All derivatives are classified as other assets if their fair value is positive, and as other liabilities if their fair value is negative. Changes in fair value are directly reported to profit or loss.

The Group's Treasury Department monitors the currency risk of the Group and the banks so as to ensure that this risk is as small as possible. Fair values are obtained from quoted market prices, discounted cash flow models, and

option pricing models as appropriate.

3.10. Cash and cash equivalents

Cash and cash equivalents include cash on hand, call deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less that are held for the purpose of covering current liabilities.

3.11. Equity capital

3.11.1. Registered capital

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

3.11.2. Profit funds

The statutory reserve funds are created from the profit of the Group.

Usage of funds created from profit is in accordance with the Articles of incorporation of the Group companies.

3.12. Financial liabilities

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

Financial liabilities are classified according to the character of the contractual arrangements. Financial liabilities comprise mainly trade payables, short-term bank loans, overdraft accounts, loans and credit from the parent company, and other liabilities.

Short-term trade liabilities and other financial liabilities, excluding liabilities at fair value reported in the profit or loss, are initially reported at fair value and subsequently valued at book value using the effective interest rate method.

3.12.1. Financial liabilities at fair value through profit or loss

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

Derivatives are the only type of financial liabilities recognised at fair value through gain or loss of the Group.

3.12.2. Other financial liabilities

Other financial liabilities are initially recognised at fair value and subsequently measured at incurred cost discounted at the effective interest rate. The portion of non-current liabilities with contracted maturity within one year are classified in short-term liabilities.

3.12.3. Trade payables

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

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

Trade payables are initially recognised at fair value and subsequently measured at incurred cost discounted at the effective interest rate.

3.13. Unbilled supplies and advances received

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

3.14. Bank loans

Loans and financial aid are initially recognised at fair value, which is equal to the fair value of the received performance, less the costs related to the provision of a loan or financial aid. Interest-bearing bank loans and other short-term financial borrowings are subsequently recognised at incurred cost considering the materiality principle and using the effective interest rate method. Any difference between proceeds (less transaction costs incurred) and redemption value is recognised in profit or loss over the period of the loan using the effective interest rate method. Borrowing costs related to a particular asset are capitalised into the acquisition costs of the asset.

3.14.1. Lending costs

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

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

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

3.15. Bonds

The Group initially recognises the issued debt securities and subordinate liabilities at fair value on the date of their creation. After initial recognition, these financial liabilities are valued at incurred cost using the effective interest rate.

3.16. Reserves

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

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

Market interest rates are used for discounting.

3.17. Revenues from contracts with customers

The Group reports revenue if the obligation to fulfil by transfer of the promised goods or services to the customer, who gets control over this asset, which entails supply of services and goods and their acceptance by the customer.

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

Some one-off discounts and bonuses do not fulfil the definition of an independent liability to be fulfilled, but represent pre-payment for future services. These one-off discounts and bonuses lead to the reporting of contractual assets, which are subsequently amortised for the residual contract term.

If these discounts and bonuses for the service provided during the contract term is non-uniform, and the monthly service is provided to the customer uniformly, the total revenues from the services are reported on a uniform basis.

In this case, the constant monthly revenues will also be reported in compliance with the IFRS 15. The discount may be provided at the beginning or during the contract term. The discounts and bonuses may be provided gradually, which means that the size of the discount changes during the minimum term of the contract. The discounts and bonuses are reported during the contract term on linear basis through the contractual asset, which is created in the period of lower payments and subsequently amortised over the residual contract term.

When posting contractual assets within the framework of the model of expected loss according to the IFRS 9, the customer's credit risk is considered.

Contractual costs

The Group treats the commission for business representatives in the same manner as it treats the discounts and bonuses.

The commission is considered to be an incremental cost for negotiation of a contract and is thus posted to cost. These costs are amortised over the agreed customer holding time.

3.17.1. Revenues from sale and distribution of gas

Revenue from natural gas supplies is recognised when the commodity is delivered. Revenue from the sale of natural gas on the liberalised market is measured based on the commodity value reflecting all costs for natural gas purchases and the gross margin that covers costs of electricity trade and profit, and the cost of other energy services related to gas deliveries to the customer in the required quantity and at the required time

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

The price of other supply services for households and low volume customers is usually 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 period of a month or longer, or this price is based on any of the selected products offered by the Company.

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

Gas supply and distribution to high-volume and middle-volume customer categories are billed on a monthly basis according to the measured consumption. Gas supplies to low-volume customer categories ('MO') and households ('DOM') are billed periodically once every 12 months (according to Article 15, Act No 70/2016 Coll.), 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' (see Notes 3.22.1 and 4.1). The amount of unbilled gas is calculated from the total amount of purchased gas in the particular year based on past behaviour of individual customers and is valued in relation to the valid price list of the Group companies, or to individual prices adjusted by discounts

3.17.2. Revenues from sales of electricity

Revenue from sales of electricity 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.

The electricity price consists of two components, regulated and non-regulated items. The regulated component is composed of the price for electricity distribution and the regulated services. The individual items are published by ERO according to its price decisions. The price level for individual items can vary by distributor.

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

Electricity supply and distribution to middle-volume customer categories - households ('MOO') - and middle-volume customer categories - entrepreneurs ('MOP') - are billed based on the measured consumption of each offtake point, which is performed in the reading cycle set by the relevant provider of the distribution network. Electricity supplies to categories MOO and MOP with Type C reading are billed periodically once within 12 months 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 reading of the consumption of each off take point (according to the provisions of Section 15, Decree No 70/2016 Coll., and the provisions of Section 3, Decree No 152/2016 Coll.).

Revenues from MOO and MOP categories consist of actually billed revenues and revenues from 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 individually set prices and products.

Electricity supply and distribution to high-volume categories ('VO'), whose offtake points are at high or very high voltage levels, are billed on a monthly basis according to the measured consumption. Revenues from VO consist of actually billed revenues.

3.17.3. Revenues from sales of goods

Sales are recognised on the date of the release of the goods from the warehouse and are reported less discounts and ex-VAT.

3.17.4. Revenues from sales of other services and other revenues

Sales are recognised on the date of provision of the services and are reported less discounts and ex-VAT.

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

3.18. Leases

Leases of property, buildings, and equipment where the majority of the risks and rewards of ownership have been transferred to the Group are classified as finance leases. Financial leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated a limit for settlement of the liability and financial cost. A related lease liability is recognised as a long-term or short-term liability in the consolidated statement of financial position.

The interest is charged directly to the consolidated statement of comprehensive income over the lease period so as to achieve a constant rate of interest on the liability. The assets acquired via financial leases are recorded in the consolidated statement of financial position and depreciated over their estimated useful lives.

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

3.19. Foreign currency conversions

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

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate published by the Czech National Bank as at the reporting date of the consolidated statement. Foreign exchange gains and losses are recognised 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 system, which is managed on the basis of a defined contribution plan. The Group has no other liabilities related to the State pension scheme after paying contributions in the amount defined by law.

3.20.2. Additional 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, which are paid to an independent entity under a defined contribution scheme. These contributions are recognised in the consolidated statement of comprehensive income as incurred.

3.20.3. Other benefits

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

3.20.4. Termination benefits

The Company also provides termination benefits to its executives. These benefits are granted if certain conditions are met, namely compliance with non-compete and confidentiality clauses. Amounts are determined based on the executive's monthly pay. The Company recognises the liability for the termination benefits as at the date when it can no longer withdraw the offer, i.e. as at the signature date of the performance contract.

3.21. Taxes

Income tax comprises current and deferred tax.

3.21.1. Current tax

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

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

3.21.2. Deferred tax

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

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

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

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

Preparation of consolidated financial statements requires using estimates and assumptions that affect the figures for the financial position presented as at the reporting date and financial performance for the reporting period. The estimates and assumptions are calculated on the basis of all relevant available information. Nevertheless, as implied by the nature of an estimate, the real values may differ from the estimates 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 the Company's own consumption in the given period. This estimate is then reduced by gas supplies for MODOM categories that have already been invoiced for the given period.

The gas supplies unbilled to industrial consumers and medium-scale consumers are also recognised in the accounting estimates. These estimates do not carry any risk because they are created on the basis of actual gas meter readings.

Sensitivity analysis:

The percentage ratio of losses to the distributed amount used for calculation of the unbilled gas in 2018 is 2.22%. The median ratio of the balance difference to the distributed amount for the last 6 years is equal 2.36%. If the ratio of losses to the total amount of gas distributed in 2017 was equal to the long-term average, then it was less (greater) by 0.21 percentage points (while all other variables would remain unchanged) and pre-tax profit as at 31 December 2018 would be CZK 12.6 million CZK higher (lower) under the influence of higher (lower) revenues in the unbilled gas supplies.

3.22.2. Unbilled electric power supplies

Similarly as applies to the natural gas commodity, the Company Management considers the determination of the amount of unbilled electricity and distribution costs for the small consumers category and households as an important area for the use of estimates.

This estimate is determined using the balancing method, as the difference between total electricity purchases and sale of electricity invoiced on monthly basis to customers and the Company's own consumption during the period in question. Within the framework of the accounting estimates, estimates relating to bulk consumers are also reported, but these estimates represent a minimum degree of risk because they are based on already factually billed items.

Through these estimates, they are only transferred to the corresponding accounting period.

Sensitivity analysis:

Purchase of electricity for the MOP and MOO customer categories is done on annual basis, but a large percentage of customers in these categories are contracted for 24 to 36-month products. The sensitivity analysis simulates the change in the purchase price of the commodity for these customers by EUR 1 (while all other variables remained the same). Profit before tax as at 31 December 2018 upon increase/reduction of the purchase price for these customer categories would be lower (higher) by CZK 8.2 million. CZK.

3.23. Changes in the accounting policies (adoption of the IFRS 9 and IFRS 15)

The Group has already included the modifications and changes under the new rules from the adoption of IFRS 9 and IFRS 15 in the previous accounting period and these changes are taken into consideration in the modified balance sheet as at 31 December 2017.

Adjustment of the data for comparable periods associated with the adoption of IFRS 9 and IFRS 15:

Consolidated statement of financial position as at 31 December 2017:

(in thousands of CZK)	Note:	Previously reported	Impact of adoption of the IFRS 9	Impact of adoption of the IFRS 15	New balance
Trade and other receivables	6.4	1,779,310	-14,032	0	1,765,278
Other assets		34,468	0	111,352	145,820
TOTAL ASSETS		10,694,557	-14,032	111,352	10,791,877
Retained earnings		3,321,893	-14,032	111,352	3,419,213
EQUITY AND LIABILITIES		10,694,557	-14,032	111,352	10,791,877

Consolidated statement of comprehensive income for the year ended 31 December 2017:

(in thousands of CZK)	Note:	Previously reported	Impact of adoption of the IFRS 9	Impact of adoption of the IFRS 15	New balance
Sales	6.15	12,549,226	0	36,676	12,585,902
Other operating costs	6.20	811,024	-850	-41,521	768,653
Operating profit/loss		2,156,045	850	78,197	2,235,092
Pre-tax profit		1,992,981	850	78,197	2,072,028
Total comprehensive income		1,606,383	850	78,197	1,685,430

4. Financial Risk Management

4.1. Credit Risk

The selection of the counterparty for the financial resources of the Group is limited to highly creditworthy institutions. The Group performs only financial transactions whose originator or underwriter has a secure creditworthy assessment by the competent autonomous global rating agencies on the investment scale and it is also possible to continuously monitor the credit quality indicators through the financial market.

The credit risk associated with the counterparties to business transactions is managed by the Group using various tools, such as insurance, credit limits, differential collection process, etc.

In case of cash, cash equivalents, and short-term bank financing, the concentration of credit risk is limited by the fact that the Group deposits cash in significant credit institutions. Credit risk in the case of trading and other receivables, as well as other financial assets, is also limited thanks to risk management tools and the debt collection process.

Trade and other receivables

IFRS 9 introduced a new model of expected impairment loss, which requires more timely identification of credit losses. The standard specifically requires the accounting units to report the expected credit losses. The Group creates an adjusting entry that represents the estimate of expected credit loss to the trade receivables, to other receivables and contractual assets. Cash and cash equivalents are also subject to the requirements for reduction of value according to the IFRS 9; nevertheless, the ascertained loss from reduction of value was insignificant.

Impairment losses are reported in such a manner as to cover both individually significant exposure to credit risk and portfolio loss in the case of assets for which impairment is not assessed individually. Objective proof of the receivables portfolio impairment includes the past experience

of the Group with collection of payments, changes in the internal and external evaluation of customers, current status and viewpoint of the Group on the economic position during the expected life of the receivables.

In case of financial assets, which include cash and cash equivalents, loans, term deposits, trade receivables and other receivables, exposure of the Group to credit risk is established from the potential failure of the counterparty and is maximally equal to the book value of these financial assets.

The Group values its financial investments as at each balance sheet date to ascertain whether objective evidence of impairment exists. Financial investments are considered impaired if the objective evidence indicates that one or more events have negatively affected the estimated future cash flows of this investment. Significant financial assets are tested individually for impairment. The remaining financial assets are evaluated on a portfolio basis in groups that have similar characteristics in terms of credit risk. The impairment loss on financial assets is calculated as the difference between its book value and the current value of estimated cash flows discounted at the initial effective interest rate. All impairment losses are recognised in the profit or loss. Impairment loss is derecognised if the derecognition is objectively related to events that occurred after reporting the loss. Derecognition of an impairment loss is reported in the profit or loss.

Trade receivables from customers with a higher credit risk are to a certain extent secured by lien in the form of advances received.

The Group creates an adjusting entry that represents the estimate of expected credit loss to the trade receivables, to other receivables and contractual assets.

The table summarises the complete overview of trade and other receivables less credit risk:

Type of receivable (in thousands of CZK)	31 December 2018	31 December 2017
Trade receivables from third parties	634,028	768,211
Trade receivables from related parties	2,392	253
Financial trade receivables	636,420	768,464
Allowances for trade receivables	-223,085	-304,822
Net trade receivables - financial	413,335	463,642
Unbilled deliveries	1,416,249	1,184,077
Allowances for unbilled deliveries	-13,644	-14,076
Total trade and other receivables - financial	1,815,940	1,633,643
Short-term operational advances made	99,663	78,610
Other receivables - refinancing	24,001	63,788
Allowances for other receivables and advances paid	-20,192	-10,763
Total trade and other receivables - refinancing	103,472	131,635
Total trade and other receivables - short-term	1,919,412	1,765,278

The structure of allowances for trade and other receivables by category is shown in the following tables according to the interest risk impairment:

31 December 2018:

Allowances for receivables (in thousands of CZK)	Expected interest risk impairment			
	Level 1	Level 2	Level 3	Total
Cat. MO	4,617	745	65,410	70,772
Cat. DOM	1,765	759	88,595	91,119
Cat. VO	6,047	40	43,773	49,860
Cat. Other	3,330	1,704	40,136	45,170
Total	15,759	3,248	237,914	256,921

31 December 2017:

Allowances for receivables (in thousands of CZK)	Expected interest risk impairment			
	Level 1	Level 2	Level 3	Total
Cat. MO	5,562	3,264	93,683	102,509
Cat. DOM	2,714	1,138	105,711	109,563
Cat. VO	4,255	135	17,255	21,645
Cat. Other	2,510	1,356	92,078	95,944
Total	15,041	5,893	308,727	329,661

The Company makes only short-term cash deposits (cash, deposit bills, term deposits, and REPO operations). The Company transfers its free cash to financial instruments. Selecting the counterparties for financial transactions with cash is limited to parties with high creditworthiness.

