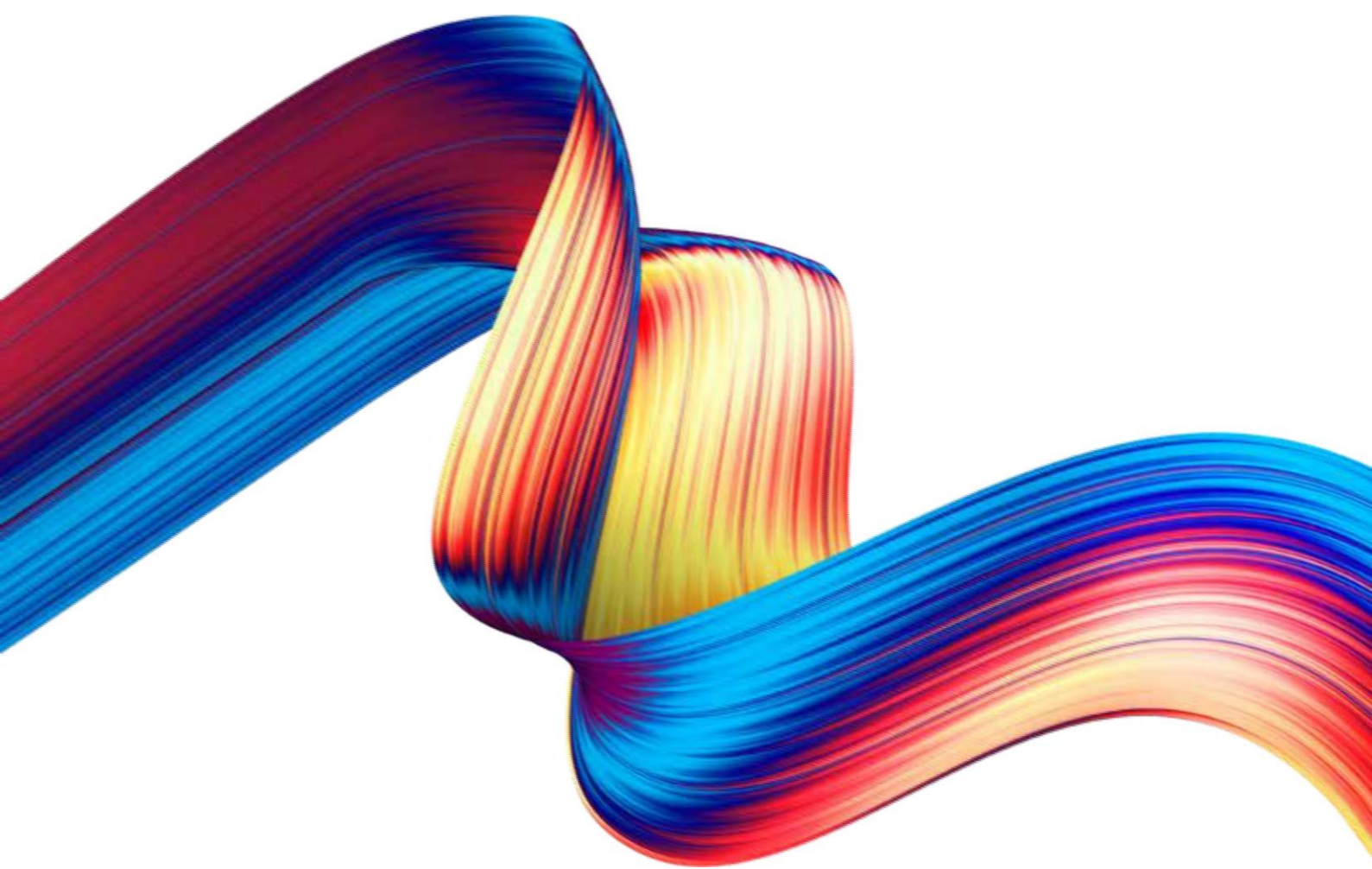


Pražská plynárenská, a.s.,
and the Pražská plynárenská, a.s. Group





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, 17 March 2020

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Energy **for life**

I. Introduction

Introduction by the Chairman of the Board of Directors

Dear friends,

another year has passed and although it was definitely not an easy one due to various circumstances, events and situations occurring in our society, I am glad that we can conclude that it was yet another successful year.

Undoubtedly, the good sign is that we managed to achieve the planned economic results again and even outperform them. All this in a year which was described by the Czech Hydrometeorological Institute as "extremely abnormal" in terms of temperature and which has become one of the warmest years in the history of the Czech Republic in terms of temperature averages. Although I understand that many of you are not lovers of picturesque winters with plenty of snow and therefore enjoyed the rather warm winter, believe me when I say that in terms of natural gas sales, which is the backbone of our business, this "warm" development was a big problem. Pražská plynárenská, a.s. did not increase gas prices to our customers, as most competitors did at the beginning of the year. Therefore, the good economic results that we managed to achieve in the past year are appreciated even more. In this respect, one of the key factors was our willingness and ability to make our operations more efficient

and to find reserves that allowed us to reach the necessary savings which balanced the negative development to the benefit of our company.

Gradually we have managed to fulfil our growth strategy focusing on comprehensive energy services and on smart energy solutions utilized by our customers, and in spite of very competitive environment we managed to maintain our market position. This is very important for our future plans and direction. In this connection I would like to thank not only to all our employees for their good work, but also to our business partners for their understanding and cooperation, and especially to our customers who have been loyal to our company for very long time. We appreciate that very much.

We are entering 2020 with ambitious plans for further development and we firmly believe that we will be able to fulfil them. We shall build on the good results of the past years and on the fact that our customers see us as a reliable energy supplier and as a business partner always striving to offer extra benefits to them.

Ing. Pavel Janeček
Chairman of the Board of Directors





II. Selected Company data

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

The average CZK/EUR exchange rate for 2019 was CZK 25.672 per 1 EUR, and this value was used to convert all data in the tables (also for the preceding years).

Basic company data

Business name:	Pražská plynárenská, a.s., ("PP, a.s." or the "Company")
Corporate Office:	Prague 1 – Nové Město, Národní 37, Postal Code 110 00
Company ID:	601 93 492
VAT Number:	CZ60193492
Incorporation in the Commercial Register:	The Municipal Court in Prague, Section B, Insert 2337
Bank details:	ČSOB, a.s., Account Number: 916780043/0300
Telephone:	+420 267 171 111
Data box ID:	au7cgsv
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
Facebook:	 prazskaplynarenskaas
YouTube:	 Pražská plynárenská a.s.

Company Profile

Pražská plynárenská, a.s., ranks among the most important domestic energy suppliers and provides almost 415 thousand consumption points. Although the history of Pražská plynárenská, a.s. is inseparably linked to Prague and the roots of the gas industry may be traced back to 1847, today the Company supplies energy and services to customers throughout the entire Czech Republic. Over time the Company has undergone developments reflecting societal changes, technological progress and has been repeatedly tested in various difficult situations and proved its resilience while gaining invaluable experience. This is one of the reasons why Pražská plynárenská, a.s. is currently a modern and prosperous supplier of energy able to respond flexibly and quickly to the changing requirements of customers. The chairman considers the provision of comfortable customer service a priority,

as well as energy security and a wide range of above-standard services, often unique in Czech Republic and bases the competitiveness of the company on strong background. 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.

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.

Basic economic indicators (2015-2019)

			2015*	2016*	2017	2018	2019
Revenues	CZK '000 CZK		15,891,270	12,158,535	12,506,588	12,491,073	14,789,061
	in thousands of EUR		619,012	473,611	487,168	486,564	576,077
Profit before tax	CZK '000 CZK		771,589	1,337,553	1,436,643	795,576	832,856
	in thousands of EUR		30,056	52,102	55,961	30,990	32,442
After tax profit	in thousands of CZK		647,051	1,155,047	1,226,959	633,955	720,978
	in thousands of EUR		25,205	44,992	47,794	24,694	28,084
Equity capital	in thousands of CZK		3,878,801	5,009,169	2,397,600	2,511,555	2,607,027
	in thousands of EUR		151,091	195,122	93,394	97,832	101,551
Registered capital	in thousands of CZK ¹		431,972	431,972	431,972	431,972	431,972
	in thousands of EUR		16,827	16,827	16,827	16,827	16,827
Natural gas	Sales ²	in thousands of MWh	17,933.8	12,595.4	13,460.1	12,765.6	13,138.5
		in millions of m ³	1,684.7	1,178.0	1,262.4	1,197.7	1,232.9
	Number of consumption points as of 31 December		393,994	384,608	374,121	369,190	361,535
Electric power	Sales	in thousands of MWh	108.3	371.5	642.3	610.8	1,287.9
	Number of consumption points as of 31 December 12.		22,988	28,991	33,853	43,912	52,835

* Economic indicators for the period 2015–2016 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.

Securities issued as of 31 December 2019

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

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

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. 80 bonds 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.

The Company's LEI Code is 315700QBYOTLGRMOO11.

Ownership structure of Pražská plynárenská, a.s., as of 31 December 2019

For the entirety of 2019, Pražská plynárenská, a.s., was controlled directly by Pražská plynárenská Holding a.s. ('PPH a.s.'), with registered office U Plynárny 500/44, Michle, 140 00 Prague 4, Company ID: 264 42 272 The Capital City of Prague with registered office 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, a.s., holds 90% capital interests in the following subsidiary companies:

- MONTSERVIS PRAHA, 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
Company ID: 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
Company ID: 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 between two subsidiaries belonging to the Pražská plynárenská, a.s., Group. These are Praha–Paříž Rekonstrukce, a.s. and Opravy

plynárenských zařízení s.r.o. 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 of 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 for 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
Company ID: 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 companies belonging to 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
Company ID: 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.

Informační služby – energetika, a.s.

Address: Praha 4, U Plynárny 500, Postal Code 141 00
Company ID: 264 20 830
www.ise.cz

Informační služby – energetika, a.s., ("ISE, a.s.") was founded on 20 December 2000 originally, 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 decision of the sole shareholder PP, a.s. The resolution of the Municipal Court in Prague on the change became legally effective on 3 January 2005.

The objective of ISE, a.s., is to provide 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.

MONTSERVIS PRAHA, a.s.

Address: Prachatická 209, Letňany, 199 00 Praha 9
Company ID: 005 51 899
www.montservispraha.cz

MONTSERVIS PRAHA, a.s., ("MONT, a.s.") was founded on 9 October 1990. As of 8 March 2019, Pražská plynárenská, a.s., owns 90% of capital interest. Between 2020 and 2021 the company plans to purchase the remaining share of the capital interest.

MONTSERVIS PRAHA, a.s., is mainly engaged in the construction and reconstruction of housing blocks and household boiler facilities as well as the management and operation of power facilities.

It is the goal of MONT, a.s., to strengthen development in the field of production and distribution of thermal energy, construction of thermal energy sources and related energy services in close cooperation with members of the Pražská plynárenská, a.s. Group.

Information on organisational units abroad

As of 31 December 2019 Pražská plynárenská, a.s., had no organizational unit abroad.

Information about company bodies and management

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.

As of 31 December 2019 the structure of the Board of Directors was as follows:

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

Ing. Milan Jadlovský, 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.

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 Jadlovský is the Head of Strategy,
- Ing. Milan Cízl is the Head of Finance and Administration,
- Ing. Vladimír Vavřich, 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 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.

On 1 March 2019, the sole shareholder of the Company executing the powers of the General Meeting decided to recall the following members of the supervisory board of Pražská plynárenská, a.s. Michal Hašek, Mgr. Luboš Koželuh, MBA, Bc. Martin Čáslavka, Radomír Nepil, RNDr. Marcela Plesníková

and JUDr. Štěpán Stupčuk. The following newly elected members shall take over the vacant positions starting on 2 March 2019 Mgr. Reda Ifrah, Ivoš Kramoliš, Mgr. Václav Kučera, Mgr. Jindřich Lechovský, Matěj Turek, CFA and Ing. Lukáš Wagenknecht.

As of 31 December 2019 the structure of the Supervisory Board was as follows:

Mgr. Reda Ifrah Chairman of the Supervisory Board,

Ivo Kramoliš, Member of the supervisory board

Petr Klepáček, Member of the Supervisory Board,

Mgr. Václav Kučera, Member of the Supervisory Board,

Mgr. Jindřich Lechovský, Member of the Supervisory Board,

Matěj Turek, CFA, Member of the Supervisory Board,

Mgr. Miroslav Vránek, Member of the Supervisory Board,

Ing. Lukáš Wagenknecht, 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 according to the Company Articles the term in office of each member is four years. The Audit Committee mainly monitors the efficiency of the internal control system, risk management system and internal audit and their functional independence. It further recommends the auditor to the supervisory board, assesses the auditor's independence and monitors the procedure for compilation of the financial statements.

As of 31 December 2019 the structure of the Audit Committee 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.

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

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

The average CZK/EUR exchange rate for 2019 was CZK 25.672/EUR 1, and this value is used to convert all data in the tables (also for the preceding years).

Energetics in 2019

Last year's main topics included environmental protection issues, discussions focusing on the impact of humans on the global climate, sustainability of future development, and the economic and social impacts of possible global warming. This topic was discussed at the global level and brought and still brings new stimuli for discussion and new trends and behaviours occurring within the human society.

The energy production industry plays an important role in modern society and it is a source of active discussion focusing on the protection of climate which represents a global interest. Important aspects of energy production industry existing in the current period included, in particular, new technologies (hydrogen, electromobility), nature-friendly way of energy use in production (renewable resources), energy security (safe access to resources), as well as external economic issues (tax and subsidy policies dealing with energy).

At the European level, the issue of energy has been evaluated at a higher level, regardless whether dealing with carbon neutrality commitments, revision of emissions trading or subsidies provided for more environmentally friendly resources. The impact of the discussion also included the question dealing with the future direction of electricity production, where there is a pressure to move away from nuclear energy on one side, and, on the other side there is a commitment to withdraw from coal-burning power plants. As for natural gas, the discussion focused on the construction of new transmission gas pipelines supplying the old continent and the option to use natural gas to produce electricity.

As for Czech Republic also other issues were discussed arising from the current model of the energy commodities market. Customers as well as customer rights were at centre of the focus including protection of customer rights and position of customers in the competitive market. Additional debates focused on other regulatory options as well.

Individual energy traders were engaged in trading issues showing all aspects of competition. The development of previous years introduced questions dealing with the future property interconnection among individual companies. Competition is slowly expanding and no longer only involves struggle for supply of commodities but now also includes a struggle to supply services and non-commodity products.

Information about operations and financial position

Information on main lines of business

Pražská plynárenská, a.s., trades natural gas under Licence No. 241218964 issued by the Energy

Regulatory Office and electricity under Licence No. 141015380 issued by the same office.

Sales information

Sales	2018	2019
in thousands of CZK	11,894,853	14,319,420
in thousands of EUR	463,340	557,784

Revenues were generated in the Czech Republic.

Breakdown of operating revenues by activity

Type of activity (v %)	2018	2019
Revenue from sale of gas*	82.8	74.0
Revenue from sales of electricity*	10.9	20.7
Other operating revenues and income	6.3	5.3

*Licensed activity

Capital investments

	Acquisition value in thousands of CZK	Acquisition value in thousands of EUR
Investment expenditures in tangible fixed assets	79.0	3.1
Investment expenditures in intangible fixed assets	53.7	2.1
Total	132.7	5.2

The investment expenditures above reflect cash flows, including prepayments on investments. The investment expenditures in tangible fixed assets mainly consist of investments into construction of CNG filling stations, information technologies and investments related

to the company buildings located in facilities called Michle and Národní. In 2019, the investments in intangible fixed assets were focused on information systems. All investments were realised in the Czech Republic.

Pre-tax profit/loss

Profit/loss (in millions of CZK)	Actual situation 2019	Actual situation 2018	Comparison of facts 19/18
Operating economic result	903.4	764.9	138.5
Financial result	-70.5	30.7	-101.2
Total profit/loss	832.9	795.6	37.3

Profit/loss (in millions of EUR)	Actual situation 2019	Actual situation 2018	Comparis on of facts 19/18
Operating economic result	35.2	29.8	5.4
Financial result	-2.8	1.2	-4.0
Total profit/loss	32.4	31.0	1.4

Revenues

Revenues (in millions of CZK)	Actual situation 2019	Actual situation 2018	Comparis on of facts 19/18
Total operating revenues	14,690.7	12,261.3	2,429.4
- of which: natural gas sales*	10,873.7	10,152.1	721.6
- of which: electricity sales*	3,032.9	1,338.6	1,694.3
Financial revenues	98.4	229.8	-131.4
Total revenues	14,789.1	12,491.1	2,298.0

Revenues (in millions of EUR)	Actual situation 2019	Actual situation 2018	Comparis on of facts 19/18
Total operating revenues	572.2	477.6	94.6
- of which: natural gas sales*	423.6	395.5	28.1
- of which: electricity sales*	118.1	52.1	66.0
Financial revenues	3.9	9.0	-5.1
Total revenues	576.1	486.6	89.5

*Licensed activity

Costs

Costs* (in millions of CZK)	Actual situation 2019	Actual situation 2018	Comparison of facts 2019/2018
Total operating costs	13,787.3	11,496.5	2,290.8
- of which: consumed gas costs**	7,152.5	6,541.7	610.8
- of which: electric power purchase costs**	1,613.0	601.7	1,011.3
Financial costs	168.9	199.0	-30.1
Total costs	13,956.2	11,695.5	2,260.7

Costs* (in millions of EUR)	Actual situation 2019	Actual situation 2018	Comparison of facts 2019/2018
Total operating costs	537.1	447.8	89.3
- of which: consumed gas costs**	278.6	254.8	23.8
- of which: electric power purchase costs**	62.8	23.4	39.4
Financial costs	6.6	7.8	-1.2
Total costs	543.7	455.6	88.1

*Excluding income tax on current operations.

**Licensed activities without distribution charge.

Financial situation

In 2019, 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 from its own sources and loans from banks as well as other cash resources from members of the PP, a.s. Group and the parent company PPH a.s., involved in cash pooling scheme.

In June 2017, PP, a.s., emitted bonds of total nominal worth 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.

In 2019 another re-financing took place and the structure of the Company's short-term funding is contractually secured until May 2023 and includes overdraft credit lines in CZK and EUR, exchange programme for drawing the necessary resources in the form bills of exchange in auctions and a line for negotiation of bank guarantees. The Company has contractually secured financing of operations in the amount of CZK 3.208 billion and a long-term financing in the amount of CZK 0.4 billion. These external financing sources totalling CZK 3.608 billion are provided by two banks, i.e. Československá obchodní banka, a.s., and Česká spořitelna, a.s.

In 2019, 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 2019 the Company had not drawn any bank loans; on the contrary it possessed short-term financial assets worth CZK 1,498.9 million (as of 31 December 2018 the amount was CZK 1,476.9 million).

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

As of 31 December 2019 the Company owned property (land, buildings, and other structures) worth a total amount of CZK 1,180.3 million at cost. As for buildings, this is mainly real estate situated at Národní 37/38 in Prague 1 and buildings located

in the facility of Pražská plynárenská, a.s., Prague 4 – Michle. The residual value of the real estate owned by the Company is CZK 716.9 million.

Natural gas trading

Natural gas trading (in thousands of MWh)	2019
Purchased natural gas	13,258.0
Sales of natural gas – total	13,138.5
Sales of natural gas – licensed operations	13,099.4
Sales of CNG	39.1

Company business performance results (profit/loss) for 2019 were impacted by external factors. As far as revenues are concerned this was mainly impacted by highly competitive environment which put pressure on margins as well as on customer expectations, which remained steady for the large part. As for expenditures, these were dependent on the development of commodity purchase prices. At the beginning of 2019 these prices followed the previous periods and around the half of the year these prices dropped slightly. In particular during the last quarter

of 2019 purchase prices dropped down significantly and almost reached the long-term minimum.

The situation in sales and purchase markets was continuously analysed and evaluated. The output of this analysis provided us with updated business and purchasing strategies aiming to provide adequate response to the market development and to fulfil the planned economic results.

Electric power sales

Electric power sales (in thousands of MWh)	2019
Electric power purchases	1,289.3
Sales of electricity	1,287.9

In terms of sales of electricity the key factor in 2019 was the development of electricity market price. Customers were gradually persuaded to accept higher contractual sales prices to maintain an adequately balanced profit margin in electricity sales portfolios.

The most popular services used by customers in 2019 included installations of new gas-burning boilers and photovoltaic power plants. Also during this year the interest to purchase surplus electricity was increasing.

Marketing and customer care

Customer care

Pražská plynárenská, a.s., has the long-term goals of building an 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, company website www.ppas.cz, Facebook profile, and a toll-free customer telephone line, all of which were available year-round.

Customers may also use services of the Company contact centre which further improves and expands the scope of available services and develops technologies which further increase customer comfort. Operational parameters remain at high level, in particular in terms of availability of the toll-free helpline. In addition, the time needed to handle written requests has been reduced, multi-channel services were improved - allowing the customer to select the most suitable channel and receive services within the same extent and at the same level. Services dealing with non-commodities were expanded significantly.

Customers may use a project called "Self-service" to calculate the level of benefit of certain products available for a particular consumption point, and then select the best product based on their own calculations and based on other benefits offered by the products. 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.

Starting in April 2019 all the way to the end of 2019 an event called DIGIPPAS with a motto "No more going nuts over paperwork" took place designed for all customers of Pražská plynárenská, a.s., aimed to help customers to convert into using an electronic communication system.

Throughout the entire 2019, the Company offered customer assistance service insurance for households, including assistance in emergency situations (e.g. heating, electrical, or locksmithing work), available free-of-charge through Pražská plynárenská, a.s., for certain products and for a fixed period. Assistance service insurance is also provided to housing cooperatives and property owners' associations. Since the second half of 2019, an extended assistant service insurance for households was offered which covered emergency situations and repair of heating systems.

Further, 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 and throughout the entire year.

Starting in 2018, the Company made it possible for customers to make advance payments and invoices in 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 phone application.

Clean mobility

Use of natural gas in transport

The company has been supporting efforts to reduce greenhouse gases for a long time and was one of the first companies to support CNG as very efficient power. Thanks to the sale of CNG, development and support for CNG fuelling stations, promotional events offering rental of CNG-powered vehicles, the Company managed to achieve that CNG

is currently seen as a full and equal fuel alternative for vehicles.

Sales of CNG

Thanks to the growing use of CNG vehicles, PP, a.s., increased the sales of CNG fuel in 2019 through its filling stations up to CZK 2,600,000 kg of CNG, which represents an increase of almost 20% compared to 2018.

CNG stations

Pražská plynárenská, a.s. already owns 10 filling stations. In the middle of 2019, the Company opened a CNG station in Vestec (west of Prague).

In Prague the company also owns and operates CNG stations in its premises in Michle, Prague 4, at the SHELL fuel station at Švehlova ulice in Prague 10, in the facility of Pražské služby, a.s., Pod Šancemi in Prague 9, at a gas station Q100 (Benzína) in Prague 4 – Hodkovičky, at Evropská ulice in Prague 6 – Liboc and at the Depot of Česká pošta, s.p., at Sazečská ulice in Prague 10. In the Central Bohemia Region, it owns CNG stations in Mirošovice u Prahy and in Úvaly and Vestec as mentioned above. It also operates a CNG station in the Hradec Králové Region in the town of Jičín. At all of the stations listed above, customers have the option to pay with a regular payment card and with CNG CardCentrum card.

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, infrastructure, and to cultural and social life.

As for the above areas, PP, a.s. provides support for projects and individual entities. The Company prefers long-term projects and carefully select them, but if necessary, it also engages in short-term or single-time support. Also employees of Pražská plynárenská, a.s., participate in charity activities.

The Environment

In the field of the environment, the Company strives for sustainable development, environmental protection and reduction of negative impacts of its activities on the environment, even though the company activities pose very small negative impacts to the environment. The company emphasizes continuous environmental education and training for all its employees in the form of e-learning, which is a part of the policy of Pražská plynárenská, a.s. The main emphasis of EMS is on waste management and air protection. This is achieved by following a consistent system of waste sorting. As for air protection the company strives to meet emission limits and performs regular inspection.

Two inspections performed by state administration bodies (Sanitary and hygienic station of the capital city of Prague and ÚMČ Prague 4) took place in PP, a.s. in 2019 focusing on waste management. No defects were found.

In 2019 there was a shift towards the completion of the reconstruction of the last site which represents an environmental burden in the Pražská

Furthermore, in 2019 the Company has supplied natural gas for several dozen other CNG stations in the Czech Republic, owned by private companies.

CNG vehicles

During 2019 Pražská plynárenská, a.s., and its subsidiary companies, operated almost 190 CNG vehicles including CNG car rental. It successfully continued the joint project between the Prague City Hall, Pražské služby, a.s., and Pražská plynárenská, a.s., relating to the operation of garbage collection and cleaning vehicles powered by CNG. The company also plans to expand cooperation in the field of utilization and optimization of CNG vehicles used in vehicle fleets and by other city companies.

plynárenská, a.s., in Michle. The Ministry of Finance of the Czech Republic awarded a small-scale public contract focusing on survey and completion of project documentation for the SEZ construction rehabilitation project. Subsequently, the small project focusing on the survey was prepared and approved, and shall serve as the basis for the implementation of the survey work in the premises of Pražská plynárenská, a.s., in Michle - the area below the former naphthalene production plant and its surroundings. As every year also in 2019 a regular annual monitoring of groundwater was carried out, which confirmed the stabilized state of the site.

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 including projects dealing with new technologies. Long-term support of events for the general public are the preferred modes of support.

Code of ethics focusing on employees and customers

Employees of Pražská plynárenská, a.s., are aware of the good reputation and tradition of the company and strive to further improve this image by adhering to regulations of proper conduct. Employees respect not only each other but also business partners. They expressed their affiliation and approval of company ethics in the internal Code of Ethics. Pražská plynárenská, a.s. also accepted other commitments which further contribute to the cultivation of the energy environment. This includes the Code of Trading Ethics (based on ERO draft) and the Market Declaration based on the activities of the Czech Confederation of Commerce and Tourism.

The Company is aware of the crucial role of external legal regulations. In order to ensure compliance with legal and other standards, it has adopted a comprehensive Group compliance programme, which, in addition to ensuring compliance with these standards, sets rules defining conflicts of interest and harmful activities of employees etc. An integral part of the Compliance programme are regular employee training sessions and other educational activities (articles published in the company magazine, rules displayed on locked employee monitors, etc.). Employees may also submit contributions focusing on the cultivation of the corporate culture through the anonymous Ethics line, which also serves as a whistleblower system.

The Smečka Gallery

The Smečka Gallery has been on the Prague art scene for 14 years. In this period, almost 70 art shows and thematic exhibitions of major Czech artists have been held in the gallery. In 2019, five exhibitions were held:

- Miroslav Horníček / Koláže (Collages)
- Hugo Steiner-Prag / Golem
- Michal Cihlák / To jsem si to polepil
- Jiří Georg Jilovský / Pražský romantik
- Zdeněk Burian / Vlastní cestou

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 consciousnesses 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 in the Michle facility, 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 focusing on the gas industry and is a popular destination of elementary and secondary schools, professionals, foreign visitors, and ordinary citizens, and indeed anyone who is interested in history in general and in the development of technology and energetics. It acquaints the visitors with the history and development of the Czech and world gas industry, from its beginnings to the present. The Museum is divided into a number of sections – from extraction and production of gas to its use for a wide variety of purposes. Originals and models of various gas industry and gas facilities, also historic gas appliances and historical documents – catalogues, publications, and photographs can be found here. One of the attractions the museum offers is the reconstructed model of the Michle gas plant from 1937 created in a scale of 1:100.

Cooperation with the municipalities in the City of Prague continued successfully, also with the municipality corporations, e.g. The Prague City Museum or 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 2019 which presented interesting historical topics related to the gas industry in the capital city of Prague.

In June 2019 and for the fifth consecutive year, the Prague's museum night attracted a record number of visitors. The most impressive demonstrations included cloth ironing using gas-fired irons, hair curling and coffee roasting using gas burning systems.

In 2019, 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

One of the essential goals of 2019 was the optimization of investment and operating costs. This optimization is supported by changes applied to the project management processes, creation and approval of internal projects with the emphasis on accelerating approval and purchasing processes. These changes allow the Company to provide customers with more flexible and cost-effective services. The support for these processes is provided by project management tools which ensure management of the project portfolio as well as individual projects with the option to prioritize and plan for resource capacities. The implementation of ICT projects takes place through a balanced approach between internal and external sources.

The intention to provide maximum availability of ICT was pursued by the implementation of Internet connection by more independent lines from various providers offering high availability.

Thanks to this approach, it is possible to ensure business communication that will not be limited by internal communication. The high-availability goal, reduction of the risk of failure and provision of security was also pursued by projects focusing on the replacement of the infrastructural architecture.

It is the Company's interest that employees use up-to-date and uniform office services tools. Conversion to Microsoft 365 platform consolidates the use of different versions of office tools and offers integration with other tools.

Furthermore, in 2019, the implementation of the Treasury management system was successfully completed, which allowed PP, a.s., to optimize and improve management of financial flows.

Human resources management

HR work and the social field

As of 31 December 2019, Pražská plynárenská, a.s., employed a total of 359 people.

An emphasis was put on preventive medical care. Employees underwent regular medical examinations based on 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.

Employees of PP, a.s., who completed the "Talent development programme" in 2017 and 2018, took part in an inspiring meeting as well as in a two-day teambuilding training.

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 useful information.

Collective bargaining

The labour law, wage, and other entitlements of employees of PP, a.s., were fulfilled in compliance with the Collective Agreement valid since 1 January 2019 until 31 January 2021. In the area of labour law relations, employees were given work leave that was one week longer than the period stipulated under the Labour Code while using the plant catering services. Employees are also offered cafeteria-type benefits (according to the applicable Collective Agreement).

Occupational health and safety and fire prevention

The Company provides employees with an entry training and also through e-learning with a periodic two-year training focusing on legal and other regulations to ensure occupational health and fire safety, including regular knowledge tests, in accordance with Section 37 item 5 and Section 103 item 2,3 of Act No. 262/2006 Coll., the Labour Code, as amended, and Section 16 of Act No. 133/1985 Coll., focusing on fire prevention, as amended.

Pražská plynárenská, a.s. provides occupational health services for its employees in accordance with Section 53 of Act No. 373/2011 Coll., on specific health services, as amended.

In 2019, no occupational injury was recorded, which could have resulted in an injury with work disability lasting longer than three calendar days, or which could have resulted in an employee death.

In accordance with Section 4 item 1 letter c) of Act No. 309/2006 Coll., as amended, dealing with other conditions of occupational safety and health protection, Pražská plynárenská, a.s., performs regular inspections of production and work means including equipment.

