

# ANNUAL REPORT

17

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



**170** let pražského plynárenství



**PRAŽSKÁ**  
**PLYNÁRENSKÁ**  
Spojení energií i služeb



**170**  
years

of the Prague  
gas industry

ALREADY AT THE  
TIME, WE LIGHTED  
THE WAY FOR THEM



PRAŽSKÁ  
PLYNÁRENSKÁ

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This annual report was compiled pursuant to Act No. 563/1991 Coll., on accounting, as amended and Act No. 90/2012 Coll., Act on business corporations and co-operatives (Corporations Act), as amended.

All the documents and materials stated in the annual report may be viewed at Company head office.

Prague, 20 March 2018



**170**  
years

of the  
Prague gas  
industry

ALREADY AT THE TIME,  
GAS WAS USED AS A  
PROPELLANT FUEL

# FOREWORD BY THE CHAIRMAN OF THE BOARD OF DIRECTORS

Dear ladies and gentlemen,

If I were to characterize the era we are living in at present, I would call it a period of changes. We are practically encountering them at every step, and regardless of whether we want it or not, they impact our lives, plans and shape us to a certain extent. We cannot ignore the fact that the energy sector is also undergoing significant changes and even if we could discuss the issue of whether all of them are really sensible, to the merit of things and whether we sometimes somewhat pursue "blind alleys", this process is irreversible.

Against this background, Pražská plynárenská, a.s., is also changing these changes because it is a necessity if it wants to survive in the highly competitive market. In this respect, I am very glad that we are successfully initiating the necessary changes, for instance, in the area of gradual transition from supply of energy based only on the commodity itself to innovative products and services with added value. I also consider our activities in the area of alternative use of natural gas that we are realising with our subsidiary companies to be very important.

It is also thanks to this that I can state with pleasure that the past year was successful for Pražská plynárenská, a.s. The planned economic results were not only fulfilled, but also exceeded substantially and our Company maintained its position in the highly competitive market. In this connection I would like to thank not only all employees for their good work, but also our business partners for their helpfulness and cooperation, and especially our customers who have been very loyal to our Company in the long term.

We are entering 2018 with the ambitious plan for further development and firmly believe that we shall successfully fulfil them and our customers shall perceive our company as a reliable energy supplier, on which they can rely at any time and that always does something extra for them.



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

# SELECTED COMPANY DATA

The information in this chapter applies to the individual financial statements unless stated otherwise. The individual financial statements were prepared in compliance with the Czech accounting legislation.

The average CZK/EUR exchange rate for 2017 is 26.330 CZK/EUR and is used to convert all data in the tables (also for the preceding years).

## BASIC COMPANY DATA

<b>Business company:</b>	Pražská plynárenská, a.s. („PP, a.s.“ or „Company“)
<b>Corporate Office:</b>	Prague 1 – Nové Město, Národní 37, Postal Code 110 00
<b>Company ID No.:</b>	601,93,492
<b>VAT Number:</b>	CZG0193492
<b>Incorporation in the Commercial</b>	The Municipal Court in Prague, Section B, Insert 2337
<b>Bank details:</b>	ČSOB, a.s., Account Number: 91G780043/0300
<b>Telephone:</b>	+420 2G7 171 111
<b>Data box ID:</b>	au7cgsv
<b>Business Offices:</b>	<ul style="list-style-type: none"> <li>■ Jungmannova 31, palác Adria, Prague 1</li> <li>■ U Plynárny 500, Building No. 37, Prague 4</li> <li>■ Palackého třída 1931/105, Pardubice</li> <li>■ Vítězná 2197, Sokolov</li> </ul>
<b>Website:</b>	<a href="http://www.ppas.cz">www.ppas.cz</a>  prazskaplynarenskaas  Pražská plynárenská a. s

## COMPANY PROFILE

Pražská plynárenská, a.s., traditionally belongs to the most important domestic energy suppliers and it has been a reliable energy supplier to approximately 410,000 consumption points all over the Czech Republic. It is a Czech supplier for which ensuring comfortable customer service, energy security and a wide range of premium services, often unique in the Czech Republic, are the main priorities in relation to customers. Its competitiveness is founded on the base of a stable and strong Company, responsible and fair approach and last but not least also on the ability to resiliently and quickly respond to the changing needs and requirements of the customers.

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

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

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

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

Pražská plynárenská, a.s., ranks among the most important domestic energy suppliers and supplies to almost 410 thousand consumption points

410 thousand of consumption points

in the entire Czech Republic.



## BASIC ECONOMIC INDICATORS (2013–2017)

			2013	2014 <sup>5</sup>	2015	2016	2017
Revenues	'000 CZK	8,942,537	14,221,895	15,891,270	12,158,535	12,470,081	
	'000 EUR	339,633	540,140	603,542	461,775	473,607	
Profit before tax	'000 CZK	624,908 <sup>3</sup>	812,636	771,589	1,337,553	1,395,265	
	'000 EUR	23,734	30,864	29,305	50,800	52,991	
After tax profit	'000 CZK	582,053 <sup>3</sup>	735,471	647,051	1,155,047	1,186,740	
	'000 EUR	22,106	27,933	24,575	43,868	45,072	
Equity capital	'000 CZK	6,872,400 <sup>4</sup>	6,823,774	3,878,801	5,009,169	6,049,839	
	'000 EUR	261,010	259,163	147,315	190,246	229,770	
Registered capital	'000 CZK <sup>1</sup>	1,439,907	1,439,907	431,972 <sup>6</sup>	431,972	431,972	
	'000 EUR	54,687	54,687	16,406	16,406	16,406	
Natural gas	Sales <sup>2</sup>	'000 MWh	6,620.1	14,380.7	17,933.8	12,595.4	13,460.1
		In million m <sup>3</sup> <sup>3</sup>	624.2	1,354.5	1,684.7	1,178.0	1,262.4
	Number of consumption points as of 31 December 12.		403,804	397,073	393,994	384,608	374,121
Electric power	Sales	'000 MWh	39.3	82.2	108.3	371.5	642.3
	Number of consumption points as of 31 December 12.		15,357	18,267	22,988	28,991	33,853

<sup>1</sup> Registered capital entered in the Commercial Register.