The Company performs only financial transactions whose originator or underwriter has a secure creditworthy assessment by the competent autonomous global rating agencies on the investment scale and it is also possible to continuously monitor the

credit quality indicators through the financial market.

The Company has a concentration of credit risk toward its banks that is regulated by the Czech National Bank.

Cash and cash equivalents are also subject to the requirements for reduction of value according to the IFRS 9; nevertheless, the ascertained loss from reduction of value was insignificant.

Cash and cash equivalents (in thousands of CZK)	Bank rating	31 December 2018	31 December 2017
Cash on hand	not assigned	2,979	5,125
Money in bank accounts	A1	475,501	823,086
Short-term investments - bills	A1	1,000,000	500,000
Total exposure of cash, cash equivalents, and other financial assets		1,478,480	1,328,211

4.2. Liquidity risk

Liquidity risk is the risk that the accounting entity will not fulfil the obligations arising from 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 minimises 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 cash flows is the preparation of a mid-term plan, which is prepared annually for a three-year period. The cash flow plan for the following year is subsequently divided into individual days and kept up to date. 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 market positions are important for cautious management of liquidity risk.

development on the basis of weekly reports, the Group Management also receives short-term liquidity forecasts.

The Group's current short-term external funding structure was established in connection with refinancing in May 2016 and is contractually secured up to May 2019.

It includes overdraft credit lines, an exchange programme for drawing the necessary resources in the form bills of exchange in auctions, and a line for negotiation of bank guarantees. These external financial resources are provided by a consortium of two banks, i.e. Československá obchodní banka, a.s., and Česká spořitelna, a.s.

Within the framework of refinancing, the Group concluded the following contracts with Československá obchodní banka, a.s., and Česká spořitelna, a.s.:

- Agreement on the Establishment of a Lien between the Company and Československá obchodní banka, a.s.;
- Agreement on the Establishment of a Lien on the Company's plant between the Company and Česká spořitelna, a.s.;
- Agreement on the Establishment of a Lien on the receivables under bank account management agreements between the Company and Československá obchodní banka, a.s.;
- Agreement on the Establishment of a Lien on the receivables under bank account management agreements between the Company and Česká spořitelna, a.s.;
- Agreement Establishing a Ban on Burdening and Alienation between the Company and Československá obchodní banka, a.s.

At the same time, in November 2016, due to the favourable developments on the financial markets, bonds with a floating interest rate in the volume of CZK 2.5 billion that were issued in May 2015 by Pražská plynárenská Distribuce, a.s., Member of the Pražská plynárenská, a.s. Group, (hereinafter 'PPD, a.s.'), newly in the volume of CZK 2.7 billion at a fixed interest rate maturing in 2023. The issue rate of these bonds was 97.842% and the issue yield was CZK 2,641,734,000. Kč. The emitted bonds were redeemed by Česká spořitelna, a.s., and Československá obchodní banka, a.s.

On other rights are tied to the bonds (including the pre-emptive right of purchase or right to exchange). The bonds are not negotiable. The bonds can be transferred without the prior consent of the issuer only to a person who is a professional customer pursuant to Section 2a(1), of the Capital Market Undertakings Act. A lien is established on the plant of Pražská plynárenská, a.s., to the benefit of the bond holders attaches to the PPD, a.s., bonds.

On 15 June 2017 the Company issued 80 bonds of total nominal worth CZK 400 million with a maturity of 3 years and a coupon with a fixed interest yield of 0.90% p.a. The bonds were accepted for trading on the regulated stock market (Prague Stock Exchange - Burza cenných papírů Praha, a.s.). The issue rate of these bonds was 99.548% and the issue yield was CZK 398,192,000. Kč. The issued bonds were purchased by Česká spořitelna, a.s., and Československá obchodní banka, a.s. No pre-emptive right of purchase or right of exchange are attached to the bonds. The bonds may be freely negotiable and their transferability is unlimited. The issuer may redeem the bonds at any time on the market or otherwise at any price. A component of the process of issuing of the bonds on the regulated stock market was issuing the Bond Prospectus. The prospectus was approved by the Czech National Bank on 9 July 2017.

Within the framework of the issuance of Company bonds, the following contracts were concluded with Československá obchodní banka, a.s., and Česká spořitelna, a.s.:

- Amendment No 1 to the Exchange Program Contract of 24 May 2016,
- Framework Agreement on Receipt of Investment Instruments for Trading on the Stock Market,
- Agreement on Management of the Issuance and Handling of Payments,
- Agreement on Subscription and Purchase of Bonds.

The structure of short-term financing as at 31 December 2017 and 31 December 2018:

	Limit (in thousands of CZK)	From	To	Interest rate
Overdraft credit lines	900,000	24/5/2016	24/5/2019	floating
Guarantee line	700,000	24/5/2016	24/5/2019	fixed
Exchange programme	3,000,000	7/6/2017	24/5/2019	floating
Total	4,600,000			

The credit lines in 2017 were drawn in the form of an overdraft (as at 31 December 2017 in the amount of CZK 0). Kč). The average interest rate on the overdraft loan in 2017 was 0.42% p.a. Furthermore, the Company as at 31 December 2017 drew funds from the parent company PPH a.s. in the amount of CZK 38,584,000 that represent liabilities from the title of cash pooling. The average interest rate for cash pooling between the Company and the parent company PPH a.s. for 2017 was 0.24% p.a.

In 2018 no overdraft credit lines were drawn. as at 31 December 2018, funds were drawn from the subsidiary companies and the parent company PPH a.s., only in the amount of CZK 51,493,000 that represent liabilities from the title of cash pooling. The average interest rate for cash pooling between the Company and the parent company PPH a.s. for 2018 was 0.96% p.a

The structure of long-term financing as at 1 January 2017 and 31 December 2018:

	Limit (in thousands of CZK)	From	To	Interest rate
PPAS Bond 0.90/2020, ISIN CZ0003516809	400,000	15/6/2017	15/6/2020	fixed
PPD Bond 0.70%/2023 ISIN CZ0003515348	2,700,000	14/11/2016	14/11/2023	fixed
Total	3,100,000			

Bonds issued by the Group

Bond title	Nominal value of the issue (in thousand CZK)	Issue rate (%)	Date of maturity	Coupon rate p.a. (%)	Coupon maturity	Book value as at 31/12/2018 (in thousand CZK)	Book value as at 31/12/2017 (in thousand CZK)
PPAS Bond 0.90/2020, ISIN CZ0003516809	400,000	99.548	15/6/2020	0.90	annual	400,526	399,574
PPD Bond 0.70%/2023 ISIN CZ0003515348	2,700,000	97.842	14/11/2023	0.70	annual	2,660,795	2,652,235

The structure of the book and real value of the bank loans and bonds is as follows:

(in thousands of CZK)	Book value	
	2018	2017
PPAS Bond 0.90/2020, ISIN CZ0003516809	400,526	399,574
PPD Bond 0.70%/2023 ISIN CZ0003515348	2,660,795	2,652,235
Short-term bank loans	0	0

The book value of the bank loans and bonds is close to their real value.

Drawing of short-term bank loans allows the Group to optimise coverage of seasonal fluctuations in its cash flows, which accompany the purchase and sale of energy.

An integral part of Group funding is the utilisation of the financial resources of Group companies aggregated in cash pooling. Using these free resources results in a reduction in drawing short-term loans from the banks.

In connection with the conditions under the loan agreements and bond issuance conditions, concluded in 2016 and 2017, financial indicators are monitored at the consolidated Group data level. In case of their non-fulfilment, the banks may request premature loan repayment and bond redemption.

These indicators were fulfilled as at 31 December 2018 and 31 December 2017. Details are provided in Note 5.

Impact of the cost interest related to the bonds on the profit and loss as at 31 December 2018: CZK 31,426,000 (as at 31 December 2017: CZK 29,512,000). Kč).

The liquidity position is supported by the system of advance payments, whereas the high-volume and middle-volume categories pay advances several times during the month, the low-volume category and households pay advances monthly or quarterly. For all categories, the setting of the advances takes historical consumption into consideration (from March 2016, an algorithm based on three-year historical consumption is used), seasonal character of the gas consumption, and price

The following tables show the liabilities grouped by residual period to contractual maturity as at 31 December 2018 and as at 31 December 2017.

The size of the liabilities shown in the tables is equivalent to the non-discounted cash flows, including interest, where relevant. The interest is based on the loan amount as at 31 December 2018 and the interest rates in force on the financial market as at 31 December 2018 (including bank margin).

31 December 2018:

(in thousands of CZK)	0-3 months	3-6 months	6-12 months	1-3 years	3-5 years	Total
Derivatives (currency forwards and commodity futures)	5,075,735	723,069	1,117,321	460,301	0	7,376,426
Bonds	0	3,600	18,900	441,400	2,737,800	3,201,700
Trade and other liabilities	1,294,107	27	144	8,570	0	1,302,848
Loan from the parent company PPH a.s. - cash pooling	51,496	0	0	0	0	51,496
Total	6,421,338	726,696	1,136,365	910,271	2,737,800	11,932,470

31 December 2017:

(in thousands of CZK)	0-3 months	3-6 months	6-12 months	1-3 years	3-5 years	5-7 years	Total
Derivatives (currency forwards and commodity futures)	1,133,362	663,461	967,783	899,233	0	0	3,663,839
Bonds	0	3,600	18,900	445,000	37,800	2,718,900	3,224,200
Trade and other liabilities	1,120,942	27	54	708	71	0	1,121,802
Loan from the parent company PPH a.s. - cash pooling	38,584	0	0	0	0	0	38,584
Total	2,292,888	667,088	986,737	1,344,941	37,871	2,718,900	8,048,425

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

Guarantees concluded

The Group has secured its financial liabilities with Československá obchodní banka, a.s., as at 31 December 2018:

- to the benefit of TRADE CENTRE PRAHA a.s., up to an amount of CZK 500,000 (under the Agreement on Combined Supplies of Natural Gas of 25 July 2017);
- to the benefit of OTE, a.s., up to an amount of CZK 187,000,000 (under the Agreement on Settlement of Deviations No AP 006/09 of 11 December 2009);
- to the benefit of OTE, a.s., up to an amount of CZK 22,000,000 (under the Agreement on Settlement of Deviations No A3602/14 of 4 December 2014 and the Agreement on Entry into the Organised Short-Term Electricity Market No B3602/14 of 4 December 2014).

4.3. Market risk

4.3.1. Interest rate risk

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

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

The Group Management monitors interest rate risk on the basis of regular reporting, which includes information about the current interbank interest rates (mainly PRIBOR) and assessment of actual interest expenses. The Group Management is provided with a short term forecast of these interest rates. All the individual short-term loan drawings of the Group in 2017 have floating interest rates derived from the applicable PRIBOR. In 2018, the Group did not draw short-term bank loans, but used cash within the scope of cash pooling.

Sensitivity analysis:

If the interest rate had increased/decreased by 10 basic points with all other variables held constant as at 1 January 2018, profit before tax as at 31 December 2018 would have been CZK 103,000 lower/higher as a result of the increased interest expense (as at 31 December 2017: CZK 76,000). Kč).

4.3.2. Exchange rate risk

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

Movements in exchange rates represent a risk due to the fact that the Group purchases a significant portion of the gas and electricity in foreign currency (about 97% of the total

The Group has secured its financial liabilities with Česká spořitelna, a.s., as at 31 December 2018:

- to the benefit of the Municipality of Prague 2, up to the amount of CZK 3,000,000 (under the Framework Contract on Management and Operation of a Heat Generating Facility and Supply and Consumption of Heat of 19 September 2018).

As at 31 December 2017, the Group had its financial liabilities secured with Československá obchodní banka, a.s. to the benefit of TRADE CENTRE PRAHA a.s., up to an amount of CZK 500,000 under the Agreement on Combined Supplies of Natural Gas of 25 July 2017.

of the volume of purchased gas and electricity). The choice of currency for purchases made in forward purchases is fully dependent on the overall commercial conditions offered. 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 purchase transactions are made in EUR, while a certain portion of these purchases are sold in EUR, or the purchase is made to the portfolio of customers at the listed price using the exchange rate in force on the purchase date. The Group actively manages this risk through monitoring foreign exchange developments and through the above management of natural gas and electricity purchases in foreign currency, it hedges itself against long-term currency risk.

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

Sensitivity analysis:

If the CZK/EUR exchange rate as at 31 December 2018 had weakened (increased) / strengthened (dropped) by 0.5 CZK/EUR 1 with all other variables held constant as at 31 December 2018, profit before tax as at 31 December 2018 as a result of revaluation of receivables in EUR would have been CZK 140,253,000 higher/lower (as at 31 December 2017: CZK 68,387,000). Kč).

If the CZK/EUR exchange rate had weakened (increased) / strengthened (dropped) by 0.5 CZK/EUR 1 with all other variables held constant as at 31 December 2018, profit before tax as at 31 December 2018 as a result of revaluation of liabilities in EUR would have been CZK 419,000 lower/higher (as at 31 December 2017: CZK 403 thousand). Kč).

If the CZK/EUR exchange rate had weakened (increased) / strengthened (dropped) by 0.5 CZK/EUR 1 with all other variables held constant as at 31 December 2018, profit before tax as at 31 December 2018 as a result of revaluation of receivables in EUR would have been CZK 2,299,000 thousand higher/lower (as at 31 December 2017: CZK 1,835,000). Kč).

(in thousands of CZK)	increase of 0.5 CZK/EUR		decrease of 0.5 CZK/EUR	
	2018	2017	2018	2017
Forward purchases in EUR	140,253	68,387	-140,253	-68,387
Liabilities in EUR	-419	-403	419	403
Receivables in EUR	2,299	1,835	-2,299	-1,835
Impact on profit before tax	142,133	69,819	-142,133	-69,819

4.4. Fair value estimate

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

As at the end of the reporting period, the Group classified its financial assets and liabilities at fair value

through profit or loss under Level 2 featuring entry data used to determine the fair value (see Note 4.1.)

The book values of short term receivables after deducting their impairment and short term liabilities, bonds and loans are close to their fair values.