During the entire 2019, 22 inspections focusing on safety and health protection were carried based on the agreement with the Trade unions and as required by Section 108, item 5 of Act No. 262/2006 Coll., of the Labour Code, as amended.

Internal audit, compilation and risk management

Pražská plynárenská, a.s. applies a multi-level structure of internal assurance services. Individual supervisory centres are subject to the Company's management, or operate at the same level as an independent body. Agendas of individual providers include financial control, labour law issues, IT security and risk management and compliance. The internal audit department works at the second level, and answers to the Board of Directors and at the same time to the Audit Committee.

In 2019, the Company combined a number of individually adjusted compliance issues and issued a single Compliance Programme. In addition to the traditional regulation which ensures that the company activities comply with legal regulation, the programme contains rules for active compliance (for example employee training and issuance of internal regulations and methodologies), rules of conflict of interest, and anti-corruption principles. The Compliance programme also includes the internal Code of Ethics. Employees may also use the anonymous Ethics line to file a complaint dealing with the cultivation of the company culture or to draw attention to possible illegal actions (whistleblowing).

The company is fully aware of the new challenges and threats arising from globalized IT environment. The company manages IT / ICT security and related cyber and information security at the central level.

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 uses a comprehensive audit universe, which assesses the gravity of individual audit suggestions.

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

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.

Information required for disclosure by specific legislation

The company does not have any additional information required for disclosure by specific legislation.

IV. 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 international reporting regulations IFRS in the form adopted by the EU.

The average CZK/EUR exchange rate for 2019 was CZK 25.672/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 Servis distribuce, a.s., Member of the Pražská plynárenská, a.s. Group, ('PPSD, a.s.'),
- Pražská plynárenská Správa majetku, a.s., Member of the Pražská plynárenská, a.s. Group, ('PPSM, a.s.'),
- Prometheus, energetické služby, a.s., Member of the Pražská plynárenská, a.s. Group, ('Prometheus, a.s.'),
- Informační služby – energetika, a.s. ('ISE, a.s.'),
- MONTSERVIS PRAHA, a.s., ("MONT, a.s.").

The key business activities of the PP Group is the sale and distribution of natural gas and sale of electricity.

Other business activities of the PP, a.s., Group include:

- 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 management and maintenance of movable and immovable property;
- providing services focusing on operation and property management in city districts and city companies.

Pre-tax consolidated profit/loss

Consolidated profit/loss (in millions of CZK)	Actual situation 2019	Actual situation 2018	Comparison of facts 19/18
Operating economic result	1,299.2	1,270.5	28.7
Financial result	-90.3	8.8	-99.1
Total profit/loss	1,208.9	1,279.3	-70.4

Consolidated profit/loss (in millions of EUR)	Actual situation 2019	Actual situation 2018	Comparis on of facts 19/18
Operating economic result	50.6	49.5	1.1
Financial result	-3.5	0.3	-3.8
Total profit/loss	47.1	49.8	-2.7

Consolidated revenues

Consolidated revenues (in millions of CZK)	Actual situation 2019	Actual situation 2018	Comparis on of facts 19/18
Total operating revenues	14,951.9	12,484.4	2,467.5
of which: revenues from natural gas sales and distribution*	11,443.4	10,788.4	655.0
- of which: electricity sales*	3,025.1	1,333.8	1,691.3
Financial revenues	98.3	227.7	-129.4
Total revenues	15,050.2	12,712.1	2,338.1

Consolidated revenues (in millions of EUR)	Actual situation 2019	Actual situation 2018	Comparis on of facts 19/18
Total operating revenues	582.4	486.3	96.1
of which: revenues from natural gas sales and distribution*	445.8	420.2	25.6
- of which: electricity sales*	117.8	52.0	65.8
Financial revenues	3.8	8.8	-5.0
Total revenues	586.2	495.1	91.1

*Licensed activity

Consolidated costs

Consolidated costs* (in millions of CZK)	Actual situation 2019	Actual situation 2018	Comparis on of facts 19/18
Running costs in total	13,652.7	11,213.9	2,438.8
- of which: consumed gas costs**	7,389.1	6,727.3	661.8
- of which: electric power purchase costs**	1,620.9	607.8	1,013.1
Financial costs	188.6	218.9	-30.3
Total costs	13,841.3	11,432.8	2,408.5

Consolidated costs* (in millions of EUR)	Actual situation 2019	Actual situation 2018	Comparis on of facts 19/18
Operating costs in total	531.8	436.8	95.0
- of which: consumed gas costs**	287.8	262.0	25.8
- of which: electric power purchase costs**	63.1	23.7	39.4
Financial costs	7.3	8.5	-1.2
Total costs	539.1	445.3	93.8

*Excluding income tax on current operations.

**Licensed activities without 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 2019 Pražská plynárenská, a.s., refinanced the structure of short-term operating

financing and contractually secured funds totalling CZK 3,208 billion and a long-term financing in the amount of CZK 0.4 billion. PPD, a.s., emitted bonds in 2016 in the total nominal value of 2.7 billion CZK 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.

As for the above areas, PP, a.s. provides support for projects of individual entities. Apart from the long-term projects, which the Group prefers and carefully chooses, it also engages in short-term or long-term aid projects - if necessary. The employees of Pražská plynárenská, a.s., also participate in charity activities and development projects of all kinds.

The Environment

The Pražská plynárenská, a.s. Group is aware that its activities affect the state of the environment, and therefore the Group strives to achieve harmony between economic growth and protection of the environment. To achieve this the Group follows the Environmental protection policy, which defines the effort to achieve environmentally friendly behaviour and sets the conditions for improvement.

Companies belonging to the PP, a.s. Group are subject to internal audits. Results of these audits are discussed with the management of individual companies while putting emphasis on the compliance with environment protection regulations.

In 2019, state administration bodies issued no sanctions related to the Group's activities.

In 2019, PPSD, a.s., which deals with construction, service, repairs and maintenance of gas equipment, maintained its ISO 14001 certificate.

Code of ethics focusing on employees and customers

Employees of all companies belonging to the PP, a.s. Group are aware of their affiliation with the traditional and recognized brand Pražská plynárenská, a.s. Employees respect not only each other but also business partners. The Code of Conduct was codified by the Company in the internal Code of Ethics which applied to all companies of the PP, a.s. Group.

Individual companies of the PP, a.s. Group are aware of the crucial role of external legal regulations. To comply with the above, individual companies have signed up and joined the group's Compliance programme, which makes sure that traditional external legal regulations are complied, but it also sets rules for conflicts of interest, harmful conduct of employees and other compliance activities. All employees of the PP, a.s. Group are regularly trained in compliance issues while other educational activities are taking place as well. All employees of the Group actively contribute to the process of corporate cultivation through the use of the anonymous Ethics line. This environment is also used by whistleblowers.

Human resources management

HR work and the social field

As of 31 December 2019 the Group employed a total of 973 people.

In social affairs, emphasis was put on preventive medical care. Employees underwent regular medical examinations based on 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.

Employees of PP, a.s., who completed the "Talent development programme" in 2017 and 2018, also took part in an inspiring meeting, as well as in a two-day teambuilding training.

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 useful information.

Collective bargaining

The labour law, wage, and other entitlements of employees of PP, a.s., were fulfilled in compliance with the Collective Agreement valid since 1 January 2019 until 31 January 2021. In the area of labour law relations, employees were given work leave that was one week longer than the period stipulated under the Labour Code while using the plant catering services. Employees are also offered cafeteria-type benefits (according to the applicable Collective Agreement).

Occupational safety and health, fire protection

The name of our Company is inseparably linked to high quality customer services and to a friendly approach to the environment, while ensuring occupational safety and health of our employees and the public.

In line with the Act 262/2006 Coll., of the Labour Code as amended, the Group underwent 59 OSH and FP audits.

in 2019. Seven occupational injuries were registered. The investigation, solution, adoption of measures against recurrence of injuries and subsequent compensation took place properly in accordance with applicable legislative requirements.

Inspections performed by professional state supervision bodies (Regional Hygiene and Sanitary Station, Regional Labour Inspectorate,

Fire Brigade, UNIOS SIBP) did not reveal any significant defects.

Buildings, roads, premises and workplaces in the Michle and Národní třída facilities are regularly inspected in terms of compliance with fire prevention requirements. In 2019 no fires occurred in the PP, a.s. Group.

Internal audit, compilation and risk management

Pražská plynárenská, a.s. provides compliance services, IT risks and IT / ICT security, financial services and internal audit services to other companies belonging to the PP,a.s. Group.

In 2019, the Company combined a number of individually adjusted compliance issues and issued a single Compliance programme which was adopted by all companies belonging to the PP, a.s. Group. In addition to the traditional regulation which ensures that the company activities comply with legal regulation, the programme contains rules for active compliance (for example employee training), rules of conflict of interest and anti-corruption principles. The Compliance programme also includes the internal Code of Ethics. All employees of individual companies may actively contribute to the cultivation of the inner corporate culture and use the Ethics line to do so. This line is also used by employees if they suspect illegal activity or as a whistleblower's tool.

Individual companies of the PP, a.s. Group are aware of the challenges arising from the threats presented by globalized IT environment. The company manages IT / ICT security and related cyber and information security at the central level.

Pražská plynárenská, a.s., offers to all companies of the Group (with certain restrictions applicable to Pražská plynárenská Distribuce, a.s.) internal audit services. To assess the significance of individual audits, the auditors use a comprehensive universe audit, which de facto predetermines the plan of auditing activities performed within the PP, a.s. Group.

Financial risks

There is a credit risk for the Group as the consequence of business conducted with large customers, small customers and households. 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 contracts, particularly in the case of traders doing business with end customers, is assessed based on historical experience and also based on continuous personal meetings with the relevant entities. 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 of 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.

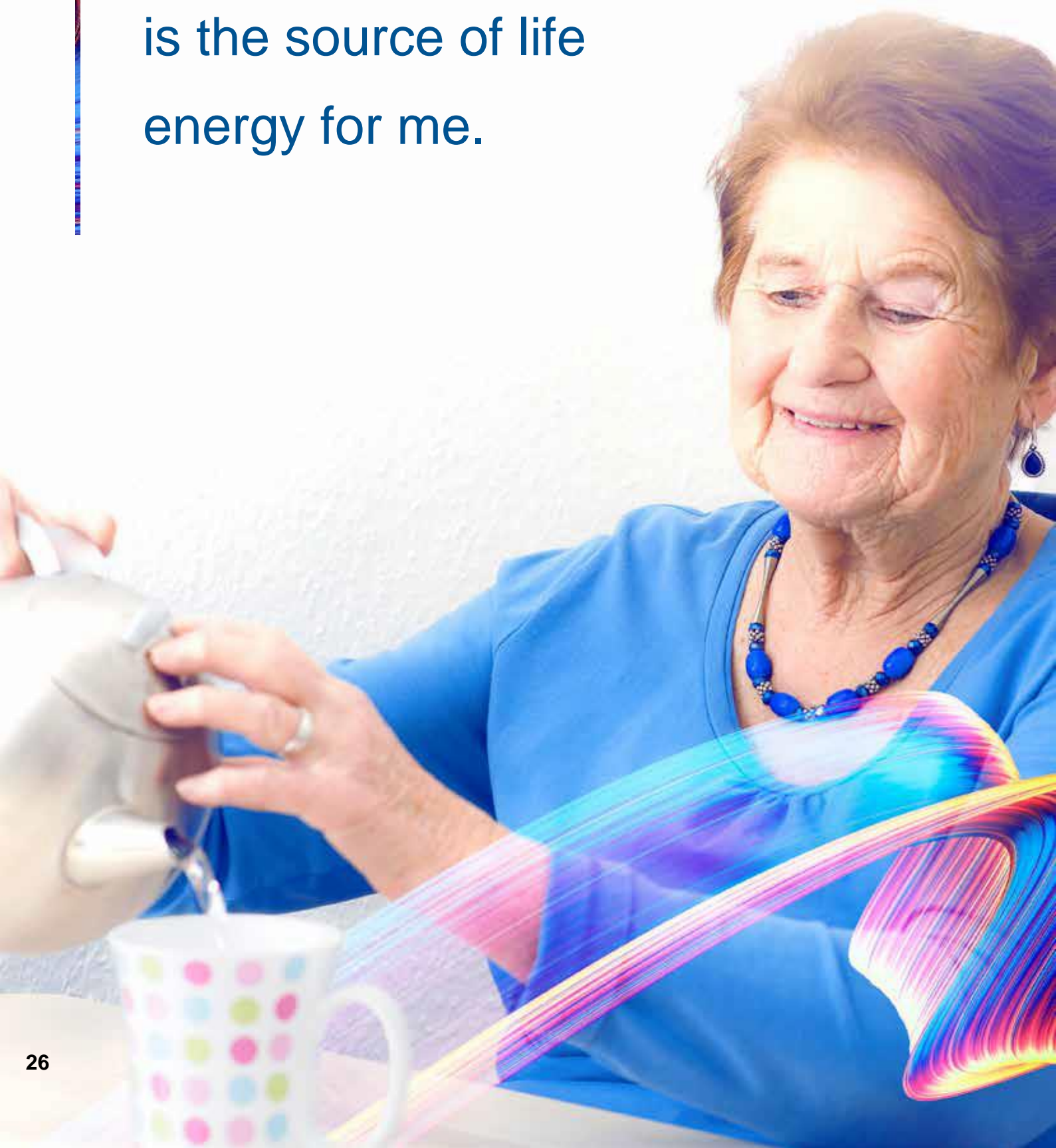
The goal of interest rate risk management is to eliminate risk emerging from interest rate fluctuations of interest-bearing financial liabilities and receivables using an appropriate structure.

Movements in exchange rates represent a risk due to the fact that the Group purchases part of its gas in foreign currencies. in forward purchases 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. Starting on 1 January 2019, the company decided to apply securing (hedge) accounting system in order to secure future cash flows from the purchase of commodities mentioned above.

Information on organisational units abroad

None of the Group companies had organisational units abroad as at 31 December 2019.

A cup of tea
is the source of life
energy for me.



V. Important events at the beginning of 2020

Pražská plynárenská, a.s., successfully defended its prestigious Czech Business Superbrands title in 2020.

On 6 February 2020, the sole shareholder of the Company executing the powers of the General Meeting has accepted the resignation of Mr. Matěj Turek CFA as the member of the Supervisory Board of Pražská plynárenská, a.s. Starting on 7 February 2020, the vacant position shall be taken over by Jiří Pelák, Ph.D.

At the beginning of 2020, preparatory work on the Principles of Price Regulation for the 5th Regulatory Period 2021–2025 will culminate. These regulations are very important and the Group's financial results for the next five years will depend on them.

At the end of 2019, the first COVID-19 (coronavirus) infection reports appeared from China. At this time the World Health Organization reported a limited number of first cases. During the next following months the virus has spread globally and the negative impacts of the virus have intensified as well. The Company's management believes that this should not have a significant impact on financial statements. Although the coronavirus situation is still evolving there has been no significant impact on the Group's sales or supply chain at the time the consolidated financial statements were published. However, future the impacts cannot be predicted. The Company's management shall continue to monitor the potential impact and take all necessary measures to mitigate any impacts associated with this issue.

VI. Expected Group development

Factors that will have a significant impact on the entire energy sector are expected to come into play during the upcoming year. Key factors will include environmental demands, as well as demands on transparency but also requirements on availability of energy for all consumers. The development of commodity prices will impact the energy sector "from the outside". There will still be a strong competition within the energy sector.

All these factors will increase demands and the entire PP, a.s. will face new challenges. The main aim of the Company's strategy will be further support for the sale of both energies and the development of other products and services regardless whether these are directly or indirectly related to the energy sector. The expansion of the Company's operations into fields other than the supply of commodities will allow the company to diversify revenues and thus stabilize its operation. At the same time these operations will provide the resources needed for the development of other business activities.

Pražská plynárenská, a.s., expects new legislative regulations which will try at least partially regulate the free market, as well as pressure to maintain availability and reliability of deliveries. Regulation of the wholesale market is an effort to ensure availability of both energies to all customers - at a time when the future development is uncertain.

A new amendment to the Energy Act was submitted in 2018. During 2019, several changes were applied to this amendment but as of the end of this year the final wording of the law was still not approved. Further negotiations focusing on the final form of the amendment to the Energy Act will continue in 2020. 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.

In 2020, Pražská plynárenská, a.s. expects an increase in the number of replaced old boilers as well as new boiler installations. This is expected thanks to the expansion of services available in this area and thanks to intensive promotional activities.

Interest of cities as well as companies continues in the use of energy from RES, is increasing as well as the need to improve air quality and to reduce greenhouse emissions. Expressing a positive attitude towards the the protection of the environment by using energy from renewable sources is one of the ways customers follow more often. There is also rising customer interest to be able to generate own electricity using photovoltaic power plants and the desire to become at least partially self-sufficient. For this reason, PP, a.s., in cooperation with its partners, will continue to offer these services and products, including installations 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. That is why Pražská plynárenská, a.s., will continue with the digitalization of internal processes in 2020. The objective of PP, a.s., is to simplify and speed up the provision of services to customers while maintaining the highest possible standards of quality and customer comfort.

PP, a.s., shall continue to support the development of clean mobility together with emission-reducing technologies. In cooperation with city companies, it will propose options needed for optimization and use of CNG vehicles. The company will continue to promote and offer the benefits of CNG technologies and fuels to the public and private sectors.



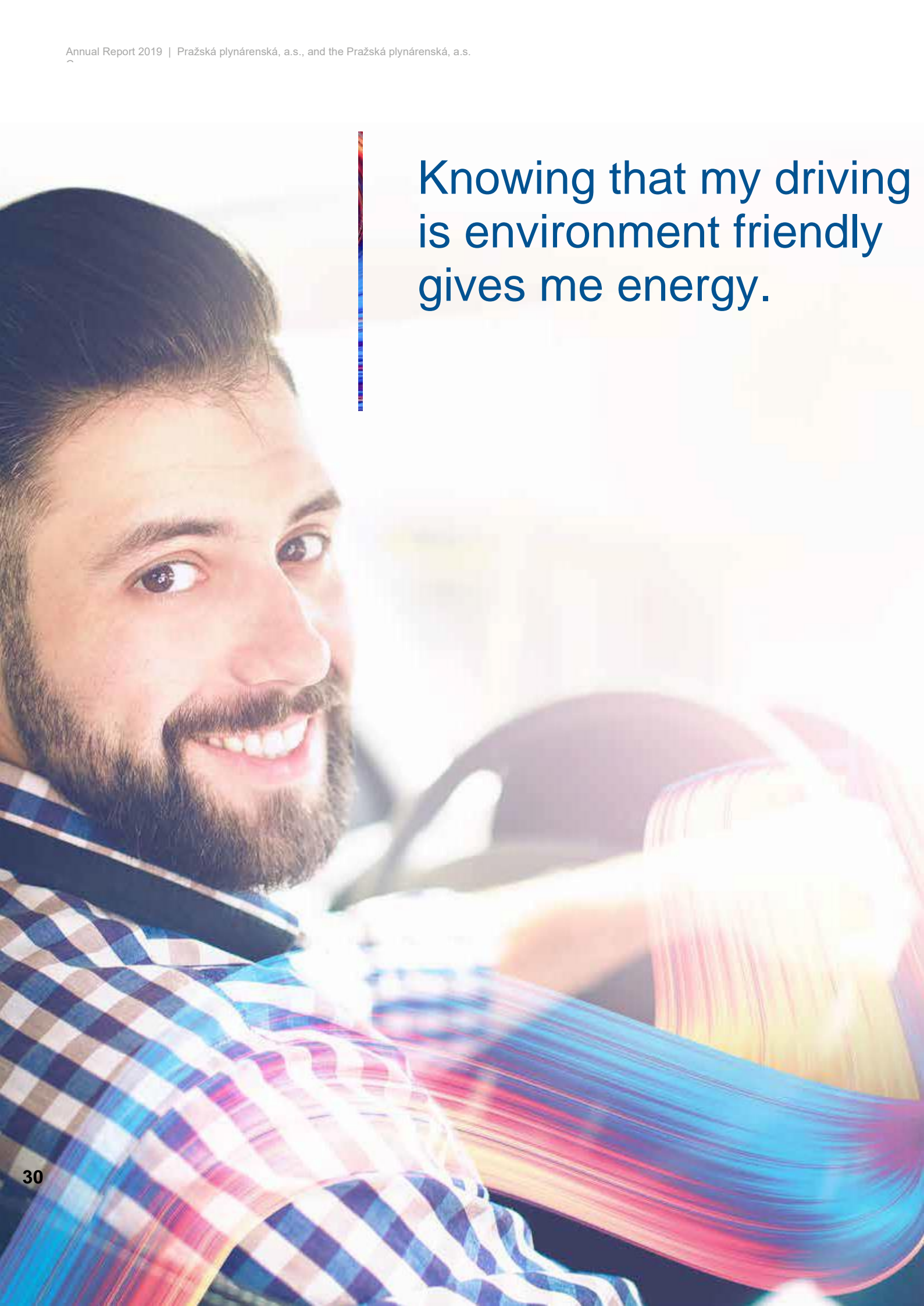
The main target of PPD, a.s., in terms of managing and operating distribution systems in Prague is still to provide a reliable and safe operation of gas facilities. Emphasis will be placed especially on the renewal of gas facilities and on the completion of the reconstruction of the key transfer station in Drahelčice. 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 fourth year of the five-year regulatory period 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. The final form shall be available in 2020. New Price regulation policies will be adopted in 2020 and will apply to the 5th Regulatory period. The Company is very much involved in the formulation of these policies. The main aim is to maintain pro-investment configuration of these policies. This goal is absolutely essential for a long-term maintenance of safety and reliability of the gas network operating in the territory of the capital city of Prague.

The main events concerning the European Union in 2019 were the elections to the European Parliament and the establishment of the new European Commission. The priority of the new commission is and will be the reduction of greenhouse gas emissions. Climate change is the main theme of the Green Deal, which the Commission announced at the end of the year. This programme will also serve as the basis for the forthcoming gas package, which is to set a new gas framework for the next decade in 2021.

The primary goal of PPSD, a.s., for 2020 is to offer and provide comprehensive, high-quality, and professional services within the framework of safe and reliable operations of distribution networks for its most significant customer, which is PPD, a.s. Another goal is 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 human resources.

The main goals of Prometheus a.s. 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 2020, stable development of the financial situation in the Group is expected. The Group has contractually secured short-term sources of external financing, which are provided by Československá obchodní banka, a.s., and Česká spořitelna, a.s.). Bonds of PP, a.s. will mature in 2020. Long-term sources of external funding include the re-issuance of PPD, a.s., bonds from November 2016. It is expected that the drawing of additional external funds will be minimal due to the current financial position of the PP, a.s. Group.



Knowing that my driving
is environment friendly
gives me energy.

VII. Financial Section

- **Individual Financial Statements for the year ended 31 December 2019**
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 2019**
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 2019**
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 2019**
compiled according to the International Financial Reporting Standards (IFRS) in the format accepted by the European Union

Individual Financial Statements

Statement of financial position as at 31 December 2019

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

in thousands of CZK)	Note:	31/12/2019	31/12/2018
ASSETS			
Fixed assets			
Land, buildings, and equipment	7.1	758,359	725,872
Real estate investments	7.2	160,382	164,470
Intangible assets	7.3	102,576	73,939
Assets originating from the right of use	7.4	37,646	0
Investments in subsidiaries	7.5	1,370,002	1,336,002
Deferred tax receivable	7.18	12,521	0
Incremental costs of obtaining a contract		72,965	57,346
Other fixed assets		31	120
Total fixed assets		2,514,482	2,357,749
Short-term assets			
Inventories	7.6	841,076	891,850
Trade and other receivables	7.7	2,283,972	2,071,171
Cash and cash equivalents	7.8	1,498,945	1,476,852
Other assets	7.9	43,983	30,620
Incremental costs of obtaining a contract		59,833	76,427
Paid income tax advance	7.19	2,031	123,210
Total short-term assets		4,729,840	4,670,130
TOTAL ASSETS		7,244,322	7,027,879

('000 CZK)	Note:	31/12/2019	31/12/2018
EQUITY AND LIABILITIES			
Equity capital			
Registered capital	7.10	431,972	431,972
Revaluation of securing (hedge) derivatives	7.12	-111,506	0
Retained earnings		2,286,561	2,079,583
Total share capital		2,607,027	2,511,555
Long-term liabilities			
Trade liabilities and other long-term liabilities		322	632
Bonds	7.16	0	400,526
Lease liabilities	7.13	33,080	0
Deferred tax liability	7.18	0	25,110
Provisions	7.20	127,469	0
Total long-term liabilities		160,871	426,268
Short-term liabilities			
Trade payables, advances received and principals	7.14	2,932,104	2,731,244
Bonds	7.16	401,477	0
Lease liabilities	7.13	4,893	0
Other liabilities	7.17	1,035,201	1,029,305
Other tax liabilities	7.19	102,749	85,480
Provisions	7.20	0	244,027
Total short-term liabilities		4,476,424	4,090,056
TOTAL EQUITY AND LIABILITIES		7,244,322	7,027,879

Statement of comprehensive income for the year ended 31 December 2019

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

in thousands of CZK)	Note:	2019	2018
Sales	7.21	14,319,420	11,894,853
Purchased gas, electricity, materials, and services connected with gas and electricity supplies	7.22	12,814,535	10,338,638
Other operating income	7.23	371,286	366,448
Personnel costs	7.24	330,842	353,128
Depreciation of fixed assets	7.25	83,999	89,177
Loss due to depreciation of financial assets	7.7	8,824	45,532
Other operating costs	7.26	549,128	669,990
Operating profit/loss		903,378	764,836
Financial costs	7.27	168,877	199,032
Financial revenues	7.28	98,355	229,772
Financial profit/loss		-70,522	30,740
Profit before tax		832,856	795,576
Income tax	7.29	111,878	161,621
After tax profit		720,978	633,955
Other total performance			
Items that may be reclassified and reported as profit or loss:			
Settlement of securing derivatives (change in fair value)	7.12	-137,662	
Deferred tax on securing derivatives	7.12	26,156	
Other total performance		-111,506	
Total performance for the period		609,472	633,955

Statement of changes in equity for the year ended 31 December 2019

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

in thousands of CZK)	Registered capital	Revaluati on of securing derivatives	Retained earnings	Total
Note	7.10	7.12		
Balance as of 1 January 2018	431,972	0	1,965,628	2,397,600
Profit/loss after tax for the period	0	0	633,955	633,955
Total comprehensive income	0	0	633,955	633,955
Transactions with owners of the Company:				
Dividends paid	0	0	-520,000	-520,000
Balance as of 31 December 2018	431,972	0	2,079,583	2,511,555
Profit/loss after tax for the period	0	0	720,978	720,978
Other comprehensive income	0	-111,506	0	-111,506
Total comprehensive income	0	-111,506	720,978	609,472
Transactions with owners of the Company:				
Dividends paid	0	0	-514,000	-514,000
Balance as of 31 December 2019	431,972	-111,506	2,286,561	2,607,027

Cash flow statement for the year ended 31 December 2019

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

in thousands of CZK)	Note:	2019	2018
Profit before tax		832,856	795,576
Adjustments to profit before tax		-383,342	-84,973
Depreciation of fixed assets	7.25	83,999	89,177
Write-offs of receivables		17,913	119,270
Change in the position of adjustments and reserves		-127,212	102,262
Profit from sales of fixed assets	7.23	-2,569	-2,277
Net interest		-6,791	1,065
Revenues from dividends and profit shares	7.23	-336,783	-345,942
Other non-cash movements (revaluation of derivatives)		-11,899	-48,528
Net cash flows from operations before tax and changes in working capital		449,514	710,603
Change in working capital needs		-68,459	132,812
Changes in the position of receivables from operations		-247,956	-100,863
Change in liabilities from operations		128,723	329,236
Movement in inventories (gross)		50,774	-95,561
Net cash flow from operations before interests and tax		381,055	843,415
Interest paid		-16,210	-14,665
Interest received		23,603	15,780
Income tax on current activities and additional tax paid minus tax refunds		-2,174	-241,838
Net cash flow from operations		386,274	602,692
Acquisition cost of fixed assets		-132,733	-125,145
Acquisition cost of long-term financial shares	7.5	-34,000	0
Revenues from sales of fixed assets		3,545	3,155
Shares of profit received (+)	7.23	336,783	345,942
Loan repayments		89	-23
Net cash flow from investments		173,684	223,929
Revenue from long-term liabilities		33,080	304
Payment of long-term liabilities		-309	-108
Change in the position of the loan from the parent and subsidiary companies (cashpooling)*	7.17	-56,636	-155,508
Dividends paid	7.11	-514,000	-520,000
Net cash flows from financing activities		-537,865	-675,312
Balance of cash and cash equivalents at beginning of accounting period		1,476,852	1,325,543
Net change in cash and cash equivalents for the accounting period		22,093	151,309
Balance of cash and cash equivalents at end of accounting period		1,498,945	1,476,852

* 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 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 315700QBYOTLGRRMOO11.

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

Based on the current results and the expected profit which shall be generated over the next 12 months as well as the availability of credit lines and other liquidity management tools, the Company's management believes that

possesses a sufficient financial capacity to continue with its business activities for at least 12 months following the day when these financial statements are signed.

1.1. Major shareholders of the Company

The sole shareholder controlling the Company as of 31 December 2019 and 31 December 2018, is Pražská plynárenská Holding a.s. (“PPH a.s.” or the “controlling company”), is controlled by the Capital City of Prague which is the main parent company.

2. Rules for compilation of the financial statements

Declaration of compliance

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 of 31 December 2019, including its profit/loss and cash flows for the year ended 31 December 2019.

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

The list of applied accounting methods and policies is available in Chapter 4.

These financial statements were approved by the statutory body on 17 March 2020.

In the compilation of the financial statements, the Company used the standards and interpretations that should mandatorily be applied to the period beginning on 01 January 2019.

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 01 January 2019 to 31 December 2019. The Company's current accounting period is the calendar year ending 31 December.

Comparative period

For the purpose of demonstrating the financial position, the comparative period chosen was the position as of 31 December 2018; and to demonstrate profit/loss, changes in equity capital, and overview of cash flows, results for the period from 1 January 2018 to 31 December 2018 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 about key judgements in applying the accounting policies that have the most significant effect on the amounts

reported in the financial statements are presented in the following chapters:

- Chapter 4.20.1. - Unbilled natural gas supplies
- Chapter 4.20.2. Unbilled electric power supplies

3. Adoption of new or revised accounting standards and interpretations

IFRS 16, Leases. The Company has decided to apply the standard which became valid on the mandatory date of adoption on 1 January 2019 and to use a modified retrospective method, without reworking comparative information and to use certain simplifications permitted by the Standard. Property use rights for rental properties are valued at the transition, as if the new rules are always applied. All other assets with the right of use are valued at the amount of the lease liability.