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

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

<sup>4</sup> In 2014 the revaluation of shares in subsidiaries and associates was performed using the equity method based on the decision of the Company's management. The data for 2013 was adjusted and fictitiously reported at their revaluation value using the equity method as of 1 January 2013. 1. 2013.

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

<sup>6</sup> The share capital was decreased by decision of the sole shareholder by the amount of CZK 1,007,935,000. CZK.

## SECURITIES ISSUED AS OF 31 DECEMBER 2017

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

The negotiability of the registered shares is limited. Their owner 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 shall mature in 2020. The Company's LEI Code is 315700QBYOTLGRRM0O11.

## OWNERSHIP STRUCTURE OF PRAŽSKÁ.PLYNÁRENSKÁ, a.s., Balance as at 31 December 2017

During the entire year 2017, Pražská plynárenská, a.s., was directly controlled by Pražská plynárenská Holding a.s. ("PPH a.s.") with registered office at U Plynárny 500/44, Michle, 140 00 Prague 4, Company ID No. The Capital City of Prague with registered office at Mariánské nám. 2, 110 01 Prague 1.

## CAPITAL INTERESTS

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

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

### Pražská plynárenská Distribuce, a.s., Member of the Pražská plynárenská, a.s. Group

address: Praha 4, U Plynárny 500, Postal Code 145 08  
Company ID No.: 274 03 505  
[www.ppdistribuce.cz](http://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. and operates the distribution network and offers gas distribution services (which were till then 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

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

address: U Plynárny 1450/2a, Michle, 140 00 Prague 4  
Company ID No.: 471 16 471  
[www.ppsd.cz](http://www.ppsd.cz)

Pražská plynárenská Servis distribuce, a.s. is a member of the Pražská plynárenská, a.s. Group ('PPSD, a.s.') that was established in 2005 by a merger of Praha–Paříž Rekonstrukce, a.s. and Opravy plynárenských zařízení s.r.o., which were both subsidiaries of Pražská plynárenská, a.s. The successor company was Praha–Paříž Rekonstrukce, a.s., which was subsequently renamed in 2006 to Pražská plynárenská Servis distribuce, a.s., Member of the Pražská plynárenská, a.s. Group As at 1 November 2014, the successor company PSD, a.s., merged with the dissolved company Měření dodávek plynu, a.s. PSD, a.s., provides complex services in the construction, servicing, repair and maintenance of all gas facilities (pipelines, connections, control stations, measuring devices, mobile natural gas supply, etc.) and also operates in the area of gas consumption equipment and industrial pipelines (gas

distribution systems in buildings from major closures to gas appliances). The company further provides all activities related to the construction of other engineering networks.

PPSD, a.s., provides gas emergency services on the pipeline equipment, connections and regulating stations, consumption gas equipment and gas pipelines for households. The Company provides all gas network related material, including the production and sale of boxes used for placing main gas caps, gas meters and regulating household equipment, respecting various combinations according to the needs of a particular customer. Further provided 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: Prague 4 – Michle, U Plynárny 500, Postal Code 145 08  
Company ID No.: 274 36 551  
[www.ppsm.cz](http://www.ppsm.cz)

Pražská plynárenská Správa majetku, a.s., Member of the Pražská plynárenská, a.s. Group 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 became effective on 19 December 2011.

The main mission of PPSM, a.s., is quality and effective provision of a broad portfolio of services for the companies of the PP, a.s. Group, and for external customers, especially in the following areas: comprehensive facility management, realization 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 an own confectionery, organisation of catering events, guarding of objects, registry services, energy services and inspection activities, OSH, FP, ecology and logistics.

### 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 No.: 630 72 599  
[www.promes.cz](http://www.promes.cz)

Prometheus, energetické služby, a.s., Member of the Pražská plynárenská, a.s. Group, ("Prometheus, a.s."), is the successor to Prometheus, energetické služby, s.r.o. By 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 complex energy services in the field of generation and distribution of thermal energy to its customers, 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

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

address: Praha 4, U Plynárny 500, Postal Code 141 00  
Company ID No.: 264 20 830  
[www.ise.cz](http://www.ise.cz)

Informační služby – energetika, a.s., ("ISE, a.s.") was initially founded on 20 December 2000 as a limited liability company. It was founded by the parent company PP, a.s., to rent hardware and software, for automated data processing, providing software, training and consultancy activities in the area of information technology, installation, 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 provision of maximally efficient operation of information systems while maintaining high standards of service and safety to users.

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

### INFORMATION ABOUT AN ORGANIZATIONAL UNIT ABROAD

Pražská plynárenská, a.s., had no organizational unit abroad as at 31 December 2017.

## ■ INFORMATION ABOUT THE COMPANY MANAGEMENT AND BODIES

### General Assembly

The General Assembly is the supreme body of the company.

### Board of Directors

The board of directors of PP, a.s., has four members. It is the statutory body of the Company, which runs all its operations and acts in its name. The office term of the individual members 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.

The structure of the board of directors as at 31 December 2017 was as follows:

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

The Board of Directors of PP, a.s., 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 Sales Management,
- Ing. Alois Těšitel is the head of Strategy Management,
- Ing. Milan Cízl is the head of Finance and Administration.