4.5. Offsetting financial instruments

31 December 2018:

(in thousands of CZK)	Gross amount of compensation in the Statement of financial position	Gross amount of credit in the statement of financial position	Net amount after reconciliation of the statement of financial position:	The amount subject to master netting agreements and similar arrangements in the statement of financial position	Total net exposure
Trade and other receivables	1,815,940	0	1,815,940	191,811	1,624,129
Trade and other financial liabilities	1,370,770	0	1,370,770	191,811	1,178,959

31 December 2017:

(in thousands of CZK)	Gross amount of compensation in the Statement of financial position	Gross amount of credit in the statement of financial position	Net amount after reconciliation of the statement of financial position:	The amount subject to master netting agreements and similar arrangements in the statement of financial position	Total net exposure
Trade and other receivables	1,647,675	0	1,647,675	102,945	1,544,730
Trade and other financial liabilities	1,233,746	0	1,233,746	102,945	1,130,801

4.6. Net profit and losses from financial instruments

(in thousands of CZK)	2018	2017
Trade receivables (particularly depreciation of receivables and creation of provisions)	-35,938	-10,256
Cash and cash equivalents	1,231	-7,470
Other financial assets	-1,726	-1,178
Bonds (particularly cost interest)	-32,300	-30,140
Financial derivatives	9,016	-119,957
Bank loans (particularly cost interest)	-2,358	-2,460
Other financial liabilities	11,963	4,596
Net gains (+) / losses (-) reported on the income statement	-50,112	-166,865
Financial derivatives in other comprehensive income (settlement)	0	0
Net gains (+) / losses (-) reported in other comprehensive income	0	0
Total net gains (+) / losses (-)	-50,112	-166,865

5. Capital Management

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

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

In connection with the conditions under the loan agreements and bond issuance conditions concluded in 2016 and 2017, the following financial indicators are monitored:

- the ratio of net debt to EBITDA (at Group consolidated data level),
- CAPEX (for the Company and PPD, a.s.).

The goal of the Group is to achieve such business results to fulfil these financial indicators. In the event of their non-fulfilment, the banks may request premature loan repayment and bond redemption. These indicators were fulfilled as at 31 December 2018 and 31 December 2017.

6. Notes on the consolidated financial statements

6.1. Land, buildings, and equipment

Land, buildings, and equipment (in thousands of CZK)	Land	Depreciation of buildings and other constructions	Movables and sets of movables	Boiler installations and other tangible fixed assets	Tangible fixed assets under construction	Advance payments for tangible fixed assets	Total
Acquisition value							
Position as at 1/1/2017	123,752	9,873,289	1,877,351	171,176	37,123	28,787	12,111,478
Purchases	0	0	0	0	721,043	18,756	739,799
Transfers	1,499	520,110	140,918	19,529	-682,056	0	0
Decreases	-190	-74,622	-131,563	-1,014	0	-37,535	-244,924
Position as at 31/12/2017	125,061	10,318,777	1,886,706	189,691	76,110	10,008	12,606,353
Purchases	0	0	0	0	763,125	17,856	780,981
Transfers	1,117	541,889	149,965	14,099	-707,070	-20,584	-20,584
Decreases	-108	-47,653	-131,309	-220	0	0	-179,290
Position as at 31/12/2018	126,070	10,813,013	1,905,362	203,570	132,165	7,280	13,187,460
Accumulated depreciation, impairment, depreciation, recharging							
Position as at 1/1/2017	0	4,126,012	1,543,270	64,475	0	0	5,733,757
Depreciation	0	232,370	138,598	9,750	0	0	380,718
Adjustment items	0	429	62	0	0	0	491
Accumulated depreciation for disposals	0	-59,753	-122,129	-223	0	0	-182,105
Position as at 31/12/2017	0	4,299,058	1,559,801	74,002	0	0	5,932,861
Depreciation	0	228,746	133,143	10,816	0	0	372,705
Adjustment items	0	-23	-31	0	0	0	-54
Accumulated depreciation for disposals	0	-47,653	-118,331	-29	0	0	-166,013
Position as at 31/12/2018	0	4,480,128	1,574,582	84,789	0	0	6,139,499
Net book value 2017	125,061	6,019,719	326,905	115,689	76,110	10,008	6,673,492
Net book value 2018	126,070	6,332,885	330,780	118,781	132,165	7,280	7,047,961

Movables and sets of movables - detail (in thousands of CZK)	Vehicles (means of transport)	Computer equipment	Gas meters, reducers and regulators	Regulating station technology	Other movables	Total
Acquisition value						
Position as at 1/1/2017	114,373	155,722	673,069	469,801	464,386	1,877,351
Transfers	21,387	10,107	47,080	5,347	56,997	140,918
Decreases	-14,499	-7,154	-92,575	-3,340	-13,995	-131,563
Position as at 31/12/2017	121,261	158,675	627,574	471,808	507,388	1,886,706
Transfers	22,105	9,154	52,393	10,084	56,229	149,965
Decreases	-15,299	-43,751	-59,949	-4,254	-8,056	-131,309
Position as at 31/12/2018	128,067	124,078	620,018	477,638	555,561	1,905,362
Accumulated depreciation, impairment, depreciation, recharging						
Position as at 1/1/2017	70,722	125,471	575,028	386,400	385,649	1,543,270
Depreciation	17,637	7,942	66,344	18,201	28,474	138,598
Adjustment items	0	0	0	0	62	62
Accumulated depreciation for disposals	-14,085	-6,952	-91,426	-3,340	-6,326	-122,129
Position as at 31/12/2017	74,274	126,461	549,946	401,261	407,859	1,559,801
Depreciation	17,798	11,707	38,728	28,269	36,641	133,143
Adjustment items	0	0	0	0	-31	-31
Accumulated depreciation for disposals	-12,794	-43,683	-59,923	-1,077	-854	-118,331
Position as at 31/12/2018	79,278	94,485	528,751	428,453	443,615	1,574,582
Net book value 2017	46,987	32,214	77,628	70,547	99,529	326,905
Net book value 2018	48,789	29,593	91,267	49,185	111,946	330,780

The Group has established a lien on the Pražská plynárenská, a.s. plant in the amount of CZK 7.3 billion, specifically CZK 4.6 billion within the framework of short-term financing and CZK 2.7 billion within the scope of the re-issue of the bonds by the subsidiary company Pražská plynárenská Distribuce, a.s., Member of the

Pražská plynárenská, a.s. Group, in compliance with the Agreement Establishing a Lien on the plant that was negotiated within the scope of refinancing in 2016 and in compliance with Amendment No 1 to the Agreement on the Exchange Program.

6.2. Intangible assets

Intangible assets (in thousands of CZK)	Goodwill	Software	Assessable rights	Intangible fixed assets under construction	Total
Acquisition value					
Position as at 1/1/2017	171	658,293	11,492	1,721	671,677
Purchases	0	0	0	36,593	36,593
Transfers	0	27,223	218	-27,441	0
Decreases	0	-175	0	0	-175
Position as at 31/12/2017	171	685,341	11,710	10,873	708,095
Purchases	0	0	0	46,183	46,183
Transfers	0	25,266	80	-25,346	0
Decreases	0	-174	0	0	-174
Position as at 31/12/2018	171	710,433	11,790	31,710	754,104
Accumulated depreciation, depreciation, impairment					
Position as at 1/1/2017	0	611,070	7,480	0	618,550
Depreciation	0	33,753	3,538	0	37,291
Accumulated depreciation for disposals	0	-175	0	0	-175
Position as at 31/12/2017	0	644,648	11,018	0	655,666
Depreciation	0	11,003	436	0	11,439
Accumulated depreciation for disposals	0	-174	0	0	-174
Position as at 31/12/2018	0	655,477	11,454	0	666,931
Net book value 2017	171	40,693	692	10,873	52,429
Net book value 2018	171	54,956	336	31,710	87,173

The average residual amortisation period of software is 1 year and 5 months. Incomplete intangible fixed assets were tested for impairment by the end of the period.

The option for future use was analysed and no impairment was identified.

6.3. Inventories

Inventories represent mainly gas stored in the gas storage. This gas was extracted in 2018 and recognised as consumption in the amount of CZK 772,671,000 (in 2017:

CZK 584,707,000). Kč). No surpluses and/or shortfalls in inventories were found during stock-taking in 2018.

6.4. Short-term and other receivables

Type of receivable (in thousands of CZK)	31 December 2018	31 December 2017
Trade receivables from third parties	634,028	768,211
Trade receivables from related parties	2,392	253
Financial trade receivables	636,420	768,464
Allowances for trade receivables	-223,085	-304,822
Net trade receivables - financial	413,335	463,642
Unbilled deliveries	1,416,249	1,184,077
Allowances for unbilled deliveries	-13,644	-14,076
Total trade and other receivables - financial	1,815,940	1,633,643
Short-term operational advances made	99,663	78,610
Other receivables - refinancing	24,001	63,788
Allowances for other receivables and advances paid	-20,192	-10,763
Total trade and other receivables - refinancing	103,472	131,635
Total trade and other receivables - short-term	1,919,412	1,765,278

Short-term operating advances provided to individual suppliers for natural gas and electricity purchases and purchases of gas distribution services were offset with anticipated payables created in

2018 the offset amount of advances with anticipated payables was CZK 489,402,000 (2017: CZK 406,678,000).

Outstanding trade receivables have not been secured. Receivables from related parties are analysed in Note 6.25.

The age structure of outstanding trade and other receivables that have not been classified as impaired as at the date of the consolidated financial statements is as follows:

Receivables overdue (in thousands of CZK)	31 December 2018	31 December 2017
Within 30 days	34,006	32,336
Total	34,006	32,336

The age structure of trade and other receivables that have been classified as impaired as at the date of the consolidated financial statements is as follows

Receivables overdue (in thousands of CZK)	31 December 2018	31 December 2017
Within 6 months	65,814	68,399
6 to 12 months	16,432	29,557
Over 1 year	227,418	281,168
Total	309,664	379,124

Movements in the allowance account of trade and other receivables can be analysed as follows:

Allowances for receivables (in thousands of CZK)	31 December 2018	31 December 2017
Initial balance as at 1 January	329,661	329,639
Creation of an allowance for receivables	49,094	34,159
Use of the allowance	121,834	34,137
Final balance as at 31 December	256,921	329,661

The structure of allowances for trade and other receivables by category is shown in the following tables according to the interest risk impairment:

31 December 2018:

Allowances for receivables (in thousands of CZK)	Expected interest risk impairment			
	Level 1	Level 2	Level 3	Total
Cat. MO	4,617	745	65,410	70,772
Cat. DOM	1,765	759	88,595	91,119
Cat. VO	6,047	40	43,773	49,860
Cat. Other	3,330	1,704	40,136	45,170
Total	15,759	3,248	237,914	256,921

31 December 2017:

Allowances for receivables (in thousands of CZK)	Expected interest risk impairment			
	Level 1	Level 2	Level 3	Total
Cat. MO	5,562	3,264	93,683	102,509
Cat. DOM	2,714	1,138	105,711	109,563
Cat. VO	4,255	135	17,255	21,645
Cat. Other	2,510	1,356	92,078	95,944
Total	15,041	5,893	308,727	329,661

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

Trade and other receivables (in thousands of CZK)	31 December 2018	31 December 2017
Change in allowance - for existing receivables	-72,143	-14,141
Trade receivables written-off	119,377	32,457
Total net loss from trade receivables	47,234	18,316

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

6.5. Cash and cash equivalents

The Group acquired the corporate bills of ČSOB Leasing as at 17 December 2018. This concerned 10 bills of exchange totalling CZK 1,000,000,000 due on 2 January 2019. The yield to maturity was 0.50% p.a. This financial operation optimised the Group's cash-

flow positions in the bank accounts in relation to the obligatory payments of the banks to the resolution fund according to the applicable legislation as at 31 December 2018. The structure of cash and cash equivalents is shown below:

Cash and cash equivalents (in thousands of CZK)	31 December 2018	31 December 2017
Cash on hand	2,979	5,125
Money in bank accounts	475,501	823,086
Short-term investments - bills	1,000,000	500,000
Total	1,478,480	1,328,211

The book value of short-term investments is close to their fair value.

6.6. Registered capital

Form of shares	2018		2017	
	Number of pieces	Nominal value (CZK)	Number of pieces	Nominal value (CZK)
Bearer shares	950,338	300	950,338	300
Registered shares	489,569	300	489,569	300
Total	1,439,907		1,439,907	
Total share capital		431,972,100		431,972,100

Bearer shares are issued in book-registered form.

The registered shares are issued in book-registered 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. All the shares are fully paid-up. Shareholders have both rights and obligations. The basic duty of the shareholders is the obligation to deposit. The rights of shareholders include:

- The right to a dividend,
- The right to vote,

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

6.7. Profit funds

The Group companies are fully governed by the new Corporations Act and utilised the option not to create a reserve fund. Usage of funds created from profit is in accordance with the Articles of incorporation of the Group companies.

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

6.8. Trade liabilities and other long-term liabilities

Other payables (according to maturity) (in thousands of CZK)	Long-term advances received	Other long-term liabilities	Total
Position as at 31/12/2017	55	779	834
of which: due in less than 5 years	55	779	834
Position as at 31/12/2018	55	8,570	8,625
of which: due in less than 5 years	55	8,570	8,625
Total as at 31 December 2017	55	779	834
Total as at 31 December 2018	55	8,570	8,625

6.9. Trade payables, advances, principal received and other liabilities - current

Trade payables, advances, principal received - short-term (in thousands of CZK)	31 December 2018	31 December 2017
Trade payables to third parties	1,283,935	1,110,645
Trade payables to related parties	8,608	8,586
Current operating advances and principal received (non-financial liabilities)	1,757,364	1,480,138
Trade payables, advances received and principal - total	3,049,907	2,599,369

Other liabilities (in thousands of CZK)	31 December 2018	31 December 2017
Loan from the parent company PPH a.s.	51,493	38,584
Liabilities from derivatives	24,999	74,139
Other financial liabilities	1,735	1,792
Total financial liabilities	78,227	114,515
Payables to employees	186,978	185,421
Liabilities for social insurance	18,052	17,520
Other liabilities - non-financial	2,627	2,769
Non-financial liabilities - total	207,657	205,710
Other liabilities - total	285,884	320,225

Total trade payables and advances received - current (by maturity) (in thousands of CZK)	Trade payables	Short-term advances received and principal	Contingent liability Accounts	Total
Position as at 31/12/2017	145,880	1,480,138	973,351	2,599,369
of which: due within 6 months	145,826	1,480,138	973,351	2,599,315
of which: due in 6 months to 1 year	54	0	0	54
Position as at 31/12/2018	142,231	1,757,364	1,150,312	3,049,907
of which: due within 6 months	142,231	1,757,364	1,150,312	3,049,907
Total as at 31 December 2017	145,880	1,480,138	973,351	2,599,369
Total as at 31 December 2018	142,231	1,757,364	1,150,312	3,049,907

Payables to related parties are disclosed in Note 6.25.

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

As at 31 December 2018, funds were drawn from the parent company PPH a.s., in the amount of CZK 51,493,000 (as at 31 December 2017: CZK 38,584,000), which are payables from the title of cash pooling.

6.9.1. Derivatives

6.9.1.1. Financial derivatives for trading

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

(in thousands of CZK)	31 December 2018			31 December 2017		
	Fair value		Nominal value	Fair value		Nominal value
	Positive	Negative		Positive	Negative	
Currency forwards	13,154	34,261	7,276,938	210	69,845	3,572,602
Commodity futures	0	3,892	99,488	0	4,504	91,237

Cash pooling. The average cash pooling interest rate for 2018 was 0.96% p.a. (for 2017: 0.24% p.a.).

The book value of the trade payables and other liabilities is close to their fair value.

Dues to employees also include liabilities from the title of wages and unpaid future performance of the members of the statutory bodies of the Group according to the contract on performing the function of an executive (Note 3.20.4.) in the amount of CZK 59,193,000 (2017: CZK 55,965,000).