When applying IFRS 16 for the first time, the Company used the following practical tools permitted by the Standard:

- the application of a single discount rate to a portfolio of leases with reasonably similar characteristics,
- accounting for operative leases with a remaining lease term of less than 12 months as of 1 January 2019 as a short-term lease,
- exclusion of the initial direct cost for valuation of the asset from use at the date of first use,
- the use of retrospect when determining the lease term, providing that the contract includes an option to extend or terminate the lease.

IFRS 16 introduced a single balance sheet accounting model for leases for tenants. The tenant or lessee accounts assets under the right to use, which represent the right of the tenant to use the underlying asset, and accounts for the lease liability which represents the obligation to pay lease payments. The lessor's accounting system has remained similar to the current Standard - i.e. the lessor continues to classify leases as either financial or operative.

The Company has also decided to reconsider whether the contracts contain leases at the date of first application. The Company applies an exemption from recognition for leases that define a lease for 12 months or less as of the effective date of the lease and do not include the option to purchase the underlying asset as well as lease contracts where the underlying asset has a low value. Lease payments for these assets are reported as Other operating expenses. The weighted average incremental interest rate applied by the Company to leasing liabilities as of 1 January 2019 and on, was 1.78%.

The comparison of operating lease liabilities reported as of 31 December 2018 to the newly adopted lease liability as of 1 January 2019 is as follows:

in thousands of CZK)

Total of future aggregate minimum lease payments under non-cancellable operative lease contracts (without valid VAT) as of 31 December 2018	605,882
Leases with low value which are not reported as liabilities	-2,635
Future lease payments which were not reclassified as leasing*	-596,484
Completed lease contracts	-1,053
Future lease payments that result from different recognition of lease contracts beyond the irrevocable/non-cancellable period	40,556
Impact of discounts on the current value	-3,485
Total lease liabilities from the right of use reported as of 1 January 2019	42,781
- of which, long-term lease liabilities	37,974
- of which, short-term lease liabilities	4,807

* This item mainly represents future lease payments for secured capacity of gas storage.

The Company reported assets under the right of use and lease liabilities for those lease contracts that were previously classified as operative leases. Assets under the right of use were reported based on the amount which is equal to the lease liabilities, adjusted using any previously reported prepaid

and accrued lease payments, and lease liabilities were reported based on the present value of future lease payments, discounted using the incremental borrowing rate as of the date of first use.

Assets

Fixed assets	IAS 17 – residual value as of 31 December, 2018	Impact of adoption of the IFRS 16	IAS 16 – residual value as of 1 Jan 2019
Assets originating from the right of use	0	42,781	42,781
Total fixed assets	2,357,749	42,781	2,400,530
Total assets	7,027,879	42,781	2,400,530

Equity and liabilities

Equity capital	IAS 17 – residual value as of 31 December, 2018	Impact of adoption of the IFRS 16	IAS 16 – residual value as of 1 Jan 2019
Lease liabilities	0	37,974	37,974
Total long-term liabilities	426,268	37,974	464,242
Lease liabilities	0	4,807	4,807
Total short-term liabilities	4,090,056	4,807	4,094,863
Total equity and liabilities	7,027,879	42,781	4,559,105

The other adopted IFRS amendments and interpretations do not have a significant impact on the Company financial statements. Newly issued standards, amendments to standards and their interpretations

approved by EU A which are still not legally enforceable and were not applied by the Company in advance do not have a significant impact on the company financial statements.

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

The accounting procedures described 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 reported at acquisition cost minus the accumulated amortisation and value depreciation losses.

4.1.2. Amortisation

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

Intangible asset category	Useful life (number of years)
Software	4
Assessable rights	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

Lands, buildings and equipment are reported at acquisition cost, less accumulated adjustments (except land) and losses due to value depreciations.

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.

The estimated useful (service) life of individual asset categories is always reviewed at the end of the accounting period. The estimated useful lives used in these financial statements are shown in the following table:

Tangible asset category	Useful life (number of years)
Buildings and other constructions	25–50
Movables and sets of movables	2–14
Vehicles (means of transport)	4–8
Computer equipment and other hardware	2–4
Other tangible fixed assets	30

Land owned by the Company is not depreciated.

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

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 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).

4.3. Real estate investments

Assets (particularly office buildings and warehouses) that are managed for the purpose of long-term rental income or capital appreciation, or both, and which are not occupied by the Company are reported as investment property. Real estate investments are initially valued at acquisition cost, including related transaction costs and borrowing costs, if any. The Company uses the cost model for subsequent measurement of investment properties in accordance with IAS 16.

Real estate investments are depreciated using the straight-line method based on their estimated useful lives. Depreciation charges for the accounting period are recognised in the statement of comprehensive income for this period.

The useful life is always checked at the end of the accounting period and is 50 years for real estate investments.

Real estate investments are leased to tenants with lease fees which are payable monthly or quarterly. Lease payments for some contracts include the option

to increase the fee by inflation, but there are no other variable lease payments that depend on the index or rate.

4.4. Assets originating from the right of use

The Company leases various assets, especially non-residential premises. Contracts may contain both lease and non-lease components. The Company assigns equivalent value to lease and non-lease components based on their relative separate prices, if any.

Leased assets resulting from lease contracts are initially measured based on the present values of lease liabilities and include:

- any lease payments made on or before the commencement date, minus any lease incentives received,
- all initial direct costs and
- the cost of returning the asset under the terms required by the lease contracts.

Assets with the right to use are generally depreciated on the straight-line basis over the term of the lease. If the Company is reasonably certain that it will exercise the option to purchase, the asset with the right to use is depreciated over the life of the underlying assets. Depreciation on items of assets with the right to use is calculated using the straight-line basis against their estimated use.

4.5. Investments into 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 reported 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.

4.6. Inventories

Inventories are reported at the acquisition cost or with the 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.

4.7. 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.

4.7.1. 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 intention to hold 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 adjustment entry for Expected Credit Losses (ECL) for all the financial assets at incurred cost.

The Company uses a three-stage ECL for other financial assets. 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 as serious indicators of failure significant financial difficulties of debtors and the probability that the debtor will enter bankruptcy proceeding 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.

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.

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.

4.7.2. Financial assets at fair value reported in 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 funds from secured cash flows depends on the fact on whether the given derivative is classified as a securing derivative or as a trade derivative.

The company secures expected future cash flows from the purchase of gas and electricity through short-term FX forwards and FX swaps. To secure future cash flows with a maturity of more than one year (in most cases), the Company uses the so-called rollover strategy, which are used to secure expected future cash flows with a series of currency derivatives with shorter maturities. As of the date of the maturity of the currency derivative - classified as a rollover, a new one is immediately established under current market conditions with the same nominal value. The value of such a securing derivative at the settlement date must be retained in the accounting reserve in equity until the secured item is realized.

The Company determines whether the securing is effective at the inception of the security by the method of compliance with critical parameters and also at least on the date of preparation of the financial statements and on the date of preparation of statements using the dollar-offset method.

At the same time, the Company has considered potential sources of inefficiency but does not consider them significant.

The potential sources of inefficiencies of security are:

- Changes in the timing of the realization of the secured item.
- Significant changes in the credit risk of any of the counterparties of the secured item and / or instrument.
- Reduction of the realized amount of the secured item below the value of the securing instrument.
- Non-zero initial value of the securing derivative.

The default accounting regulation governing the rules for accounting for financial instruments (in this case financial derivatives) and securing accounting is the IFRS 9 standard. Under the transitional provisions of IFRS 9, the Company used the option to proceed in accordance with the rules of IAS 39 and parts of IFRS 9 dealing with securing accounting and decided not to use it.

The Company's Treasury Department monitors the currency risk of the Company to ensure that this risk is as small as possible. The real value of derivatives is determined as the net present value of cash flows arising from the derivatives.

4.8. Cash and cash equivalents

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

4.9. Equity capital

4.9.1. Registered capital

The share capital of the Company consists of ordinary shares. Preferred shares were not issued. At the same time, the Company does not hold any own shares.

4.9.2. 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.

4.10. 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.

4.10.1. 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.

4.10.2. Other financial liabilities

Other financial liabilities are initially measured 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.

4.10.3. Trade payables

Trade payables are obligations to pay for goods or services that have been acquired from suppliers through regular 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.

4.11. 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 through the supply of gas, electricity, or other non-cash supply.

4.12. 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.

4.12.1. 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.

4.13. 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.

4.14. 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.

4.15. Lease liabilities

Lease liabilities are initially measured based on the present value. Lease liabilities include the net present value of the following lease payments:

- fixed payments less receivables from leasing incentives,
- variable payment leasing, which is based on an index or rate, originally measured using the index or rate as of the commencement date,
- the implementation price of call option, providing that the Company is reasonably certain that the option will be used and
- penalty payments for termination of the lease, providing that the lease term reflects application of this option.

Lease payments are discounted using the implicit interest rate. If this rate cannot be easily determined, the lessee's incremental borrowing rate is used, which is the rate that the lessee would have to pay to borrow the funds needed to obtain an asset of similar value as an asset with right for use in a similar economic environment and with similar terms.

To determine the incremental borrowing rate, the Company shall use as the starting point - if possible, the recent third-party financing received by the lessee and adjusted

so it reflects changes in funding conditions since the receipt of funding from the third party.

Lease finance costs (interests) are recognized as an expense over the lease term, as to produce a constant periodic rate of interest on the remaining part of the liability for each period.

Payments related to short-term leases of assets and to all low-value asset leases are reported on a straight-line basis as an expense in profit or loss. A short-term lease is a lease with a term of 12 months or less.

4.16. 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.

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 at the given distribution company. Price for the distribution services is part of the price

paid for the combined services provided to customers. The Company concluded that in case of distribution services the Company acts as a responsible entity (and not as a representative) and reports revenues from services in full, including the part representing distribution services.

4.16.1. Incremental costs of obtaining a contract

Sales agent commissions and other costs are treated as incremental costs to obtain a contract with the customer and are reported as an asset. These costs are amortized over the estimated time the customer remains involved and amortization is reported under Other operating expenses.

4.16.2. Revenues from sales and distribution of natural gas

Revenue from natural gas sales 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 the fee covering operations of Energy Regulatory Office (ERO), two-component price for distribution consisting of the price paid for purchased natural gas and monthly or yearly fixed price for distribution capacity and price of other services related to the supply. This price is a two-component price and consists of the commodity price and fixed monthly payment or capacity component of the price.

The price for 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.

Price for the distribution services represents a two-component price and it is regulated by ERO. Price for OTE services 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 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 at each consumption point, or based on the reading provided by the customer alone.

Revenues from MO and DOM categories consist of the actually billed revenues and revenues from so called "unbilled gas" (see Chapter 4.20.1). 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.

4.16.3. Revenues from sales of electricity

Revenue from the sale 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 item. 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 may 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. Price for the electricity supply is derived from the price established at 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 consumption 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 consumption 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 the actually billed revenues and revenues from so called "unbilled electricity" (see Chapter 4.20. 2). The amount of unbilled electricity is calculated from the total amount of purchased electricity during the particular year based on past behaviour of individual customers and it is valued in relation to the valid price list

published by the Company, or in relation to individually set prices and products.

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

4.16.4. Revenues from sales of goods

Sales are reported on the date of the release of the goods from the warehouse and are reported minus discounts and VAT.

4.16.5. Revenues from miscellaneous services

Sales are reported on the date of the release of the goods from the warehouse and are reported minus discounts and VAT.

4.17. 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.

4.18. Employee Benefits

4.18.1. 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.

4.18.2. 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.

4.18.3. Other benefits

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

4.18.4. 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.

4.19. Taxes

Income tax comprises current and deferred tax.

4.19.1. 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 of 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.

4.19.2. 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.

4.20. 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.

4.20.1. 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. As of 31 December 2019 the value of unbilled gas and distribution fee to low-volume customers and households represented 2,762,483 thousand CZK (as of 31 December 2018 the amount was CZK 2,753,071 thousand CZK).

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

The gas supplies unbilled to industrial consumers and medium-volume consumers are also reported 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 2019 is 2.13 %. The median ratio of the balance difference to the distributed amount for the last 6 years is equal 2.36%. If 2019 the ratio of losses to the total amount of gas distributed was equal to the long-term average, therefore it would be less (greater) by 0.23 percentage points (while all other variables would remain unchanged) the pre-tax profit as of 31 December 2019 would be 9,300 thousand CZK higher (lower) due to higher (lower) revenues in the unbilled gas supplies.

4.20.2. Unbilled electric power supplies

Similarly as natural gas, the Company management considers the determination of the amount of unbilled electricity and the distribution fee for the categories of low-volume (MOP) and households (MOO) to be an important area of application of estimates. As of 31 December 2019 the value of unbilled energy and distribution fee to low-volume customers and households represented 528,621 thousand (as of 31 December 2018 the amount was CZK 334,824 thousand CZK).

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 monitored period. Within the framework of accounting estimates, estimates related to

large-volume customers (VN) are also reported, but these estimates represent a minimum degree of risk because they are based on already billed items. Through these estimates, they are only transferred to the corresponding accounting period.

Sensitivity analysis:

Sensitivity analysis in the unbilled electricity segment shows a change in the amount of this item if

the nomination deviation related to the acquisition of the commodity is included in the input balance. Usually, the amount of this deviation is in the range of 3-5% of the number of technical units sold. In the case of the Company, the amount of the purchase deviation for 2019 would be around the category of MOO and MOP in the amount of around 16 thousand MWh. The fixed price for the valuation of the deviation is set at CZK 1,200 per MWh, which in the case of the Company would impacted the generation of unbilled electricity in the total amount of $\pm 19,200$ thousand CZK.

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 high rating in terms of credit investments issued by competent and independent global rating agencies and for whom it is also possible to continuously monitor the credit quality indicators through the financial market. Cooperating banks enjoy long-term ratings - A1, issued by Moody's.

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.

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. The concentration of credit risks is perceived by the Company in connection with the subsidiary company Pražská plynárenská Distribuce, a.s., which is a member of the Pražská plynárenská, a.s., Group. This is because principles and operating advances linked with the purchase of distribution services were provided.

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.

Losses due to value impairment are reported in such a manner as to cover both individually significant exposure to credit risk and portfolio loss associated with 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 of each balance date to find out whether objective evidence for the degradation of asset values 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 the expected credit loss to the trade receivables, unbilled gas deliveries to other receivables, and contractual assets.

The table summarises the complete overview of trade and other receivables minus the adjusting entry:

Type of receivable (in thousands of CZK)	31 December 2019	31 December 2018
Trade receivables from third parties	626,549	529,640
Trade receivables from subsidiaries	333,016	330,783
Trade receivables from other affiliates	462	503
Financial trade receivables	960,027	860,926
Allowances for trade receivables	-208,456	-216,514
Net trade receivables – financial	751,571	644,412
Unbilled supplies (minus advance payments)	1,481,061	1,395,597
Adjusting entries for unbilled deliveries	-11,149	-13,644
Total trade and other receivables – financial	2,221,483	2,026,365
Total trade and other receivables – refinancing	62,489	44,806
Total trade and other receivables – short-term	2,283,972	2,071,171

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 2019:

Adjusting entries for receivables (in thousands of CZK)	Expected interest risk impairment			
	Level 1	Level 2	Level 3	Total
Cat. MO	4,074	758	62,228	67,060
Cat. DOM	1,188	776	81,674	83,638
Cat. VO	3,445	34	44,633	48,112
Cat. Other	2,476	545	17,774	20,795
Total	11,183	2,113	206,309	219,605

31 December 2018:

Adjusting entries 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	4,425	511	13,472	18,408
Total	16,854	2,055	211,249	230,158

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 uses free cash

by purchasing or depositing the cash into 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 high rating in terms of credit investments issued by competent and independent global rating agencies 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 banks that are 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 2019	31 December 2018
Cash on hand	not assigned	1,513	1,613
Money in bank accounts	A1	797,432	475,239
Short-term investments – bills	A1	700,000	1,000,000
Total exposure of cash, cash equivalents, and other financial assets		1,498,945	1,476,852

5.2. Liquidity risk

Liquidity risk is a risk that the accounting entity will not fulfil its obligations arising from 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 of cash flows is the preparation of a midterm plan, which is prepared annually for a 3-year period. The cash flow plan for the following year is subsequently divided into individual days and kept 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 Company's current short-term external funding structure was established in May 2019 in connection with refinancing of external sources and is contractually secured until May 2023. The structure also includes overdraft credit lines in CZK and EUR, exchange programme for drawing the necessary resources in the form bills of exchange through 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 on the company's plant 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.

Short-term funding structure as of 31 December 2019:

in thousands of CZK)	Limit	from	to	interest rate
Overdraft credit lines in CZK	600,000	21/ 05/ 2019	21/ 05/ 2023	floating
Guarantee line	700,000	21/ 05/ 2019	21/ 05/ 2023	fixed
Exchange programme	1,400,000	22/ 05/ 2019	22/ 05/ 2023	floating
Overdraft credit lines in EUR	508,200	21/ 05/ 2019	21/ 05/ 2023	floating
PPAS Bond 0.90/2020 ISIN CZ0003516809	400,000	15/ 06/ 2017	15/ 06/ 2020	fixed
Total	3,608,200			

In 2019, no overdraft lines were drawn. As of 31 December 2019, only funds from subsidiaries and the parent company PPH a.s. were drawn in the amount of 844,884 thousand CZK, which represent liabilities from cashpooling. Average

credit interest rate between the Company, subsidiaries and the parent company in 2019 was 1.47% p.a., the average debit interest rate between the Company, subsidiaries and the parent company in 2019 was 2.30% p.a.

Short-term funding structure as of 31 December 2018:

in thousands of CZK)	Limit	from	to	interest rate
Overdraft credit lines	900,000	24/ 05/ 2016	24/ 05/ 2019	floating
Guarantee line	700,000	24/ 05/ 2016	24/ 05/ 2019	fixed
Exchange programme	3,000,000	07/ 06/ 2017	24/ 05/ 2019	floating
Total	4,600,000			

In 2018 no overdraft credit lines were drawn. As of 31 December 2018, only funds from subsidiaries and the parent company PPH a.s. were drawn in the amount of 901,520 thousand CZK, which represent liabilities from cash pooling. Average credit

the credit interest rate between the Company, subsidiaries and the parent company in 2018 was 1.07 % p.a., the average debit interest rate between the Company, subsidiaries and the parent company in 2018 was 1.54 % p.a.

Short-term funding structure as of 31 December 2018:

in thousands of CZK)	Limit	from	to	interest rate
PPAS Bond 0.90/2020 ISIN CZ0003516809	400,000	15/ 06/ 2017	15/ 06/ 2020	fixed

In June 2017, PP, a.s., the Company has emitted 80 bonds in 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 emission yield was 398,192 thousand CZK. 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 part of the process of bonds issuing on the regulated stock market was the issuance of 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 Programme 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 of 31/ 12/ 2019 (in thousands of CZK)	Book value as of 31/ 12/ 2018 (in thousands of CZK)
PPAS Bond 0.90/2020 ISIN CZ0003516809	400,000	99,548	15/ 06/ 2020	0.90	annua	401,477	400,526

The book value of the bonds has the following structure:

in thousands	Book value as of 31/ 12/ 2019	Book value as of 31/ 12/ 2018
PPAS Bond 0.90/2020 ISIN CZ0003516809	401,477	400,526

The book value of 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 financial resources of the PP, a.s. Group, and the PPH a.s., companies aggregated in cash pooling. Using these free resources causes that short-term loans from the banks are not drawn.

In connection with the conditions under the loan agreements and bond issuance conditions concluded in 2016, 2017 and 2019, financial indicators are monitored at the consolidated PP, a.s. Group level. In the event of their non-fulfilment, the banks may request premature loan repayment and bond redemption. These indicators were fulfilled as of 31 December 2019 and 31 December 2018.

31. December 2019:

Impact of the cost interest related to the bonds on the profit or loss as of 31 December 2019: 4,203 thousand CZK (2018: 4,203 thousand CZK).

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-category and households are 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 of 31 December 2019 and as of 31 December 2018. 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 2019 and the interest rates in force on the financial market as of 31 December 2019.

(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)	5,151,723	428,024	451,365	174,076	0	6,205,187
Bonds	0	403,600	0	0	0	403,600
Trade and other liabilities	2,556,706	27	54	272	0	2,557,059
Loans from the subsidiaries and the parent company PPH a.s. – cashpooling	844,917	0	0	0	0	844,917
Total	8,553,346	831,651	451,419	174,348	0	10,010,763

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 the subsidiaries and the parent company PPH a.s. – cashpooling	901,565	0	0	0	0	901,565
Total	8,352,842	726,696	1,117,375	864,478	0	11,061,391

The main aim of the 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 of 31 December 2019:

- on behalf of TRADE CENTRE PRAHA a.s., up to 500 thousand CZK (under the Agreement on Combined Supplies of Natural Gas of 30/ 7/ 2019)
- on behalf of TRADE CENTRE PRAHA a.s., up to 500 thousand CZK (under the Agreement on Combined Supplies of Electricity, part 1 dated 2/ August 2019)
- on behalf of TRADE CENTRE PRAHA a.s., up to 500 thousand CZK (under the Agreement on Combined Supplies of Electricity, part 2 dated 2/ 8/ 2019)
- on behalf of Čepro a.s., up to 1,000 thousand CZK (under the Agreement on Supplies of Natural Gas of 8/ 11/ 2019)
- on behalf of Čepro a.s., up to 1,000 thousand CZK (under the Agreement on Combined Supplies of Electricity, of 21/ 11/ 2019 and under the Agreement on Supplies of Electricity form Low-Voltage Network of 21/ 11/ 2019)
- on behalf of OTE, a. s., up to 100,000 thousand CZK (under the Deviation Settlement Agreement No. AP 006/09 dated 11/ 12/ 2009)
- on behalf of OTE, a. s., up to 35,000 thousand CZK (under the Deviation Settlement Agreement No. A3602/14 dated 4/ 12/ 2014 and the Agreement on Access to the Organized Short -Term Electricity Market No. B3602 /14 dated 4/ 12/ 2014)
- on behalf of RWE Supply Trading GmbH, in the amount of 15,000 thousand EUR (381,150 thousand CZK) due to being present and active on the gas market (according to the EFET Agreement dated 3/ 6/ 2014/

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

- on behalf of TRADE CENTRE PRAHA a.s., up to 500 thousand CZK (under the Agreement on Combined Supplies of Natural Gas of 25 July 7/ 2017)
- on behalf of OTE, a. s., up to 187,000 thousand CZK (under the Deviation Settlement Agreement No. AP 006/09 of 11/ 12/ 2009)
- on behalf of OTE, a. s., up to 22,000 thousand CZK (under the Deviation Settlement Agreement No. A3602/14 dated 4/ 12/ 2014 and the Agreement on Access to the Organized Short -Term Electricity Market No. B3602 /14 dated 4/ 12/ 2014)

These closed grantees 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. In 2019 and 2018, the Company did not draw short-term bank loans, but used funds from subsidiaries and PPH a.s. under the cash-pooling scheme.

Sensitivity analysis:

If the interest rate had increased/decreased by 100 basic points while all other variables held constant as of 1 January 2019, the profit before tax as of 31 December 2019 would have been by CZK 8,379 thousand lower/higher as a result of the increased /decreased interest expense (for 2018: 10,102 thousand CZK).

5.3.2. Exchange rate risk

Currency risk means that the future cash flows from financial instruments will change as result of changes in currency rates.

Movements in exchange rates represent a risk due to the fact that the Company purchases virtually all its gas and electricity using foreign currencies. The choice of currency for purchases made in forward purchases is fully dependent on the overall commercial conditions offered. The Company always secures the exchange rate risk in the form of currency forwards at the bank up to 100 % of the purchased volume. 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 secures and protects itself against long-term currency risk.

The movement in exchange rates constitutes a further risk as the Company keeps receivables and payables in foreign currencies. Starting on 1 January 2019, the Company decided to apply secure accounting system in order to secure future cash flows from the purchase of commodities.

Sensitivity analysis:

If the CZK/EUR exchange rate as of 31 December 2019 had weakened (increased) / strengthened (dropped) by 0.5 CZK/EUR 1 with all other variables held constant as of 31 December 2019, the profit before tax as of 31 December 2019 as a result of revaluation of forward purchases realized as of 31 December 2019 would be by 8,397 thousand CZK higher/lower (as of 31 December 2018: 140,253 thousand CZK).

If the CZK/EUR exchange rate had weakened (increased) / strengthened (dropped) by 0.5 CZK/EUR 1 with all other variables held constant as of 31 December 2019, the profit before tax as at 31 December 2019 as a result of revaluation of liabilities in EUR would have been CZK 1,456 thousand CZK lower/higher (as of 31 December 2018: 419 thousand CZK).

If the CZK/EUR exchange rate had weakened (increased) / strengthened (dropped) by 0.5 CZK/EUR with all other variables held constant as of 31 December 2019, the profit before tax as at 31 December 2019 as a result of revaluation of liabilities in EUR would have been 1,713 thousand CZK higher/lower (as of 31 December 2018: 2,277 thousand CZK).

(in thousands of CZK)	2019	2018	2019	2018
	increase of 0.5 CZK/EUR		decrease of 0.5 CZK/EUR	
Forward purchases in EUR	8,397	140,253	-8,397	-140,253
Liabilities in EUR	-1,456	-419	1,456	419
Receivables in EUR	1,713	2,277	-1,713	-2,277
Impact on profit before tax	8,654	142,111	-8,654	-142,111

If the CZK/EUR exchange rate had weakened (increased) / strengthened (dropped) by 0.5 CZK/EUR with all other variables held constant

as of 31 December 2019, the other total profit / loss results as of 31 December 2019 as a result of revaluation of secured forward purchases as of 31 December 2019 would have been 110,119 thousand CZK higher/lower (as of 31 December 2018: 0 thousand CZK).

(in thousands of CZK)	2019	2018	2019	2018
	increase of 0.5 CZK/EUR		decrease of 0.5 CZK/EUR	
Secured forward purchases in EUR	110,119	0	-110,119	0
Impact of total profit / loss result	110,119	0	-110,119	0

5.3.3. Derivative financial tools

The settlement of purchases of natural gas and electricity in EUR exposes the Company to a risk of changes in future cash flows upon settlement of these transactions due to changes in the EUR / CZK exchange rate. The Company decided to regulate this risk by means of currency swaps and forwards. To secure future cash flows

with a maturity of more than one year the Company uses the so-called rollover strategy, which is used to secure expected future cash flows with a series of currency derivatives with shorter maturities. As of the date of the maturity of the currency derivative - classified as a rollover, a new one is immediately established under current market conditions with the same nominal value.

Secured cash flows:

31 December 2019:

(in thousands of CZK)	0-3 months	3-6 months	6-12 months	1-3 years	3-5 years	Total
Securing of cash flows - future liabilities	4,749,477	394,788	389,849	166,438	0	5,700,552

31 December 2018:

(in thousands of CZK)	0-3 months	3-6 months	6-12 months	1-3 years	3-5 years	Total
Securing of cash flows - future liabilities	0	0	0	0	0	0

Derivatives securing cash flows:

31 December 2019:

(in thousands of CZK)	Nominal value	Fair value Positive	Fair value Negative	Secured period	Average secured rate
Currency forwards	5,700,552	0	83,912	0-2 years	25.883

31 December 2018:

(in thousands of CZK)	Nominal value	Fair value Positive	Fair value Negative	Secured period	Average secured rate
Currency forwards	0	0	0	—	—

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 of 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.

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

5.5. Offsetting financial receivables and financial instruments

31 December 2019:

(in thousands of CZK)	Gross amount in the statement of financial position	Gross amount of the offsetting in the statement of financial position	Net amount after compensation 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	2,222,935	0	2,222,935	76,927	2,146,008
Trade and other financial liabilities	2,228,326	0	2,228,326	76,927	2,151,399

31. December 2018:

(in thousands of CZK)	Gross amount in the statement of financial position	Gross amount of the offsetting in the statement of financial position	Net amount after compensation in the statement of financial position	The amount which is subject of the framework netting agreement 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

5.6. Net profit and losses from financial instruments

(in thousands of CZK)	2019	2018
Trade receivables (particularly depreciation of receivables and creation of provisions)	-11,381	-39,475
Cash and cash equivalents (especially profits from the appreciation of funds)	7,591	1,669
Other financial assets	2,870	-1,726
Bonds (particularly cost interest)	-4,580	-4,580
Financial derivatives	-80,878	9,016
Bank loans (especially losses from bank fees and liability commissions)	-1,265	-2,358
Other financial liabilities (especially currency exchange gains / losses)	7,124	5,548
Net gains (+) / losses (-) reported in the profit / loss statement	-80,519	-31,906
Financial derivatives in other comprehensive income (settlement)	-137,662	0
Net gains (+) / losses (-) reported in other total income	-137,662	0
Total net gains (+) / losses (-)	-218,181	-31,906

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. The Company's management continuously evaluates the current and expected results including planned and potential investments and cash flows, and adjusts the capital structure to achieve these goals.

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 of 31 December 2019 and 31 December 2018.

7. Notes on the financial statements

7.1. Land, buildings, and equipment

Property, plant , and equipment (in thousands of CZK)	Land	Buildin gs and other construc tions	Movable s and sets of movables	Vehicles (means of transport)	Computer equipme nt and other hardware	Other tangible fixed assets	Incomplete tangible fixed assets	Advance payments for long- term tangible assets	Total
Acquisition value									
Balance as of 1/ 1/ 2018	76,890	798,034	255,923	34,754	166,840	40,313	26,639	2,501	1,401,894
Purchases	0	0	0	0	0	0	63,602	530	64,132
Transfers	0	8,663	19,730	8,309	9,221	48	-45,971	0	0
Decreases	0	0	-5,198	-9,497	-43,404	-222	-289	-2,981	-61,591
Balance as of 31/ 12/ 2018	76,890	806,697	270,455	33,566	132,657	40,139	43,981	50	1,404,435
Purchases	0	0	0	0	0	0	83,086	74	83,160
Transfers	0	6,435	15,988	1,393	18,409	230	-42,455	-74	-74
Decreases	-304	-158	-4,007	-6,911	-15,215	0	0	0	-26,595
Balance as of 31/ 12/ 2019	76,586	812,974	282,436	28,048	135,851	40,369	84,612	50	1,460,926
Accumulated depreciation, adjustments, impairment, recharging									
Balance as of 1/ 1/ 2018	0	298,506	222,741	19,053	137,223	4,255	0	0	681,778
Depreciation	0	17,460	13,874	7,396	14,856	545	0	0	54,131
Adjustments	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
Balance as of 31/ 12/ 2018	0	315,943	231,386	17,981	108,675	4,578	0	0	678,563
Depreciation	304	17,319	11,985	6,557	13,153	345	0	0	49,663
Adjustments	0	-23	-31	0	0	0	0	0	-54
Accumulated depreciation for disposals	-304	-158	-4,002	-5,940	-15,201	0	0	0	-25,605
Balance as of 31/ 12/ 2019	0	333,081	239,338	18,598	106,627	4,923	0	0	702,567
Net book value 2018	76,890	490,754	39,069	15,585	23,982	35,561	43,981	50	725,872
Net book value 2019	76,586	479,893	43,098	9,450	29,224	35,446	84,612	50	758,359

The book value of unfinished fixed assets as of 31 December 2019 and 31 December 2018 consists mainly of investments in buildings related to the implementation of significant reconstructions and modernizations of the Company's facility in Michle.