### Supervisory Board

The Supervisory Board of PP, a.s., is the controlling body of the Company, which oversees the performance of the powers of the Board of Directors, and elects and recalls its members and supervises the business activities of the Company. It comprises nine members and the office term of the individual members is five years according to the Company Articles.

On 5 January 2017, the sole shareholder of the Company, on behalf of the General Meeting, decided to recall Mgr. Ing. Martin Kopecký from the office of member of the supervisory board of Pražská plynárenská, a.s. Ing. Martin Kopecký. With effect from 6 January 2017, the sole shareholder elected Mr. Radomír Nepil, further with effect from 11 January 2017 Ing. Petra Zemanová and re-elected Mgr. Miroslav Vránek as a member of the supervisory board. Miroslav Vránek. On 10 January 2017, the office term of Ing. Marta Ptáčková on the board of directors ended. Marta Ptáčková.

The structure of the supervisory board as at 31 December 2017 was as follows:

- **Ing. Michal Hašek**, Chairperson of the Supervisory Board,
- **Mgr. Luboš Koželuh, MBA**, Vice-chairman of the Supervisory Board,
- **Bc. Martin Čáslavka**, Member of the Supervisory Board,
- **Petr Klepáček**, Member of the Supervisory Board,
- **Radomír Nepil**, Member of the Supervisory Board,
- **RNDr. Marcela Plesníková**, Member of the Supervisory Board,
- **JUDr. Štěpán Stupčuk**, Member of the Supervisory Board,
- **Mgr. Miroslav Vránek**, Member of the Supervisory Board,
- **Ing. Petra Zemanová**, Member of the Supervisory Board.

### Audit Committee

The Audit Committee of PP, a.s., consists of three members and the office term of the individual members according to the Company Articles 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.

On 26 September 2017, the sole shareholder on behalf of the General Assembly appointed the members of the Audit Committee of PP, a.s., in the following composition:

- **Ing. Pavlína Kouřilová**, from 1 October 2017,
- **Ing. Lenka Mrázová, FCCA**, from 1 October 2017,
- **Ing. Marta Ptáčková, od 1. ledna 2018**.

The Audit Committee of PP, a.s., at its meeting on 11 October 2017 elected Ing. Lenka Mrázová, FCCA, as chairperson of the audit committee

## Information about the members of the Board of Directors and Supervisory Board (given in the alphabetical order of their surnames)

### **Ing. Milan Cízl – Member of the Board of Directors responsible for management of the finance and administrative department**

In 2003, he graduated from the Faculty of Economics and Administration of Charles University in Brno and subsequently participated in a post-graduate Upon completion of his studies, he joined the consulting firm Ernst & Young, where he held various positions in the audit department with specialization on energy and financial institutions. In the period of 2008–2014, he worked for Patria Finance, a.s., in the field of financial management, first as deputy finance director and subsequently in the period of 2014–2016, he was finance director and vice-chairman of the Board of Directors in November 2016, he was elected member of the Board of Directors PP, a.s., and delegated to manage the finance and administrative department. Within the PP, a.s. Group, he is also a member of the Board of Directors of ISE, a.s.

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

In 2004 he graduated from the Faculty of Arts of the Charles University in Prague in the field of sociology and adult pedagogy. He studied International Economic Relations in Industrial Property at the Metropolitan University of Prague and further continues with his education in the field of Finance at the University of Economics and Management in Prague. In the period from 2001 to 2014, he worked in various middle and senior management positions in sales, marketing and project and process management in international companies. He was and still is a Member of statutory and supervisory bodies in several joint stock companies – Teplárna Liberec a.s. till 2011), Správa majetkového portfolia Praha 3 a.s. (member of the Board of Directors till 2012), Pražské služby, a.s., (member of the Board of Directors till 2015), 4-Majetková a.s. of the Board of Directors till 2016). He is the co-founder and a member of several non-profit organizations and initiatives, e.g. Veřejnost proti korupci. He is the author of the Prohaiti Project, which helped eliminate the consequences of the earthquake in Haiti in 2010. In his place of residence he is committed through the work in a non-profit organization which operates a forest nursery and environmental education centre. Since April 2015, he is a member of the Supervisory Board of Pražská plynárenská, a.s.

### **Ing. Michal Hašek – Chairperson of the Supervisory Board**

In the period of 1982 to 1987, he studied at the Faculty of Mechanical Engineering at the Czech Technical University in Prague with Economics and Engineering Production Management major. After graduation he worked for the Czech Trade Inspection Authority as chief commercial officer. In the period from 1991 to 1993 he was sales manager at H. Diamonds, s.r.o. From 1993, as a self-employed entrepreneur he was engaged in business and consulting activities in the modelling of traffic systems until 2001 when he assumed the position of manager. From 2011 he was self-employed in business and consulting services in the field of railways and other transport systems. From 2013 he worked as a Commercial and Technical Director - model and production facilities, including management and organization of deliveries of production units. From October 2014 to date, he is a councillor and Chairman of the political club at the Prague City Hall. Until October 2015, he was

councillor for Management of Assets and Capital Interests. In April 2015 he was elected Member of the Supervisory Board of PP, a.s., where he was subsequently elected its Chairman. In April 2016, he was elected Chairman of the Committee for European Funds of the Prague City Hall.