The financial revenues from operations with derivatives reported in the profit or loss are for 2018 in the amount of CZK 9,300,000 (for 2017 financial expenses were CZK 119,957,000).

The Company trades the gas commodity on PowerNext, with physical delivery. In 2018, the Company started trading electricity on the EEX, which has a financial settlement system.

6.10. Unbilled supplies and advances received

31 December 2018 (in thousands of CZK)	Cat. DOM	Cat. MO	Cat. VO/SO	Other	Total
Unbilled deliveries	1,856,832	1,066,189	667,258	473,797	4,064,076
Advance payments received	-2,089,055	-1,442,164	-254,670	-502,113	-4,288,002
Clearing of Accounts	1,685,304	606,805	143,480	212,238	2,647,827
Unbilled deliveries - after offset	171,528	459,384	523,778	261,559	1,416,249
Advances received - after offset	-403,751	-835,359	-111,190	-289,875	-1,640,175

31 December 2017 (in thousands of CZK)	Cat. DOM	Cat. MO	Cat. VO/SO	Other	Total
Unbilled deliveries	2,006,696	1,021,278	523,759	370,326	3,922,059
Advance payments received	-2,130,023	-1,347,813	-198,573	-399,070	-4,075,479
Clearing of Accounts	1,760,708	556,312	159,726	261,236	2,737,982
Unbilled deliveries - after offset	245,988	464,966	364,033	109,090	1,184,077
Advances received - after offset	-369,315	-791,501	-38,847	-137,834	-1,337,497

6.11. Bank loans and bonds

On 15 June 2017 the Company issued bonds of total nominal worth CZK 400 million with a maturity of 3 years and a coupon with a fixed interest yield of 0.90% p.a. In connection with the Company bond issue, the volume of short-term funding was cut by the volume of issued bonds so as to prevent increase of the total external funding volume.

The Group has thus contractually secured short-term financing in the amount of 4.6 billion CZK and long-term financing in the amount of 3.1 billion CZK. These external financial resources in the total volume of CZK 7.7 billion are provided by a consortium of two banks, namely Československá obchodní banka, a.s., and Česká spořitelna, a.s.

Structure of long-term financing from 15 June 2017, as at 31 December 2017, and as at 31 December 2018:

	Limit (in thousands of CZK)	From	To	Interest rate
Overdraft credit lines	900,000	24/5/2016	24/5/2019	floating
Guarantee line	700,000	24/5/2016	24/5/2019	fixed
Exchange programme	3,000,000	7/6/2017	24/5/2019	floating
Total	4,600,000			

The credit lines in 2017 were drawn in the form of an overdraft (as at 31 December 2017 in the amount of CZK 0). Kč). The average interest rate on the overdraft loan in 2017 was 0.42% p.a.

In 2018 no overdraft credit lines were drawn.

The structure of long-term financing as at 1 January 2017 and 31 December 2018:

	Limit (in thousands of CZK)	From	To	Interest rate
PPAS Bond 0.90/2020, ISIN CZ0003516809	400,000	15/06/2017	15/06/2020	fixed
PPD Bond 0.70%/2023 ISIN CZ0003515348	2,700,000	14/11/2016	14/11/2023	fixed
Total	3,100,000			

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

The structure of the book and real value of the bank loans and bonds is as follows:

(in thousands of CZK)	Book value	
	2018	2017
PPAS Bond 0.90/2020, ISIN CZ0003516809	400,526	399,574
PPD Bond 0.70%/2023 ISIN CZ0003515348	2,660,795	2,652,235
Total volume of long-term bonds	3,061,321	3,051,809
Short-term bank loans	0	0

The details of the bank loans and bonds issued are given in Note 4.2.

In connection with the conditions under the loan agreements and bond issuance conditions, concluded in 2016 and 2017, financial indicators are monitored at the consolidated Group data level. In the event of

their non-fulfilment, the banks may request premature loan repayment and bond redemption. These indicators were fulfilled as at 31 December 2018 and 31 December 2017. Details are provided in Note 5.

The book value of the bank loans and bonds is close to their real value.

Overview of the movement of liabilities from financial operations - additional comment to the cash flow statement:

(in thousands of CZK)	31 December 2017	Cash flows	Non-cash flows - Revaluation of liabilities using the effective interest rate method	31 December 2018
Bank overdrafts	0	0	0	0
PP, a.s., bonds	399,574	-3,600	4,552	400,526
PPD, a.s., bonds	2,652,235	-18,900	27,460	2,660,795
Loan from the parent company PPH a.s. - cash pooling (see point 6.9.)	38,584	12,909	0	51,493
Total	3,090,393	-9,591	32,012	3,112,814

6.12. Deferred tax liability

Compensation of deferred tax assets and liabilities was as follows:

(in thousands of CZK)	31 December 2018	31 December 2017
Deferred tax asset to be recovered after more than 12 months	585	4,260
Deferred tax asset to be recovered within 12 months	39,813	64,665
Deferred tax liability payable after more than 12 months	-534,890	-483,710
Net deferred tax liability	-494,492	-414,785

The deferred tax was calculated at 19% (the rate enacted for 2017 and subsequent years).

Deferred tax liability (-) and deferred tax receivable (+) (in thousands of CZK)	31 December 2018	31 December 2017
Item		
Tax liability deferred due to different book values of fixed assets	-531,485	-482,854
Tax non-deductible part of allowances for receivables	9,378	22,664
Tax non-deductible impairment of materials	502	378
Provisions for litigation and anticipated compensation from the insurance company	0	3,800
Provisions and other temporary differences	3,737	18,450
Obligations to employees and board members	23,376	22,777
Total	-494,492	-414,785

Deferred tax liability (-) and deferred tax receivable (+) (in thousands of CZK)	Difference in the residual prices of fixed assets	Tax non-deductible part of allowances for receivables	Obligations to employees and board members	Other	Total
31 December 2017	-482,854	22,664	22,777	22,628	-414,785
profit (+) / loss (-)	-48,631	-13,286	124	-17,914	-79,707
31 December 2018	-531,485	9,378	22,901	4,714	-494,492

6.13. Income tax due and other tax liabilities

Tax liabilities (-) / receivables (+) (in thousands of CZK)	Income tax	Other tax liabilities
Book value		
Position as at 31/12/2017	-38,784	-99,468
Position as at 31/12/2018	130,051	-96,954

Other tax liabilities in 2018 consist of personal income tax in the amount of CZK 6,467,000 (2017: CZK 6,030,000), VAT in the amount of CZK 84,717,000 (2017: CZK 88,163,000) and other taxes and levies in the amount of CZK 5,770,000 (2017: CZK 5,275,000). Kč).

6.14. Provisions

Provisions (in thousands of CZK)	Long-term	Short-term
Book value		
Position as at 1/1/2017	200,000	30,253
Creation of provisions	0	74,848
Reversals of provisions	0	-80,000
Use of provisions	0	-48,642
Recharging of provisions	-200,000	200,000
Position as at 31/12/2017	0	176,459
Creation of provisions	0	226,233
Reversals of provisions	0	-114,597
Use of provisions	0	-48,646
Recharging of provisions	0	48,374
Position as at 31/12/2018	0	287,823
Net book value 2017	0	176,459
Net book value 2018	0	287,823

Short-term provisions include mainly the provisions for remediation and potential tax liabilities from the title of VAT.

6.15. Sales

Sales (in thousands of CZK)	2018	2017
Sale of natural gas	7,545,941	7,986,066
Sale of Company's own and foreign distribution of gas	3,240,719	3,221,244
Sale of heat and CNG	137,526	124,607
Unused tolerance	1,773	769
Sale of electricity	626,841	563,060
Sale of foreign distributions of electricity	706,990	568,840
Other services	180,519	115,346
of which: revenues from asset repairs and maintenance	32,946	22,907
of which: revenues from property leases	17,010	24,836
of which: revenues from construction of gas pipelines	79,534	24,599
of which: revenues from earthworks	20,662	15,589
of which: revenues from other services	30,367	27,415
Sale of goods and products (services)	6,055	5,970
Total	12,446,364	12,585,902

6.16. Purchased gas, electricity, materials and services connected with gas and electricity supplies

Purchased gas, electricity, materials and services connected with gas and electricity supplies (in thousands of CZK)	2018	2017
Costs of gas purchases	6,727,263	6,591,641
of which: gas reservoir costs	169,470	185,513
Gas distribution fee	957,790	803,730
Costs of electricity purchases	607,757	550,140
Electricity distribution fee	710,165	572,165
Total	9,002,975	8,517,676

6.17. Other operating income

Other operating revenues (in thousands of CZK)	2018	2017
Profit from sales of fixed assets	3,188	1,977
Income from sale of material	8,042	7,026
Income from contractual fines and default interest	25,207	8,086
Income from write-off of receivables	2,457	1,680
Income from write-off of lapsed liabilities	6,676	6,061
Court fee compensations	6,735	7,183
Benefits from insurance (indemnity)	1,663	2,452
Other operating income	9,222	4,738
Total	63,190	39,203

6.18. Personnel costs

Other costs (in thousands of CZK)	2018	2017
Employees	616,995	566,391
Members of statutory bodies	127,089	118,015
Future benefits to members of statutory bodies under contracts (Note 3.20.4.)	13,925	1,269
Total	758,009	685,675

Related parties to the Group are also key management personnel, who are the members of statutory bodies.

In the years 2018 and 2017 no loans were provided to members of the Board of Directors, members of the Supervisory Board and other management members of the Company and subsidiaries. Company cars, computer and telecommunication equipment are made available for use by the board members and other management.

In 2018, the personnel costs of statutory bodies include also paid dividends to members of statutory bodies in the amount of CZK 48,199,000 (2017: CZK 44,571,000) and consideration was paid according to the executive contracts (see Note 3.20.4.) in the amount of CZK 10,713,000 (2017: CZK 5,292,000). Kč).

Contributions to the State pension scheme (on the basis of defined contributions) in 2018 amounted to CZK 115,317,000 (2017: CZK 104,250,000). Kč).

6.19. Amortisation of intangible and tangible fixed assets

Amortisation of intangible and tangible fixed assets (in thousands of CZK)	2018	2017
Depreciation of buildings and other constructions	28,773	30,321
Depreciation of pipelines	195,051	197,517
Depreciation of the buildings of regulating stations	4,922	4,532
Depreciation of the technology of regulating stations	28,269	18,201
Depreciation of gas meters, reducers and regulators	38,728	66,344
Depreciation of boiler installations and other fixed assets	10,816	9,750
Depreciation of vehicles	17,798	17,637
Depreciation of intangible assets	11,437	37,291
Depreciation of IT equipment	11,707	7,942
Depreciation of other movables	36,641	28,474
of which: depreciation of other gas facilities	17,783	8,344
of which: depreciation of other assets (inventories, etc.)	18,858	20,130
Total	384,142	418,009

6.20. Other operating costs

Other operating costs (in thousands of CZK)	2018	2017
Consumption of materials and energy	87,768	73,065
Costs of goods	4,013	3,251
Services	738,617	652,846
of which: asset repair and maintenance costs	352,452	289,874
of which: claims collection costs	12,529	15,348
of which: promotion, advertising and marketing costs	99,488	90,647
of which: operating lease payments	60,882	63,849
of which: IT systems management and repair costs	68,642	58,339
of which: business representatives' commission costs	29,560	17,545
of which: consulting costs	31,600	22,834
of which: gas meter reading costs	17,718	17,635
of which: telecommunication service and postal charges	10,068	9,785
of which: educational costs	7,382	7,182
of which: costs of other services	48,296	59,808
Taxes and levies	12,604	13,993
Allowances and write-off of receivables	49,691	19,143
Others (mainly other provisions not stated elsewhere)	176,051	6,355
Total	1,068,744	768,653

Information on the auditors' fees is disclosed in the notes on the consolidated financial statements of Pražská plynárenská Holding a.s., as at 31 December 2018.

6.21. Financial costs

Financial indicators (in thousands of CZK)	2018	2017
Interest expense	33,739	30,049
Derivative transactions expense	149,490	221,168
Other financial costs	35,656	36,796
Total	218,885	288,013

Other financial income and expenses represent mainly foreign exchange differences, financial gifts and bank charges.

6.22. Financial revenues

Financial indicators (in thousands of CZK)	2018	2017
Interest income	10,748	1,333
Derivative transactions income	158,791	101,211
Other financial revenues	32,954	22,405
Total	202,493	124,949

Other financial income and expenses represent mainly foreign exchange differences.

6.23. Income tax

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

(in thousands of CZK)	2018	2017
Income tax - current	251,393	358,061
Income tax - previous years adjustment	364	1,685
Income tax - deferred	79,707	26,852
Income tax - profit	331,464	386,598
Income tax - deferred (hedge accounting)	0	0
Income tax - comprehensive income	331,464	386,598

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

(in thousands of CZK)	2018	2017
Pre-tax profit	1,279,292	2,072,028
Income tax at the statutory rate of 19%	243,065	393,685
Non-taxable income	-32,511	-33,963
Tax non-deductible expenses	84,662	16,088
Gifts	-1,104	-979
Other	37,351	11,766
Total income tax	331,464	386,598

6.24. Dividends paid

On 16 May 2018 a dividend was paid in the amount of CZK 520,000,000 (CZK 361 per share), in 2017: CZK 520,000,000 (CZK 361 per share).

6.25. Related party transactions and balances

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

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

Controlling entity	2018	2017
Revenues (in thousands of CZK)		
Revenues from sale of services	922	939
Total revenues	922	939

Controlling entity	2018	2017
Costs (in thousands of CZK)		
Other costs	1,006	136
Total costs	1,006	136

Ultimate parent company	2018	2017
Revenues (in thousands of CZK)		
Revenues from sale of services	153	400
Total revenues	153	400

Ultimate parent company	2018	2017
Costs (in thousands of CZK)		
Purchase of other services	5,660	4,289
Other costs	1	0
Total costs	5,661	4,289

Other related parties	2018	2017
Revenues (in thousands of CZK)		
Revenues from sale of services	3,407	1,370
Other revenue	14	12
Total revenues	3,421	1,382

Other related parties	2018	2017
Costs (in thousands of CZK)		
Purchase of other services	88,054	89,634
Other costs	131	31
Total costs	88,185	89,665

The Group recognised the following balances with related parties:

Controlling entity	31 December 2018	31 December 2017
Receivables and payables (in thousands of CZK)		
Trade receivables	23	1
Contingent asset accounts	0	26
Total receivables	23	27
Short-term advances received*	0	24
Financial resources from PPH a.s.	51,493	38,584
Other liabilities	80	18
Total accounts payable	51,573	38,626

*balances presented with VAT.

Ultimate parent company	31 December 2018	31 December 2017
Receivables and payables (in thousands of CZK)		
Trade receivables	69	2
Short-term advances paid*	0	21
Total receivables	69	23
Trade payables	41	0
Total accounts payable	41	0

*balances presented with VAT.

Other related parties	31 December 2018	31 December 2017
Receivables and payables (in thousands of CZK)		
Trade receivables	2,300	250
Short-term advances paid*	238	1,575
Total receivables	2,538	1,825
Trade payables	8,567	8,586
Short-term advances received*	5,212	5,064
Long-term advances received*	10	10
Total accounts payable	13,789	13,660

*balances presented with VAT.