Pražská plynárenská, a.s., is the subject of a right of lien belonging to creditors of Československá obchodní banka, a.s., and Česká spořitelna, a.s., - the lien on the business plant represents:

- (I) up to CZK 2.7 billion and EUR 0.02 billion secured debts of Pražská plynárenská, a.s., from operating financing, which may arise on the basis of the Operating loans agreement dated 24 May 2016, as amended

and the Agreement on the Exchange Programme dated May 24, 2016, as amended, and also

- (II) up to CZK 2.7 billion secured debts of the subsidiary Pražská plynárenská Distribuce, a.s., a member of the Pražská plynárenská, as Group, arising in connection with the issue of PPD bonds 0.70% / 2023, ISIN CZ0003515348 issued by the mentioned subsidiary on the basis of the issue conditions dated 16 November 2016 and maturing in 2023.

7.2. Real estate investments

(in thousands of CZK) Real estate investments

Acquisition value	
Balance as of 1/ 1/ 2018	273,208
Increases	15,822
Balance as of 31/ 12/ 2018	289,030
Increases	1,694
Balance as of 31/ 12/ 2019	290,724
Accumulated depreciation, depreciation, impairment	
Balance as of 1/ 1/ 2018	118,867
Depreciation	5,693
Balance as of 31/ 12/ 2018	124,560
Depreciation	5,782
Balance as of 31/ 12/ 2019	130,342
Net book value 2018	164,470
Net book value 2019	160,382

The company reassessed the reporting of this item also for the period in question. In the financial statements for the year ending on 31 December 2018, real estate investments were reported under Lands, buildings and equipment.

7.3. Intangible assets

Intangible assets (in thousands of CZK)	Software	Assessable rights	Intangible fixed assets under construction	Total
Acquisition value				
Balance as of 1/ 1/ 2018	714,026	11,631	11,577	737,234
Purchases	0	0	49,349	49,349
Transfers	27,062	0	-27,062	0
Balance as of 31/ 12/ 2018	741,088	11,631	33,864	786,583
Purchases	0	0	52,057	52,057
Transfers	54,606	2,140	-56,746	0
Decreases	-2,372	0	0	-2,372
Balance as of 31/ 12/ 2019	793,322	13,771	29,175	836,268
Accumulated depreciation, depreciation, impairment				
Balance as of 1/ 1/ 2018	672,294	10,997	0	683,291
Depreciation	28,942	411	0	29,353
Accumulated depreciation for disposals	0	0	0	0
Balance as of 31/ 12/ 2018	701,236	11,408	0	712,644
Depreciation	22,981	439	0	23,420
Accumulated depreciation for disposals	-2,372	0	0	-2,372
Balance as of 31/ 12/ 2019	721,845	11,847	0	733,692
Net book value 2018	39,852	223	33,864	73,939
Net book value 2019	71,477	1,924	29,175	102,576

The average residual amortisation period for software is 2 year and 8 months.

An impairment test has been performed on intangible fixed assets under construction based on future usage analysis and no impairment was identified.

7.4. Assets originating from the right of use

(in thousands of CZK) Nonresidential spaces

Acquisition value	
Balance as of 1/ 1/ 2019	42,781
Increases	0
Decreases	0
Balance as of 31/ 12/ 2019	42,781
Accumulated depreciation, depreciation, impairment	
Balance as of 1/ 1/ 2019	0
Depreciation	5,135
Accumulated depreciation for disposals	0
Balance as of 31/ 12/ 2019	5,135
Net book value 1/ 1/ 2019	42,781
Net book value 31/ 12/ 2019	37,646

The Company mostly leases non-residential premises. Lease contracts are usually concluded for an indefinite time. The company has estimated the term of use in these cases from 5 to 10 years.

Until 31 December 2018, leases of non-residential premises were classified as operative leases, which were reported under Other operating expenses. Starting on 1 January 2019, leases are recognized as an asset with the right of use and a corresponding liability from the date that the leased asset is available for use by the Company.

7.5. Investments into subsidiaries

The Company held shares in the following subsidiary companies as of 31 December 2018 (except for MONTSERVIS PRAHA, a.s.) and as of 31 December 2019:

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

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

MONTSERVIS PRAHA, a.s.

Registered office: Prachatická 209, Prague 9, Postal Code 199 00

Balance as of 31 December 2019	Numbers of shares (in units)	Book value of the share (in thousands of CZK)	Held share (%)	Voting right share	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
MONTSERVIS PRAHA, a.s.	216	34,000	90	90	Czech Republic
Book value		1,370,002			

Balance as of 31 December 2018	Number of shares (in pcs)	Book value of the share (in thousands of CZK)	Held share (%)	Voting right share	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.

7.6. Inventories

Inventories represent mainly gas stored in the gas storage. This gas was extracted in 2019 and recognized as consumption in the amount of 534,176 thousand CZK (in 2018: 772,671 thousand CZK).

No surpluses and/or shortfalls in inventories were found during stock-taking in 2019.

7.7. Short-term and other receivables

Type of receivable (in thousands of CZK)	31 December 2019	31 December 2018
Trade receivables from third parties	626,549	529,640
Trade receivables from subsidiaries	333,016	330,783
Trade receivables from other affiliates	462	503
Financial trade receivables	960,027	860,926
Allowances for trade receivables (Adjustments to trade receivables)	-208,456	-216,514
Net trade receivables – financial	751,571	644,412
Unbilled supplies (minus advance payments)	1,481,061	1,395,597
Adjusting entries for unbilled deliveries	-11,149	-13,644
Total trade and other receivables – financial	2,221,483	2,026,365
Total trade and other receivables – non-financial	62,489	44,806
Total trade and other receivables – short-term	2,283,972	2,071,171

Short-term operating advances provided to individual suppliers for natural gas and electricity purchases and purchases of gas distribution services were offset with estimated payables created for these suppliers.

In 2019 the offset amount of advances with estimated payables was 1,264,745 thousand CZK (2018: 1,138,951 thousand CZK).

Outstanding trade receivables have not been secured. Receivables from related parties are defined in detail in Chapter 7.31.

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

Adjusting entries for receivables (in thousands of CZK)	31 December 2019	31 December 2018
Initial balance as of 1 January	230,158	320,411
Creation of an allowance for receivables	8,871	30,731
Use of the allowance	19,424	120,984
Final balance as of 31 December	219,605	230,158

The structure of allowances for trade and other receivables according to the level of expected interest rate impairment is shown in the following tables:

31 December 2019:

Adjusting entries for receivables (in thousands of CZK)	Expected interest risk impairment			
	Level 1	Level 2	Level 3	Total
Cat. MO	4,074	758	62,228	67,060
Cat. DOM	1,188	776	81,674	83,638
Cat. VO	3,445	34	44,633	48,112
Cat. Other	2,476	545	17,774	20,795
Total	11,183	2,113	206,309	219,605

31 December 2018:

Adjusting entries 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	4,425	511	13,472	18,408
Total	16,854	2,055	211,249	230,158

The following table shows losses due to depreciation of financial assets relating to trade and other receivables:

Loss due to depreciation of financial assets CZK)	31 December 2019	31 December 2018
Change in adjustment entry – to existing receivables	-10,600	-75,452
Trade receivables written-off	19,424	120,984
Loss due to depreciation of financial assets	8,824	45,532

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

in total exchange amount of 700,000 thousand CZK due on 2 January 2020. The yield to maturity was 0.50 % p.a. This financial operation optimized the Company's cash-flow positions in bank accounts in relation to the obligatory payments of banks to the resolution fund according to the applicable legislation valid since 31 December 2019. The structure of cash and cash equivalents is shown below:

7.8. Cash and cash equivalents

The Company acquired corporate bills of ČSOB Leasing as of 18 December 2019. These were 7 bills of exchange

Cash and cash equivalents(in thousands of CZK)	31 December 2019	31 December 2018
Cash on hand	1,513	1,613
Money in bank accounts	797,432	475,239
Short-term investments – bills	700,000	1,000,000
Total	1,498,945	1,476,852

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

7.9. Other assets

Other assets (in thousands of CZK)	31 December 2019	31 December 2018
Receivables from revaluation of commodity derivatives to fair value	19,169	0
Prepaid expenses	24,814	30,620
Other assets - total	43,983	30,620

The Company reassessed its reporting and as of 31 December 2019 and 2018, it reports the Incremental costs item for obtaining contract separately. As of 31 December 2018

Incremental cost for obtaining a contract reported under the Other assets.

7.10. Registered capital

Form of shares	2019		2018	
	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:

- Right to a share of the profit
- 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 a lawsuit 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.

7.11. 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 24 June 2019 the parent company PPH a.s., as the sole shareholder of the Company acting in the power of the General Meeting, approved the Company's financial statements for 2018 (compiled in line with Czech standards) and decided about the allocation of the profit earned in 2018 in the amount of 633,955 thousand CZK and to pay share in profit to the shareholder in the amount of 514,000 thousand CZK

By the date of issue of these financial statements, the Company did not propose distribution of the profit for 2019.

7.12. Cash flow secure fund

The cash flow securing fund represents accumulated gains and losses from effective cash flow hedging. The cumulative accrued gain or loss on securing derivatives is reclassified as profit or loss only if the secured transaction affects profit or loss, or it is included as a basis adjustment in the secured non-financial item in accordance with applicable accounting rules.

Gains and losses reclassified during the year from equity are included in the profit or loss on the line called Purchased gas and electricity, materials and services related to gas and electricity supplies.

(in thousands of CZK)	31 December 2019	31 December 2018
Balance as of the beginning of the year	0	0
Change in fair value of securing derivatives	-137,662	0
Reclassification as profit or loss due to:		
- partial collateral inefficiencies	0	0
- realization of the secured item	0	0
- the fact that the secured item is no longer highly probable	0	0
Total change in the cash flow secure found	-137,662	0
Related deferred income tax	26,156	0
Balance as of the end of year	-111,506	0

Reclassification as a complete result for the monitored period (in thousands of CZK)	2019	2018
Profit after tax	720,978	633,955
Fair value of non-matured securing derivatives	-83,912	0
Fair value of matured continuous securing derivatives	-53,750	0
Effective component of the fair value of securing derivatives	-137,662	0
Deferred tax receivable from securing derivatives (19%)	26,156	0
Total performance for the period	609,472	633,955

7.13. Lease liabilities

As of 31 December 2019 the Company reported lease liabilities as follows:

(in thousands of CZK)	0-3 months	3-6 months	6-12 months	1-3 years	3-5 years	5 years or more	Total
Long-term lease liabilities	0	0	0	15,213	6,957	10,910	33,080
Short-term lease liabilities	1,215	1,220	2,458	0	0	0	4,893
Total	1,215	1,220	2,458	15,213	6,957	10,910	37,973

Interest expenses from lease liabilities included in the 2019 financial expenses are reported in Chapter 7.27.

Short-term lease expenses included in Other operating expenses and leasing of low-value assets which are not reclassified as lease liabilities are reported in Chapter 7.26.

7.14. Trade payables, advances, principals received – short term

Trade payables, advances, principals received – current (in thousands of CZK)	31 December 2019	31 December 2018
Trade liabilities payable to third parties	1,242,272	1,179,304
Trade liabilities payable to subsidiaries	46,129	55,691
Trade liabilities payable to other related parties	186	148
Operating advances and principals received (non-financial liabilities)	1,643,517	1,496,101
Trade payables, advances received and principals - total	2,932,104	2,731,244

Total trade payables and advances received – short-term (based on maturity) (in thousands of CZK)	Trade payables	Short-term advances received and principals	Contingent liability accounts (Estimated payables)	Total
Balance as of 31/ 12/ 2018	88,840	1,496,101	1,146,303	2,731,244
– of which: due in less than 6 months	88,786	1,496,101	1,146,303	2,731,190
– of which: due from 6 months to 1 year	54	0	0	54
Balance as of 31/ 12/ 2019	87,823	1,643,517	1,200,764	2,932,104
– of which: due in less than 6 months	87,769	1,643,517	1,200,764	2,932,050
– of which: due from 6 months to 1 year	54	0	0	54
Total as of 31/ 12/ 2018	88,840	1,496,101	1,146,303	2,731,244
Total as of 31/ 12/ 2019	87,823	1,643,517	1,200,764	2,932,104

Receivables from related parties are defined in detail in Chapter 7.31.

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

As of 31 December 2019 funds from the parent company PPH a.s. were drawn in the amount of 59,926 thousand CZK (as of 31 December, 2018: 51,493 thousand CZK) and funds drawn from subsidiaries represented 784, 958 thousand CZK (as of 31 December, 2018: 850,027 thousand CZK, which represent liabilities from cashpooling. Funds provided by subsidiaries and the parent company PPH a.s. under cashpooling carried an interest rate of:

in 01-04/2019: O/N PRIBOR + 0,05 % p.a., in 05/2019: fixed rate 0,75 % p.a., in 06-07/2019: fixed rate 1,30 % p.a., in 08-12/2019: O/N PRIBOR – 0,60 % p.a. In 2018 they carried an interest rate O/N PRIBOR + 0,05 % p.a. Funds drawn by subsidiaries under cashpooling in 2019 carried a debit interest rate as follows: in 01/05/2019: O/N PRIBOR + 0,50 % p.a., in 06-12/2019: O/N PRIBOR + 0,25 % p.a. In 2018 they carried a debit interest rate O/N PRIBOR + 0,50 % p.a.

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

Liabilities towards employees also include liabilities related to wages and unpaid future liabilities payable to the members of the statutory bodies of the Company according to contract describing performance of executive functions (Chapter 4.18.4) in the amount of 30,462 thousand CZK (2018: 30,964 thousand CZK).

7.14.1. Financial derivatives for trading

The fair value of financial derivatives is reported in net value for each type of derivative separately under Other

- if positive for the Company, and under Other liabilities - if negative:

assets

(in thousands of CZK)	31 December 2019			31 December 2018		
	Fair value - positive	Fair value - negative	Nominal value	Fair value - positive	Fair value - negative	Nominal value
Currency forwards	0	9,208	437,252	13,154	34,261	7,276,938
Commodity futures	19,169	0	67,383	0	3,892	99,488

The Company trades natural gas, which is supplied as physical commodity and electricity on the EEX exchange, which follows a financial settlement.

trade derivatives amount to 36,476 thousand CZK, see Chapter 7.27 and 7.28.

Losses from the settlement of trade derivatives reported in the statement showing the comprehensive profit / loss performance, amount to 80,871 thousand CZK for 2019, of which the costs arising from the settlement of trade derivatives amount to 117,347 thousand CZK and revenues arising from settlement

In 2018, losses from the settlement of trade derivatives reported in the comprehensive profit / loss statement were CZK 9,300 thousand CZK of which the costs arising from the settlement of trade derivatives amount to 149,490 thousand CZK and revenues arising from the settlement of trade derivatives amount to 158,790 thousand CZK, see Chapter 7.27 and 7.28.

7.15. Unbilled supplies and advances received

as of 31 December 2019 (in thousands of CZK)	Cat. DOM	Cat. MO	Cat. VO/SO	Other	Total
Unbilled deliveries	1,699,691	1,062,792	617,596	691,664	4,071,743
Advances received	-1,906,092	-1,447,421	-363,918	-499,927	-4,217,358
Clearing of Accounts	1,554,233	548,787	282,249	205,413	2,590,682
Unbilled deliveries – after netting	145,458	514,005	335,347	486,251	1,481,061
Advances received – after netting	-351,859	-898,634	-81,669	-294,514	-1,626,676

as of 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
Advances 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 netting	171,528	459,384	499,671	265,014	1,395,597
Advances received – after netting	-381,374	-815,873	-119,243	-163,939	-1,480,429

7.16. Bank loans and bonds

Short-term funding structure as at 31 December 2019:

(in thousands of 0CZK)	Limit	from	to	interest rate
Overdraft credit lines in CZK	600,000	21/ 05/ 2019	21/ 05/ 2023	floating
Guarantee line	700,000	21/ 05/ 2019	21/ 05/ 2023	fixed
Exchange programme	1,400,000	22/ 05/ 2019	22/ 05/ 2023	floating
Overdraft credit lines in EUR	508,200	21/ 05/ 2019	21/ 05/ 2023	floating
PPAS Bond 0.90/2020 ISIN CZ0003516809	400,000	15/ 06/ 2017	15/ 06/ 2020	fixed
Total	3,608,200			

In 2019, no overdraft lines were drawn. As of 31 December 2019, only funds from subsidiaries and the parent company PPH a.s. were drawn in the amount of 844,884 thousand CZK, which represent liabilities from cash pooling. Average

credit interest rate between the Company, subsidiaries and the parent company in 2019 was 1.47% p.a., the average debit interest rate between the Company, subsidiaries and the parent company in 2019 was 2.30% p.a.

Short-term funding structure as of 31 December 2018:

(in thousands of CZK)	Limit	from	to	interest rate
Overdraft credit lines	900,000	24/ 05/ 2016	24/ 05/ 2019	floating
Guarantee line	700,000	24/ 05/ 2016	24/ 05/ 2019	fixed
Exchange programme	3,000,000	07/ 06/ 2017	24/ 05/ 2019	floating
Total	4,600,000			

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

average debit interest rate between the Company, subsidiary companies, and the parent company for 2018 was 1.54 % p.a.

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.

Short-term funding structure as of 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

The book value of the bonds has the following structure:

(in thousands of CZK)	Book value	
	as of 31 December, 2019	as of 31 December, 2018
PPAS Bond 0.90/2020 ISIN CZ0003516809	401,477	400,526

The details on the bank loans and bonds issued are given in Chapter 4.12 and 4.13

In connection with the conditions under the loan agreements and bond issuance conditions concluded in 2016, 2017 and 2019, financial indicators are monitored at the consolidated PP, a.s. Group level. In case of their non-fulfilment, the banks

may request premature repayment. These indicators were fulfilled as of 31 December 2019 and 31 December 2018.

The book value of 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 2018	Cash flows	Non-cash flows – Revaluation of liabilities using the effective interest rate method	31 December 2019
PP Bonds	400,526	-3,600	4,551	401,477
Loan from subsidiaries and the parent company – cash pooling (see item 7.17)	901,520	-69,090	12,454	844,884
Total	1,302,046	-72,690	17,005	1,246,361

(in thousands of CZK)	31 December 2017	Cash flows	Non-cash flows – Revaluation of liabilities using the effective interest rate method	31 December 2018
PP Bonds	399,574	-3,600	4,552	400,526
Loan from subsidiaries and the parent company – cashpooling (see item 7.17)	1,057,028	-166,502	10,994	901,520
Total	1,456,602	-170,102	15,546	1,302,046

7.17. Other liabilities

Other liabilities (in thousands of CZK)	31 December 2019	31 December 2018
Loans from related companies (cashpooling)	844,884	901,520
Liabilities from revaluation of trade derivatives at fair value	9,208	24,999
Liabilities from revaluation of securing derivatives to fair value	83,912	0
Other financial liabilities	1,735	1,735
Total financial liabilities	939,739	928,254
Payables towards employees	82,144	91,980
Liabilities towards social insurance institutions	7,365	7,168
Other liabilities – non-financial	5,953	1,903
Non-financial liabilities - total	95,462	101,051
Other liabilities - total	1,035,201	1,029,305

7.18. Deferred tax receivables and liabilities

Compensation of deferred tax assets and liabilities was as follows:

(in thousands of CZK)	31 December 2019	31 December 2018
Deferred tax asset to be recovered after more than 12 months	42,851	83
Deferred tax asset to be recovered within 12 months	48,424	26,308
Deferred tax liability payable after more than 12 months	-67,386	-51,501
Deferred tax liability payable within 12 months	-11,368	0
Net deferred tax payable (-) / tax receivable (+)	12,521	-25,110

Deferred tax was calculated at 19 % (the rate for 2018 and subsequent years).

Deferred tax liability (+) and deferred tax receivable (-) (in thousands of CZK)	31 December 2019	31 December 2018
Item		
Tax liability deferred due to different book values of fixed assets	-50,119	-48,097
Tax non-deductible part of allowances for receivables	9,275	8,724
Other provisions and temporary differences	39,385	2,405
Obligations towards employees and board members	12,994	11,858
Incremental costs of obtaining a contract	-25,232	0
Deferred tax receivable from lease liabilities	62	0
Deferred tax receivable due to changes in fair value of securing derivative	26,156	0
Total	12,521	-25,110

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 towards employees and board members	Provisions and securing derivatives	Total
31 December 2018	-48,097	8,724	11,858	2,405	-25,110
profit (+) / loss (-)	-2,022	551	1,136	11,810	11,475
Other total performance	0	0	0	26,156	26,156
31 December 2019	-50,119	9,275	12,994	40,371	12,521

7.19. Other tax liabilities

Book value (in thousands of CZK)	Other tax liabilities
Balance as of 31/ 12/ 2019	-102,749
Balance as of 31/ 12/ 2018	-85,480

Other tax liabilities in 2019 consist of personal income tax in the amount of 2,720 thousand CZK (2018: 2,832 thousand CZK), VAT in the amount of

93,541 thousand CZK (2018: 76,900 thousand CZK) and other taxes and charges in the amount of 6,488 thousands of CZK (2018: 5,750 thousand CZK).

7.20. Provisions

Provisions (in thousands of CZK)	Long-term/Short-term
Book value	
Balance as of 1/ 1/ 2018	66,259
Creation of provisions	225,844
Reversals of provisions	-2,772
Use of provisions	-45,304
Balance as of 31/ 12/ 2018	244,027
Creation of provisions	96,149
Reversals of provisions	-2,883
Use of provisions	-209,824
Balance as of 31/ 12/ 2019	127,469
Net book value 2018	244,027
Net book value 2019	127,469

Long-term provisions as of 31 December 2019 include in particular provisions for potential tax liabilities due to VAT.

Short-term provisions as of 31 December 2018 include in particular provisions for potential tax liabilities due to VAT.

7.21. Revenues from sales

Sales (in thousands of CZK)	2019	2018
Sale of natural gas	8,266,922	7,681,963
Sale of gas distribution	2,603,066	2,468,319
Sales of CNG	50,194	44,470
Sale of flexibility	3,675	1,773
Sale of electricity	1,623,972	610,942
Sale of electricity distribution	1,408,940	727,688
Other services	312,361	311,400
- of which, revenues from catering	16,386	16,541
- of which: revenues from other services (mainly SLA services)	295,975	294,859
Sale of goods and products (services)	866	976
Revenues from contracts with customers	14,269,996	11,847,531
Revenues from property leases	49,424	47,322
Total	14,319,420	11,894,853

7.22. 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)	2019	2018
Costs of gas purchases	7,175,684	6,568,236
- of which: gas reservoir costs	178,552	169,470
Gas distribution fee	2,598,529	2,452,336
Costs of electricity purchases	1,617,576	604,334
Electricity distribution fee	1,390,415	713,732
Purchasing expenses - total	12,782,204	10,338,638
Derivative transactions expense - secured	32,331	0
Total	12,814,535	10,338,638

7.23. Other operating income

Other operating income (in thousands of CZK)	2019	2018
Profit from sales of fixed assets	2,569	2,277
Income from write-off of receivables	1,510	2,340
Income from write-off of lapsed liabilities	6,572	6,676
Court fee compensations	5,764	6,660
Benefits from insurance (indemnity)	463	683
Shares of the profit	336,783	345,942
Other	17,625	1,870
Total	371,286	366,448

7.24. Personnel costs

Personnel costs (in thousands of CZK)	2019	2018
Employees	270,072	267,364
Members of statutory bodies	60,419	81,555
Future benefits to members of statutory bodies provided under contract defining their executive performance (Chapter 4.18.4)	351	4,209
Total	330,842	353,128

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

During 2019 and 2018 no loans or credit lines were provided to members of the Board of Directors, members of the Supervisory Board or to other management members. Company cars, computer and telecommunication equipment are available for use by the board members and other management.

In 2019, the personnel costs of members of statutory bodies include also dividends paid to members of statutory bodies in the amount of 21,100 thousand CZK (2018: 39,000 thousand CZK) and paid benefits according to executive contracts (see Chapter 4.18.4) in the amount of 1,358 thousand CZK (2018: 3,488 thousand CZK).

Contributions to the State pension scheme (on the basis of defined contributions) in 2019 amounted to 44,943 thousand CZK (2018: 45,696 thousand CZK).

7.25. Depreciation of fixed assets

Depreciation of fixed assets (in thousands of CZK)	2019	2018
Depreciation of buildings and other structures	17,319	17,460
Depreciation of real estate investments	5,782	5,693
Depreciation of movables and sets of movables	11,985	13,874
Depreciation of vehicles	6,557	7,396
Depreciation of IT equipment and other hardware	13,153	14,856
Depreciation of tangible fixed assets	345	545
Depreciation of intangible assets	23,420	29,353
Depreciation of assets originating from the right of use	5,134	0
Net book value of discarded land	304	0
Total	83,999	89,177

7.26. Other operating costs

Other operating cost (in thousands of CZK)	2019	2018
Consumption of materials and energy	22,646	23,772
Costs of goods	700	782
Services	418,941	444,654
- of which: repair and maintenance costs for other assets	1,102	861
- of which: claims collection costs	16,806	19,483
- of which: promotion, advertising and marketing costs	79,524	98,988
- of which: lease payments (2019: short-term lease and low-value assets)	1,076	7,987
- of which: IT systems management and maintenance costs	133,115	128,722
- of which: business representatives' commissions	43,352	29,539
- of which: consulting costs	19,668	28,249
- of which: building operational costs	40,923	39,852
- of which: catering costs	11,406	10,976
- of which: costs of other services	71,969	79,997
Taxes and fees	3,063	11,466
Other (particularly changes in provisions)	103,777	189,316
Total	549,128	669,990

Information on fees paid to auditing company is disclosed in the Annex to the consolidated financial statements of Pražská plynárenská Holding, a.s., as of 31 December 2019.

7.27. Financial costs

Financial costs (in thousands of CZK)	2019	2018
Interest expense	16,813	15,310
Lease liabilities - interest paid	714	0
Cost paid to settle trade derivatives	117,347	149,490
Bank charges	6,541	7,077
Other financial costs (mainly exchange losses)	27,462	27,155
Total	168,877	199,032

7.28. Financial revenues

Financial revenues (in thousands of CZK)	2019	2018
Interest income	23,603	14,245
Income from contractual fines and default interest	5,101	23,999
Revenues paid to settle trade derivatives	36,476	158,791
Other financial revenues (mainly exchange gains)	33,175	32,737
Total	98,355	229,772

7.29. Income tax

Income tax expense recognized in the comprehensive statement includes:

(in thousands of CZK)	2019	2018
Income tax – current	111,431	118,378
Income tax – previous years adjustment	-11,028	-142
Income tax – deferred	11,475	43,385
Income tax - paid	111,878	161,621

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)	2019	2018
Profit before tax	832,856	795,576
Income tax at the statutory rate of 19 %	158,243	151,159
Non-taxable income	-64,125	-70,318
Tax non-deductible expenses	29,662	61,637
Gifts	-485	-1,022
Other	-11,417	20,165
Income tax - paid	111,878	161,621

7.30. Dividends paid

On 22 July 2019 a dividend in the amount of 514 000 thousand CZK (CZK 357 per share) was paid, and in 2018: 520,000 thousand CZK (CZK 361 per share).

7.31. 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

Revenues (in thousands of CZK)	2019	2018
Revenues from sale and distribution of gas and electricity	192,447	161,071
Revenues from sale of services	337,559	333,041
Revenues from the sale of fixed assets	2,027	1,662
Revenues from the sale of goods and material	184	179
Shares of the profit	336,783	345,942
Other revenue	6,125	4,065
Total revenues	875,125	845,960
Costs (in thousands of CZK)	2019	2018
Consumption of material	17,919	16,138
Gas distribution fee	1,467,415	1,494,540
Purchase of other services	232,943	238,710
Other costs	11,919	10,014
Total costs	1,730,196	1,759,402

Controlling entity

Revenues (in thousands of CZK)	2019	2018
Revenues from sale of services	877	894
Total revenues	877	894
Costs (in thousands of CZK)	2019	2018
Other costs	828	1,006
Total costs	828	1,006

Other related parties

Revenues (in thousands of CZK)	2019	2018
Revenues from sale of services	118	203
Total revenues	118	203
Costs (in thousands of CZK)	2019	2018
Purchase of other services	9,756	11,770
Total costs	9,756	11,770

During 2019 and 2018 no transactions with the main parent company were executed.

The Group reported the following balances with related parties:

Subsidiary companies

Receivables and liabilities (in thousands of CZK)	31 December 2019	31 December 2018
Trade receivables	333,016	330,783
Short-term advances paid*	829,477	842,650
Estimated receivables	25,852	22,289
Other accounts receivable	10,497	15,634
Total receivables	1,198,842	1,211,356
Trade payables	47,850	52,667
Short-term advances received*	23,753	11,739
Long-term advances received*	0	0
Estimated payables	1,222	3,024
Financial resources from subsidiaries	784,958	850,027
Other liabilities	955	1,299
Total accounts payable	858,738	918,756

*balances presented with VAT.

Controlling entity

Receivables and liabilities (in thousands of CZK)	31 December 2019	31 December 2018
Trade receivables	0	21
Total receivables	0	21
Trade payables	2	0
Financial resources from PPH a.s.	59,926	51,493
Other liabilities	75	80
Total accounts payable	60,003	51,573

Other related parties

Receivables and liabilities (in thousands of CZK)	31 December 2019	31 December 2018
Trade receivables	462	482
Short-term advances paid*	299	222
Total receivables	761	704
Trade payables	184	148
Long-term advances received*	0	10
Total accounts payable	184	158

*balances presented with VAT.

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

Dividends paid to shareholders in 2019 and 2018 are disclosed in Chapter 7.30.