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

He studied Entrepreneurship and Management at VŠB-Technical University of Ostrava and has been gaining experience in the energy sector since 2002 in the sales and forecasts department at PP, a.s. Two years later, he was appointed head of strategic marketing and gas purchases and subsequently became head of the Director General's office in 2006. In September 2007 he was appointed the director of Pragoplyn, a.s., and was also elected the Member of the Board of Directors of this company. In April 2014 he became its Chairman and held this position until October 2014 when Pragoplyn, a.s. merged with PP, a.s. He was elected to the Board of Directors of PP, a.s., in March 2014 and is its Vice-Chairman from April of the same year. From August to October 2014, he was the Strategy Director of PP, a.s. In October 2014, the Board of Directors delegated him to lead the Strategy Department. On 1 May 2015, he was delegated by the Board of Directors to manage the Sales Department of PP, a.s. Within the PP, a.s. Group, he was also a member of the supervisory boards of PPSD, a.s., and Prometheus, energetické služby, a.s., Member of the PP, a.s. Group

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

He completed his studies at the Faculty of Electrical Engineering of the Czech Technical University in Prague between 1986 and 1991. After graduation, he worked as commercial and marketing manager for Cheming Pardubice (Suez). In the period from 1997 to 2013, he worked for Explorer Capital Investment, New York, which was the sole owner of Karma a.s., where he worked from 1998 to 2013 as From June 1998 to 2011, he also worked for Fég ZRt., Hungary as Management Advisor. In the period from 2004 to 2005, he also worked for Pergo (Trelleborg, Sweden). In October 2014, he was appointed manager of the Office of the Company Management of PP, a.s. He is also a member of several supervisory boards of the member companies of the PP, a.s. Group

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

After finishing studies at the Industrial High School in the field of furniture industry in 1981, he worked as a foreman in furniture production in Dřevo Měřín, v.d. In the 1987/1988 school year, he worked as a pedagogue for vocational trainees at Stavební a members Praha, s. p. From 1988, he is working at PP, a.s., (including its legal predecessors). At the beginning, his work focused on technical activities related to the measurement and monitoring of the energy consumption patterns of large customers. This was followed by business activities aimed at negotiating contracts and reporting for large customers, and eventually managed the department from 2005. From November 2012 he worked in another entity within the PP, a.s. Group, the subsidiary Pragoplyn, a.s., performing similar work responsibilities focusing on large customers and individual services, where in the period from April 2014 to November 2014 during the merger of PP, a.s., and Pragoplyn, a.s., he was a member of the Board of Directors of Pragoplyn, a.s. He has several years of gas trading experience and is currently the head of the sales department in PP, a.s. He is a member of the supervisory board of PP, a.s., from November 2015.

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

In 1987, he graduated from the Faculty of Education of the University of West Bohemia in Pilsen and subsequently worked here as a university teacher until 1995. After this, he was a partner and acting manager up to 1998 in a company engaged in financial consulting and was also a manager in a marketing and sports business company in the area of sports projects at national and international level. In the period from 1997 to 2007, he was active in top league hockey extra league club and from 1999 in HC Sparta Prague where he held the position of executive, subsequently general director and a member of the board of directors of HC Sparta Prague. Since 2000 he was a member of the Executive committee of Český svaz ledního hokeje (The Czech Ice Hockey Association), a Vice-chairman of ČSLH (The Czech Ice Hockey Association) and a chief executive of Asociace profesionálních klubů ledního hokeje (Association of Professional Ice Hockey Clubs) since 2004. He became a member of management and an executive director for Business Development in Česká pošta, s. p. in 2010 From 2013 to autumn 2016, he was CEO of the company STES a.s. He is currently engaged in the management of own companies. In the period from 2014 to 2016, he was a member of the supervisory board of PPD, a.s. From April 2015, he was elected Member of the Supervisory Board of PP, a.s., where he was also subsequently elected as its Chairman. Throughout his career, he was devoted to the development and partial management of a companies with own capital interests, mainly in marketing, sport, energy, real estate and agriculture.

**Radomír Nepil – Member of the Supervisory Board**

In 2005 after completion of his studies at secondary vocational school in the field of informatics, he worked for an Israeli investment company on the implementation of SAP. From 2007, he was ICT Project Manager in the SPGroup holding company. From 2011, he operated he was an entrepreneur in the field of ICT and real estate investments. In the period from 2011 to 2015, he was Executive Officer at Fisner s.r.o. From 2014 he is a councillor for Prague 8. In 2015, he became a member of the Supervisory Board of Operátor ICT a.s., and was elected as its chairman in 2016. from 2015 he was Chairman of the Supervisory Board of Osmá správa majetku a služeb a.s. In the period of 2016–2017, he was a member of the supervisory board of Pražská teplárenská Holding a.s. He is a member of the Supervisory Board PP, a.s., from January 2017.

**RNDr. Marcela Plesníková – member of the supervisory board**

In the period of 1981–1986, she completed her studies at the Faculty of Science of the Charles University in Prague, where she was later instructed in science training and worked as a specialist. In the period of 1989 - 2001, she was on maternity leave. After that she worked as a pedagogue at FZŠ Mezi Školami in Prague 13, where she was, among other things, engaged in environmental care issues. In 2008 she became a member of the Representative Council of the Municipality of Prague 13, where she was a member of the environmental committee (2008–2014) and vice chairperson of the committee for training and education (2010–2014). In 2014 she became the Deputy Mayor of Prague 13 and a member of the Council of the Prague City Hall and up to April 2016 she was Chairperson of the Committee for Environment, Infrastructure and Technical Equipment. From April 2016

she is Vice Chairperson of the Committee for Territorial Development and the Master Plan of the ZHMP and a member of the Committee for Training and Education of the ZHMP. She is also the Deputy Chairperson of the Foundation known as Cesta ke vzdělání and a member of the Monitoring Committee of Operational Programme Prague - Growth Pole of the Czech Republic. In the period from 2008 to 2010, she accomplished specialised studies for EVVO co-ordinators organised by the Prague City Hall. From 2003, she coordinated several projects focused on environmental care, among others, the project of the MEYS for support of environmental education, training and edification (EVVO), Environmental training, education and edification in the conditions of the Prague residential development schools with a representation of national minorities (2009–2010). She published 28 articles in professional print and made preparations for printing of She is a member of the Board of Directors of PP, a.s. since 2015.