Dividends paid to shareholders in 2018 and 2017 are disclosed in Note 6.24.

Transactions made with the Group's management are disclosed in Notes 6.18. and 6.9.

6.26. Information about the segments

The operations segment is the Group unit that generates revenues and incurs costs and whose financial results are regularly evaluated by subject with decision-making powers for the purpose of resource allocation and assessment of performance.

The Group reports its results in four business segments:

- Trade (mainly the sale of natural gas, electricity, CNG and sale of purchased distribution services),
- Distribution (this applies to the data of the subsidiary company of PPD, a.s.)
- Distribution Service (mainly construction, maintenance and repairs of gas and similar facilities),
- Others.

A segment is an autonomous member company of the Group, which serves the same part of the value chain in the given sector.

The segment 'Other' includes the revenues and transactions that correspond to the service operations for the Group, mainly services and management in the areas at real estate property, services and management in the area of IT and sale of heat.

The Group recognises revenues and transfers between segments as if the revenues or transfers were to third parties, i.e. at market or regulated prices, as far as this concerns the regulated area.

The values in the tables below are recognised in compliance with the IFRS.

All the Group's fixed assets are located in the Czech Republic and all sales are realised in the Czech Republic. No external customer of the Group has 10% of sales or above.

The following table summarises the information about the operations segments as at 31 December 2018:

(in thousands of CZK)	Trade	Distribution	Distribution Service	Other	Consolidation regulation	Consolidated data
Sales excluding sales between segments	11,409,858	788,362	140,719	107,425	0	12,446,364
Sales between segments	484,995	1,495,611	996,661	359,208	-3,336,475	0
Total revenues	11,894,853	2,283,973	1,137,380	466,633	-3,336,475	12,446,364
Operating revenues excluding revenues between segments	43,512	9,119	8,807	1,752	0	63,190
Operating revenues between segments	346,935	2	98	10	-347,045	0
Total operating revenues	390,447	9,121	8,905	1,762	-347,045	63,190
Depreciation	89,177	459,428	9,807	14,737	-189,007	384,142
EBIT	788,835	657,623	99,431	7,973	-258,178	1,295,684
Financial costs	199,032	32,956	47	367	-13,517	218,885
Financial revenues	205,773	8,822	578	837	-13,517	202,493
EBT	795,576	633,489	99,962	8,443	-258,178	1,279,292
Taxes in total	206,718	102,736	19,918	2,092	0	331,464
After tax profit	588,858	530,753	80,044	6,351	-258,178	947,828
Fixed assets	964,070	8,436,305	57,335	107,639	-2,430,215	7,135,134
Acquisition of fixed assets (i.e. Increases without recharging)	88,855	755,417	10,182	17,971	-140,009	732,416
Bonds	400,526	2,660,795	0	0	0	3,061,321

The following table summarises the information about the operations segments as at 31 December 2017:

(in thousands of CZK)	Trade	Distribution	Distribution Service	Other	Consolidation regulation	Consolidated data
Sales excluding sales between segments	11,540,261	879,767	69,010	96,864	0	12,585,902
Sales between segments	483,581	1,550,989	968,398	300,412	-3,303,380	0
Total revenues	12,023,842	2,430,756	1,037,408	397,276	-3,303,380	12,585,902
Operating revenues excluding revenues between segments	26,246	4,656	7,729	572	0	39,203
Operating revenues between segments	330,853	85	251	11	-331,200	0
Total operating revenues	357,099	4,741	7,980	583	-331,200	39,203
Depreciation	109,637	466,477	9,359	13,468	-180,932	418,009
EBIT	1,572,145	821,534	106,698	14,124	-279,409	2,235,092
Financial costs	261,149	29,666	164	243	-3,209	288,013
Financial revenues	125,647	2,074	179	258	-3,209	124,949
EBT	1,436,643	793,942	106,713	14,139	-279,409	2,072,028
Taxes in total	215,083	147,097	21,344	3,074	0	386,598
After tax profit	1,221,560	646,845	85,369	11,065	-279,409	1,685,430
Fixed assets	928,060	8,136,258	55,547	98,511	-2,492,455	6,725,921
Acquisition of fixed assets (i.e. Increases without recharging)	100,982	773,118	13,192	19,998	-139,646	767,644
Bonds	399,574	2,652,235	0	0	0	3,051,809

The prices in some transactions between the segments are regulated by the ERO (see Note 6.26.).

6.27. Regulatory framework

As at 1 January 2007, the Company in line with the requirements of the European Directives on the liberalisation of the gas market and amendment of the Energy Act unbundled part of its operations and transferred the part of the enterprise related to the distribution of natural gas to its subsidiary company. This resulted in the legal division of the distribution network operator from the vertically integrated gas company and the establishment of the subsidiary company Pražská plynárenská Distribuce, a.s., Member of the Pražská plynárenská, a.s. Group, which took over the role of distribution network operator. Under the granted licences, the Company trades in natural gas and electricity.

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

The gas and electricity market is fully liberalised, and all customers thus have the option to choose their own supplier.

b) Gas distribution - price regulation

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

2017 was the second year of the Fourth Regulation Period; the year in which the decision on the rules for the next regulation period was made. Following consistent discussions between all the regulated energy companies and the regulator, the current regulation period was extended by two years, i.e. to the usual five years. The extension provides us with stability in the next three years and time for implementation and calming of the impacts of dynamic changes, which the European Union is preparing for the energy sector. The year 2018 was the third year of the 4th regulatory period, a five-year stretch that ends in 2020. Many major changes in Czech

legislation were in-process, including the Energy Act and the Act on Supported Sources of Energy.

In the European Union, many regulations were gradually discussed and passed in 2018 comprising the 'winter energy package', which lays out new rules, particularly for electric power industry. These rules will be the basis for a subsequent gas industry package, which should set the new framework for the gas industry in 2020. In 2019, preparation will begin for the policies for price regulations in the 5th regulatory period. PPD, a.s., wants to be involved very actively in the formulation of these policies with the objective to maintain the pro investment configuration of regulation. From the viewpoint of long-term maintenance of the security and reliability of the gas network in the territory of the Capital City of Prague, this objective is fundamental.

For each year, the ERO in compliance with the applicable methodology of distribution regulation sets the overall level of allowed revenues and uses it to set fixed prices for the distribution network services to the customer's consumption point according to the offtake zone for the individual distribution companies.

The regulated price and distribution network service conditions for 2018 were set by Price Decision of the ERO No 5/2017 of 21 November 2017, as amended by Price Decision No 4/2018 of 9 October 2018.

It is also in the competence of the Authority to protect the legitimate interests of the licensees whose activity is regulated in compliance with Section 17 (4) of the Energy Act. The legislative framework of price regulation that is stipulated under Section 19a(1) of the Energy Act guarantees coverage of the legitimate (justified) costs to the regulated subjects to ensure reliable, safe and efficient performance of the licensed activity, also depreciation and reasonable profit to ensure return on investments in facilities used to perform the licensed

6.28. Contractual and other future commitments

The expenditure on acquisition of tangible and intangible assets contracted as at 31 December 2018, which has not yet been incurred amounts to CZK 493,237,000 (2017: CZK 362,090,000). Kč).

(in thousands of CZK)	2018	2017
Up to 1 year	73,021	66,551
1-3 years	276,544	200,920
3-5 years	112,016	71,587
Above 5 years	31,656	23,032
Total	493,237	362,090

Operating leasing expenditures charged to the consolidated statement of comprehensive income are recognised in row Services in Notes 6.16. and 6.20. These expenditures represent mainly rent for gas storage and real estate.

The group leases gas storage, tangible and intangible assets under non-cancellable operating lease agreements.

activity. The price regulation policies, among other things, also state the procedure in the event of deviations between the regulated revenues for the regulated year and the subsequently truly achieved revenues in the regulated year.

In such case, the ERO will settle this deviation in the subsequent period.

The leases are contracted for terms between 1 and 10 years, and the majority of the lease agreements are renewable at the end of the lease period.

The future aggregate minimum lease payments under non-cancellable agreements (without valid VAT) as at 31. December 2018, was CZK 631,605,000 (as at 31 December 2017: CZK 497,230,000).). Kč).

(in thousands of CZK)	2018	2017
Up to 1 year	194,906	210,901
1-3 years	203,097	233,592
3-5 years	153,836	46,501
Above 5 years	79,766	6,236
Total	631,605	497,230

7. Other facts

7.1. Contingent liabilities

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 on record.

The Company's management is not aware of any important potential Group liabilities as at 31 December 2018 apart from the potential liabilities mentioned in Note 6.14.

7.2. Events after date of the financial statements

On 1 March 2019, the sole shareholder of the Company, on behalf of the General Assembly, decided to recall Members of the Supervisory Board of the Company, Ing. Michal Hašek; Bc. Martin Čáslavka; Mgr. Luboš Koželuh, MBA; Mr. Radomír Nepil; RNDr. Marcela Plesníková; and JUDr. Štěpán Stupčuk. Effective 2 March 2019, Mgr. Reda Ifrah; Mr. Ivo Kramoliš; Mgr. Václav Kučera; Mgr. Jindřich Lechovský; Mr. Matěj Turek, CFA; and Ing. Lukáš Wagenknecht were elected to the vacant positions.

In the first half of Q1 2019, the Company acquired a stake in MONTSERVIS PRAHA, a.s., which is mainly engaged in the construction and reconstruction of housing block and household boiler facilities as well as the management and operation of power facilities.

No further events occurred after 31 December 2018 that had a significant impact on the financial statements.

7.3. Authorisation of the financial statements

The consolidated financial statements were authorised by the Company Board of Directors for publishing and issue on the date stated below. The consolidated financial statements authorised in this manner may be supplemented or amended upon request and approved by the sole shareholder at the General Meeting.

Prague, 20 March 2019

Ing. Pavel Janeček
Chairman of the Board of Directors

Ing. Milan Cízl
Member of the Board of Directors

Information about the people responsible for the annual report and verification of the financial statements

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

and

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

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

20 March 2019

20 March 2019

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

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

The Company's financial statements for 2018 were audited by PricewaterhouseCoopers Audit, s.r.o, with its registered office at Hvězdova 1734/2c, 140 00, Prague 4, Business ID No: 407 65 521, registered in the Business Register maintained by the Municipal Court in Prague, section C, file 3637 and on the list of auditing companies at the Chamber of Auditors of the Czech Republic under Licence No 021.

The Company's consolidated financial statements for 2018 were audited by PricewaterhouseCoopers Audit, s. r. o, with its registered office at Hvězdova 1734/2c, 140 00, Prague 4, Business ID No: 407 65 521, registered in the Business Register maintained by the Municipal Court in Prague, section C, file 3637 and on the list of auditing companies at the Chamber of Auditors of the Czech Republic under Licence No 021.

Report on relations between the controlling and controlled entity and relations between the controlled entity and other entities under the control of the same entity (affiliates) for 2018

prepared by the Board of Directors of Pražská plynárenská, a.s., with its registered office at Národní 37, Postal Code 110 00 Prague 1 - Nové Město, Business ID No: 601 93 492.

This report has been prepared by the Board of Directors of the controlled party pursuant to the provisions of Act No 90/2012 Coll., Act on commercial companies and

cooperatives (Act on Corporations), hereinafter referred to as the 'Act on Corporations', for the year 2018 (the 'Accounting Period'). The report prepared by the Board of Directors according to Section 82 of the cited Act taking into consideration the provisions of Section 504 of Act No 89/2012 Coll., Civil Code, which concerns business secrets.

Introduction

The enclosed graphical representation of the shareholder structure of Pražská plynárenská, a.s. (hereinafter referred to as 'PP, a.s.'), as at 31 December 2018 shows the basic relations of the related parties. As the graph shows, the controlling party Pražská plynárenská Holding a.s. (hereinafter referred to as 'PPH a.s.') is controlled by another party, the Capital City of Prague, which holds 100% of the registered capital of PPH a.s.

Based on the Articles of Incorporation of PPH a.s., the sole shareholder elects and dismisses members of the Board of Directors and the Supervisory Board acting in the capacity of the General Meeting (which, at 31 December 2018, was the Capital City of Prague).

The Board of Directors of PP, a.s., in this report describes the relations between:

- PP, a.s., and PPH a.s., i.e. the controlled party and the party directly controlling the controlled party,
- related parties, i.e. PP, a.s., and the Capital City of Prague, the party indirectly controlling the controlled party and its controlled parties.

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

1. Structure of the control relations

1.1. Party indirectly controlling the controlled entity

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

1.2. Party controlling a directly controlled entity

The controlling party in 2018 was Pražská plynárenská Holding a.s., with registered office at U Plynárny 500/44, Michle, 140 00 Prague 4, Business ID No: 264 42 272.

In 2018, the capital interest of the party directly controlling the controlled party was 100% of the share capital of the controlled party.

1.3. Controlled entity

It is Pražská plynárenská, a.s., with registered office at Prague 1 Nové Město, Národní 37, Postal Code 110 00, Business ID No: 601 93 492 (hereinafter also 'PP, a.s.' or '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 2018 and with whom PP, a.s., entered into a contractual relationship in 2018 are listed below in Section No 2.

1.5. Related parties

These are the companies Pražská plynárenská, a.s., Pražská plynárenská Holding a.s., the Capital City of Prague, and organisations

and companies in which the Capital City of Prague had a decisive ownership interest in 2018.

1.6. Role of PP, a.s., in the group

PP, a.s., is the parent trading company of the Pražská plynárenská, a.s. Group It exercises its influence through participation in the general meetings of its subsidiary companies, staffing of the boards of directors and supervisory boards of the subsidiaries and application of the Group's directives.