Transactions with key management are disclosed in Chapter 7.24 and 7.14

Other related parties represent companies and affiliates controlled by the ultimate parent company.

7.32. Regulatory framework

As at 1 January 2007, the Company in line with the requirements of the European Directives on the liberalization 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 the 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 liberalized, and all customers thus have the option to choose their own supplier.

The Company is engaged in the purchase and sale of gas and electricity (commodities) including related operations.

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

7.33. Contractual and other future commitments

The expenditure for the acquisition of tangible and intangible assets contracted as of 31 December 2019, which has not yet been incurred, amounts to 54,339 thousand CZK (2018: 80,284 thousand CZK).

Subsidiaries (in thousands of CZK)	2019	2018
Up to 1 year	1,915	530
1-3 years	0	1,886
Total	1,915	2,416
Other companies (in thousands of CZK)	2019	2018
Up to 1 year	52,424	1,394
1-3 years	0	76,474
Total	52,424	77,868

Summary of future minimum lease payments under non-cancellable operating leases, mainly due to the lease of capacity in the gas storage facility, which

were not reclassified as lease payables (excluding valid VAT) as of 31 December 2019, amounted to 443,304 thousand CZK (as of 31 December, 2018: 605,882 thousand CZK).

(in thousands of CZK)	2019	2018
Up to 1 year	114,473	169,209
1-3 years	179,635	203,082
3-5 years	132,940	153,826
Above 5 years	16,256	79,765
Total	443,304	605,882

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 of 31 December 2019 apart those mentioned in Chapter 7.20.

8.2. Events after date of the financial statements

At the meeting of the Board of Directors of PPH a.s. on 6 February 2020, Mr Matěj Turek, CFA, has resigned from the Supervisory Board (on the same day). Starting on 7 February 2020, the vacant position was taken over by Ing. Jiří Pelák, Ph.D.

As of 31 December 2019 no events that would have a significant impact on the financial statements occurred.

8.3. Approval of the financial statements

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

In Prague, 17 March 2020

In Prague, 17 March 2020

Ing. Pavel Janeček

Chairman of the Board of the Directors
of Pražská plynárenská, a.s.

Ing. Milan Cízl

Member of the Board of the Directors of
Pražská plynárenská, a.s.

Consolidated Financial Statements

Consolidated statement of financial position as at 31 December 2019,

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

(in thousands of CZK)	Note:	31/12/2019	31/12/2018
ASSETS			
Fixed assets			
Land, buildings, and equipment	5.1	7,473,302	7,047,961
Intangible assets	5.2	141,199	87,173
Assets originating from the right of use	5.3	49,444	0
Incremental costs of obtaining a contract		72,965	57,346
Other fixed assets		4,018	1,487
Total fixed assets		7,740,928	7,193,967
Short-term assets			
Inventories	5.4	878,894	922,382
Trade and other receivables	5.5	2,032,411	1,919,412
Cash and cash equivalents	5.6	1,502,284	1,478,480
Other assets	5.7	45,696	82,260
Incremental costs of obtaining a contract		59,833	76,427
Paid income tax advance		19,933	130,051
Total short-term assets		4,539,051	4,609,012
TOTAL ASSETS		12,279,979	11,802,979

(in thousands of CZK)	Note:	31/12/2019	31/12/2018
EQUITY AND LIABILITIES			
Equity			
Registered capital	5.8	431,972	431,972
Profit funds	5.9	238,960	238,960
Revaluation of securing derivatives	5.10	-111,506	0
Retained earnings		4,234,649	3,847,041
Equity		4,794,075	4,517,973
Non-controlled shares		460	0
Total equity		4,794,535	4,517,973
Long-term liabilities			
Trade liabilities and other long-term liabilities	5.12	6,216	8,625
Bonds	5.15	2,669,355	3,061,321
Lease liabilities	5.11	44,688	0
Deferred tax liability	5.17	535,747	494,492
Provisions	5.19	144,872	0
Total long-term liabilities		3,400,878	3,564,438
Short-term liabilities			
Trade payables, advances, principals received – short term	5.13	3,200,257	3,049,907
Bonds	5.15	401,477	0
Lease liabilities	5.11	5,336	0
Other liabilities	5.16	362,282	285,884
Other tax liabilities	5.18	113,864	96,954
Provisions	5.19	1,350	287,823
Total short-term liabilities		4,084,566	3,720,568
TOTAL EQUITY AND LIABILITIES		12,279,979	11,802,979

Consolidated statement of comprehensive income for the year ended 31 December 2019

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

(in thousands of CZK)	Note:	2019	2018
Revenues from sales	5.20	14,902,283	12,446,364
Purchased gas, electricity, materials, and services connected with gas and electricity supplies	5.21	11,559,107	9,002,975
Other operating income	5.22	49,594	37,983
Personnel costs	5.23	771,911	758,009
Depreciation of fixed assets	5.24	390,807	384,142
Loss due to depreciation of financial assets	5.5	9,725	49,746
Other operating costs	5.25	921,134	1,018,998
Operating profit/loss		1,299,193	1,270,477
Financial costs	5.26	188,559	218,885
Financial revenues	5.27	98,308	227,700
Financial profit/loss		-90,251	8,815
Profit before tax		1,208,942	1,279,292
Income tax	5.28	307,431	331,464
Profit after tax		901,511	947,828
Other total performance			
Items that may be reclassified and reported as profit or loss:			
Settlement of securing derivatives (change in fair value)	5.10	-137,662	
Deferred tax on securing derivatives	5.17	26,156	
Other comprehensive income		-111,506	
Total performance for the period		790,005	947,828
Profit after tax belonging to:			
Parent company owners		901,608	
Non-controlled shares		-97	
Comprehensive result belonging to			
Parent company owners		790,102	
Non-controlled shares		-97	

Consolidated statement of changes in equity for the year ended 31 December 2019

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

(in thousands of CZK)	Registered capital	Profit funds	Revaluation of securing derivatives	Retained earnings	Non-controlled shares	Total
Note	5.8	5.9	5.10			
Balance as of 1 January 2018	431,972	238,960	0	3,419,213	0	4,090,145
Profit/loss after tax for the period	0	0	0	947,828		947,828
Total comprehensive income	0	0	0	947,828		947,828

Transactions with owners of the Company:

Dividends paid	0	0	0	-520,000		-520,000
Balance as of 31 December 2018	431,972	238,960	0	3,847,041	0	4,517,973
Profit/loss after tax for the period	0	0	0	901,608	-97	901,511
Other comprehensive income	0	0	-111,506	0		-111,506
Total comprehensive income	0	0	-111,506	901,608	-97	790,005
Non-controlled share in the acquisition of subsidiary					557	557

Transactions with owners of the Company:

Dividends paid	0	0	0	-514,000		-514,000
Balance as of 31 December 2019	431,972	238,960	-111,506	4,234,649	460	4,794,535

Consolidated statement of cash flows for the year ended 31 December 2019

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

(in thousands of CZK)	Note:	2019	2018
Profit before tax		1,208,942	1,279,292
Adjustments to profit before tax		262,175	514,016
Depreciation of fixed assets	5.24	390,807	384,142
Write-offs of receivables		20,067	119,378
Change in the position of adjustments and reserves		-151,849	39,221
Profit from sales of fixed assets		-2,761	-3,188
Net interest		17,810	22,991
Other non-cash movements (revaluation of derivatives)		-11,899	-48,528
Net cash flows from operations before tax and changes in working capital		1,471,117	1,793,308
Change in working capital needs		21,234	80,210
Changes in the position of receivables from operations		-137,082	-270,976
Change in liabilities from operations		114,798	449,260
Movement in inventories (gross)		43,518	-98,074
Net cash flow from operations before tax		1,492,351	1,873,518
Interest paid		-25,445	-24,770
Interest received	5.27	17,570	12,283
Income tax on current activities and additional tax paid minus tax refunds		-130,114	-421,349
Net cash flow from operations		1,354,362	1,439,682
Acquisition cost of fixed assets		-874,848	-794,295
Revenues from sales of fixed assets		7,489	4,182
Credit and loans to associates		89	0
Net cash flow from investments		-867,270	-790,113
Revenue from long-term liabilities		42,588	12,162
Payment of long-term liabilities		-309	-4,371
Change in the position of the loan from the parent company PPH a.s.*		8,433	12,909
Dividends paid		-514,000	-520,000
Net cash flows from financing activities		-463,288	-499,300
Balance of cash and cash equivalents at beginning of accounting period		1,478,480	1,328,211
Net change in cash and cash equivalents for the accounting period		23,804	150,269
Balance of cash and cash equivalents at end of accounting period		1,502,284	1,478,480

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

Notes to 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 Prague 1 – Nové Město, Národní 37, Post Code 110 00, Czech Republic.

Company's ID number is 601 93 492.

LEI of the Company is 315700QBYOTLGRMOO11.

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.

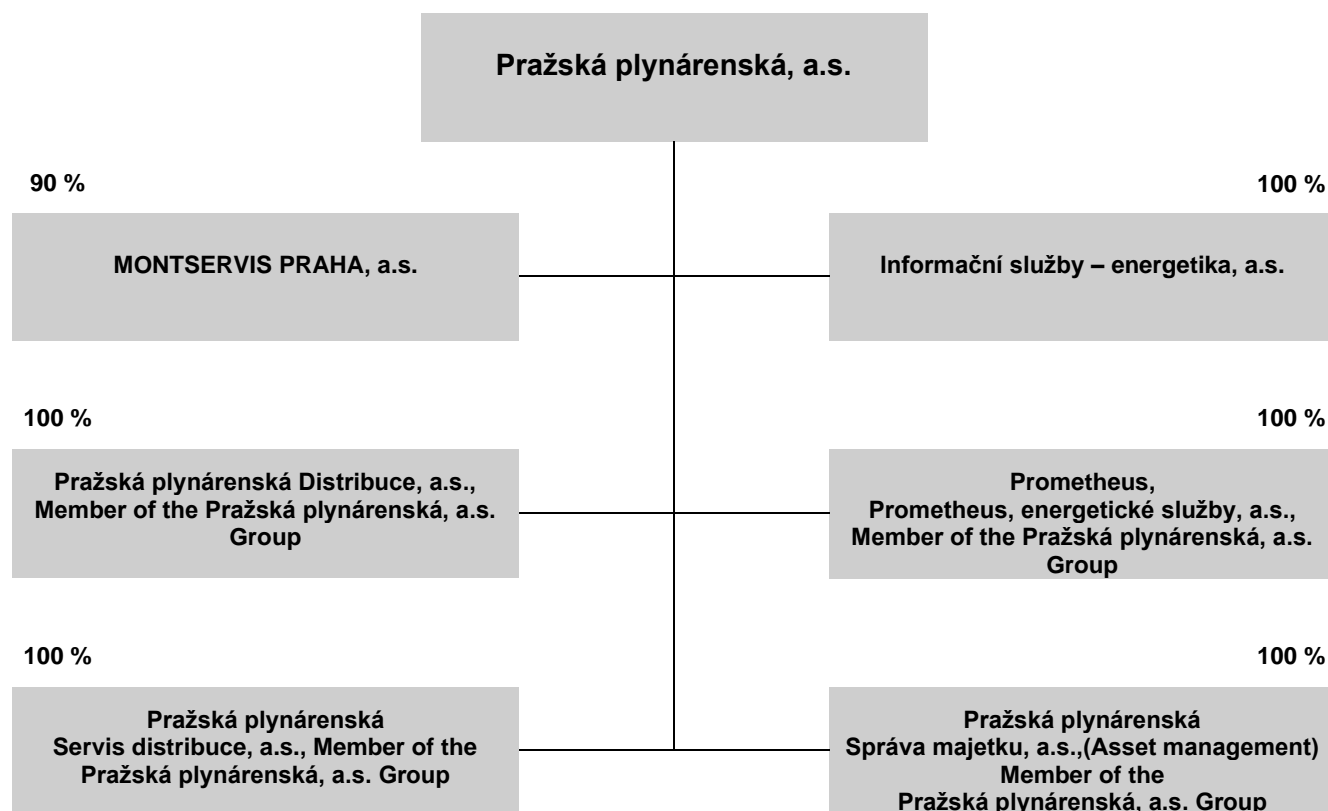
The Group's core business activity is the sale/distribution of natural gas and the sale of electricity.

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;
- Rendering services relating to management and maintenance of movable and immovable property;
- Generation and distribution of energy;
- Administration and management of energy facilities and management of swimming pools and facilities.

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

Organizational structure of the Group as of 31 December 2019:



1.2. Structure of the Company's Board of Directors as of 31 December 2019

Structure of the Board of Directors:

Ing. Pavel Janeček, Chairman of the Board of Directors
Ing. Milan Jadlovský, Vice-Chairman of the Board
Directors

Ing. Milan Cízl, Member of the Board of Directors
Ing. Vladimír Vavřích, MBA, Member of the Board of
Directors

Structure of the Supervisory Board:

Mgr. Reda Ifrah, Chairman of the Supervisory Board,
Ivo Kramoliš, Vice-Chairman of the Supervisory Board
Mgr. Václav Kučera, Member of the Supervisory Board,
Mgr. Jindřich Lechovský, Member of the Supervisory
Board,
Matěj Turek, CFA, Member of the Supervisory Board,
Mgr. Miroslav Vránek, Member of the Supervisory
Board

Petr Klepáček, Member of the Supervisory Board,
Ing. Lukáš Wagenknecht, Member of the Supervisory
Board,
Ing. Petra Zemanová, Member of the Supervisory
Board

Structure 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

1.3. Major shareholders of the Company

The sole shareholder controlling the Company as of 31 December 2019 and 31 December 2018, is Pražská plynárenská Holding a.s. ("PPH a.s." or the "controlling company"), is controlled by the Capital City of Prague which is the main parent company.

1.4. Adoption of new or revised accounting standards and interpretations

IFRS 16, Leases. The Company has decided to apply the standard which became valid on the mandatory date of adoption on 1 January 2019 and to use a modified retrospective method, without reworking comparative information and to use certain simplifications permitted by the Standard. Property use rights are valued at the transition, in the same way as if new rules are always applied. All other assets with the right of use are valued at the amount of the lease liability.

When applying IFRS 16 for the first time, the Company used the following practical tools permitted by the Standard:

- the application of a single discount rate to a portfolio of leases with reasonably similar characteristics,
- accounting for operating leases with a remaining lease term of less than 12 months as of 1 January 2019 as a short-term lease,
- exclusion of the initial direct cost for valuation of the asset from use at the date of first use,
- the use of retrospect when determining the lease term, providing that the contract includes an option to extend or terminate the lease.

IFRS 16 introduced a single balance sheet accounting model for leases for tenants. The tenant accounts assets under the right to use, which represent the right of the tenant to use the underlying asset, and accounts for the lease liability which represents the obligation to pay lease payments. The lessor's accounting system has remained similar to the current Standard - i.e. the lessor continues to classify leases as either financial or operative.

The Group has also decided to reconsider whether the contracts contain leases at the date of first application. The Company applies an exemption from recognition for leases that define a lease for 12 months or less as of the effective date of the lease and do not include the option to purchase the underlying asset as well as lease contracts where the underlying asset has a low value. These short-term lease payments are reported as Other operating cost.

The weighted average incremental interest rate applied by the Group to leasing liabilities as of 1 January 2019 and on, was 1.78-2.5 %.

The comparison of operating lease liabilities reported as of 31 December 2018 to the newly adopted lease liability as of 1 January 2019 is as follows:

(in thousands of CZK)

Total of future aggregate minimum lease payments under non-cancellable operative lease contracts (without valid VAT) as of 31 December 2018	631,605
Leases with low value which are not reported as liabilities	-2,635
Future lease payments which were not reclassified as leasing*	-621,973
Completed lease contracts	-1,053
Future lease payments that result from different recognition of lease contracts beyond the irrevocable/non-cancellable period	55,955
Impact of discounts on the current value	-6,647
Total lease liabilities from the right of use reported as of 1 January 2019	55,252
Of which:	
Long-term lease liabilities	50,024
Short-term lease liabilities	5,228

* This item mainly represents future lease payments for secured capacity of gas storage.

The Company reported assets under the right of use and lease liabilities for those lease contracts that were previously classified as operative leases. Assets under the right of use were reported based on the amount which is equal to the lease liabilities, adjusted using any previously reported prepaid

and accrued lease payments, and lease liabilities were reported based on the present value of future lease payments, discounted using the incremental borrowing rate as of the date of first use.

Assets

Fixed assets	IAS 17 residual balance as of 31 December, 2018	Impact of adoption of the IFRS 16	IAS 16 – residual value as of 1 Jan 2019
Assets originating from the right of use	0	55,252	55,252
Total fixed assets	7,193,967	55,252	7,249,219
Total assets	11,802,979	55,252	11,858,231

Equity and liabilities

Equity	IAS 17 – residual value as of 31 December, 2018	Impact of adoption of the IFRS 16	IAS 16 – residual value as of 1 Jan 2019
Lease liabilities	0	50,024	50,024
Total long-term liabilities	3,564,438	50,024	3,614,462
Lease liabilities	0	5,228	5,228
Total short-term liabilities	3,720,568	5,228	3,725,796
Total equity and liabilities	11,802,979	55,252	7,340,258

The other adopted IFRS amendments and interpretations do not have a significant impact on the Group financial statements. Newly issued standards, amendments to standards and their interpretations

approved by EU A which are still not legally enforceable and were not applied by the Group in advance do not have a significant impact on the Group financial statements.

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

2.1. Declaration of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations as adopted by the European Union applicable in 2019.

2.2. 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.

2.3. 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).

2.4. 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 which are controlled by the Company.

In assessing whether the Company controls the entity in which it has invested, it is decisive whether the Company is exposed to variable income from that entity

or whether it is entitled to them by virtue of its involvement and may influence those revenues through its power.

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.

Non-controlled interests in subsidiaries exist only in MONTSERVIS PRAHA, a.s., as it is 90% owned by the Company.

2.5. Intangible assets

2.5.1. Valuation of intangible assets

Separately acquired intangible assets are reported at acquisition cost minus accumulated amortisation and value depreciation losses.

Goodwill arising at the acquisition of subsidiaries and interests in affiliates and joint ventures represents the amount by which the acquisition cost exceeds the fair value of the net acquired assets.

Goodwill is not depreciated, but it is tested for devaluation at least once a year, or at any time when there are indications which might reduce the value.

2.5.2. Amortisation

Intangible assets are amortized 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
Assessable rights	4

The estimated useful life and amortization method are reviewed at the end of each reporting period,

whereas the effect of any changes in estimates are applied prospectively.

2.6. Land, buildings, and equipment

2.6.1. Recognition and valuation

Lands, buildings and equipment are reported at acquisition cost, less accumulated adjustments (except land) and losses due to value depreciations.

The cost of property, buildings, and equipment includes all costs related to their acquisition, less any relevant 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, plant and equipment are recognized in the consolidated statement of comprehensive income in the period in which they occurred.

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

2.6.2. Depreciation

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

The estimated service life of individual asset categories is always reviewed at the end of the accounting period. The estimated useful lives used in these consolidated financial statements are shown in the following table:

Tangible asset category	Service life (number of years)
Depreciation of buildings and other constructions	25-50
Movables and sets of movables	2-14
Gas facilities and other tangible assets	15-30

The following expected service lives were applied to the tangible movable assets and their sets:

Movables and sets of movables	Service life (number of years)
Vehicles (means of transport)	4-10
Computer equipment	2-4
Gas meters, reducers and regulators	10
Machine equipment for regulating station technology	10
Other movables	2-14

Land owned by the Group is not depreciated.

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

2.6.3. Disposals

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

2.7. Goodwill

Goodwill is initially measured by the amount of the difference between the paid value plus any non-controlled interests and the net amount of identifiable assets acquired and liabilities assumed.

After initial recognition, goodwill is reported at the acquisition cost less accumulated losses in value. The reported goodwill is tested for possible impairment - loss in value. This test is performed at least once a year or more frequently if there are indicators of possible devaluation of goodwill.

At the acquisition date, goodwill is allocated to those cash-generating units where it is expected that these units will benefit from the synergies arising from the acquisition. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows largely independent of the cash inflows from other assets. Impairment of goodwill is established by determining the recoverable amount of the cash-generating units to which the goodwill has been allocated. If the recoverable amount of the cash-generating unit is less than its book value, the loss in value is reported.

The impairment test determines the recoverable amount of a cash-generating unit, which is calculated as value representing the actual use. Value representing the use is the current value of future cash flows expected to be generated by the cash-generating unit.

2.8. Assets originating from the right of use

The Group leases various assets, especially non-residential premises. Contracts may contain both lease and non-lease components. The Group assigns equivalent value to lease and non-lease components based on their relative separate prices, if any.

Leased assets resulting from lease contracts are initially measured based on the present values of lease liabilities and include:

- any lease payments made on or before the commencement date, minus any lease incentives received,
- all initial direct costs and
- the cost of returning the asset under the terms required by the lease contracts.

Assets with the right to use are generally depreciated on the straight-line basis over the term of the lease. If the Group is reasonably certain that it will exercise the option to purchase; the asset with the right to use is depreciated over the life of the underlying assets. Depreciation on items of assets with the right to use is calculated using the straight-line basis against their estimated use.

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

2.10. Inventories

Inventories are reported at the acquisition cost or with the 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.

2.11. 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.

2.11.1. 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 the intention to hold 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 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 adjustment entry for Expected Credit Losses (ECL) for all the financial assets at incurred cost.

The Group uses a three-stage ECL for other financial assets. 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 financial asset to Level 2. If the financial asset fulfils the definition of failure, the Group transfers it to Level 3.

The Group considers a potential failure a situation where it will not be able to collect all outstanding amounts based on the initially negotiated conditions. The Group considers serious indicators of a failure significant financial difficulties of debtors and the probability that the debtor will enter 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 amount of 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.

In the case of trade receivables and contractual asserts, 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 against 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.

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.

2.11.2. 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 of funds from secured cash flows depends on the fact on whether the given derivative is classified as a securing derivative or as a trade derivative.

The company secures expected future cash flows from the purchase of gas and electricity through short-term FX forwards and FX swaps. To secure future cash flows with a maturity of more than one year (in most cases), the Group uses the so-called rollover strategy, which are used to secure expected future cash flows with a series of currency derivatives with shorter maturities. As of the date of the maturity of the currency derivative - classified as a rollover, a new one is immediately established under current market conditions with the same nominal value. The value of such a securing derivative at the settlement date must be retained in the accounting reserve in equity until the secured item is realized.

The Group determines whether the securing derivative is effective at the inception of the security by the method of compliance with critical parameters and also at least on the date of preparation of the financial statements and on the date of preparation of statements using the dollar-offset method.

At the same time, the Group has considered potential sources of inefficiency but does not consider them significant.

The potential sources of inefficiencies of security are:

- Changes in the timing of the realization of the secured item.
- Significant changes in the credit risk of any of the counterparties of the secured item and / or instrument.
- Reduction of the realized amount of the secured item below the value of the securing instrument.
- Non-zero initial value of the securing derivative.

The default accounting regulation governing the rules for accounting for financial instruments (in this case financial derivatives) and securing accounting is the IFRS 9 standard. Under the transitional provisions of IFRS 9, the Group used the option to proceed in accordance with the rules of IAS 39 and parts of IFRS 9 dealing with securing accounting and decided not to use it.

The Group's Treasury Department monitors the currency risk of the Group to ensure that this risk is as small as possible. The real value of derivatives is determined as the net present value of cash flows arising from derivatives.

2.12. Cash and cash equivalents

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

2.13. Equity

2.13.1. Registered capital

The registered capital of the Group consists of ordinary shares. Preferred shares of the Group were not issued. At the same time, the Group does not hold any own shares.

2.13.2. 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.

2.14. 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 of 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.

2.14.1. 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.

2.14.2. Other financial liabilities

Other financial liabilities are initially measured 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.

2.14.3. Trade payables

Trade payables are obligations to pay for goods or services that have been acquired from suppliers through regular 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.

2.15. Unbilled supplies and advances received

The Group compensates value of unbilled supplies and advances received. The resulting value, per individual customer, nears the actual receivable from or payable to customers. 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 through the supply of gas, electricity, or other non-cash supply.

2.16. 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.

2.16.1. Lending costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that need 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 these 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.

2.17. Bonds

The Group initially recognizes 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 amortized value using the effective interest rate.

2.18. Provisions

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

Provisions are measured as the best estimate of expenditures expected to be required to settle the obligation at the reporting date, considering risks and uncertainties connected with the obligation. Provisions not drawn in the following year are 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.

2.19. Lease liabilities

Lease liabilities are initially measured based on the present value. Lease liabilities include the net present value of the following lease payments:

- fixed payments less receivables from leasing incentives,
- variable payment leasing, which is based on an index or rate, originally measured using the index or rate as of the commencement date,
- the implementation price of call option, providing that the Company is reasonably certain that the option will be used and
- penalty payments for termination of the lease, providing that the lease term reflects application of this option.

Lease payments are discounted using the implicit interest rate. If this rate cannot be easily determined, the lessee's incremental borrowing rate is used, which is the rate that the lessee would have to pay to borrow the funds needed to obtain an asset of similar value

as the asset with right for use in a similar economic environment and under similar terms.

To determine the incremental borrowing rate, the Company uses, if possible, as the starting point the recent third-party financing received by the lessee, adjusted so it reflects changes in the financing conditions after the financing was accepted by the third party.

Lease finance costs (interests) are recognized as an expense over the lease term, as to produce a constant periodic rate of interest on the remaining part of the liability for each period.

Payments related to short-term leases of assets and to all low-value asset leases are reported on a straight-line basis as an expense in profit or loss. A short-term lease is a lease with a term of 12 months or less.

2.20. 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.

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 at the given distribution company. Distribution service price is a part of the price for combined services provided to customers. The Group concluded that in case of distribution services the Group acts as a responsible entity (and not as a representative) and reports revenues from services in full, including the part representing distribution services.

2.20.1. Incremental costs of obtaining a contract

Sales agent commissions and other costs are treated as incremental costs to obtain a contract with the customer and are reported as an asset. These costs are amortized over the estimated time the customer remains involved period and amortization is reported under Other operating expenses.

2.20.2. Revenues from sales and distribution of natural gas

Revenue from natural gas sales 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 covering operations of Energy Regulatory Office (ERO), two-component price for distribution consisting of the price paid for purchased natural gas and monthly or yearly fixed price for distribution capacity and price of other services related to the supply. This price is a two-component price and consists of the commodity price and fixed 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 they may use any of the offer products.

Price for the distribution services represents a two-component price and it is regulated by ERO. Price for OTE services 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. Supplies of natural gas in the "low-volume" category

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 at each consumption point, or based on the reading provided by the customer alone.

Revenues from MO and DOM categories consist of the actually billed revenues and revenues from so called "unbilled gas" (see Chapter 2.24.1 and 3.1). 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 published by the Group, or based on individually set prices and products.

2.20.3. 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 may vary by distributor.

The non-regulated price component contains primarily price for electricity supply, respectively 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. Price for the electricity supply is derived from the price established at 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 published by the Group, or based on individually set prices and products.

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

2.20.4. Revenues from sales of goods

Sales are reported on the date of the release of the goods from the warehouse and are reported minus discounts and VAT.

2.20.5. Revenues from sales of other services and other revenues

Sales are reported on the date of the release of the goods from the warehouse and are reported minus discounts and VAT.

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

2.21. Foreign currency conversions

Transactions in a foreign currency other than the functional currency of the Group are converted using the exchange rates announced by the (Česká národní banka (ČNB - 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 period in which they occurred.

2.22. Employee Benefits

2.22.1. 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.

2.22.2. 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 comprehensive income - as they are incurred.

2.22.3. Other benefits

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

2.22.4. Termination benefits

The Company also provides termination benefits to its executives. These benefits are granted if certain conditions are met, namely compliance with non-competition and confidentiality clauses. Amounts are determined based on the executive's monthly pay. The Group recognizes 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 executive performance contract.

2.23. Taxes

Income tax comprises current and deferred tax.

2.23.1. 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 of 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.

2.23.2. Deferred tax

Deferred tax is recognized on all temporary differences between the carrying amount of an asset or liability in the consolidated statement of financial position and their tax values. 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.

2.24. 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.

2.24.1. 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. As of 31 December 2019 the value of unbilled gas and distribution fee to low-volume customers and households represented 2,919,745 thousands of CZK (as of 31 December 2018 the amount was CZK 2,923,021 thousands of CZK).

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

Unbilled gas supplies to large-volume (VO) and to medium-volume consumers (SO) are also reported 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 2019 is 2.13 %. The median ratio of the balance difference to the distributed amount for the last 6 years is equal 2.36%. If 2019 the ratio of losses to the total amount of gas distributed was equal to the long-term average, therefore it would be less (greater) by 0.23 percentage points (while all other variables would remain unchanged) the pre-tax profit as of 31 December 2019 would be 9,300 thousand CZK higher (lower) under the influence of higher (lower) revenues in the unbilled gas supplies.

2.24.2. Unbilled electric power supplies

Similarly as natural gas, the Group management considers the determination of the amount of unbilled electricity and the distribution fee for the categories of low-volume (MOP) and households (MOO) to be an important area of application of estimates. As of 31 December 2019 the amount of unbilled energy and distribution

fee in the low-volume category represented 526,291 thousand CZK (as of 31 December 2018 the amount was CZK 331,781 thousand CZK).

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 own consumption during the period in question. Within the framework of the accounting estimates, estimates relating to large volume (VN) consumers are also reported, but these estimates represent a minimum degree of risk because they are based on already billed items. Through these estimates, they are only transferred to the corresponding accounting period.

Sensitivity analysis:

The sensitivity analysis of the unbilled electricity segment shows a change in the amount of this item providing that the nomination deviation related to the acquisition of the commodity is included in the input balance. Usually, the amount of this deviation is in the range of 3-5% of the number of technical units sold. In the case of the PP, a.s., the amount of the purchase deviation for 2019 would be around the category of MOO and MOP in the amount of around 16 thousand MWh. The fixed price for the valuation of the deviation is set at CZK 1,200 per MWh, which in the case of PP, a.s. would have an impact on the generation of unbilled electricity in the total amount of ± 19,200 thousand CZK.

3. Financial Risk Management

3.1. Credit Risk

Selecting the counterparties for financial transactions on the Group is limited to parties with high creditworthiness. The Group performs only financial transactions whose originator or underwriter has high rating in terms of credit investments issued by competent and independent global rating agencies and for whom it is also possible to continuously monitor the credit quality indicators through the financial market. Cooperating banks enjoy long-term ratings - A1, issued by Moody's.