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

He is a graduate of the Law Faculty of Charles University in Prague (she graduated in 2003). In 2007, he accomplished his rigorous examination and was awarded the title of JUDr. He is a member of ČSSD since 2005. In 2006, he was elected member of the Council for Prague 6 and in 2010 he became the Deputy Mayor for Municipal Assets and Legal Relations. He became a member of the Parliament of the Czech Republic in 2013. From April 2015, he is a member of the Supervisory Board PP, a.s.

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

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

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

Upon completion of studies at secondary vocational school, he gradually worked in the period from 1990 to 1991 at Elektromont Praha, a.s., Filmový podnik hl. m. Prahy, a.s., Pražská energetika, a.s. From 1991, he gradually worked at PP, a.s., as a technical operations officer, meter reading technician, meter reading technician and date verifier, head of the readings department, head of the technical business operations, heads of sales department, sales officer He is currently the head of the communications and PR department. He is a member of the Supervisory Board PP, a.s., from January 2007. Master's studies in the field of social and media communication.

**Ing. Petra Zemanová – member of the supervisory board**

In the period from 1999 to 2004 she studied the field of Informatics and System Engineering at the Faculty of Economics and Management of the Czech University of Life Sciences in Prague. She joined PP, a.s. as an internal auditor in 2004 after a half-year probation in the entire company. She was active in the field of internal audit up to 2010 when he gradually passed through several positions up to head of internal audit. From September 2010, she acquired experience in the field of sales and as head of the call centre sales support department and ensured changes in the suppliers of energy and processing of the written requirements of customers. She is currently the head of the head of the asset management department in the area of PP, a.s. assets, purchases and selection of suppliers. Within the PP, a.s. Group, she was a member of the Board of Directors of PPSD, a.s. in 2015. She is a member of the supervisory board PP, a.s. since January 2017.



**170**  
years  
of the  
Prague gas  
industry

ALREADY AT THE TIME, WE  
HELPED WITH COOKING

PRAŽSKÁ  
PLYNÁRENSKÁ



# REPORT OF THE BOARD OF DIRECTORS

## on the Company's Business Activities and State of Its Assets

The information in this chapter applies to the individual financial statements provided it is not stated otherwise. The individual financial statements were prepared in compliance with the Czech accounting legislation.

The average CZK/EUR exchange rate for 2017 is 26.330 CZK/EUR and is used to convert all data in the tables (also for the preceding years).

Recently, it is however possible to observe certain signals at global level that the structure of the acceptable primary energy sources, respectively the non-traditional and renewable sources, shall in future be dictated to a greater extent by the economic factors rather than ecology, which does not, however, entail abandonment of the efforts at achievement of a clean environment.

Fundamental changes are taking place in the energy sector, which are due to not only the cited development of energy policy but also the rapid technological development, which offers new opportunities and solutions. Themes such as diversification, decentralization, renewable sources, savings or accumulation are getting into the forefront and there is a gradual shift from fossil energy sources to the renewable sources, from centralized generation in big sources. This compels the energy companies to reconsider the current procedures and realize fundamental changes in the area of established business models.

### ■ ENERGY IN 2017

On the global scale, the major factor that shapes energy policy is the paradigm of climatic change. The key document in this respect is the Paris Convention; the European Union is one of the leaders in this field and this directly impacts its energy policy. The political agreements are gradually being incorporated into European and subsequently into national legislation, and are thus assuming binding character. In the Europe-wide context, it is not a rare observation that the national policies defend the primary interests of the individual States, which practically impacts the uniform European policy.

The European Union has earmarked reduction of the emissions of greenhouse gases through increase of energy efficiency, achievement of savings and increase of the share of renewable energy sources as the major directions for fulfilment of the environmental targets

### ■ INFORMATION ABOUT THE ASSETS AND FINANCIAL POSITION OF THE COMPANY

#### INFORMATION ABOUT THE MAIN AREAS OF ACTIVITY

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

#### SALES INFORMATION

Year		2015	2016	2017
Sales of own products and services	in thousands of CZK	15,550,241	11,737,955	11,987,166
	in thousands of EUR	590,590	445,802	455,266

Revenues were generated in the Czech Republic.

#### Breakdown of operating revenues by activity

Type of activity (in %)	2015	2016	2017
Revenue from sale of gas*	95.2	90.9	87.0
Revenue from sale of electricity*	2.1	5.7	9.5
Other operating revenues and income	2.7	3.4	3.5

\*Licensed activity.

## CAPITAL INVESTMENTS

	Acquisition cost	
	in million CZK	in million EUR
Investment expenditures in tangible fixed assets	45.1	1.7
Investment expenditures in intangible fixed assets	37.1	1.4
Total	82.2	3.1

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

The investment expenditures in tangible fixed assets mainly consist of investments in construction of CNG filling stations, information technologies and investments related to the company buildings within the premises at Michle and Národní. In 2017, the investments in intangible fixed assets were focused on information systems. All investments were realized in the Czech Republic.