2. Description of the relations between the related parties

2.1. Controlling method and means

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

2.2. Contracts concluded between related entities in force in 2018

2.2.1. Contracts concluded between PP, a.s., and the Capital City of Prague or parties under its control

a) Contracts for gas and electricity supplies

Akademické gymnázium, škola hlavního města Prahy, Štěpánská 22, Prague 1
Akademie řemesel Praha, Střední škola technická, Zelený pruh 1294/52, Prague 4
AKROP s.r.o., Ke Špejcharu 392, Tuchoměřice Botanická zahrada hl.m.Prahy, Trojská 800/196, Prague 7
Centrum sociálních služeb Praha, Žilinská 2769/2, Prague 4
Československá akademie obchodní Dr Edvarda Beneše, střední odborná škola, Resslova 1780/8, Prague 2
Československá akademie obchodní, střední odborná škola, Resslova 1940/5, Prague 2
Dětské centrum Paprsek, Šestajovická 19, Prague 9
Dětský domov a Školní jídelna, Smržovská 77, Prague 9
Dětský domov Charlotty Masarykové, U Včely 176, Prague 5
Dětský domov, Prague 9 Dolní Počernice, Národních hrdinů 1, Prague 9
Divadlo na Vinohradech, náměstí Míru 7, Prague 2 Divadlo pod Palmovkou, Zenklova 34, Prague 8 Divadlo Spejbla a Hurvínka, Dejvická 38, Prague 6
Domov mládeže a školní jídelna, Neklanova 147/32, Prague 2
Vyšehrad
Domov mládeže a školní jídelna, Studentská 700/10, Prague 6
Domov mládeže a školní jídelna, Lovosická 42/439, Prague 9
Domov pro osoby se zdravotním postižením, Lochovice 222, Zdice
Domov pro osoby se zdravotním postižením, Sulická 48, Prague 4
Domov pro seniory Ďáblice, Kubíkova 1698/11, Prague 8
Domov pro seniory Dobřichovice, Brunšov 365, Všenory
Domov pro seniory Elišky Purkyňové, Cvičebná 2447/9, Prague 6
Domov pro seniory Háje, K Miličovu 734/1, Prague 4 Háje
Domov pro seniory Heřmanův Městec, Masarykovo náměstí 37, Heřmanův Městec

Domov pro seniory Hortenzie, Bořanovice Pakoměřice 65, Líbeznice
Domov pro seniory Chodov, Donovalská 2222/31, Prague 4
Domov pro seniory Krč, Sulická 1085/53, Prague 4
Domov pro seniory Pyšely, náměstí T. G. Masaryka 1, Pyšely
Domov pro seniory Zahradní Město, Sněžňenkova 2973/8, Prague 10
Domov se zvláštním režimem Krásná Lípa, Čelakovského 13, Krásná Lípa
Domov se zvláštním režimem Terezín, náměstí Československé armády 84, Terezín
Domov sociálních služeb Vlašská, Vlašská 25, Prague 1
Dopravní podnik hl. m. Prahy, a. s., Sokolovská 217/42, Prague 9
Dům dětí a mládeže hlavního města Prahy, Karlínské náměstí 316/7, Prague 8 Karlín
Dům dětí a mládeže Modřany, Herrmannova 2016/24, Prague 4 Modřany
Dům dětí a mládeže Prague 10 Dům UM, Pod Strašnickou vinicí 23/623, Prague 10 Strašnice
Dům dětí a mládeže Prague 2, Slezská 21/920, Prague 2 Vinohrady
Dům dětí a mládeže Prague 3 - Ulita, Na Balkáně 2866/17a, Prague 3 Žižkov
Dům dětí a mládeže Prague 4 Hobby centrum 4, Bartákova 1200/4, Prague 4
Dům dětí a mládeže Prague 5, Štefánikova 235/11, Prague 5
Dům dětí a mládeže Prague 6 - Suchdol, Rohová 540/4, Prague 6 - Suchdol
Dům dětí a mládeže Prague 7, Šimáčkova 16/1452, Prague 7 Holešovice
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 a Hudební škola hlavního města Prahy, základní umělecká škola, Komenského nám. 400/9, Prague 3
Gymnázium Elišky Krásnohorské, Ohradní 111/55, Prague 4
Gymnázium Christiana Dopplera, Zborovská 621/45, Prague 5
Gymnázium Jana Keplera, Parlérova 118/2, Prague 6
Gymnázium Jana Nerudy, škola hlavního města Prahy, Hellichova 3, Prague 1
Gymnázium Jaroslava Heyrovského, Mezi Školami 2475/29, Prague 5
Gymnázium Karla Sladkovského, Sladkovského náměstí 8, Prague 3
Gymnázium Opatov, Konstantinova 1500/50, Prague 4
Gymnázium, Omská 1300/4, Prague 10
Gymnázium, Přípotoční 1337/1a, Prague 10 Gymnázium, Voděradská 2, Prague 10

Gymnázium, Botičská 1, Prague 2
 Gymnázium, Budějovická 680/17, Prague 4
 Gymnázium, Na Vítězné pláni 1160, Prague 4
 Gymnázium, Nad Kavalírkou 100/1, Prague 5
 Gymnázium, Arabská 682/14, Prague 6
 Gymnázium, Nad Alejí 1952/5, Prague 6
 Gymnázium, Nad Štolou 1, Prague 7
 Gymnázium, U Libeňského zámku 3/1, Prague 8
 Gymnázium, Ústavní 400, Prague 8
 Gymnázium, Českolipská 373, Prague 9
 Gymnázium, Špitálská 700/2, Prague 9
 Gymnázium, Střední odborná škola, Základní škola a Mateřská škola pro sluchově postižené, Ječná 530/27, Prague 2
 Hlavní město Praha, Mariánské nám. 2, Prague 1
 Hotelová škola Radlická, Radlická 115, Prague 5
 Hudební divadlo v Karlíně, Křížíkova 10, Prague 8
 Hvězdárna a planetárium hlavního města Prahy, Královská obora 233, Prague 7
 Integrované centrum pro osoby se zdravotním postižením Horní Poustevna, Horní Poustevna 40, Dolní Poustevna Integrované centrum sociálních služeb Odlochovice, Odlochovice 1, Jankov
 Jedličkův ústav a Mateřská škola a Základní škola a Střední škola, V Pevnosti 13/4, Prague 2
 Karlínské gymnázium Praha, Pernerova 273/25, Praha 8
 Kolektory Praha, a.s., Pešlova 341/3, Prague 9
 Kongresové centrum Praha, a.s., 5. května 1640/65, Prague 4
 Nusle
 Lesy hl. m. Prahy, Práčská 1885, Prague 10
 Mateřská škola a Základní škola, Bártlova 83/1, Prague 9
 9 Mateřská škola speciální Sluníčko, Deylova 3, Prague 5
 5 Mateřská škola speciální, Na Lysinách 41/6, Prague 4
 Mateřská škola speciální, Dražanská 779/7, Prague 8
 Městská divadla pražská, V Jámě 699/1, Prague 1
 Městská knihovna v Praze, Mariánské náměstí 1, Prague 1
 Městská nemocnice následné péče, K Moravině 343/6, Prague 9
 Městská poliklinika Praha, Spálená 78/12, Prague 1
 Minor, Vodičkova 674/6, Prague 1
 Muzeum hlavního města Prahy, Kožná 1, Prague 1
 Národní kulturní památka Vyšehrad, V Pevnosti 159/5b, Prague 2 - Vyšehrad
 Obecní dům, a.s., náměstí Republiky 1090/5, Prague 1
 Staré Město
 Obchodní akademie Bubeneč, Krupkovo náměstí 4, Prague 6
 6 Obchodní akademie Dušní, Dušní 7, Prague 1
 Obchodní akademie, Heroldovy sady 362/1, Prague 10
 Obchodní akademie, Vinohradská 38, Prague 2
 Obchodní akademie, Kubelíkova 37, Prague 3
 Odborné učiliště Vyšehrad, Vratislavova 31/6, Prague 2
 2 Vyšehrad
 Palata Domov pro zrakově postižené, Na Hřebenkách 737/5, Prague 5
 Pedagogicko-psychologická poradna pro Prahu 11 a 12, Kupeckého 576/17, Prague 4
 Pohřební ústav hl. m. Prahy, Pobřežní 339/72, Prague 8
 Karlín
 Pražská energetika, a.s., Na Hroudě 1492/4, Prague 10
 Pražská informační služba, Arbesovo náměstí 70/4, Prague 5
 5 Pražská konzervatoř, Na Rejdišti 1, Prague 1
 Pražská strojírna a. s., Mladoboleslavská 133, Prague 9
 Vinoř Pražské služby, a.s., Pod Šancemi 444/1, Prague 9
 Smíchovská střední průmyslová škola, Preslova 72/25, Prague 5
 Správa pražských hřbitovů, Vinohradská 2807/153c, Prague 3
 Správa služeb hlavního města Prahy, Kunderatka 1951/19, Prague 8 - Libeň
 Středisko praktického vyučování, Seydlerova 8, Prague 5
 Střední odborná škola civilního letectví, K Letišti 278, Prague 6
 Střední odborná škola Jarov, Učňovská 1, Prague 9
 Střední odborná škola pro administrativu Evropské unie, Lipí 1911/22, Prague 9
 Střední odborná škola, Drtinova 498/3, Prague 5
 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 nám. 225/8, Prague 8
 Střední odborné učiliště, Pod Klapicí 11/15, Prague 5
 Střední odborné učiliště, Ohradní 57, Prague 4
 Střední průmyslová škola dopravní, a.s., Plzeňská 298/217a, Prague 5
 Střední průmyslová škola elektrotechnická, V Úžlabině, V Úžlabině 320/23, Prague 10
 Střední průmyslová škola elektrotechnická, Ječná 517/30, Prague 2
 Střední průmyslová škola na Proseku, Novoborská 610/2, Prague 9
 Střední průmyslová škola sdělovací techniky, Panská 856/3, Prague 1
 Střední průmyslová škola stavební Josefa Gočára, Družstevní ochoz 1659/3, Prague 4
 Střední průmyslová škola strojnická škola hl. města Prahy, Betlémská 4/287, Prague 1
 Střední průmyslová škola, Na Třebešíně 2299/69, Prague 10
 Střední škola Centrum odborné přípravy technickohospodářské, Poděbradská 179/1, Prague 9
 Střední škola a Mateřská škola Aloyse Klara, Vídeňská 756/28, Prague 4
 Střední škola a vyšší odborná škola umělecká a řemeslná, Nový Zlíchov 1063/1, Prague 5 - Hlubočepy
 Střední škola automobilní a informatiky, Weilova 1270/4, Prague 10
 Střední škola designu a umění, knižní kultury a ekonomiky Náhorní, U Měšťanských škol 525/1, Prague 8
 Střední škola dostihového sportu a jezdeckví, U závodíště 1, Prague 5
 Střední škola elektrotechniky a strojírenství, Jesenická 3067/1, Prague 10
 Střední škola, Základní škola a Mateřská škola pro sluchově postižené, Výmolova 169/2, Prague 5
 Střední škola, Základní škola a Mateřská škola, Chotouňská 476, Prague 10
 Symfonický orchestr hlavního města Prahy FOK, náměstí Republiky 5, Prague 1
 Školní jídelna, Štefánikova 235/11, Prague 5
 Švandovo divadlo na Smíchově, Štefánikova 6/57, Prague 5
 Technická správa komunikací hl. m. Prahy, a.s., Řásnovka 770/8, Prague 1
 Staré Město
 Technologie hlavního města Prahy, a.s., Dělnická 213/12, Prague 7
 Holešovice
 TRADE CENTRE PRAHA a.s., Blanická 1008/28, Praha 2
 Výstaviště Praha, a.s., Výstaviště 67, Praha 7
 Bubeneč
 Vyšší odborná škola a Střední průmyslová škola dopravní, Masná 18, Prague 1
 Vyšší odborná škola a Střední průmyslová škola elektrotechnická Františka Křížíka, Na Příkopě 16, Praha 1
 Vyšší odborná škola a Střední umělecká škola Václava Hollara, Hollarovo náměstí 2275/2, Prague 3

Vyšší odborná škola ekonomických studií, Střední průmyslová škola potravinářských technologií a Střední odborná škola přírodovědná a veterinární, Podskalská 365/10, Prague 2
 Vyšší odborná škola grafická a Střední průmyslová škola grafická, Hellichova 22, Prague 1
 Vyšší odborná škola informačních studií a Střední škola elektrotechniky, multimédií a informatiky, Novovysočanská 280/48, Prague 9
 Vyšší odborná škola pedagogická a sociální, Střední odborná škola pedagogická a Gymnázium, Evropská 330/33, Praha 6
 Vyšší odborná škola stavební a Střední průmyslová škola stavební, Dušní 17, Prague 1
 Vyšší odborná škola uměleckoprůmyslová a Střední uměleckoprůmyslová škola, Žižkovo náměstí 1300/1, Praha 3
 Vyšší odborná škola zdravotnická a Střední zdravotnická škola, Alšovo nábřeží 6, Praha 1
 Vyšší odborná škola zdravotnická a Střední zdravotnická škola, 5. května 51, Praha 4,
 Základní škola a Mateřská škola, Za Invalidovnou 628/1, Praha 8
 Základní škola a Střední škola Karla Herforta, fakultní škola Pedagogické fakulty UK, Josefská 43/4, Praha 1
 Základní škola a střední škola waldorfská, Křejpského 12, Praha 4
 Základní škola a Střední škola, Vachkova 941/13, Praha 10
 Uhřetěves
 Základní škola logopedická a Mateřská škola logopedická, Moskevská 29, Praha 10
 Základní škola pro žáky s poruchami zraku, náměstí Míru 601/19, Praha 2 Vinohrady
 Základní škola pro žáky se specifickými poruchami chování, Na Zlíchově 254/19, Praha 5
 Základní škola pro žáky se specifickými poruchami učení, U Boroviček 648/1, Praha 6
 Základní škola speciální a Praktická škola, Rooseveltova 169/8, Praha 6
 Základní škola speciální, Starostrašnická 120/45, Praha 10
 Základní škola Tolerance, Mochovská 570/41, Praha 9
 Základní škola Vokovice, Vokovická 32/3, Praha 6
 Základní škola, Pod radnicí 315/5, Praha 5
 Základní umělecká škola Charlotty Masarykové, Krupkovo náměstí 4, Praha 6
 Základní umělecká škola Ilji Hurníka, Slezská 920/21, Praha 2
 Základní umělecká škola Klementa Slavického, Zderazská 60/6, Praha 5
 Základní umělecká škola Vadima Petrova, Dunická 3136/1, Praha 4
 Základní umělecká škola, Biskupská 1276/12, Praha 1
 Základní umělecká škola, U půjčovny 4, Praha 1
 Základní umělecká škola, Bajkalská 1512/11, Praha 10
 Základní umělecká škola, Olešská 2295/16, Praha 10
 Základní umělecká škola, Štítného 520/5, Praha 3
 Základní umělecká škola, Lounských 129/4, Praha 4
 Základní umělecká škola, Na popelce 18/1, Praha 5
 Základní umělecká škola, Nad Alejí 1879/28, Praha 6
 Základní umělecká škola, Klapkova 25, Praha 8
 Základní umělecká škola, Učňovská 1, Praha 9
 Zdravotnická záchranná služba hl. m. Prahy, Korunní 98, Praha 10
 Zoologická zahrada hl. m. Prahy, U Trojského zámku 120/3, Praha 7 Troja
 Želivská provozní a.s., K Horkám 16/23, Praha 10
 Hostivař

b) Other agreements

Československá akademie obchodní Dr. Edvarda Beneše, střední odborná škola, Resslova 1780/8, Praha 2 - Vocational apprenticeship agreements
 Divadlo Na zábradlí, Anenské náměstí 5, Prague 1 - Cooperation agreement
 Domov pro seniory Krč, Sulická 1085/53, Praha 4 - Agreement on sale and purchase of compressed natural gas (CNG) and use of the non-transferable customer card
 Hlavní město Praha, Mariánské nám. 2, Prague 1 - Non-residential Property Lease Agreements, agreement on lease of parking space, agreement on lease of business space, Agreement on establishment of an easement
 Kolektory Praha, a.s., Pešlova 341/3, Praha 9 - Agreement on sale of compressed natural gas (CNG) and use of the non-transferable customer card
 Lesy hl. m. Prahy, Práčská 1885, Prague 10 - Advertising and promotion agreement
 Městská knihovna v Praze, Mariánské nám. 98/1, Prague 1 - Non-residential Property Lease Agreement, memorandum on future lease contract, lease agreement, settlement agreement
 Městská poliklinika Praha, Spálená 78/12, Prague 1 - Agreement on sale of compressed natural gas (CNG) and use of the non-transferable customer cards
 Muzeum hlavního města Prahy, Kožná 475/1, Prague 1 - Agreement on lease of an exhibit
 Obecní dům, a. s., náměstí Republiky 1090/5, Prague 1 - Promotion contract
 Palata - Domov pro zrakově postižené, Na Hřebenkách 5, Prague 5 - Agreement on sale of compressed natural gas (CNG) and use of the non-transferable customer card
 Pražská energetika, a.s., Na Hroudě 1492/4, Prague 10 - EFET agreement (purchase/sale of natural gas), master agreement on transfer of unused tolerance, non-residential property lease agreement, non-residential property sub-lease agreement
 Pražské služby, a.s., Pod Šancemi 444/1, Praha 9 - Agreement on the sale and purchase of compressed natural gas and use of the non-transferable customer card, promotion and advertising agreement, rental agreement for the CNG station
 TRADE CENTRE PRAHA, a. s., Blanická 1008/28, Praha 2 - Telecommunication services contract
 Zoologická zahrada hl. m. Prahy, U Trojského zámku 120/3, Prague 7 - Agreement on sale of compressed natural gas (CNG) and use of the non-transferable customer card

2.2.2. Contracts signed between PP, a.s., and PPH a.s.

- Service agreement
- Agreement on lease non-residential property and movables
- Agreement on lease of business premises
- Agreement on cash pooling within the PP, a.s. Group
- Order contract for consideration payout to minority shareholders (the third party is Československá obchodní banka, a.s.)