The credit risk associated with the counterparties in business transactions is managed by the Group 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 Group deposits cash in well-established 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 impairment of value in the receivable portfolio includes the past experience of the Group with collection of payments, changes in the internal and external assessments of customers, the Group'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 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 of each balance date to find out whether objective evidence for the degradation of asset values 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 minus the adjusting entry:

Type of receivable (in thousands of CZK)	31 December 2019	31 December 2018
Trade receivables from third parties	719,029	634,028
Trade receivables from related parties	3,845	2,392
Financial trade receivables	722,874	636,420
Allowances for trade receivables	-215,473	-223,085
Net trade receivables – financial	507,401	413,335
Unbilled deliveries	1,508,346	1,416,249
Adjusting entries for unbilled deliveries	-11,149	-13,644
Total trade and other receivables – financial	2,004,598	1,815,940
Total trade and other receivables – non-financial	27,813	103,472
Total trade and other receivables – short-term	2,032,411	1,919,412

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 2019:

Adjusting entries for receivables (in thousands of CZK)	Expected interest risk impairment			
	Level 1	Level 2	Level 3	Total
Cat. MO	4,074	758	62,228	67,060
Cat. DOM	1,188	776	81,674	83,638
Cat. VO	3,445	34	44,633	48,112
Cat. Other	4,204	611	22,997	27,812
Total	12,911	2,179	211,532	226,622

31 December 2018:

Adjusting entries 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	19,944	24,978
Total	15,759	3,248	217,722	236,729

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

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 Group has a concentration of credit risk toward banks that are 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 2019	31 December 2018
Cash on hand	not assigned	3,000	2,979
Money in bank accounts	A1	799,284	475,501
Short-term investments – bills	A1	700,000	1,000,000
Total exposure of cash, cash equivalents, and other financial assets		1,502,284	1,478,480

3.2. Liquidity risk

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

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

Management of the Group minimizes liquidity risk (i.e. the risk of a lack of cash to pay liabilities) by continuous ongoing management and planning of its future cash flows. The main tool for planning of cash flows is the preparation of a midterm plan, which is prepared annually for a 3-year period. The cash flow plan for the following year is subsequently divided into individual days and kept 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.

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

Short-term funding structure as of 31 December 2019:

The Group's current short-term external funding structure was established in May 2019 in connection with refinancing of external sources and is contractually secured until May 2023. The structure also includes overdraft credit lines in CZK and EUR, exchange programme for drawing the necessary resources in the form bills of exchange through 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 on the company's plant between the Group and Československá obchodní banka, a.s.,
- Agreement on the establishment of a right of lien between the Group and Česká spořitelna, a.s. and covering the plant,
- Agreement on the establishment of a lien on the receivables under bank account management agreements between the Group and Československá obchodní banka, a.s.,
- Agreement on the establishment of a lien on the receivables under bank account management agreements between the Group and Česká spořitelna, a.s.,
- Agreement establishing a ban on burdening and alienation between the Group and Československá obchodní banka, a.s.

(in thousands of CZK)	Limit	from	to	interest rate
Overdraft credit lines in CZK	600,000	21/ 05/ 2019	21/ 05/ 2023	floating
Guarantee line	700,000	21/ 05/ 2019	21/ 05/ 2023	fixed
Exchange programme	1,400,000	22/ 05/ 2019	22/ 05/ 2023	floating
Overdraft credit lines in EUR	508,200	21/ 05/ 2019	21/ 05/ 2023	floating
PPAS Bond 0.90/2020 ISIN CZ0003516809	400,000	15/ 06/ 2017	15/ 06/ 2020	fixed
Total	3,608,200			

In 2019, no overdraft lines were drawn. As of 31 December 2019 funds from the parent company PPH a.s. were drawn in the amount of ...

59,926 thousand CZK, which represent liabilities from cashpooling. The average interest rate for cash-pooling between the Group and the parent company PPH a.s. for 2019 was 1.45 % p.a.

Short-term funding structure as of 31 December 2018:

(in thousands of CZK)	Limit	from	to	interest rate
Overdraft credit lines	900,000	24/ 05/ 2016	24/ 05/ 2019	floating
Guarantee line	700,000	24/ 05/ 2016	24/ 05/ 2019	fixed
Exchange programme	3,000,000	07/ 06/ 2017	24/ 05/ 2019	floating
Total	4,600,000			

In 2018 no overdraft credit lines were drawn. As of 31 December 2018 only funds from the parent company PPH a.s. were drawn in the amount of

51,493 thousand CZK, which represent liabilities from cashpooling. The average interest rate for cash-pooling between the Group and the parent company PPH a.s. for 2018 was 0.96 % p.a.

Short-term funding structure as of 31 December 2019:

(in thousands of CZK)	Limit	from	to	interest rate
PPD Bond 0.70%/2023 ISIN CZ0003515348	2,700,000	14/ 11/ 2016	14/ 11/ 2023	fixed
Total	3,100,000			

Short-term funding structure as of 31 December 2018:

(in thousands of CZK)	Limit	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			

Due to the favourable development on the financial markets, bonds with a floating interest rate in the amount of CZK 2.5 billion were refinanced on 14 November 2016. These bonds were newly issued in May 2015 by Pražská plynárenská Distribuce, a.s. (hereinafter "PPD, a.s." only), in the amount of 2.7 billion CZK with a fixed interest rate and maturity in 2023. The issue rate of these bonds was 97.842 % and the emission yield was 2,641,734 thousand CZK. The issued bonds were purchased by Česká spořitelna, a.s., and Československá obchodní banka, a.s. No rights attach to the bonds (including pre-emptive right of purchase or right of 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 right of lien of Pražská plynárenská, a.s. to the benefit of bonds holders covers the PPD bonds.

In 15 June 2017, PP, a.s., the Group has emitted 80 bonds in total nominal value of 400 million CZK

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 emission yield was 398,192 thousand CZK. 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 attach 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 part of the process of bonds issuing on the regulated stock market was the issuance of the Bond prospectus. The prospectus was approved by the Czech National Bank on 9 July 2017.

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

- Amendment No 1 to the Exchange Programme 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 issued by the Group:

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 of 31/12/2019 (in thousands of CZK)	Book value as of 31/12/2018 (in thousands of CZK)
PPAS Bond 0.90/2020 ISIN CZ0003516809	400,000	99,548	15/06/2020	0.90	annual	401,477	400,526
PPD Bond 0.70%/2023 ISIN CZ0003515348	2,700,000	97.842	14/11/2023	0.70	annual	2,669,355	2,660,795

The book value of the bonds has the following structure:

(in thousands of CZK)	Book value	
	2019	2018
PPAS Bond 0.90/2020 ISIN CZ0003516809	401,477	400,526
PPD Bond 0.70%/2023 ISIN CZ0003515348	2,669,355	2,660,795

The book value of bonds is close to their real value.

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

An integral part of the Group funding is the utilization of the financial resources of all companies belonging to the Group and PPH,a.s. aggregated in cash-pooling scheme. Using these free resources causes that short-term loans from the banks are not drawn.

In connection with the conditions under the loan agreements and bond issuance conditions concluded in 2016, 2017 and 2019, financial indicators are monitored at the level of consolidated data of the Group. In the event of their non-fulfilment, the banks may request premature loan repayment and bond redemption. These indicators were fulfilled as of 31 December 2019 and 31 December 2018.

31. December 2019:

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)	5,151,723	428,024	451,365	174,076	0	6,205,187
Bonds	0	403,600	18,900	37,800	2,718,900	3,179,200
Trade and other liabilities	1,350,357	27	287	6,091	76	1,356,838
Loan from the parent company PPH a.s. – cashpooling	59,928	0	0	0	0	59,928
Total	6,562,008	831,651	470,552	217,967	2,718,976	10,801,154

Impact of the cost interest related to the bonds on the profit and loss as of 31 December 2019: 31,426 thousand CZK (as of 31 December, 2018: 31,426 thousand CZK).

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-category and households are 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 of 31 December 2019 and as of 31 December 2018. 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 2019 and the interest rates in force on the financial market as of 31 December 2019.

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. – cashpooling	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

The main aim of the 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 of 31 December 2019:

- on behalf of TRADE CENTRE PRAHA a.s., and up to 500 thousand CZK (under the Agreement on Combined Supplies of Natural Gas dated 30/ 7/ 2019)
- on behalf of TRADE CENTRE PRAHA a.s., up to 500 thousand CZK (under the agreement on combined supplies of electricity, part 1 dated 2/ 8/ 2019)
- on behalf of TRADE CENTRE PRAHA a.s., up to 500 thousand CZK (under the agreement on combined supplies of electricity, part 2 dated 2/ 8/ 2019)
- on behalf of Čepro a.s., up to 1,000 thousand CZK (under the agreement on gas supply dated 8/ 11/ 2019)
- on behalf of Čepro a.s., up to 1,000 thousand CZK (under the Agreement on combined supplies of electricity dated 21/ 11/ 2019 and under the Agreement on Supplies of electricity from low-voltage network of 21/ 11/ 2019)
- on behalf of OTE, a. s., up to 100,000 thousand CZK (under the Deviation settlement agreement No. AP 006/09 dated 11/ 12/ 2009)
- on behalf of OTE, a. s., up to 35,000 thousand CZK (under the Deviation settlement agreement No. A3602/14 dated 4/ 12/ 2014 and the Agreement on access to the organized short -term electricity market No. B3602 /14 dated 4/ 12/ 2014)
- on behalf of RWE Supply Trading GmbH, in the amount of 15,000 thousand EUR (381,150 thousand CZK) due to being present and active on the gas market (according to the EFET Agreement dated 3/ 6/ 2014)
- on behalf of Ředitelství silnic a dálnic ČR, up to the amount of 32 thousand CZK (According to the agreement No. 4200033782 on subsequent payment conditions with deferred maturity, dated 29/11/2019).

The Group has secured its financial liabilities with Česká spořitelna, a.s., as of 31 December 2019:

- on behalf of the Municipal district of Prague 2 a. s., up to 3,000 thousand CZK (according to the Framework agreement defining administration and operation of heat resources and on the delivery and use of heat energy, dated 19/ 9/ 2018)

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

- on behalf of TRADE CENTRE PRAHA a.s., and up to 500 thousand (under the Agreement on combined supplies of natural gas dated 25/ 7/ 2017)
- on behalf of OTE, a. s., up to 187,000 thousand CZK (under the Deviation settlement agreement No. AP 006/09 dated 11/ 12/ 2009)
- on behalf of OTE, a. s., up to 22,000 thousand CZK (under the Deviation settlement agreement No. A3602/14 dated 4/ 12/ 2014 and the Agreement on access to the organized short -term electricity market No. B3602 /14 dated 4/ 12/ 2014)

The Group has secured its financial liabilities with Česká spořitelna, a.s., as of 31 December 2018:

- on behalf of the Municipal district of Prague 2 a. s., up to 3,000 thousand CZK (according to the Framework agreement defining administration and operation of heat resources and on the delivery and use of heat energy, dated 19/ 9/ 2018)

3.3. Market risk

3.3.1. 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. In 2019 and 2018, the Group did not draw short-term bank loans, but used funds from the cash-pooling scheme.

Sensitivity analysis:

If the interest rate had increased/decreased by 100 basic points while all other variables held constant as of 1 January 2019, the profit before tax as of 31 December 2019 would have been by CZK 562 thousands CZK lower/higher as a result of the increased/decreased interest expense (as of 31 December 2018: 1,033 thousand CZK).

3.3.2. Exchange rate risk

Currency risk means that the future cash flows from financial instruments will change as result of changes in currency rates.

Movements in exchange rates represent a risk due to the fact that the Group purchases virtually all its gas and electricity in foreign currencies. Selection of currency in which purchases are realised is

in forward purchases fully dependent on the overall commercial conditions offered. The Group always secures the exchange rate risk in the form of currency forwards at the bank up to 100 % of the purchased volume. 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. Starting on 1 January 2019, the Group decided to apply secure accounting system in order to secure future cash flows from the purchase of commodities.

Sensitivity analysis:

If the CZK/EUR exchange rate as of 31 December 2019 had weakened (increased) / strengthened (dropped) by 0.5 CZK/EUR 1 with all other variables held constant as of 31 December 2019, the profit before tax as of 31 December 2019 as a result of revaluation of forward purchases realized as of 31 December 2019 would be by 8,397 thousands of CZK higher/lower (as of 31 December 2018: 140,253 thousand CZK).

If the CZK/EUR exchange rate had weakened (increased) / strengthened (dropped) by 0.5 CZK/EUR 1 with all other variables held constant as of 31 December 2019, the profit before tax as at 31 December 2019 as a result of revaluation of liabilities in EUR would have been CZK 1,456 thousand CZK lower/higher (as of 31 December 2018: 419 thousand CZK).

If the CZK/EUR exchange rate had weakened (increased) / strengthened (dropped) by 0.5 CZK/EUR with all other variables held constant as of 31 December 2019, the profit before tax as at 31 December 2019 as a result of revaluation of liabilities in EUR would have been 1,714 thousand CZK higher/lower (as of 31 December 2018: 2,299 thousand CZK).

(in thousands of CZK)	2019	2018	2019	2018
	increase of 0.5 CZK/EUR		decrease of 0.5 CZK/EUR	
Forward purchases in EUR	8,397	140,253	-8,397	-140,253
Liabilities in EUR	-1,456	-419	1,456	419
Receivables in EUR	1,714	2,299	-1,714	-2,299
Impact on profit before tax	8,655	142,133	-8,655	-142,133

Sensitivity analysis:

If the CZK/EUR exchange rate had weakened (increased) / strengthened (dropped) by 0.5 CZK/EUR with all other variables held constant

as of 31 December 2019, the other total profit / loss results as of 31 December 2019 as a result of revaluation of secured forward purchases as of 31 December 2019 would have been 110,119 thousand CZK higher/lower (as of 31 December 2018: 0 thousand CZK).

(in thousands of CZK)	2019	2018	2019	2018
	increase of 0.5 CZK/EUR		decrease of 0.5 CZK/EUR	
Secured forward purchases in EUR	110,119	0	-110,119	0
Impact of total profit / loss result	110,119	0	-110,119	0

3.3.3. Derivative financial tools

The settlement of purchases of natural gas and electricity in EUR exposes the Group to a risk of changes in future cash flows upon settlement of these transactions due to changes in the EUR / CZK exchange rate. The Group decided to regulate this risk by means of currency swaps and forwards. To secure future cash flows

with a maturity of more than one year the Group uses the so-called rollover strategy, which is used to secure expected future cash flows with a series of currency derivatives with shorter maturities. As of the date of the maturity of the currency derivative - classified as a rollover, a new one is immediately established under current market conditions with the same nominal value.

Secured cash flows:

31 December 2019:

(in thousands of CZK)	0-3 months	3-6 months	6-12 months	1-3 years	3-5 years	Total
Securing of cash flows - future liabilities	4,749,477	394,788	389,849	166,438	0	5,700,552

31 December 2018:

(in thousands of CZK)	0-3 months	3-6 months	6-12 months	1-3 years	3-5 years	Total
Securing of cash flows - future liabilities	0	0	0	0	0	0

Derivatives securing cash flows:

31 December 2019:

(in thousands of CZK)	Nominal value	Fair value - positive	Fair value - negative	Secured period	Average secured rate
Currency forwards	5,700,552	0	83,912	0-2 years	25.883

31 December 2018:

(in thousands of CZK)	Nominal value	Fair value - positive	Fair value - negative	Secured period	Average secured rate
Currency forwards	0	0	0	—	—

3.4. 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.

At the end of the reporting period the Group allocated financial assets and liabilities at their fair value under

profit or loss of second level characterizing the input information used in determining the fair value (see Chapter 3.1).

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

3.5. Offsetting financial receivables and financial instruments

31 December 2019:

(in thousands of CZK)	Gross amount of compensation in the Statement of financial position	Gross amount of the offsetting in the statement of financial position	Net amount after compensation in the statement of financial position	The amount which is subject of the framework netting agreement and similar arrangements in the statement of financial position	Total net exposure
Trade and other receivables	2,004,598	0	2,004,598	76,927	1,927,671
Trade and other financial liabilities	1,503,403	0	1,503,403	76,927	1,426,476

31. December 2018:

(in thousands of CZK)	Gross amount of compensation in the Statement of financial position	Gross amount of the offsetting in the statement of financial position	Net amount after compensation in the statement of financial position	The amount which is subject of the framework netting agreement 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

3.6. Net profit and losses from financial instruments

(in thousands of CZK)	2019	2018
Trade receivables (particularly depreciation of receivables and creation of provisions)	-12,276	-35,938
Cash and cash equivalents	7,404	1,231
Other financial assets	2,870	-1,726
Bonds (particularly cost interest)	-32,300	-32,300
Financial derivatives	-80,878	9,016
Bank loans (particularly cost interest)	-1,269	-2,358
Other financial liabilities	12,601	11,963
Net gains (+) / losses (-) reported in the profit / loss statement	-103,848	-50,112
Financial derivatives in other comprehensive income (settlement)	-137,662	0
Net gains (+) / losses (-) reported in other total income	-137,662	0
Total net gains (+) / losses (-)	-241,510	-50,112

4. Capital Management

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

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

Group including planned and potential investments and generation of cash flows, and shall adjust the capital structure accordingly so these objectives are reached.

The goal of the Group 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 of 31 December 2019 and 31 December 2018.

5. Notes to the consolidated financial statements

5.1. Land, buildings, and equipment

Property, plant , 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	Incomplete Tangible fixed assets	Advance payments for Long- term tangible assets	Total
Acquisition value							
Balance as of 1/ 1/ 2018	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
Balance as of 31/ 12/ 2018	126,070	10,813,013	1,905,362	203,570	132,165	7,280	13,187,460
Purchases	0	0	0	0	808,733	10,607	819,340
Transfers	6,471	597,535	177,917	8,277	-790,200	-10,316	-10,316
Decreases	-1,802	-49,901	-105,694	-4,012	0	0	-161,409
Balance as of 31/ 12/ 2019	130,739	11,360,647	1,977,585	207,835	150,698	7,571	13,835,075
Accumulated depreciation, adjustments, impairment, recharging							
Balance as of 1/ 1/ 2018	0	4,299,058	1,559,801	74,002	0	0	5,932,861
Depreciation	108	228,746	133,035	10,816	0	0	372,705
Adjustments	0	-23	-31	0	0	0	-54
Accumulated depreciation for disposals	-108	-47,653	-118,223	-29	0	0	-166,013
Balance as of 31/ 12/ 2018	0	4,480,128	1,574,582	84,789	0	0	6,139,499
Depreciation	1802	245,233	113,078	11,597	0	0	371,710
Adjustments	0	-23	-31	0	0	0	-54
Accumulated depreciation for disposals	-1802	-49,396	-94,478	-3,706	0	0	-149,382
Balance as of 31/ 12/ 2019	0	4,675,942	1,593,151	92,680	0	0	6,361,773
Net book value 2018	126,070	6,332,885	330,780	118,781	132,165	7,280	7,047,961
Net book value 2019	130,739	6,684,705	384,434	115,155	150,698	7,571	7,473,302

The most significant part of unfinished investments in tangible fixed assets as of 31 December 2019 and 31 December 2018 consists of investment projects and projects related to building modifications and development of the existing distribution network, which are in various stages of completion and whose project preparation and implementation requires longer time horizon. Above all, these projects are also related to the value of reported and provided advances for tangible fixed assets, which mainly represent advances for materials

and services that offered by external entities. Another significant part of the value of unfinished fixed assets is investments in the construction sector, which are related to the implementation of extensive reconstructions and modernizations projects performed in the Group's premises - in Michle.

Movables and sets of movables – detail (in thousands of CZK)	Vehicles (means of transport)	Computer equipment	Gas meters, reducers and regulators	Machine equipment for regulating station technology	Other movables	Total
Acquisition value						
Balance as of 1/ 1/ 2018	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
Balance as of 31/ 12/ 2018	128,067	124,078	620,018	477,638	555,561	1,905,362
Transfers	22,135	17,713	87,631	3,752	46,686	177,917
Decreases	-11,441	-15,910	-57,078	-4,691	-16,574	-105,694
Balance as of 31/ 12/ 2019	138,761	125,881	650,571	476,699	585,673	1,977,585
Accumulated depreciation, adjustments, impairment, recharging						
Balance as of 1/ 1/ 2018	74,274	126,461	549,946	401,261	407,859	1,559,801
Depreciation	17,798	11,707	38,728	28,269	36,533	133,035
Adjustments	0	0	0	0	-31	-31
Accumulated depreciation for disposals	-12,794	-43,683	-59,923	-1,077	-746	-118,223
Balance as of 31/ 12/ 2018	79,278	94,485	528,751	428,453	443,615	1,574,582
Depreciation	17,333	11,891	23,927	27,037	32,890	113,078
Adjustments	0	0	0	0	-31	-31
Accumulated depreciation for disposals	-4,546	-15,677	-57,078	-4,691	-12,486	-94,478
Balance as of 31/ 12/ 2019	92,065	90,699	495,600	450,799	463,988	1,593,151
Net book value 2018	48,789	29,593	91,267	49,185	111,946	330,780
Net book value 2019	46,696	35,182	154,971	25,900	121,685	384,434

The trade plant of the Pražská plynárenská, a.s., Group is the subject of a right of lien belonging to creditors of Československá obchodní banka, a.s., and Česká spořitelna, a.s., while the lien on the trade plant represents:

- (I) up to CZK 2.7 billion and EUR 0.02 billion secured debts of Pražská plynárenská, a.s., from operating financing, which may arise on the basis of the Operating loans agreement dated 24/ 5/ 2016, as amended and on the basis of the Exchange programme agreement dated 24/ 5/ 2016, as amended, and
- (II) up to CZK 2.7 billion secured debts of the subsidiary Pražská plynárenská Distribuce, a.s., a member of the Pražská plynárenská, as Group, arising in connection with the issue of PPD bonds 0.70% / 2023, ISIN CZ0003515348 issued by the mentioned subsidiary on the basis of issue conditions dated 16/ 11/ 2016 with maturity in 2023.

5.2. Intangible assets

Intangible assets (in thousands of CZK)	Goodwill	Software	Assessable rights	Incomplete Long-term intangible assets	Total
Acquisition value					
Balance as of 1/ 1/ 2018	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
Balance as of 31/ 12/ 2018	171	710,433	11,790	31,710	754,104
Purchases	20,791	0	0	47,001	67,792
Transfers	0	49,331	2,345	-51,676	0
Decreases	0	-2,892	0	0	-2,892
Balance as of 31/ 12/ 2019	20,962	756,872	14,135	27,035	819,004
Accumulated depreciation, depreciation, impairment					
Balance as of 1/ 1/ 2018	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
Balance as of 31/ 12/ 2018	0	655,477	11,454	0	666,931
Depreciation	0	12,780	509	0	13,289
Accumulated depreciation for disposals	0	-2,415	0	0	-2,415
Balance as of 31/ 12/ 2019	0	665,842	11,963	0	677,805
Net book value 2018	171	54,956	336	31,710	87,173
Net book value 2019	20,962	91,030	2,172	27,035	141,199

The average residual amortisation period for software is 2 year and 6 months.

Goodwill in the Group as of 31 December 2019 includes the incorporation of goodwill due to the acquisition of a 90% ownership in MONTSERVIS PRAHA, a.s.

The Group has tested goodwill for value impairment (value in use). Tests performed as of 31 December 2019 did not indicate an decrease in the value of goodwill. Value from use was calculated based on the business valuation model and it is assessed from the Group's internal perspective. Value from the use was calculated on the basis of cash flow budgets, which were based on a medium-term business plan (a three-year period) less the impact of IFRS 16 Leases. The business plan has been approved by management and is current as of the time of the value impairment test performance. The business plan is based on the past

experience and expected future market trends. It is also based on general economic variables derived from macroeconomic and financial studies.

5.3. Assets originating from the right of use

Nonresidential spaces and land (in thousands of CZK)

Acquisition value	
Balance as of 1/ 1/ 2019	55,252
Increases	0
Decreases	0
Balance as of 31/ 12/ 2019	55,252
Accumulated depreciation, depreciation, impairment	
Balance as of 1/ 1/ 2019	0
Depreciation	5,808
Accumulated depreciation for disposals	0
Balance as of 31/ 12/ 2019	5,808
Net book value 1/1/2019	55,252
Net book value 31/12/2019	49,444

The mainly Group leases various non-residential premises and land. Lease contracts are usually concluded for an indefinite time. The Group has estimated the term of use in these cases from 5 to 10 years.

Until 31 December 2018, leases of non-residential premises were classified as operative leases, which were reported under Other operating expenses. Starting on 1 January 2019, leases are recognized as an asset with the right of use and a corresponding liability from the date that the leased asset is available for use by the Group.

5.4. Inventories

Inventories represent mainly gas stored in the gas storage. This gas was extracted in 2019 and recognized as consumption in the amount of 534,176 thousand CZK (in 2018: 772,671 thousand CZK).

No surpluses and/or shortfalls in inventories were found during stock-taking in 2019.

5.5. Short-term and other receivables

Type of receivable (in thousands of CZK)	31 December 2019	31 December 2018
Trade receivables from third parties	719,029	634,028
Trade receivables from related parties	3,845	2,392
Financial trade receivables	722,874	636,420
Allowances for trade receivables (Adjustments to trade receivables)	-215,473	-223,085
Net trade receivables – financial	507,401	413,335
Unbilled deliveries	1,508,346	1,416,249
Adjusting entries for unbilled deliveries	-11,149	-13,644
Total trade and other receivables – financial	2,004,598	1,815,940
Total trade and other receivables – non-financial	27,813	103,472
Total trade and other receivables – short-term	2,032,411	1,919,412

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 2019 the offset amount of advances with estimated payables was 641,356 thousand CZK (2018: 489,402 thousand CZK).

Outstanding trade receivables have not been secured. Receivables from related parties are defined in detail in Chapter 5.30.

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 2019	31 December 2018
up to 30 days	36,068	34,006
Total	36,068	34,006

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 2019	31 December 2018
up to 6 months	46,605	65,814
6 to 12 months	14,364	16,432
more than 1 year	204,232	227,418
Total	265,201	309,664

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

Adjusting entries for receivables (in thousands of CZK)	31 December 2019	31 December 2018
Initial balance as of 1 January	236,729	311,485
Creation of an allowance for receivables	11,473	47,078
Use of the allowance	21,580	121,834
Final balance as of 31 December	226,622	236,729

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 2019:

Adjusting entries for receivables (in thousands of CZK)	Expected interest risk impairment			
	Level 1	Level 2	Level 3	Total
Cat. MO	4,074	758	62,228	67,060
Cat. DOM	1,188	776	81,674	83,638
Cat. VO	3,445	34	44,633	48,112
Cat. Other	4,204	611	22,997	27,812
Total	12,911	2,179	211,532	226,622

31 December 2018:

Adjusting entries 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	19,944	24,978
Total	15,759	3,248	217,722	236,729

The following table shows losses due to depreciation of financial assets relating to trade and other receivables:

Loss due to depreciation of financial assets (in thousands of CZK)	31 December 2019	31 December 2018
Change in adjustment entry – to existing receivables	-11,855	-72,088
Loss due to receivables written-off	21,580	121,834
Loss due to depreciation of financial assets - total	9,725	49,746

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

5.6. Cash and cash equivalents

The Group acquired the corporate bills of ČSOB Leasing as at 18 December 2019. This concerned 7 bills of exchange of total worth 700,000 thousand CZK due on 2 January 2020. Yield before maturity was 0.50 % p.a. This financial operation optimized the Group's cash-flow positions in bank

accounts in relation to the obligatory payments of the banks to the resolution fund according to the applicable legislation as of 31 December 2019. The structure of cash and cash equivalents is shown below:

Cash and cash equivalents (in thousands of CZK)	31 December 2019	31 December 2018
Cash on hand	3,000	2,979
Money in bank accounts	799,284	475,501
Short-term investments – bills	700,000	1,000,000
Total	1,502,284	1,478,480

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

5.7. Other assets

Other assets (in thousands of CZK)	31 December 2019	31 December 2018
Receivables from revaluation of commodity derivatives to fair value	19,169	0
Other (especially capitalized costs)	26,527	82,260
Other assets - total	45,696	82,260

5.8. Registered capital

Form of shares	2019		2018	
	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 of the Group 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
- The right to vote,
- The right to request and receive an explanation on the general meeting on matters relating to the Group 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 a lawsuit 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.

5.9. 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.

5.10. Cash flow secure fund

The cash flow securing fund represents accumulated gains and losses from effective cash flow hedging. The cumulative accrued gain or loss on securing derivatives is reclassified as profit or loss only if the secured transaction affects profit or loss, or it is included as a basis adjustment in the secured non-financial item in accordance with applicable accounting rules.

Gains and losses reclassified during the year from equity are included in the profit or loss on the line called Purchased gas and electricity, materials and services related to gas and electricity supplies.

(in thousands of CZK)	31 December 2019	31 December 2018
Balance as of the beginning of the year	0	0
Change in fair value of securing derivatives	-137,662	0
Reclassification as profit or loss due to:	0	0
- partial collateral inefficiencies	0	0
- realization of the secured item	0	0
- the fact that the secured item is no longer highly probable	0	0
Total change in the cash flow secure fund	-137,662	0
Related deferred income tax	26,156	0
Balance as of the end of year	-111,506	0

Reclassification as a complete result for the monitored period (in thousands of CZK)	2019	2018
Profit after tax	901,511	947,828
Fair value of non-matured securing derivatives	-83,912	0
Fair value of matured continuous securing derivatives	-53,750	0
Effective component of the fair value of securing derivatives	-137,662	0
Deferred tax receivable from securing derivatives (19%)	26,156	0
Total performance for the period	790,005	947,828

5.11. Lease liabilities

As of 31 December 2019 the Company reported lease liabilities as follows:

(in thousands of CZK)	0-3 months	3-6 months	6-12 months	1-3 years	3-5 years	5 years or more	Total
Long-term lease liabilities	0	0	0	16,684	8,065	19,939	44,688
Short-term lease liabilities	1,215	1,220	2,901	0	0	0	5,336
Total	1,215	1,220	2,901	16,684	8,065	19,939	50,024

Interest expenses from lease liabilities included in the 2019 financial expenses are reported in Chapter 5.26.

Short-term lease expenses included in Other operating expenses and leasing of low-value assets which are not reclassified as lease liabilities are reported in Chapter 5.25.