## ■ Pre-tax profit/loss

Profit/Loss (in million CZK)	Facts 2017	Facts 2016	Comparison of facts 17/16
Operating economic result	1,199.9	1,008.7	191.2
Financial result	195.4	328.9	-133.5
Total profit/loss	1,395.3	1,337.6	57.7

Profit/Loss (in million EUR)	Facts 2017	Facts 2016	Comparison of facts 17/16
Operating economic result	45.6	38.3	7.3
Financial result	7.4	12.5	-5.1
Total profit/loss	53.0	50.8	2.2

## REVENUES

Revenues (in million CZK)	Facts 2017	Facts 2016	Comparison of facts 17/16
Total operating revenues	12,013.6	11,770.0	243.6
of which: natural gas sales*	10,453.5	10,694.2	-240.7
electric power sales*	1,136.8	671.7	465.1
Financial revenues	456.5	388.5	68.0
Total revenues	12,470.1	12,158.5	311.6

Revenues (in million EUR)	Facts 2017	Facts 2016	Comparison of facts 17/16
Total operating revenues	456.3	447.0	9.3
of which: natural gas sales*	397.0	406.2	-9.2
electric power sales*	43.2	25.5	17.7
Financial revenues	17.3	14.8	2.5
Total revenues	473.6	461.8	11.8

\*Licensing activities.

## COST

Costs* (in million CZK)	Facts 2017	Facts 2016	Comparison of facts 17/16
Running costs in total	10,813.7	10,761.3	52.4
of which: consumed gas costs**	6,353.2	6,990.6	-637.4
electric power purchase costs**	545.5	308.2	237.3
Financial costs	261.1	59.7	201.4
Total costs	11,074.8	10,821.0	253.8

Costs* (in million EUR)	Facts 2017	Facts 2016	Comparison of facts 17/16
Running costs in total	410.6	408.7	1.9
of which: consumed gas costs**	241.3	265.5	-24.2
electric power purchase costs**	20.7	11.7	9.0
Financial costs	9.9	2.3	7.6
Total costs	420.5	411.0	9.5

\*Excluding income tax on current operations.

\*\*Licensed activities without the distribution charge.

## ■ FINANCIAL SITUATION

In 2017, 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 the members of the PP, a.s. and the parent company PPH, a.s., via the cash pooling scheme.

In June 2017, PP, a.s., emitted bonds of total nominal worth 400 million CZK with a maturity of 3 years and a coupon with a fixed interest yield of 0.90 % p.a. The emission was made at a time of record low interest rates and the Company effectively secured long-term external financing.

Thanks to these issued bonds, Pražská plynárenská, a.s., shall attract the attention of the investors where the capital market offers an opportunity for future independence from credit funding.

Prior to issue of the bonds, the structure of short-term funding was based on refinancing instituted in 2016. The structure of the Company's external funding is contractually secured until May 2019 and includes overdraft credit lines, exchange program for drawing the necessary resources in the form bills of exchange in auctions and a line for negotiation of bank guarantees. Within the framework of maintaining the current volume of funding, the short-term funding volume was reduced by the volume of the intended bond issue just prior to the bond emission to prevent the secured short-term financing in the amount of 4.6 billion CZK and long-term financing in the amount of 0.4 billion CZK. These external financial resources are provided by a consortium of two banks, i.e. Československá obchodní banka, a.s., and Česká spořitelna, a.s.

Due to the positive development of the Company's cash flow, only the overdraft line on daily basis was drawn in 2017, which resulted in the optimal cover of the Company's cash flow development, which was influenced by the seasonal fluctuations related to the purchase and sale of energies. As at 31 December 2017 the Company had not drawn any bank loans; on the contrary it possessed short-term financial assets worth 1,325.5 million CZK. CZK. The drawn bank loans as at 31 December 2016 amounted to 40.8 million CZK. The reduction of the need to draw the bank loans is a consequence of the higher profit in 2016 and 2017 thanks to the effective business policy of the Company.

## ■ SUMMARY DESCRIPTION OF THE REAL ESTATE PROPERTY OWNED BY PP, a.s.

As at 31 December 2017 the Company owned property (land, buildings, and other structures) worth a total amount of CZK 1,148.1 million at cost. CZK. The buildings comprise mainly real estate at the address Národní 37/38 in Prague 1 and buildings located within the premises of Pražská plynárenská, a.s., in Prague 4 – Michle. The residual value of the real estate owned by the Company is worth 730.8 million CZK.

## NATURAL GAS TRADING

Natural gas trading ('000 MWh)	2017
Purchased natural gas	13,241.1
Sale of natural gas – total	13,460.1
Sale of natural gas – total	13,430.1
Sale of CNG	30.0

The business results of 2017 were influenced by the development of temperatures during the main heating season, thanks to which the natural gas consumption was higher, and the development of the purchase prices in 2016 when the market prices of the commodity reached a ten-year low levels, and thanks to the utilization of the storage capacities, the customers' consumption was covered by higher extraction of natural gas, which was stored in the heating season of 2016.

The market prices of the commodity gradually rose during 2017 and did not reach the 2016 price level. Subsequently, there was a rise in the pressure on the selling price and the margin especially in the last months of 2017.

During 2017, energy auctions were organised for end consumers from all customer segments, including households. PP, a.s., monitored and analysed all the announced auctions, and where a substantiated benefit existed for accomplishment of its targets, the Company also entered the auctions. Through sophisticated internal management processes for deliveries to the end consumers, PP, a.s., ranked among the most active and successful companies in the auctions. A significant share of the existing customers who made their orders through auctions were retained and new significant customers were also acquired from the entire Czech Republic. The victorious participation in auctions is one of the significant acquisition channels and positively contribute to the achievement of the Company's planned business results.

## ELECTRIC POWER SALES

Electric power sales (in thousand MWh)	2017
Electric power purchases	642.3
Sale of electricity	642.3

The 2017 results in the area of sale of electricity were affected by the persistent rise of the market prices of this medium from the beginning of the year. It was unpredictable growth, which was vigorous as compared with 2016. The momentum of the customer expectations based on the prices in the preceding period substantially reduced the realized margin leading to partial acceptance of the new conditions by the customers in the market only in the last months of the year.