2.2.3. Overview of the conduct of the controlled party in favour of or upon request of the related parties

In the Accounting Period no decision was made by Pražská plynárenská Holding a.s., as the sole shareholder Pražská plynárenská Holding a.s. as the sole shareholder exercising the powers of the general meeting of Pražská plynárenská, a.s., regarding conduct that would affect the assets of Pražská plynárenská, a.s., whose value would exceed 10% of the equity of Pražská plynárenská, a.s., according to the last financial statements, i.e. whose value would exceed the amount of 251,155 thousands of CZK according to the financial statements as at 31 December 2018.

2.3. Other legal acts

A Memorandum of cooperation and mutual support during the preparation of youth for vocational certificate fields in the Capital City of Prague was signed with the Capital City of Prague.

The controlled party does not suffer any detriment from this relationship.

2.4. Assessment of detriment suffered by the controlled entity

PP, a.s. did not suffer any detriment from control by the controlling party.

2.5. Assessment of the statutory body

The statutory body assessed the advantages and disadvantages arising from the relations between persons referred to in Note 1 and stated that benefits prevailed and that there were no risks arising from these relationships for the controlled entity.

PP, a.s., was replaced in 2018 by Pražská plynárenská Holding a.s., as the company that controls PP, a.s., directly. It was backed by the shareholder of PPH a.s., i.e. the Capital City of Prague, which controlled PP, a.s., through PPH a.s. indirectly.

Pražská plynárenská, a.s. is a member of the Group, which includes subjects engaged mainly in activities related Relations with the indirectly controlling party, the Capital City of Prague, should be considered significant also with regard to the fact that the directly controlled company PP, a.s., Pražská plynárenská Distribuce, a.s., Member of the Pražská plynárenská, a.s. Group, is

2.6. Other facts

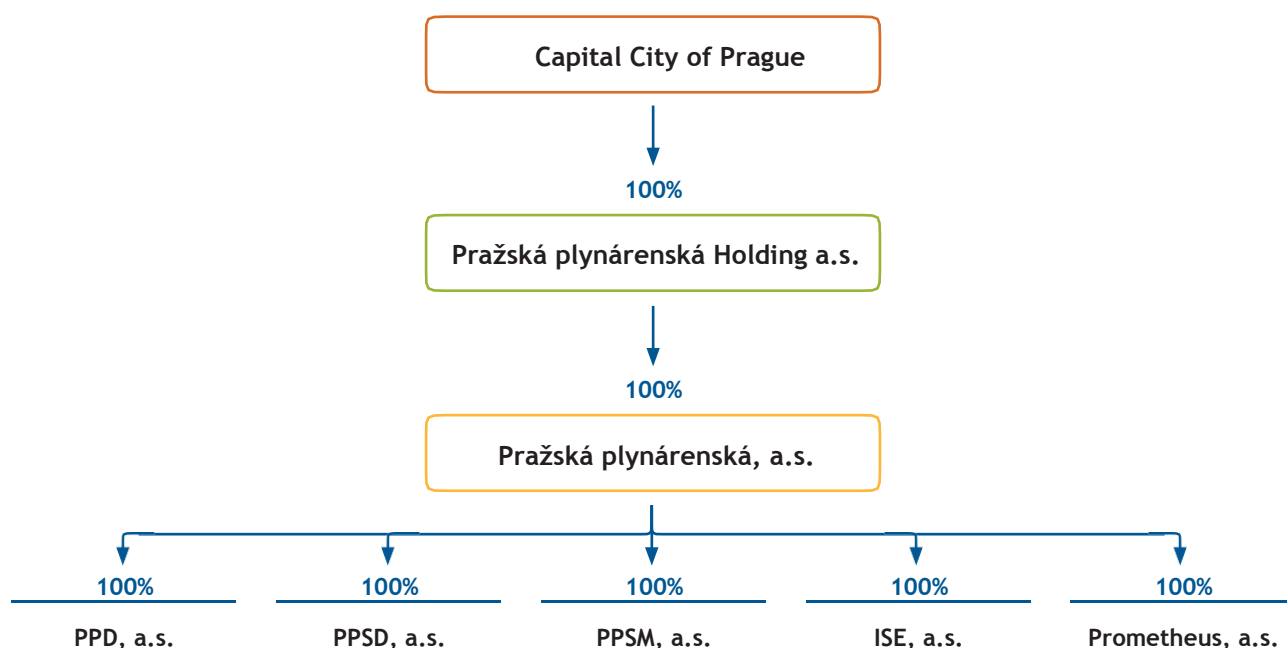
2.6.1. Cooperation between PP, a.s., and Pražská energetika, a.s.

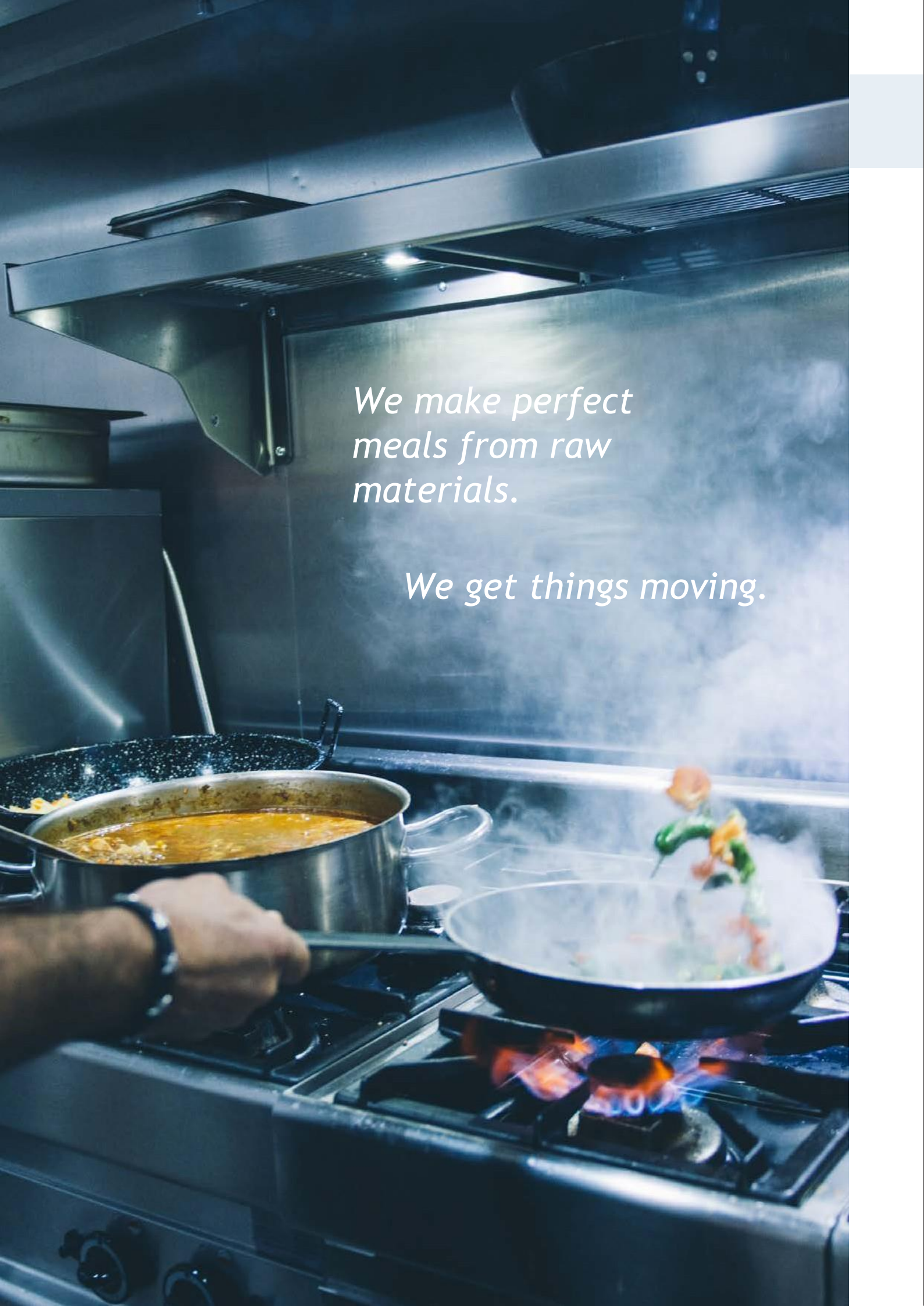
In 2018, cooperation continued between PP, a.s., and Pražská energetika, a.s., within the project 'Together for Prague' under the auspices of the Prague City Council. Specifically, this cooperation concerned the joint business office, the call centre line, and joint meter readings.

2.6.2. Members of PP, a.s. bodies

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

3. Graph showing the relationship of Pražská plynárenská, a.s. and related parties as at 31 December 2018





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meals from raw
materials.*

We get things moving.

Abbreviations

a.s.	joint-stock company	MO	Small customer - end customer who is not a large, medium-sized, or domestic customer
AMU	Academy of Performing Arts in Prague	MOO	Electricity retail customer population
OSH	Occupational Safety and Health	MOP	Electricity retail business population
CFO	Chief Financial Officer	MŠMT	Ministry of Education, Youth and Sport
CNG	Compressed Natural Gas	MWh	Megawatt hour
CZK	Czech crown	OP	Provision
č. ú.	Account number	OSVČ	Self-employed person
CEI	Czech Environmental Inspectorate	OTE	Market operator
CNB	Czech National Bank	FP	Fire Protection
ČR	Czech Republic	PP, a.s.	Pražská plynárenská, a.s.
ČSLH	Czech Ice Hockey Federation	PPD, a.s.	Pražská plynárenská Distribuce, a.s., Member of the Pražská plynárenská, a.s. Group
ČSOB	Československá obchodní banka, a. s.	PPH a.s.	Pražská plynárenská Holding a.s.
ČSSD	Czech Social Democratic Party	PPSD, a.s.	Pražská plynárenská Servis distribuce, a.s., Member of the Pražská plynárenská, a.s. Group
CTU	Czech Technical University in Prague	PPSM, a.s.	Pražská plynárenská Správa majetku, a.s., Member of the Pražská plynárenská, a.s. Group
ČZU	Czech University of Life Sciences in Prague	PR	Public Relations Prometheus, a.s., Prometheus, energetické služby, a.s., Member of the Pražská plynárenská, a.s. Group
DHM	Tangible fixed assets	PSČ	Postal code
DIČO	Tax identification number (VAT No)	PwC	PricewaterhouseCoopers
DNM	Intangible fixed assets	s.p.	State enterprise s.r.o. Limited liability company (Czech: <i>společnost s ručením omezeným</i>)
DOM	Domestic customer - natural person using gas for personal needs connected with housing or the personal needs of themselves and their family members	Coll.	Collection of the laws of the Czech Republic
VAT	Value Added Tax	SO	Medium-sized customer - natural person or legal entity whose offtake gas facility is connected to the transport or distribution system and whose annual consumption at the offtake point is at least 630 MWh but not greater than 4,200 MWh
ERO	Energy Regulatory Office	SR	Slovak Republic
EU	European Union	Tel.	Telephone number
EUR	Euro - common currency of the European Union	tis.	Thousand
EVVO	Environmental education, training, and awareness	TU	Technical University
FZŠ	Faculty primary school	TV	Television
GDPR	General Data Protection Regulation	VH	Net profit/loss
GmbH	Limited liability company (German: <i>Gesellschaft mit beschränkter Haftung</i>)	VO	Large customer - natural person or legal entity whose offtake gas facility is connected to the transport or distribution system and whose annual consumption at the offtake point exceeds 4,200 MWh
GDP	Gross Domestic Product	VŠE	University of Economics, Prague
IČO	Business identification number	ZHMP	Prague City Council
IFRS	International Financial Reporting Standards		
ISE, a.s.	Informační služby - energetika, a.s.		
ISIN	Identification number under which the share was registered at the Securities Centre/Centrálním depozitáři cenných papírů, a.s.		
IT	Information Technology		
CZK	Czech crown		
kg	Kilogramme		
ks	Piece (English: pc)		
m ³	Cubic metre		
MČ	City district		
mil.	Million		
mld.	Billion		



*We boil millions of
litres of water every
day.*

We get things moving.

Auditor's Report



Report of the Independent Auditor

to the shareholder of Pražská plynárenská, a.s.

Auditor's Report on the Consolidated and Individual Financial Statements

Auditor's statement

In our opinion:

- the submitted consolidated financial statements give a true and fair picture of the consolidated financial position of Pražská plynárenská, a.s., with registered office at Národní 37, Prague 1 - Nové Město ('the Company') and its subsidiary companies (together 'the Group') as at 31 December 2018, its consolidated financial performance and consolidated cash flows for the year ended 31 December 2018 in accordance with the International Financial Reporting Standards as adopted by the European Union ('EU').
- the attached individual financial statements give a faithful and fair picture of the financial position of the Company itself as at 31 December 2018, its financial performance and cash flows for the year ended 31 December 2018 in compliance with the IFRS as adopted by the EU.

Scope of audit

The consolidated financial statements of the Group consist of the following:

- Consolidated statement of financial position as at 31 December 2018,
- Consolidated statement of comprehensive income for the year ended 31 December 2018,
- Consolidated statement of changes in equity for the year ended 31 December 2018,
- Consolidated statement of cash flows for the year ended 31 December 2018,
- Notes on the consolidated financial statements, which contains the significant accounting policies and other explanatory information.

The individual financial statements of the Company consist of the following:

- Statement of financial position as at 31 December 2018,
- Statement of comprehensive income for the year ended 31 December 2018,
- Statement of changes in equity capital for the year ended 31 December 2018,
- Cash flow statement for the year ended 31 December 2018,
- notes on the individual financial statements, which contain the significant accounting methods and other explanatory information.