5.12. Trade liabilities and other long-term liabilities

Other liabilities (in thousands of CZK) Maturity	Long-term advances received	Other long-term liabilities	Total
Balance as of 31/ 12/ 2018	55	8,570	8,625
– of which: due in less than 5 years	55	8,570	8,625
Balance as of 31/ 12/ 2019	50	6,166	6,216
– of which: due in less than 5 years	50	6,166	6,216
Total as of 31/ 12/ 2018	55	8,570	8,625
Total as of 31/ 12/ 2019	50	6,166	6,216

5.13. Trade payables, advances, principals received – short term

Trade payables Advances and principles received - short-term	31 December 2019	31 December 2018
Trade liabilities payable to third parties	1,337,961	1,283,935
Trade payables to related parties	10,661	8,608
Operating advances and principals received (non-financial liabilities)	1,851,635	1,757,364
Trade payables, advances received and principals - total	3,200,257	3,049,907

Total trade payables and advances received – short-term (based on maturity) (in thousands of CZK)	Trade payables	Short-term advances received and principals	Contingent liability accounts (Estimated payables)	Total
Balance as of 31/ 12/ 2018	142,231	1,757,364	1,150,312	3,049,907
– of which: due in less than 6 months	142,087	1,757,364	1,150,312	3,049,763
– of which: due from 6 months to 1 year	144	0	0	144
Balance as of 31/ 12/ 2019	135,157	1,851,635	1,213,465	3,200,257
– of which: due in less than 6 months	134,870	1,851,635	1,213,465	3,199,970
– of which: due from 6 months to 1 year	287	0	0	287
Total as of 31/ 12/ 2019	135,157	1,851,635	1,213,465	3,200,257

Liabilities to related parties are defined in detail in Chapter 5.30.

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

As of 31 December 2019 funds from the parent company PPH a.s. were drawn in the amount of 59,926 thousand CZK (as of 31 December, 2018: 51,493 thousand CZK) which represent liabilities related to cash-pulling and in 2019 these carried an interest rate as follows: in 01-04/2019: O/N PRIBOR + 0,05 % p.a., in 05/2019: fixed rate 0,75 % p.a., in 06-07/2019: fixed rate 1,30 % p.a., in 08-12/2019: O/N PRIBOR – 0,60 % p.a. In 2018 they carried an interest rate O/N PRIBOR + 0,05 % p.a. Funds drawn by subsidiaries under cash-pooling in 2019 carried a debit interest rate as follows: in 01-05/2019: O/N PRIBOR + 0,50 % p.a., in 06-12/2019: O/N PRIBOR + 0,25 % p.a.

In 2018 they carried a debit interest rate O/N PRIBOR + 0,50 % p.a.

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

Liabilities towards employees also include liabilities related to wages and unpaid future liabilities payable to the members of the statutory bodies of the Group according to contract describing performance of executive functions (Chapter 2.22.4.) in the amount of 57,862 thousands CZK (2018: 59,193 thousand CZK).

5.13.1. Derivatives

5.13.1.1. Financial derivatives for trading

The fair value of financial derivatives is reported in net value for each type of derivative separately under Other assets - if it is positive for the Group, and in Other liabilities - if negative:

(in thousands of CZK)	31 December 2019			31 December 2018		
	Fair value - positive	Fair value - negative	Nominal value	Fair value - positive	Fair value - negative	Nominal value
Currency forwards	0	9,208	437,252	13,154	34,261	7,276,938
Commodity futures	19,169	0	67,383	0	3,892	99,488

The Company trades natural gas, which is supplied as physical commodity and with electricity on the EEX exchange, which follows a financial settlement.

Losses from the settlement of trade derivatives reported in the statement showing the comprehensive profit / loss performance, amount to 80,871 thousand CZK for 2019, of which the costs arising from the settlement of trade derivatives amount to 117,347 thousand CZK and revenues arising from the settlement of trade derivatives amount to 36,476 thousand CZK, see Chapter 5.26 and 5.27.

In 2018, losses from the settlement of trade derivatives reported in the comprehensive profit / loss statement were CZK 9,301 thousand CZK of which the costs arising from the settlement of trade derivatives amount to 149,490 thousand CZK and revenues arising from the settlement of trade derivatives amount to 158,791 thousand CZK, see Chapter 5.26 and 5.27.

5.14. Unbilled supplies and advances received

as of 31 December 2019 (in thousands of CZK)	Cat. DOM	Cat. MO	Cat. VO/SO	Other	Total
Unbilled deliveries	1,791,320	1,128,426	642,281	797,014	4,359,041
Advances received	-2,051,204	-1,538,084	-342,787	-652,260	-4,584,335
Clearing of Accounts	1,645,862	614,421	282,249	308,163	2,850,695
Unbilled deliveries – after netting	145,458	514,005	360,032	488,851	1,508,346
Advances received – after netting	-405,342	-923,663	-60,538	-344,097	-1,733,640

as of 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
Advances 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 netting	171,528	459,384	523,778	261,559	1,416,249
Advances received – after netting	-403,751	-835,359	-111,190	-289,875	-1,640,175

5.15. Bank loans and bonds

As of 31 December 2019 the Group has secured short-term financing in the amount of 3.6 billion CZK.

Short-term funding structure as of 31 December 2019:

(in thousands of CZK)	Limit	from	to	interest rate
Overdraft credit lines in CZK	600,000	21/05/2019	21/05/2023	floating
Guarantee line	700,000	21/05/2019	21/05/2023	fixed
Exchange programme	1,400,000	22/05/2019	22/05/2023	floating
Overdraft credit lines in EUR	508,200	21/05/2019	21/05/2023	floating
PPAS Bond 0.90/2020 ISIN CZ0003516809	400,000	15/06/2017	15/06/2020	fixed
Total	3,608,200			

As of 31 December 2018 the Group has secured short-term financing in the amount of 4.6 billion CZK.

Short-term funding structure as of 31 December 2018:

(in thousands of CZK)	Limit	from	to	interest rate
Overdraft credit lines	900,000	24/05/2016	24/05/2019	floating
Guarantee line	700,000	24/05/2016	24/05/2019	fixed
Exchange programme	3,000,000	07/06/2017	24/05/2019	floating
Total	4,600,000			

In 2019 and 2018 no overdraft credit lines were drawn.

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

In 15 June 2017 the Group has emitted bonds in total nominal value of 400 million CZK with a maturity of 3 years and a coupon with a fixed interest yield of 0.90% p.a. On 14 November 2016, bonds of PPD, a.s., were newly refinanced in the amount of CZK 2.7 billion. CZK with a fixed interest rate and maturity in 2023.

Short-term funding structure as of 31 December 2019:

(in thousands of CZK)	Limit	from	to	interest rate
PPD Bond 0.70%/2023 ISIN CZ0003515348	2,700,000	14/11/2016	14/11/2023	fixed
Total	3,100,000			

Short-term funding structure as of 31 December 2018:

(in thousands of CZK)	Limit	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			

These external financial resources are provided by a consortium of two banks, i.e. Československá obchodní banka, a.s., and Česká spořitelna, a.s.

The book value of the bonds has the following structure:

(in thousands of CZK)	Book value	
	2019	2018
PPAS Bond 0.90/2020 ISIN CZ0003516809	401,477	400,526
EGB bond 0.70%/2023 ISIN CZ0003515348	2,669,355	2,660,795
Total volume of long-term bonds	3,070,832	3,061,321

The details of the bank loans and bonds issued are given in Chapter 3.2

In connection with the conditions under the loan agreements and bond issuance conditions concluded in 2016, 2017 and 2019, financial indicators are monitored at the level of consolidated data of the Group. In case of their non-fulfilment, the banks

may request premature repayment. These indicators were fulfilled as of 31 December 2019 and 31 December 2018.

The book value of bonds is close to their fair value.

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

(in thousands of CZK)	31/12/2018	Cash flows	Non-cash flows – Revaluation of liabilities using the effective interest rate method	31/12/2019
PP Bonds	400,526	-3,600	4,551	401,477
PPD Bonds	2,660,795	-18,900	27,460	2,669,355
Loan from the parent company PPH a.s. – cashpooling (see item 5.30.)	51,493	7,605	828	59,926
Total	3,112,814	-14,895	32,839	3,130,758

(in thousands of CZK)	31/12/2017	Cash flows	Non-cash flows – Revaluation of liabilities using the effective interest rate method	31/12/2018
PP Bonds	399,574	-3,600	4,552	400,526
PPD Bonds	2,652,235	-18,900	27,460	2,660,795
Loan from the parent company PPH a.s. – cashpooling (see item 5.30.)	38,584	11,903	1,006	51,493
Total	3,090,393	-10,597	33,018	3,112,814

5.16. Other liabilities

Other liabilities	31 December 2019	31 December 2018
Loan from the parent company PPH a.s.	59,926	51,493
Liabilities from revaluation of trade derivatives at fair value	9,208	24,999
Liabilities from revaluation of securing derivatives to fair value	83,912	0
Other financial liabilities	1,735	1,735
Total financial liabilities	154,781	78,227
Payables towards employees	181,294	186,978
Liabilities towards social insurance institutions	19,400	18,052
Other liabilities – non-financial	6,807	2,627
Non-financial liabilities - total	207,501	207,657
Other liabilities - total	362,282	285,884

5.17. Deferred tax receivables and liabilities

Compensation of deferred tax assets and liabilities was as follows:

(in thousands of CZK)	31 December 2019	31 December 2018
Deferred tax asset to be recovered after more than 12 months	45,823	585
Deferred tax asset to be recovered within 12 months	36,205	39,813
Deferred tax liability payable after more than 12 months	-606,407	-534,890
Deferred tax liability payable within 12 months	-11,368	0
Net deferred tax liability	-535,747	-494,492

Deferred tax was calculated at 19 % (the rate for 2018 and subsequent years).

Deferred tax liability (+) and deferred tax receivable (-) (in thousands of CZK) Item	31 December 2019	31 December 2018
Tax liability deferred due to different book values of fixed assets	-562,983	-531,485
Tax non-deductible part of allowances for receivables	9,973	9,378
Other provisions, adjustment entries and temporary differences	42,418	4,239
Deferred tax receivable from lease liabilities	110	0
Deferred tax receivable due to changes in fair value of securing derivative	-26,156	0
Incremental costs of obtaining a contract	-25,232	0
Obligations towards employees and board members	26,122	23,376
Total	-535,747	-494,492

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 towards employees and board members	Other	Total
31 December 2018	-531,485	9,378	22,901	4,714	-494,492
profit (+) / loss (-)	-31,498	595	3,221	12,583	-15,099
total performance	0	0	0	-26,156	-26,156
31 December 2019	-562,983	9,973	26,122	-8,859	-535,747

5.18. Other tax liabilities

Tax liabilities (-) /receivables (+) (in thousands of CZK) Book value	Other tax liabilities
Balance as of 31/ 12/ 2019	-113,864
Balance as of 31/ 12/ 2018	-96,954

Other tax liabilities in 2019 consist of personal income tax in the amount of 6,749 thousands of CZK (2018: 6,467 thousand CZK), VAT in the amount of

101,345 thousand CZK (2018: 84,717 thousand CZK) and other taxes and charges in the amount of 6,516 thousand CZK (2018: 5,770 thousand CZK).

5.19. Provisions

Provisions (in thousands of CZK) Book value	Long-term	Short-term
Balance as of 1/ 1/ 2018	0	176,459
Creation of provisions	0	226,233
Reversals of provisions	0	-66,223
Use of provisions	0	-48,646
Balance as of 31/ 12/ 2018	0	287,823
Creation of provisions	144,872	0
Reversals of provisions	0	-76,177
Use of provisions	0	-210,296
Balance as of 31/ 12/ 2019	144,872	1,350
Net book value 2018	0	287,823
Net book value 2019	144,872	1,350

Long-term provisions as of 31 December 2019 include in particular provisions for potential tax liabilities due to VAT.

Short-term provisions as of 31 December 2018 include in particular provisions for potential tax liabilities due to VAT.

5.20. Revenues from sales

Sales (in thousands of CZK)	2019	2018
Sale of natural gas	8,100,409	7,545,941
Sale of Company's own and foreign distribution of gas	3,339,340	3,240,719
Sale of heat and CNG	161,947	137,526
Sale of flexibility	3,675	1,773
Sale of electricity	1,642,871	626,841
Sale of foreign distributions of electricity	1,382,222	706,990
Other services	247,070	163,509
– of which: revenues from asset repairs and maintenance	33,678	32,946
– of which: revenues from construction of gas pipelines	76,583	79,534
- of which: revenues from earthworks	19,651	20,662
– of which: revenues from other services	117,158	30,367
Sale of goods and products (services)	9,164	6,055
Revenues from contracts with customers	14,886,698	12,429,354
Revenues from property leases	15,585	17,010
Total	14,902,283	12,446,364

5.21. 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)	2019	2018
Costs of gas purchases	7,389,115	6,727,263
- of which: gas reservoir costs	178,552	169,470
Gas distribution fee	1,131,113	957,790
Costs of electricity purchases	1,620,911	607,757
Electricity distribution fee	1,385,637	710,165
Purchasing expenses - total	11,526,776	9,002,975
Derivative transactions expense - secured	32,331	0
Total	11,559,107	9,002,975

5.22. Other operating income

Other operating income (in thousands of CZK)	2019	2018
Profit from sales of fixed assets	2,761	3,188
Income from sale of material	9,008	8,042
Income from write-off of receivables	1,513	2,457
Income from write-off of lapsed liabilities	6,572	6,676
Court fee compensations	5,786	6,735
Benefits from insurance (indemnity)	1,830	1,663
Other	22,124	9,222
Total	49,594	37,983

5.23. Personnel costs

Personnel costs (in thousands of CZK)	2019	2018
Employees	656,957	616,995
Members of statutory bodies	113,475	127,089
Future benefits to members of statutory bodies provided under contract defining their executive performance (Chapter 2.22.4.)	1,479	13,925
Total	771,911	758,009

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

During 2019 and 2018 no loans or credit lines were provided to members of the Group Board of Directors, members of the Supervisory Board or to other management members. Company cars, computer and telecommunication equipment are available for use by the board members and other management.

In 2019, the personnel costs of members of statutory bodies include also dividends paid to members of statutory bodies in the amount of 29,908 thousands of CZK (2018: 48,199 thousand CZK) and paid benefits according to executive contracts (see Chapter 2.22.4) in the amount of 1,981 thousand CZK (2018: 10,713 thousand CZK).

Contributions to the State pension scheme (on the basis of defined contributions) in 2019 amounted to 119,337 thousand CZK (2018: 115,317 thousand CZK).

5.24. Depreciation of fixed assets

Depreciation of fixed assets (in thousands of CZK)	2019	2018
Depreciation of buildings and other structures	29,957	28,773
Depreciation of pipelines	209,721	195,051
Depreciation of the buildings of regulating stations	5,555	4,922
Depreciation of the technology of regulating stations	27,037	28,269
Depreciation of gas meters, reducers and regulators	23,927	38,728
Depreciation of boiler installations and other fixed assets	11,597	10,816
Depreciation of vehicles	17,333	17,798
Depreciation of intangible assets	13,289	11,437
Depreciation of IT equipment	11,891	11,707
Depreciation of other movables	32,890	36,533
– of which: depreciation of other gas facilities	16,989	17,783
– of which: depreciation of other assets (inventory, and the like)	15,901	18,750
Depreciation of assets originating from the right of use	5,808	0
Net book value of discarded lands	1,802	108
Total	390,807	384,142

5.25. Other operating costs

Other operating cost (in thousands of CZK)	2019	2018
Consumption of materials and energy	99,321	87,768
Costs of goods	7,094	4,013
Services	724,557	738,617
– of which: asset repair and maintenance costs	350,401	352,452
– of which: claims collection costs	11,109	12,529
- of which: promotion, advertising and marketing costs	77,567	99,488
- of which: lease payments (2019: short-term lease and low-value assets)	63,410	60,882
– of which: IT systems management and maintenance costs	65,661	68,642
– of which: business representatives' commissions	43,359	29,560
– of which: consulting costs	26,426	31,600
– of which: gas meter reading costs	17,784	17,718
- of which: telecommunication service and postal charges	10,991	10,068
- of which: educational costs	4,638	7,382
– of which: costs of other services	53,211	48,296
Taxes and fees	4,101	12,604
Other (particularly provisions)	86,061	175,996
Total	921,134	1,018,998

Information on fees paid to auditing company is disclosed in the Annex to the consolidated financial statements of Pražská plynárenská Holding, a.s., as of 31 December 2019.

5.26. Financial costs

Financial costs (in thousands of CZK)	2019	2018
Interest expense	34,372	33,739
Lease liabilities - interest paid	1,008	0
Cost paid to settle trade derivatives	117,348	149,490
Other financial expense	35,831	35,656
Total	188,559	218,885

Other financial income and expenses represent mainly foreign exchange differences, financial gifts and bank charges.

5.27. Financial revenues

Financial revenues (in thousands of CZK)	2019	2018
Interest income	17,570	10,748
Income from contractual fines and default interest	5,174	25,207
Cost paid to settle trade derivatives	36,477	158,791
Other financial revenues	39,087	32,954
Total	98,308	227,700

Other financial income and expenses represent mainly foreign exchange differences.

5.28. Income tax

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

(in thousands of CZK)	2019	2018
Income tax – current	234,923	251,393
Income tax – previous years adjustment	5,103	364
Income tax – deferred	67,405	79,707
Income tax - paid	307,431	331,464

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)	2019	2018
Profit before tax	1,208,942	1,279,292
Income tax at the statutory rate of 19 %	229,699	243,065
Non-taxable income	-1,695	-32,511
Tax non-deductible expenses	11,236	84,662
Gifts	-602	-1,104
Other	68,793	37,351
Income tax - paid	307,431	331,464

5.29. Dividends paid

On 22 July 2019 a dividend in the amount of 514 000 thousand CZK (CZK 357 per share) was paid, and in 2018: 520,000 thousand CZK (CZK 361 per share).

5.30. Related party transactions and balances

Transactions related to the purchase or sale of energy (gas, electricity, heat, CNG) to Groups 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

Revenues (in thousands of CZK)	2019	2018
Revenues from sale of services	902	922
Total revenues	902	922
Costs (in thousands of CZK)	2019	2018
Other costs	828	1,006
Total costs	828	1,006

Ultimate parent company

Revenues (in thousands of CZK)	2019	2018
Revenues from sale of services	24,527	153
Total revenues	24,527	153
Costs (in thousands of CZK)	2019	2018
Purchase of other services	973	5,660
Other costs	3	1
Total costs	976	5,661

Other related parties

Revenues (in thousands of CZK)	2019	2018
Revenues from sale of services	2,403	3,407
Revenue from sold property	765	0
Other revenue	0	14
Total revenues	3,168	3,421
Costs (in thousands of CZK)	2019	2018
Purchase of other services	95,827	88,054
Other costs	168	131
Total costs	95,995	88,185

The Group recognized the following balances with related parties:

Controlling entity

Receivables and liabilities (in thousands of CZK)	31 December 2019	31 December 2018
Trade receivables	3	23
Total receivables	3	23
Trade payables	2	0
Financial resources from PPH a.s.	59,926	51,493
Other liabilities	75	80
Total accounts payable	60,003	51,573

*balances presented with VAT.

Ultimate parent company

Receivables and liabilities (in thousands of CZK)	31 December 2019	31 December 2018
Trade receivables	2,726	69
Short-term advances paid*	0	0
Total receivables	2,726	69
Trade payables	182	41
Short-term advance payments received	30	0
Total accounts payable	212	41

*balances presented with VAT.

Other related parties

Receivables and liabilities (in thousands of CZK)	31 December 2019	31 December 2018
Trade receivables	1,116	2,300
Short-term advances paid*	315	238
Total receivables	1,431	2,538
Trade payables	10,477	8,567
Short-term advances received*	5,293	5,212
Long-term advances received*	0	10
Total accounts payable	15,770	13,789

*balances presented with VAT.

Dividends paid to shareholders in 2019 and 2018 are disclosed in Chapter 5.29.

Transactions with key management are disclosed in Chapter 5.23. and 5.16.

Other related parties represent companies and affiliates controlled by the ultimate parent company.

5.31. 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 PPD, a.s.)
- Distribution Service (mainly construction, maintenance and repairs of gas and similar facilities),
- Other.

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 of real estate property, services and management in the area of IT and sale of heat and also services related to construction and reconstruction of heat facilities.

The Group recognizes 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 recognized in compliance IFRS.

All the Group's fixed assets are located in the Czech Republic and all sales are realized 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 of 31 December 2019:

(in thousands of CZK)	Trade	Distribution	Distribution Service	Other	Consolidated Adjustments	Consolidated Data
Sales excluding sales between segments	13,792,976	755,097	163,493	190,717	0	14,902,283
Sales between segments	526,444	1,468,675	1,009,723	381,663	-3,386,505	0
Total revenues	14,319,420	2,223,772	1,173,216	572,380	-3,386,505	14,902,283
Operating revenues excluding revenues between segments	33,233	3,834	9,874	2,653	0	49,594
Operating revenues between segments	338,053	8	226	747	-339,034	0
Total operating revenues	371,286	3,842	10,100	3,400	-339,034	49,594
Depreciation	83,999	454,682	9,880	16,242	-173,996	390,807
EBIT	903,378	601,195	100,307	21,711	-327,398	1,299,193
Financial costs	168,877	36,476	93	607	-17,494	188,559
Financial revenues	98,355	10,429	506	6,806	-17,788	98,308
EBT	832,856	575,148	100,720	27,910	-327,692	1,208,942
Taxes in total	177,565	104,185	20,494	5,187	0	307,431
Profit after tax	655,291	470,963	80,226	22,723	-327,692	901,511
Fixed assets	1,050,301	8,775,434	57,153	127,134	-2,395,521	7,614,501
Acquisition of fixed assets (i.e. Increases without recharging)	100,895	852,904	12,384	41,509	-174,010	833,682
Bonds	401,477	2,669,355	0	0	0	3,070,832

The following table summarises the information about the operations segments as at 31 December 2018:

(in thousands of CZK)	Trade	Distribution	Distribution Service	Other	Consolidated Adjustments	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
Profit after tax	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 prices in some transactions between the segments are regulated by the ERO (see Chapter 5.32).

5.32. Regulatory framework

As at 1 January 2007, the Group in line with the requirements of the European Directives on the liberalization 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 Group 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 liberalized, 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.

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 fourth year of the five-year regulatory period that ends in 2020. A number of significant changes in the Czech legislation have been prepared

e.g. the Energy Act or the Act on supported energy sources; we should know their final application during 2020. New Price regulation policies will be adopted in 2020 and will apply to the 5th Regulatory period. PPD, a.s. is very much involved in the preparation of these policies. The main aim is to maintain pro-investment configuration of these policies. This goal is absolutely essential for a long-term maintenance of safety and reliability of the gas network operating in the territory of the capital city of Prague.

The Energy Regulatory Office determines for PPD, a.s., in accordance with applicable legislation, the permitted revenues from licensed activities. As for 2019, PPD, a.s. has received permitted revenues through prices and conditions set out in Price decision No. 6/2018 of 20 November 2018, defining regulated prices related to gas supply, with effect from 1 January 2019.

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 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 scenario, the Energy Regulatory Office shall compensate for the deviation during the next period.

5.33. Contractual and other future commitments

The expenditure for the acquisition of tangible and intangible assets contracted as of 31 December 2019, which has not yet been incurred, amounts to 475,807 thousand CZK (2018: 493,237 thousand CZK).

(in thousands of CZK)	2019	2018
Up to 1 year	137,683	73,021
1-3 years	237,906	276,544
3-5 years	73,736	112,016
Above 5 years	26,482	31,656
Total	475,807	493,237

Summary of future minimum lease payments under non-cancellable operating leases, mainly due to the lease of capacity in the gas storage facility, which

were not reclassified as lease payables (excluding valid VAT) as of 31 December 2019, amounted to 470,168 thousand CZK (as of 31 December, 2018: 631,605 thousand CZK).

(in thousands of CZK)	2019	2018
Up to 1 year	141,278	194,906
1-3 years	179,688	203,097
3-5 years	132,946	153,836
Above 5 years	16,256	79,766
Total	470,168	631,605

6. Other facts

6.1. 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 Group management is not aware of any important potential Group liabilities as of 31 December 2018 apart those mentioned in Chapter 5.33.

6.2. Events after date of the financial statements

At the meeting of the Board of Directors of PPH a.s. on 6 February 2020, Mr Matěj Turek, CFA, has resigned from the Supervisory Board (on the same day). Starting on 7 February 2020, the vacant position has been taken over by Ing. Jiří Pelák, Ph.D.

As of 31 December 2019 no events that would have a significant impact on the financial statements occurred.

6.3. Approval of the financial statements

The consolidated financial statements were authorized by the Group Board of Directors for publishing and issue on the date stated below. The approved consolidated financial statements may be supplemented or amended upon request and approved by the sole shareholder at the General Meeting.

In Prague, 17 March 2020

Ing. Pavel Janeček

Chairman of the Board of Directors
Pražská plynárenská, a.s. Group

In Prague, 17 March 2020

Ing. Milan Cízl

Member of the Board of Directors
Pražská plynárenská, a.s. Group

VIII. Information about 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 Jadlovský, Vice-Chairman of the Board of the Directors of Pražská plynárenská, a.s.,

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

17 March 2020

17 March 2020

Ing. Pavel Janeček

Chairman of the Board of Directors
Pražská plynárenská, a.s.

Ing. Milan Jadlovský

Vice-Chairman of the Board of Directors
Pražská plynárenská, a.s.

The Company's financial statements for 2019 were audited by PricewaterhouseCoopers Audit, s.r.o, registered office Hvězdova 1734/2c, 140 00, Prague 4, Company ID: 407 65 521, registered in the Commercial 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 financial statements for 2019 were verified by PricewaterhouseCoopers Audit, s.r.o, registered office Hvězdova 1734/2c, 140 00, Prague 4, Company ID: 407 65 521, registered in the Commercial 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 comfort of your
home is the source of
life energy
(i) for kids



IX. 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 2019

prepared by the Board of Directors of Pražská plynárenská, a.s., registered office Národní 37, 110 00 Prague 1 – Nové Město, Company ID: 601 93 492

This report is prepared by the Board of Directors of the controlled entity in accordance with the provisions of Act No. 90/2012 Coll., on Business Companies and Cooperatives, (the Corporate Act

), hereinafter referred to as the “Corporate Act”, for the accounting period of 2019 (hereinafter referred to as the “Relevant period”). The report was prepared by the Board of Directors pursuant to Section 82 of the cited Act, while taking into account the provisions of Section 504 of Act No. 89/2012 Coll., of the Civil Code, which defines trade secret regulations.

Introduction

The enclosed graphical representation demonstrating the shareholder structure of Pražská plynárenská, a.s., (hereinafter referred to as “PP, a.s.”) as of 31 December 2019 shows the basic relations between the related parties. The graph shows that the controlling entity - 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 recalls members of the Board of Directors and the Supervisory Board, as the shareholder acts in the capacity of the General Meeting (as of 31 December 2019, it 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 2019 was Pražská plynárenská Holding a.s., with registered office at U Plynárny 500/44, Michle, 140 00 Prague 4, Company ID: 264 42 272.

In 2019, 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

Is Pražská plynárenská, a.s., registered office at Národní 37, 110 00 Prague 1 – Nové Město, Company ID No.:
Company ID: 601 93 492 (hereinafter also "PP, a.s.," or "controlled part or 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 2019 and with whom PP, a.s., entered into a contractual relationship in 2019 are listed below in Section No. 2.

1.5. Related parties

These are Pražská plynárenská, a.s., Pražská plynárenská Holding a.s., the Capital City of Prague other company organizations where the Capital City of Prague owned a major share in 2019.