Pražská plynárenská, a.s., which is traditionally perceived as a supplier of natural gas, is systematically building the image and awareness of the PP, a.s. brand, as a supplier of both energies. It responded to the activities of competitor companies with a price offer and expansion of the portfolio of services provided to the customers in all trading segments. In 2017 it expanded the offered services, e.g. by addition of the mediation of the installation of photovoltaic power plants for interested parties, including arranging subsidies, insurance of the photovoltaic power plants and purchase of the surplus generated electricity.

## MARKETING AND CUSTOMER CARE

### CUSTOMER CARE

Pražská plynárenská, a.s., focuses in the long term on building effective communication with its customers, offer of quality, affordable customer services and products.

Communication with the Company and easy clearance of customer requirements were ensured by the sales offices, and in the outlying areas of Prague a mobile business office, a customer portal, the website [www.ppas.cz](http://www.ppas.cz), a Facebook profile and a toll-free customer telephone line, all of which were available all-year-round. During the year, a new business office was successfully opened in Sokolov. BY this step, Pražská plynárenská, a.s., moved even closer to its customers in the given region.

For further communication, the customers may use the services of the group contact centre, which had been undergoing big development and transformation. Major steps have been taken, which allow better telephone call access for the customers, also better quality care and services thanks to the specialization of the staff. Further, an organizational change has occurred, which expanded the spectrum of services provided through active offers of products and services according to the specific needs of the customer.

Up to 31 March 2017, the customers had the opportunity to utilize a total of 24 branches of Česká pošta, s.p., in the regions of Eastern Bohemia, Central Bohemia and Northern Bohemia and get acquainted with the services of Pražská plynárenská, a.s., through stands with the most commonly offered discounts and services provided as well as customer benefits.

The customers could also use the branches to handle the most common requests related to the supply of natural gas and electricity and could at the same time contact the business representatives of PP, a.s. by filling in the contact form for processing of a non-binding natural gas or electricity supply offer. From 1 April 2017, co-operation continued at 86 branches of Česká pošta, s.p., in Prague.

Within the framework of additional price offers, new bonuses were introduced for electricity and gas products for small customers and households. Further interesting offers, which PP, a.s., has launched on the market, include mediation of the construction of photovoltaic power plants, including the handling of grants and insurance.

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

In the entire 2017, the customers from the Household category could use assistance service insurance for households, which include assistance in case of emergency situations (e.g. heating, electrical or locksmithing work) and that they got free-of-charge through Pražská plynárenská, a.s., together with the products for a fixed period. Insurance of assistance services is also provided to housing cooperatives and property owners associations.

In cooperation with partners, the customers of Pražská plynárenská, a.s., were provided with various additional benefits through which they could, for instance, purchase new gas boilers, heaters or CNG - driven vehicles under bargain conditions.

## LOYALTY PROGRAM

Through the Company's loyalty programme "Zákaznická karta Pražské plynárenské", the customers can receive interesting discounts and benefits in various areas (e.g. travelling, sport, cultural activities, accommodation etc.) at more than 90 project partners. to its customers free-of-charge and during the year, major competitions are organised for the card holders for foreign tour trips, spa stays and others.

Information about the current discount and benefit offers is communicated to the customers in a catalogue together with billing and is available also at the Company: website.

## THE COMPANY MAGAZINE

The company magazine "U Plynárny" was published all-year as a quarterly and was intended for current and future customers, business partners, representatives of the state administration and local government authorities as well as The individual copies are available in electronic format also at the website [www.ppas.cz](http://www.ppas.cz).

## CLEAN MOBILITY

### USE OF NATURAL GAS IN TRANSPORT

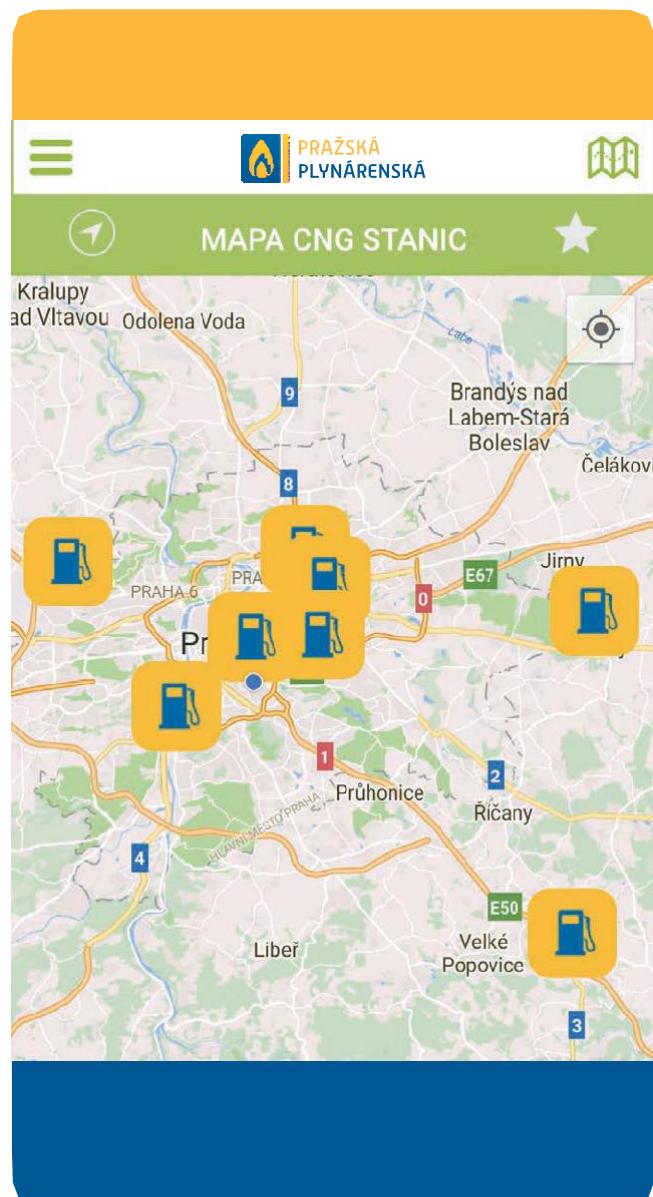
From the strategic documents (State Energy Concept, Transport Policy of the Czech Republic for the period of 2014–2020 with outlook to 2050, State Environmental Policy of the Czech Republic for 2012–2020, Clean Mobility National Action Plan) and analyses done, it follows that compressed natural gas (CNG) is minimally in the medium period horizon the best prepared alternative ecological fuel for transport in the Czech Republic. Pražská plynárenská, a.s., has been actively engaged in the field of clean mobility in the long term. By its development program focused on alternative use of natural gas in transport, it highly contributes to the reduction of greenhouse gas emissions. Also in 2017, Pražská plynárenská, a.s., ranked among the significant sellers of CNG in the Czech Republic. It continued building its CNG filling station network both in Prague and