Basis for the statement

We conducted the audit in compliance with the Act on Auditors, Regulation (EU) No 537/2014 of the European Parliament and of the Council ('EU Regulation') and the auditing standards of the Chamber of Auditors of the Czech Republic, which are the International Standards on Auditing (ISA), eventually supplemented and modified with the related application clauses.

Our responsibility as stipulated by these regulations is outlined in detail in the section on the Auditor's responsibility for the audit of the financial statements. We assume that the evidence that we obtained provides a sufficient and appropriate basis for us to make our statement.

Independence

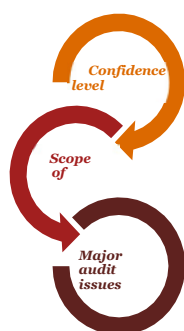
In accordance with the Act on Auditors of the Czech Republic, EU Regulation and the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA) and adopted by the Chamber of Auditors of the Czech Republic, we are independent of the Group and the Company, we did not provide any banned non-audit services and we also fulfilled other ethics duties arising from the stated regulations.

PricewaterhouseCoopers Audit, s.r.o., Hvězdova 1734/2c, 140 00 Prague 4, Czech Republic
Tel.: +420 251 151 111, Fax: +420 252 156 111, www.pwc.com/cz

PricewaterhouseCoopers Audit, s.r.o., with registered office at Hvězdova 1734/2c, 140 00 Prague 4, Business ID No: 40765521, registered in the Business Register maintained by the Municipal Court in Prague, section C, file 3637 and on the list of auditing companies at the Chamber of Auditors of the Czech Republic under Licence No 021.

Access to the audit

Overview



Confidence level

The overall confidence level is at the level of 2.5% of the consolidated turnover or individual turnover, which is CZK 311 million for the consolidated financial statements and CZK 297 million for the individual financial statements.

Determination of the scope of audit of the Group

The Company and all its subsidiary companies were audited by PwC in Prague, Czech Republic.

Major audit issues

- First adoption of the IFRS for the individual financial statements
- The correctness and completeness of the reporting of the impacts of adoption of the IFRS 15 - Revenues from contracts with customers and related release
- Correctness and completeness of the reporting of the impacts of adoption of the IFRS 9 - Financial tools and related release

When planning the audit, we set the confidence level and assessed the risks of material misstatement in the consolidated and individual financial statements (together 'the financial statements'). in which the management applied its judgement, e.g. in the event of significant accounting estimates, including the determination of the assumptions and assessment of future facts, which are uncertain in principle. We also focused on the risk of circumvention of the internal checks of the management including assessment of whether prejudice was identified that would pose a risk of material misstatement due to fraud.

Confidence level

The scope of our audit was influenced by the applied confidence level. The audit was planned in such a manner so as to get reasonable assurance that the financial statements are free from material misstatement due to fraud or error. Misstatements are considered material if it is possible to realistically assume that they could individually or collectively impact the economic decisions made by the users of the financial statements on their basis.

Based on our professional judgement, we have established certain quantitative confidence levels, including the confidence levels relating to each of the financial statements as a whole (see table below). On their basis and qualitative assessment, we determined the scope of our audit, including the nature, timing and scope of the audit procedures, and evaluated the impact of the identified misstatements individually and in aggregate per financial statements.

Overall confidence level for the Group	CZK 311 million (in 2017: CZK 313.7 million) Kč)
The overall confidence level for the Company itself	CZK 297 million (in 2017: CZK 309 million) Kč)
Procedure	The confidence level for the Group and Company was determined as 2.5% of the consolidated and individual turnovers.
Substantiation of the basis used for determination of the confidence level	Determination of the confidence level includes use of professional judgement. When determining the confidence level, we considered the quantitative and qualitative factors. The sector in which the Group and the Company operate is a highly competitive environment with very low margins, and for this reason profit is not a suitable basis for determination of the significance. We thus chose sales as the most suitable variable because the Group and the Company orient mainly on keeping their customers and the market share and thus on sales. Sales are at the same time a key performance indicator for the Group and Company Management. The applied percentage of 2.5% in our opinion in a corresponding manner takes into consideration the risk profile of the Group and the Company.

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Major audit issues

According to our professional judgement, the main audit issues are the issues that were the most significant during the audit of the financial statements for the current period. We examined these issues in the context of the audit of the individual financial statements as a whole and in connection with the formation of an opinion each of the these individual financial statements. We do not express a separate opinion on these issues.

Major audit issues

First adoption of the IFRS for the individual financial statements

The individual financial statements of the Company for the period ended 31 December 2018 is its first individual financial statements compiled according to the IFRS as adopted by the European Union (hereinafter 'IFRS'). The description of the first adoption including the related publishing is contained in point 2 of the individual financial statements.

A change in the framework of the financial statement is a significant change in the individual financial statements, and for this reason the subject of interest within the framework of our audit of the Company's individual financial statements.

How the audit dealt with the major audit issues

We performed the following audit procedures:

- We tested the accuracy and completeness of use of the IFRS that are in force as at 31 December 2018 for the standard and comparable financial period in the individual financial statements of the Company for the year ended 31 December 2018 according to the requirements of IFRS 1.
- We assessed the use of the obligatory and permissible exemptions from the rule of retrospective application of accounting rules.
- We used selected samples to test the individual impacts on the Company's equity capital as at 1 January 2017 and 31 December 2017 and on the comprehensive income of the Company for 2017.
- We tested the accuracy and completeness of the announcement on the first adoption of the IFRS in the notes on the individual financial statements of the Company according to the IFRS 1 requirements.

The correctness and completeness of the reporting of the impacts of adoption of the IFRS 15 - Revenues from contracts with customers and related release

The Group adopted the IFRS 15 as at 1 January 2018. In compliance with the transitional provisions, the Group utilised the opportunity to adjust the comparable information during transition to IFRS 15 (it used the full retrospective method).

The IFRS 15 was used in the individual financial statements of the Company in compliance with the requirements of the IFRS 1 already as at 1 January 2017.

The impacts of the adoption of the IFRS 15 are stated in point 3.23 of the Company's consolidated financial statements.

Due to the key position of the revenues and their reporting during evaluation of the performance of the Group and the Company, the transition to the IFRS 15 was a subject of interest within the scope of our audit of the consolidated financial statements.

We performed the following audit procedures:

- We assessed the analysis of the impacts of transition to the IFRS 15 prepared by the management of the Company for the individual types of revenues.
- We assessed the suitability of the methods, which were applied in the determination of the impact of transition to the IFRS 15.
- We used the selected samples to test the correctness and completeness of the enumeration of the transition to the IFRS 15, by reconciliation with the source data in the contracts and other relevant documents.
- We assessed the suitability and completeness of the publishing according to the requirements of the IFRS 15 in the consolidated and individual financial statements for the year ended 31 December 2018 and in the comparative period.

Correctness and completeness of the reporting of the impacts of adoption of the IFRS 9 - Financial tools and related release

The Group adopted the IFRS 9 as at 1 January 2018. In compliance with the transitional provisions, the Group utilised the opportunity to adjust the comparable information during transition to IFRS 9.

The IFRS 9 was used in the individual financial statements of the Company in compliance with the requirements of the IFRS 1 already as at 1 January 2017.

The impacts of the adoption of the IFRS 9 are stated in point 3.23 of the Company's consolidated financial statements.

We performed the following audit procedures:

- We assessed the analysis of the impacts of transition to the IFRS 9 prepared by the management of the Company for the individual types of financial tools.
- We assessed the suitability of the methods, which were applied in the determination of the impact of transition to the IFRS 9.
- We tested the correctness and completeness of the enumeration of the expected credit losses on selected samples by reconciliation with the source data and preparation of the publicly available data regarding the expected economic development and development of unemployment.



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Due to the diversified portfolio of Group and Company customers and the significant household component in this portfolio, the transition to the IFRS 9 was the subject of interest within the scope of our audit of the consolidated financial statements, particularly in the area of impairment of financial assets and application of the new model of expected credit losses.

- We assessed the suitability and completeness of the publishing according to the requirements of the IFRS 9 in the consolidated and individual financial statements for the year ended 31 December 2018 and in the comparative period.

How did we set the scope of the audit?

We set the scope of audit in such a manner so as to obtain adequate information, which will enable us to state an opinion on each of the financial statements as a whole. We considered the structure of the Group, its accounting processes and controls, share of the individual companies on the financial position and results of the Group and the specifics and sectors in which the Group and Company operate.

The Group consists of the Company and its five subsidiaries. We audited all the companies in the Group, and thus consider the scope of audit as adequate for us to express our opinion.

Other information

In accordance with Section 2 b) of the Act on Auditors, other information has been specified in the Annual Report outside both of the financial statements and our auditor's report. The Company's Board of Directors is responsible for the other information.

Our opinion on the financial statements does not apply to the other information. In spite of this, it is part of our duty related to the audit of the financial statements to get acquainted with the other financial and on-financial information and assess whether the other information does not significantly conflict with the financial statements or our knowledge of the Group and Company obtained during the audit or whether this information does not otherwise seem to be significantly misstated. We also assess whether the other information was processed in all significant aspects in compliance with the applicable legal regulations. This assessment means whether the other information fulfils the requirements of the legal regulations for formal essentials and procedures for processing of other information in the context of significance, i.e. whether any non-observance of the given requirements could influence the judgement made on the basis of other information.

Based on the accomplished procedures, to the extent to which we can judge, we state that

- the other information, which describes the facts that are also the subject of the picture in the financial statements in all major aspects complies with the financial statements and
- the other information was processed in compliance with the legal regulations.

We are further required on the basis of the knowledge and awareness of the Group and Company we obtained during the audit to state whether the other information does not contain significant material misstatements. Within the scope of the given procedures, we did not find any significant material misstatements in the other information received.

Responsibility of the Company's Board of Directors, Supervisory Board, and Audit Committee for the financial statements

The Company's Board of Directors is responsible for the preparation of the financial statements, providing a faithful and fair image in compliance with the International Accounting Standards adopted by the EU and for such an internal control system, which it considers necessary for the preparation of the financial statements so that they do not contain any material misstatements due to fraud or error.



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When issuing the financial statements, the Board of Directors of the Company is obliged to assess whether the Group and the Company fulfil the going concern principle, and if relevant, describe the issues related to their continued existence in the notes on the financial statements and application of the going concern basis to the compilation of the financial statements, with the exception of cases in which the Board of Directors plans to dissolve the Group or the Company or terminate their operations, respectively, when it has no real choice other than to take such action.

The Supervisory Board of the Company is responsible for supervision of the financial reporting process. The Company's Audit Committee is responsible for compliance with the procedure for compilation of the financial statements and consolidated financial statements.

Auditor's responsibility for the audit of the financial statements

Our target is to get adequate assurance that the financial statements as an entirety are free from material misstatement, whether due to fraud or error and issue an auditor's report containing our opinion. Adequate assurance is a high level of assurance, nevertheless, it is not a guarantee that the audit performed in compliance with the above-stated legal regulations will in all cases reveal any existing material misstatement in the financial statements. Misstatements may arise in consequence of fraud or error and are considered material if it is possible to realistically assume that they could individually or collectively impact the economic decisions made by the users of the financial statements on their basis.

During the audit in accordance with the above-stated regulations, it is our obligation to apply professional judgement and maintain professional scepticism during the entire audit. It is also our obligation:

- To identify and assess the risks of significant misstatements in the financial statements due to fraud or error, suggest and execute auditing procedures that respond to such risks and obtain adequate and suitable evidence that we can use as a basis for our opinion. The risk that we will not uncover a significant misstatement, which occurred as a result of fraud, is greater than the risk of non-discovery of a significant misstatement due to error because components of the fraud may also be secret agreements, falsification, intentional omissions, untrue declarations or circumvention of internal controls.
- To get acquainted with the internal control systems of the Group and Company that are relevant for audit on such a scale, to enable us to suggest suitable audit procedures with regard to the given circumstances, not for us to be able to express our opinion on the efficiency of their internal control systems.
- To assess the suitability of the applied accounting rules, adequacy of the accounting estimates made and the information, which the Board of Directors of the Company stated in the notes on the financial statements in this regard.
- To assess the suitability of application of the going concern assumption during the compilation of the financial statements by the Board of Directors, whether significant uncertainty exists with regard to the obtained evidence that arises from events or conditions, which may significantly cast a doubt on the going concern capability of the Group and Company.
If we arrive at the conclusion that such a significant uncertainty exists, it is our duty to draw attention in our report to the information stated in this connection in the notes on the financial statements, and if such information is inadequate, express a modified opinion. Our conclusions regarding the going concern capability of the Group and Company are based on the evidence that we obtained as at the date of our report. Nevertheless, future events or conditions may lead to loss of the going concern capability of the Group or Company.
- To assess the overall presentation, classification and content of the financial statement, including the notes, and also assess whether the financial statements show the underlying transactions and events in a manner, which leads to a fair picture.
- Obtain adequate and suitable evidence of the financial information regarding the companies or business activities within the Group to enable us express an opinion on the consolidated financial statements. We are responsible for management of the audit of the Group, its supervision and execution. Expressing an opinion is our exclusive responsibility.

Our duty is to inform the Board of Directors, Supervisory Board, and Audit Committee, among other things, about the planned scope and timing of the audit and the major findings, which we made during the audit, including the ascertained significant deficiencies in the internal control systems.



Shareholde Pražská plynárenská, a.s.
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It is also our duty to furnish the Audit Committee with a declaration that we fulfilled the applicable ethical requirements regarding independence, and inform the committee about all relations and other matters that can realistically be considered factors that could influence our independence, and eventual related measures.

It is also our obligation on the basis of matters about which we informed the Supervisory Board and Audit Committee to select the most significant of them from the viewpoint of the audit of the financial statements for the current year, and which thus embody the major audit issues, and describe them in this report. This obligation does not apply when the legal regulations ban the publishing of such an issue or if in an exceptional case, we judge that we should not include the given issue in our report because it can realistically be expected that the potential negative consequences of such disclosure will prevail over the benefits in terms of public interest.

Report on other requirements stipulated by the legal regulations

In compliance with Article 10, paragraph 2 of the EU Regulation, we state the following information that is required above the framework of the International Auditing Standards:

Compliance of the statement with the additional report of the Audit Committee

We confirm that this statement of the auditor complies with our additional report for the Company's Audit Committee, which we issued today according to Article 11 of Regulation of the European Parliament and Council (EU).

Appointment of the auditor and duration of the audit operations

We were appointed the Group and Company auditor for 2018, 2019, and 2020 on 14 September 2018 by the sole shareholder of the Company acting in the power of the general meeting. We have been the Company's auditor for 9 consecutive years.

Non-audit services provided

Apart from the obligatory audit, we provided the Group with the permitted financial consulting in the total amount of CZK 160,500. The non-audit services provided were approved by the Company's Audit Committee.

The PwC network did not provide the banned services stated in Article 5 of the EU Regulation.

20 March 2019

Represented by

Ing. Václav Prýmek

Ing. Petra Bočáková
Statutory Auditor No 2253

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