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 2019

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, (Academic Grammar School of the Capital City of Prague) Štěpánská 22, Prague 1
Company ID: 708 72 503

Akademie řemesel Prague – Střední škola technická (Secondary Vocational School),
Company ID: 148 91 522

AKROP s.r.o.,
Company ID: 264 32 331

Prague's botanical garden,

Company ID: 000 64 572

Prague's center of social services
Company ID: 708 78 277

Československá akademie obchodní Dr. Edvarda Beneše, (Secondary School of Trade),
Company ID: 006 38 463

Československá akademie obchodní, (Secondary School of Trade)
Company ID: 613 86 138

Činoherní klub, o.p.s.,
Company ID: 267 13 187

Dětské centrum Paprsek,
Company ID: 708 75 413

Dětský domov a Školní jídelna (Children's home and school canteen),
Company ID: 613 89 293

Dětský domov Charlotty Masarykové (Children's home),
Company ID: 008 74 957

Children's home,
Company ID: 000 67 563

Divadlo Archa o.p.s., (Ark theater)
Company ID: 267 23 000

Divadlo na Vinohradech,
Company ID: 000 64 386

Divadlo pod Palmovkou,
Company ID: 000 64 301

Divadlo Spejbla a Hurvíňka,
Company ID: 000 64 360

Domov mládeže a školní jídelna
(Student's house and canteen),
Company ID: 659 92 351

Domov mládeže a školní jídelna
(Student's house and canteen),
Company ID: 638 32 208

Domov mládeže a školní jídelna
(Student's house and canteen),
Company ID: 006 38 706

Domov pro osoby se zdravotním postižením (Home for the disabled), Lochovice
Company ID: 708 79 567

Domov pro osoby se zdravotním postižením (Home for the disabled), Sulická
Company ID: 708 73 046

Domov pro seniory Ďáblice
(Nursing house),
Company ID: 708 75 839

Domov pro seniory Dobřichovice,
(Nursing house),
Company ID: 708 75 880

Domov pro seniory Elišky Purkyňové,
(Nursing house)
Company ID: 708 75 316

Domov pro seniory Háje,
(Nursing house),
Company ID: 70875,111

Domov pro seniory (Nursing house)
Heřmanův Městec,
Company ID: 708 76 258

Domov pro seniory Hortenzie,
(Nursing house),
Company ID: 708 76 886

Domov pro seniory Chodov,
(Nursing house),
Company ID: 708 76 606

Domov pro seniory Krč,
(Nursing house),
Company ID: 708 74 212

Domov pro seniory Pyšely,
(Nursing house),
Company ID: 708 71 256

Domov pro seniory Zahradní Město (Nursing house),
Company ID: 708 78 030

Domov se zvláštním režimem Krásná Lípa
(Special nursing house),
Company ID: 708 72 741

Domov se zvláštním režimem Terežín
(Special nursing house),
Company ID: 708 75 308

Domov sociálních služeb Vlašská
(Nursing house),
Company ID: 708 75 430

Dopravní podnik hl. m. Prahy, a.s.
Company ID: 000 05 886

Dům dětí a mládeže hlavního města Prahy,
Company ID: 000 64 289

Dům dětí a mládeže Modřany,
Company ID: 452 41 295

Dům dětí a mládeže Prague 10 – Dům UM,
Company ID: 452 41 945

Dům dětí a mládeže Prague 2
Company ID: 452 45 924

Dům dětí a mládeže Prague 3 – Ulita,
Company ID: 452 41 848

Dům dětí a mládeže Prague 4 – Hobby centrum 4,
Company ID: 45241,651

Dům dětí a mládeže Prague 5
Company ID: 452 42 941

Dům dětí a mládeže Praha 6-Suchdol,
Company ID: 452 42 950

Dům dětí a mládeže Praha 7,
Company ID: 452 42 879

Fakultní základní umělecká škola Hudební a taneční fakulty AMU v Praze, (Art School and School of Music and Dance of the Academy of Performing Arts in Prague,)
Company ID: 673 61 471

Galerie hlavního města Prahy
(Gallery of the Capital City of Prague),
Company ID: 000 64 416

Gymnázium a Hudební škola hlavního města Prahy, (Grammar school and School of music of the Capital City of Prague)
Základní umělecká škola (Elementary School of Art),
Company ID: 708 74 204

Gymnázium Elišky Krásnohorské, (Grammar School)
Company ID: 003 35 533

Gymnázium Christiana Dopplera (Grammar School)
Company ID: 613 85 701

Gymnázium Jana Keplera (Grammar School)
Company ID: 613 88 246

Gymnázium Jana Nerudy, škola hlavního města Prahy,
(Grammar School)
Company ID: 708 72 767

Gymnázium Jaroslava Heyrovského,
(Grammar School)
Company ID: 604 46 234

Gymnázium Karla Sladkovského, v
Company ID: 613 85 131

Gymnázium Na Pražačce, (Grammar School)
Company ID: 604 61 675

Gymnázium Opatov, (Grammar School)
Company ID: 493 66 629

Gymnázium, (Grammar School)
Company ID: 631 09 026

Gymnázium, (Grammar School)
Company ID: 61385,379

Gymnázium, (Grammar School)
Company ID: 61385,361

Gymnázium, (Grammar School)
Company ID: 61388,106

Gymnázium, (Grammar School)
Company ID: 00335,479

Gymnázium, (Grammar School)
Company ID: 00335,487

Gymnázium, (Grammar School)
Company ID: 61385,298

Gymnázium, (Grammar School)
Company ID: 61386022

Gymnázium, (Grammar School)
Company ID: 49625446

Gymnázium, (Grammar School)
Company ID: 61385476

Gymnázium, (Grammar School)
Company ID: 61387509

Gymnázium, (Grammar School)
Company ID: 604 60 784

Gymnázium, (Grammar School)
Company ID: 60445475

Gymnázium, (Grammar School)
Company ID: 63831562

Gymnázium, (Grammar School)
Company ID: 61388149

Capital City of Prague
Company ID: 000 64 581

Hotelová škola Radlická,
Company ID: 604 46 242

Hudební divadlo v Karlíně,
Company ID: 000 64 335

Hvězdárna a planetárium hlavního města
Prahy, (Observatory and Planetarium of the
Capital City of Prague)

Company ID: 000 64 441

Institut plánování a rozvoje hlavního města Prahy, (Institute of
Planning and Development of the Capital City of Prague)
Company ID: 708 83 858

Integrované centrum pro osoby se zdravotním postižením Horní
Poustevna (Centre for Persons with Health Disabilities),
Company ID: 708 72 686

Integrované centrum sociálních služeb Odlochovice, (Social
Service Centre)
Company ID: 708 75 324

Jedličkův ústav a Mateřská škola a Základní škola a Střední
škola,
Company ID: 708 73 160

Karlínské gymnázium, (Grammar School)
Company ID: 613 89 064

Kolektory Praha, a.s.,
Company ID: 267 14 124

Kongresové centrum Praha, a.s., (Congress centre)
Company ID: 630 80 249

Lesy hl. m. Prahy, (Forestry of the Capital City of Prague)
Company ID: 452 47 650

Mateřská škola a Základní škola, (Kindergarten and Elementary
School)
Company ID: 708 48 572

Mateřská škola speciální Sluníčko, (Special Kindergarten)
Company ID: 638 31 708

Mateřská škola speciální, (Special Kindergarten)
Company ID: 604 46 633

Mateřská škola speciální, (Special Kindergarten)
Company ID: 638 32 674

Městská divadla pražská,
Company ID: 000 64 297

Městská knihovna v Praze, (City Library)
Company ID: 000 64 467

Městská nemocnice následné péče, (City Hospital)
Company ID: 452 45 84

Městská poliklinika Praha,
Company ID: 001 28 601

Minor,
Company ID: 000 64 351

Museum Kampa – Nadace Jana a Medy Mládkových, (The Jan and
Meda

Mládek Foundation)
Company ID: 493 70 499

Muzeum hlavního města Prahy, (Museum of the Capital City of
Prague)
Company ID: 000 04 432

Národní kulturní památka Vyšehrad, (National Heritage Monument)
Company ID: 004 19 745

Obecní dům, a.s.,
Company ID: 272 51 918

Obchodní akademie Bubeneč, (Business Academy)
Company ID: 613 84 534

Obchodní akademie Dušní, (Business Academy)
Company ID: 708 37 872

Obchodní akademie Vinohradská, (Business Academy)
Company ID: 613 86 774

Obchodní akademie, (Business Academy)
Company ID: 613 85 387

Obchodní akademie, (Business Academy)
Company ID: 701 07 050

Odborné učiliště Vyšehrad, (Vocational School)
Company ID: 604 36 735

Palata – Domov pro zrakově postižené, (House for Visually Impaired)
Company ID: 708 72 783

Pedagogicko-psychologická poradna pro Prahu 10,
Company ID: 604 61 926

Pedagogicko-psychologická poradna pro Prahu 11 a 12,
Company ID: 481 35 054

Pražská energetika, a.s.,
Company ID: 601 93 913

Pražská informační služba – Prague City Tourism,
Company ID: 000 64 491

Pražská konzervatoř,
Company ID: 708 37 911

Pražská strojírna a. s.,
Company ID: 60193,298

Pražské služby, a.s.,
Company ID: 601 94 120

Sady, lesy a zahradnictví Praha, státní podnik v likvidaci,
(Prague's forestry and gardens, state enterprise in bankruptcy)
Company ID: 000 63 347

Smíchovská střední
průmyslová škola, (Secondary
School of Industry)
Company ID: 613 86 855

Správa pražských hřbitovů,
Company ID: 452 45 801

Správa služeb hlavního města Prahy,
Company ID: 708 89 660

Středisko praktického vyučování,
Company ID: 006 39 184

Střední odborná škola civilního letectví,
Company ID: 006 39 494

Střední odborná škola Jarov,
Company ID: 003 00 268

Střední odborná škola pro administrativu
Evropské unie,
Company ID: 148 91 247

Střední odborná škola,
Company ID: 452 48 001

Střední odborné učiliště gastronomie,

Company ID: 411 90 726

Střední odborné učiliště gastronomie a podnikání,
Company ID: 496 29 077

Střední odborné učiliště kadeřnické,
Company ID: 006 39 028

Střední odborné učiliště, Praha-Radotín,
Company ID: 006 38 846

Střední odborné učiliště,
Company ID: 148 91 531

Střední průmyslová škola dopravní, a.s.,
Company ID: 256 32 141

Střední průmyslová škola elektrotechnická,
Company ID: 613 85 409

Střední průmyslová škola elektrotechnická,
Company ID: 613 85 301

Střední průmyslová škola na Proseku,
Company ID: 148 91 239

Střední průmyslová škola sdělovací techniky,
Company ID: 613 88 866

Střední průmyslová škola stavební Josefa Gočára,
Company ID: 496 24 05

Střední průmyslová škola strojnická, škola hlavního města Prahy,
Company ID: 708 72 589

Střední škola – Centrum odborné přípravy technickohospodářské,
Company ID: 148 91 212

Střední škola a Mateřská škola Aloyse Klara,
Company ID: 006 38 625

Střední škola a vyšší odborná škola umělecká a řemeslná,
Company ID: 148 91 263

Střední škola automobilní a informatiky,
Company ID: 004 97 070

Střední škola designu a umění, knižní kultury a ekonomiky Náhorní,
Company ID: 613 88 262

Střední škola dostihového sportu a jezdeckví,
Company ID: 000 69 621

Střední škola elektrotechniky a strojírenství,
Company ID: 006 39 133

Střední škola obchodní,
Company ID: 005 49 185

Střední škola, Základní škola a Mateřská škola pro sluchově postižené,
Company ID: 481 34 058

Střední škola, Základní škola a Mateřská škola,
Company ID: 708 35 578

Symfonický orchestr hlavního města Prahy FOK,
Company ID: 000 64 475

Školní jídelna, Praha 5-Smíchov, Štefánikova 11/235,
Company ID: 708 42 132

Švandovo divadlo na Smíchově,
Company ID: 000 64 327

Technická správa komunikací hl. m. Prahy, a.s.,
Company ID: 034 47 286

Technologie hlavního města Prahy, a.s.,
Company ID: 256 72 541

TRADE CENTRE PRAHA a.s.,
Company ID: 004 09 316

Výstaviště Praha, a.s.,
Company ID: 256 49 329

Vyšší odborná škola a Střední průmyslová škola dopravní,
Company ID: 708 37 899

Vyšší odborná škola a Střední průmyslová škola elektrotechnická Františka Křižíka,
Company ID: 708 37 881

Vyšší odborná škola a Střední umělecká škola Václava Hollara,
Company ID: 613 86 871

Vyšší odborná škola ekonomických studií, Střední průmyslová škola potravinářských technologií a Střední odborná škola přírodovědná a veterinární,
Company ID: 613 85 930

Vyšší odborná škola grafická a Střední průmyslová škola grafická,
Company ID: 708 37 783

Vyšší odborná škola informačních studií a Střední škola elektrotechniky, multimédií a informatiky,
Company ID: 148 91 409

Vyšší odborná škola pedagogická a sociální, Střední odborná škola pedagogická a Gymnázium,
Company ID: 613 88 068

Vyšší odborná škola stavební a Střední průmyslová škola stavební,
Company ID: 613 88 726

Vyšší odborná škola uměleckoprůmyslová a Střední uměleckoprůmyslová škola,
Company ID: 613 88 025

Vyšší odborná škola zdravotnická a Střední zdravotnická škola,
Company ID: 006 38 749

Vyšší odborná škola zdravotnická a Střední zdravotnická škola,
Company ID: 006 38 722

Základní škola a Mateřská škola,
Company ID: 701 02 431

Základní škola a Střední škola Karla Herforta,
Company ID: 604 36 107

Základní škola a střední škola waldorfská,
Company ID: 70922,306

Základní škola a Střední škola,
Company ID: 613 85 450

Základní škola logopedická a Mateřská škola logopedická,
Company ID: 613 85 425

Základní škola pro žáky s poruchami zraku,
Company ID: 481 33 035

Základní škola pro žáky se specifickými poruchami
chování,
Company ID: 677 74 172

Základní škola pro žáky se specifickými poruchami
učení,
Company ID: 683 79 919

Základní škola speciální a Praktická škola,
Company ID: 684 07 157

Základní škola speciální,
Company ID: 654 01 646

Základní škola Tolerance,
Company ID: 708 31 025

Základní škola Vokovice,
Company ID: 604 61 969

Základní škola,
Company ID: 708 45 964

Základní umělecká škola Charlotty Masarykové,
Company ID: 604 46 889

Základní umělecká škola Ilji Hurníka,
Company ID: 006 39 338

Základní umělecká škola Klementa Slavického,
Company ID: 673 60 572

Základní umělecká škola Vadima Petrova,
Company ID: 452 45 118

Základní umělecká škola
(Elementary School of Art),
Company ID: 604 60 041

Základní umělecká škola
(Elementary School of Art),
Company ID: 708 32 897

Základní umělecká škola
(Elementary School of Art),
Company ID: 700 98 506

Základní umělecká škola
(Elementary School of Art),
Company ID: 613 85 433

Základní umělecká škola
(Elementary School of Art),
Company ID: 613 87 894

Základní umělecká škola
(Elementary School of Art),
Company ID: 481 35 143

Základní umělecká škola
(Elementary School of Art),
Company ID: 613 85 093

Základní umělecká škola
(Elementary School of Art),
Company ID: 684 07 289

Základní umělecká škola
(Elementary School of Art),
Company ID: 452 42 593

Základní umělecká škola
(Elementary School of Art),
Company ID: 613 87 452

Zdravotnická záchranná služba hlavního města Prahy,
Company ID: 006 38 927

Zoologická zahrada hl. m. Prahy,
Company ID: 000 64 459

Želivská provozní a.s., ,
Company ID: 29131,804

b) Other agreements

Dopravní podnik hl. m. Prahy, a.s.,
Company ID: 000 05 886 – Right of lien agreement

Divadlo Na zábradlí,
Company ID: 000 64 394 – Cooperation agreement

Domov pro seniory Krč, (Nursing house),
Company ID: 708 74 212 – Agreement on sale of compressed
natural gas (CNG) and use of the non-transferable customer
cards

Capital City of Prague
Company ID: 000 64,581 – Non-residential Property Lease
Agreements, Agreements on lease of parking space,
Agreements on lease of business space, Agreement on
establishment of an easement

Kolektory Praha, a.s.
Company ID: 267 14 124 – Agreement on sale of compressed
natural gas (CNG) and use of the non-transferable customer
cards

Lesy hl. m. Prahy,
Company ID: 452 47 650 – Agreement on promotional activities

Městská knihovna v Praze, (City Library)
Company ID: 000 64 467 – Brusnice loan contract

Městská poliklinika Praha,
Company ID: 001 28 601 – Agreement on sale of
compressed natural gas (CNG) and use of the non-
transferable customer cards

Museum hlavního města Prahy (Museum of the Capital City of
Prague),
Company ID: 000 64 432 – Exhibition loan contract

Obchodní akademie (Business Academy)
Company ID: 613 85 387 – Professional practice agreement

Obchodní akademie Vinohradská, (Business Academy)
Company ID: 613 86 774 – Professional practice agreement

Obecní dům, a. s.
Company ID: 272 51 918 – Agreement on promotional activities

Pražská energetika, a.s.,
Company ID: 601 93 913 - EFET contract (purchase / sale of natural gas), framework contract on the transfer of unused tolerance, contracts on the lease of non-residential premises, contract on the sublease of non-residential premises

Pražské služby, a.s.,
Company ID: 601 94 120 - contract for the sale and purchase of compressed natural gas and the use of a non-portable customer card, agreements for promotion and advertising, agreement defining lease of CNG station, agreements defining promotional and advertising activities

Střední průmyslová škola elektrotechnická,
(Secondary school of electronics)
Company ID: 613 85 409 – Professional practice agreement

Střední průmyslová škola stavební Josefa Gočára,
Company ID: 496 24 059 – Professional practice agreement

Střední škola designu a umění, knižní kultury a ekonomiky Náhorní, (Secondary school of design, art, culture and economics)
Company ID: 613 88 262 – Professional practice agreement

Výstaviště Praha, a.s.,
Company ID: 256 49 329 – agreement on promotional activities

Zoologická zahrada hl. m. Prahy, (Prague ZOO)
Company ID: 000 64 459 – Agreement on sale of compressed natural gas and use of the non-transferable customer card

2.2.2. Contracts signed between PP, a.s., and PPH a.s.

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

- a) Agreement on provision of services
- b) Agreement on lease of movable assets
- c) Agreement on lease of business premises
- d) Agreement on cash-pooling within the PP, a.s. Group

2.2.3. Overview of the conduct of the controlled party in favour of or upon request of the related parties

In the relevant period, based on the decision of Pražská plynárenská Holding a.s., as the sole shareholder acting as General Meeting, Pražská plynárenská, a.s. was not (with the exception of the profit share paid to the shareholder in the amount of 520,000 thousand CZK), no negotiations were made which would affect the assets of Pražská plynárenská, a.s., close value would exceed 10% of the equity of Pražská plynárenská, a.s., - according to the latest financial statements, i.e. the value of which would exceed the amount of 260,703 thousand CZK according to the financial statement as of 31 December 2019.

2.3. Other legal acts

A memorandum has been concluded with the Capital City of Prague defining cooperation and mutual support for youth focusing on preparation of young adults to study for vocational certificates in 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 chapter 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 2019 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 as 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 the main operator of the natural gas distribution network in Prague.

2.6. Other facts

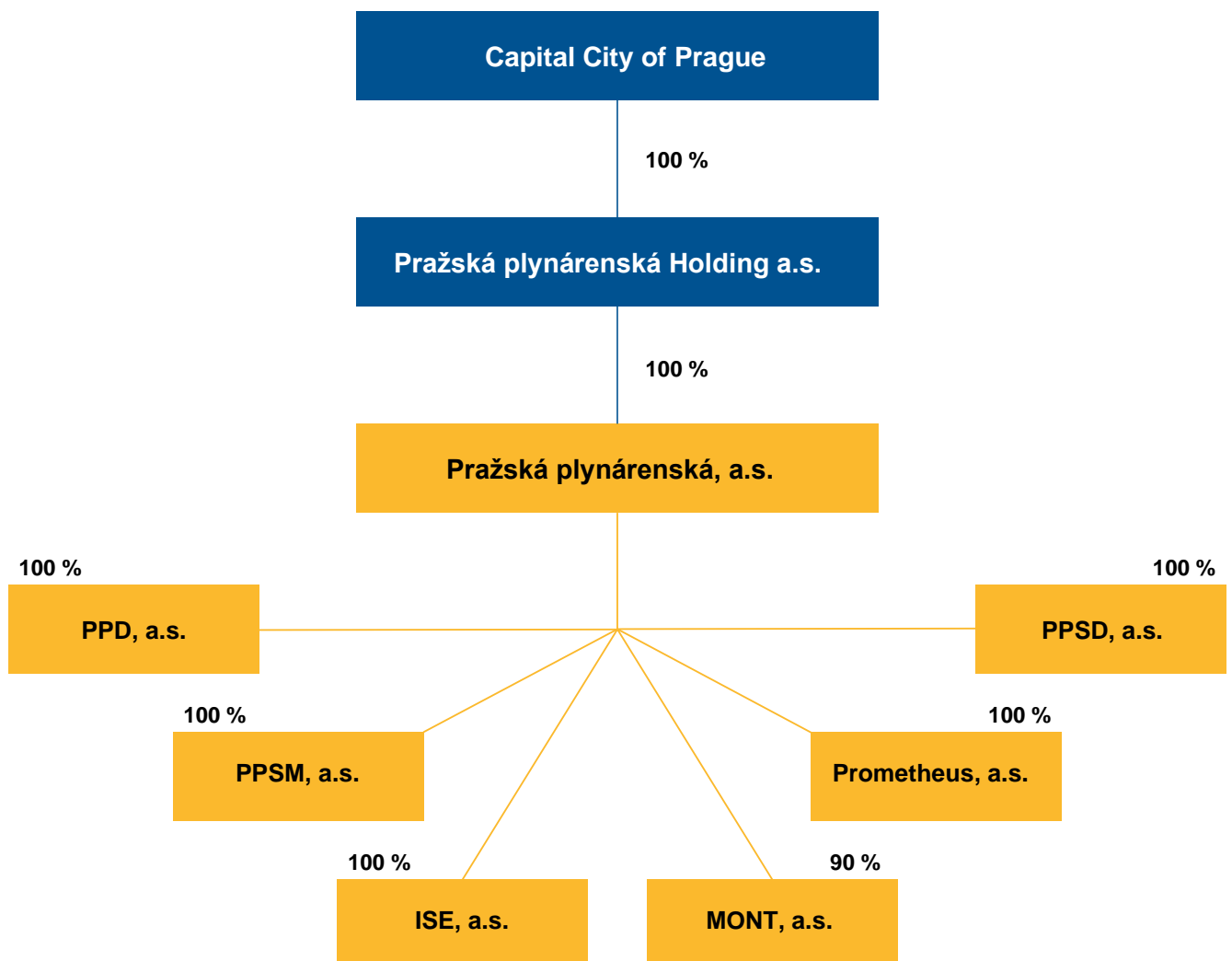
2.6.1. Cooperation between PP, a.s., and Pražská energetika, a.s.

In 2019, cooperation continued between PP, a.s., and Pražská energetika, a.s., within the project 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 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 between Pražská plynárenská, a.s. and related parties as of 31 December 2019



X. 2019 Annual report on the provision of information pursuant in line with Act No. 106/1999 Coll., on free access to information

ANNUAL REPORT

2019 Annual report on the provision of information in line with Act No. 106/1999 Coll., on free access to information

Within the meaning of Section 18 of the Act No. 106/1999 Coll., defining free access to information, as amended (hereinafter the “**Act**” only), Pražská plynárenská, a.s. publishes this annual report which defines its activities relating to information sharing during 2019:

a) Number of submitted applications to release information and number of issued decisions to reject such application:

A total of 2 applications were submitted

The obligated entity rejected 2 applications.

b) Number of appeals submitted against issued decisions:

One appeal was submitted against the issue a decision.

c) A copy of the essential parts of each decision of the court reviewing the legality of the decision issued by the obligated entity to reject the application for information and an overview of all expenses incurred by the obligated entity in connection with legal proceedings and rights followed under this Act, including costs of the obligated entity covering its own staff and legal representation expenses:

No court rulings have been issued. The total costs incurred by the entity in connection with court proceedings under the Act represented CZK 49,500.00.

d) List of exclusive licences granted, including justification for the issuance of an exclusive license:

No exclusive licence was granted.

e) Number of complaints submitted in line with Section 16a, reasons for the complaint filing and brief description of complaint settlement procedures:

One complaint has been submitted challenging the procedure followed in connection with the application to receive information in line with Section 16a of the Act. The complaint was submitted due to inactivity of the obligated entity. The complaint was submitted at the Magistrate of the City of Prague, which forwarded the complainant to the obligated entity for processing while explaining that the Magistrate is not the superior body of the obligated entity. Subsequently, the obligated entity in accordance with Section 87 of Act No. 500/2004 Coll., of the Administrative Code of Procedure, which applies pursuant to the provisions of Section 20 item 4 of Act No. 106/1999 Coll., evaluated the application and called upon the applicant in accordance with Section 14 item 5 letter b) of the Act, to clarify the application.

f) Other information related to the application of this Act:

Information concerning the possibility to exercise the right to receive information under the Act is available to applicants at ppas.cz website and also at the company filing office at Národní 37/38, 110 00 Prague 1.

On 11/10/ 2019, the Board of Directors of Pražská plynárenská Holding a.s. as the statutory representative of the sole shareholder acting as the General Meeting of Pražská plynárenská, a.s., issued a resolution on 27 October 2019 instructing all members of the Board of Directors of Pražská plynárenská, a.s. to act as a obligated entity pursuant to Section 2 item 1 of the Act. Starting on this date, Pražská plynárenská, a.s. handles all statutory obligations of the obligated entity, including applications.

25 February 2020

25 February 2020

Ing. Pavel Janeček

Ing. Milan Jadlovní

Chair of the Board of Directors
Pražská plynárenská, a.s.

Vice-Chair of the Board of Directors
Pražská plynárenská, a.s.

XI. Abbreviations

a.s.	joint-stock company
OSH	Occupational Safety and Health
CNG	compressed natural gas
CZK	Czech crown
č.ú	Account Number
ČNB	Czech National Bank
CR	Czech Republic
ČSOB, a.s.	Československá obchodní banka, a. s.
DIČO	Tax identification number (VAT)
DOM	household customer – natural person using gas for personal needs connected with housing or for personal needs of members of the natural person's household
VAT	value added tax
EEX	European Energy Exchange
EMS	Environmental management system
ERÚ/ERO	Energy Regulatory Office
EU	European Union
EUR	Euro – common currency of the European Union
GmbH	Gesellschaft mit beschränkter Haftung (German abbreviation for a limited liability company)

GDP	Gross domestic product
IFRS	International accounting standards
ICT	Information and communication technology
IČO	Company ID number
ISE, a.s.	Informační služby – energetika, a.s.
ISIN	identification number under which a share was recorded at the Centrálním depozitáři cenných papírů, a.s. (Securities Centre / Central Depository of Securities)
ISO	International Organization for Standardization
CZK	Czech crown
kg	kilogramme
pc piece	
m³	cubic meter
MČ	City District
mil. million	
mld.	billion
MONT, a.s.	MONTSERVIS PRAHA, a.s.
MO	Small customer – end (low-volume) customer who is not a large, medium-sized or household customer
MOO	Electricity retail customer, population
MOP	Electricity retail business

MWh	megawatt hour
OTE	market operator
PO	Fire prevention
PP, a.s.	Pražská plynárenská, a.s.
PPD, a.s.	Pražská plynárenská Distribuce, a.s., Member of the Pražská plynárenská, a.s. Group
PPH a.s.	Pražská plynárenská Holding a.s.
PPSD, a.s.	Pražská plynárenská Servis distribuce, a.s., Member of the Pražská plynárenská, a.s. Group
PPSM, a.s.	Pražská plynárenská Správa majetku, a.s., Member of the Pražská plynárenská, a.s. Group
Prometheus, a.s.	Prometheus, energetické služby, a.s., Member of the Pražská plynárenská, a.s. Group
PSČ	Postal Code
s. p.	state enterprise
s. r. o.	limited liability company
Coll. Republic	Collection of the laws of the Czech Republic
SEZ/OEB	Stará ekologická zátěž/Old Ecological burden
SO	Medium-sized customer – natural person or legal entity whose offtake gas facility is connected to the transport or distribution system and whose annual consumption at the offtake point is at least 630 MWh but does not exceed 4,200 MWh

Tel.	telephone number
Tis.	thousand (in thousands)
TV	Television
VH	Net profit/loss
VN	high-voltage
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
ZHMP	Prague City Assembly

A close-up photograph of a person's feet. They are wearing brown suede shoes and colorful socks. The socks have various patterns: one is solid red, another is solid green, and a third is blue with white horizontal stripes. The feet are resting on a light-colored wooden floor. In the background, a white radiator is visible, and a white cloth or towel is draped over it. The overall scene suggests a warm, cozy indoor environment.

Comfortable and
warm home gives
us energy and
keeps us going

XII. Auditor's Report



Report of an 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 2019, its consolidated financial performance and consolidated cash flows for the year ended 31 December 2019 in accordance with the International Financial Reporting Standards as adopted by the European Union.
- the attached individual financial statements give a faithful and fair picture of the financial position of the Company itself as at 31 December 2019, its financial performance and cash flows for the year ended 31 December 2019 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 of 31 December 2019,
- Consolidated statement of comprehensive income for the year ended 31 December 2019,
- Consolidated statement of changes in equity for the year ended 31 December 2019,
- Consolidated statement of cash flows for the year ended 31 December 2019,
- Notes to 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:

- Consolidated statement of financial position as of 31 December 2019,
- Statement of comprehensive income for the year ended 31 December 2019,
- Statement of changes in equity capital for the year ended 31 December 2019,
- Cash flow statement for the year ended 31 December 2019,
- notes to the individual financial statements, which contain the significant accounting methods and other explanatory information.

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**to the shareholder of Pražská plynárenská, a.s.
Report of the Independent Auditor**

Basis for the statement

We conducted the audit in compliance with the Act on Auditors, Regulation of the European Parliament and the Council (EU) No. 537/2014 ("EU Regulation") and in line with Regulation and the auditing standards of the Chamber of Auditors of the Czech Republic, which are the International Standards on Auditing (ISA), and where applicable also based on supplemented and modified 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, and we also fulfilled other ethics duties arising from the stated regulations.

Access to the audit

Overview



The overall level of confidence is set at 1% of the Group's consolidated revenues, or rather individual revenues of the Company, which represents CZK 149 million for the consolidated financial statements and CZK 143 million for the individual financial statements.

The Company and all its subsidiary companies were audited by PwC office in Prague, Czech Republic.

Adequacy / appropriateness of reporting, valuations, measurement and disclosure of leases and disclosures due to the initial application of IFRS 16 Leases

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 particular, we established areas where the management applied its judgement e.g. in case of significant accounting estimates, which include 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 the fact whether prejudice was not applied as this 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 is planned in such a manner as for us to obtain reasonable assurance that the financial statements are free from material misstatement due to fraud or error. Misstatements are considered as 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.



**Shareholder of Pražská plynárenská, a.s.
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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.

The overall confidence level of the Group	149 million CZK (311 million CZK in the previous period)
The overall confidence level for the Company itself	143 million CZK (297 million CZK in the previous period)
Procedure	The confidence level for the Group and Company was determined as 1 % 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/confidence. 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. In our opinion, 1% as an applied percentage adequately takes into account the risk profile of the Group and the Company.

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.



**Shareholder of Pražská plynárenská, a.s.
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Major audit issues

Adequacy / appropriateness of reporting, valuations, measurement and disclosure of leases and disclosures due to the initial application of IFRS 16 - Leases

See Note 3 to the consolidated and separate financial statements regarding the impact of the initial application of the new accounting standard for leases "International Financial Reporting Standard 16 Leasing" (hereinafter "IFRS 16").

How the audit dealt with the major audit issues

Our procedures included:

- Assessment of the impact analysis prepared by the management for different types of leases.
- Assessment of the appropriateness of the methods used to determine the impact of the initial application of IFRS 16.
- Testing of amendments due to the transition over to IFRS 16 as of 1 January 2019 calculated by management using a selected sample, in order to verify the correctness and completeness of source documents (contracts).
- Assessment of the adequacy and completeness of disclosures related to IFRS 16 in consolidated and separate financial statements.

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, involvement of individual companies in the financial position and results achieved by the Group as well as the specifics of the relevant sectors where the Group and Company operate.

The Group consists of the Company and six 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.



**Shareholder of Pražská plynárenská, a.s.
Report of the Independent Auditor**

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 Board of Directors, Supervisory Board and the Audit Committee regarding 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.

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 to 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 monitoring the process of preparing both 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 shall in all cases reveal any existing material misstatement in the financial statements. Misstatements may arise in consequence of fraud or error and are considered as 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.



**Shareholder of Pražská plynárenská, a.s.
Report of the Independent Auditor**

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 shall 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 to 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 to 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.

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 as 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 our 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 shall prevail over the benefits in terms of public interest.

Shareholder of Pražská plynárenská, a.s.
Report of the Independent Auditor

Report on other requirements stipulated by the legal regulations

In compliance with Article 10, para. 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

On 14 September 2018 the company General Meeting has appointed us as the company auditor for 2018, 2019 and 2020. We have been the Company's auditor for 10 consecutive years.

Non-audit services provided

In addition to the mandatory audit, we have also provided the Group with the following services not mentioned in the notes to the financial statement or in the annual report:

- Authorized accounting consultancy in the total amount of CZK 232,000.

The PwC network did not provide banned services defined in Article 5 of the EU Regulation.

17 March 2020

Represented by

Ing. Václav Prýmek

Ing. Petra Jirková Bočáková
Statutory Auditor, Authorization No. 2253