### Sale of CNG

Pražská plynárenská, a.s., sold 1.984 million kg of CNG at its filling stations in 2017, which is higher 201,000 kg of CNG than The increase of sales by 11 % is related to the rising interest of customers in CNG and alternative fuels in general as well as

### CNG stations

At end of 2017 Pražská plynárenská, a.s., operated During the year, the Company launched the second public CNG station in Úvaly u Prahy in the Central Bohemian Region. In the territory of the City of Prague, is also owns and operates a CNG station in Prague at its premises in Michle, Prague 4, at the SHELL fuel station at Švehlova ulice in Prague 10, in the premises of Pražské služby, a.s., Pod Šancemi in Prague 9, at filling station Q100 in Prague 4 – Hodkovičky, at Evropská ulice in Prague 6 – Liboc and at the Depot of Česká pošta, s.p., at Sazecká ulice in Prague 10. In the Central Bohemia Region, it owns the CNG station in Mirošovice u Prahy. For all the stated stations, the customers have the option to pay with ordinary payment cards and the CNG CardCentrum card.





Pražská plynárenská, a.s., in 2017 supplied natural gas to additional 26 CNG stations in the Czech Republic, which are owned by private companies.

Another 9 new CNG stations were prepared and their realization started in 2017.

#### CNG vehicles

In Pražská plynárenská, a.s., and its subsidiary companies 210 CNG vehicles were operated at end of 2017 including the CNG car rental. As compared to 2016, this is an increase of 36 CNG vehicles.

It successfully continued the joint project of the Prague City Hall, Pražské služby, a.s., and Pražská plynárenská, a.s., relating to the operation of garbage collection and cleaning vehicles for compressed natural gas. In 2017 Pražské služby, a.s., commissioned another 18 trucks and vans + 1 car in addition to the current 120 CNG vehicles. Purchase of 12 CNG vehicles is planned in 2018. CNG communal vehicles are used mainly in the most ecologically burdened areas of the Prague City Centre. The area of electric vehicles shall be added gradually to the project.

Pražská plynárenská, a.s., participates in the CNG CardCentrum common payment system on the territory of the Czech Republic. As at 31 December 2017 Pražská plynárenská, a.s., issued a total of 4,471 CNG customer cards. 309 CNG cards were issued to new customers in 2017.

#### ELECTROMOBILITY

Within the framework of long-term and systematic development of clean mobility in Pražská plynárenská, a.s., and support for the development of low-emission transport in Prague in 2017, the company continued its activities in the field of The target is to build charging stations in selected locations of Prague, particularly for the municipality communal vehicles,

In 2017 the existing fast-charging stations for electric vehicles in the premises of Pražská plynárenská, a.s., in Michle were supplemented with the The charging station is intended for both electric vehicles of the PP, a.s., car rental and the vehicles of the employees and customers of Pražská plynárenská, a.s.

In 2017, electric vehicles were also available to the customers in the PP, a.s., car rental.

#### SOCIAL RESPONSIBILITY

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

The PP, a.s. Group is thus in addition to its business activities also focused on support for projects and subjects Apart from the long-term projects, which the Company prefers and carefully chooses, if necessary it also engages in short-term or long-term aid projects. The employees of Pražská plynárenská, a.s., also participate in charity activities and development projects in all sorts of areas. The one-off and recurrent events are thus attended by employees at all levels of the Company hierarchy.

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

The employees of Pražská plynárenská, a.s., take care of the good reputation of the company and develop it. They comply with legal regulations and do not overlook irregular conduct. They respect business partners and each other mutually. In all its activities, the PP, a.s. Group declares its commitment to ethical and unimpeachable conduct and respect for human rights while the minimum are the adopted internal standards of conduct anchored in the Code of Ethics. Pražská plynárenská, a.s., is aware of the gravity of the problem of corrupted conduct, and ii is for this reason that it adopted a set of measures, which should minimise any eventual risks. The employees undergo periodical training and may utilise the whistle blowing programme – contact the compliance manager personally, or submit the suggestions anonymously through the ethics line.

## ENVIRONMENT

The environmental policy of PP, a.s. Group focuses on further improvement of environmental quality as a whole and all its components.

As a company operating in a Member State of the European Union, it places emphasis on the environment and on the fulfilment of the obligations under the ratified EU environmental legislation.

the Company is on prevention of pollution by choosing suitable procedures. This leads to savings in costs, raw materials and energies, which are achieved also by systematic environmental education and training of employees in the form of e-learning, which are components of Pražská plynárenská, a.s. policy.

### Remediation of old environmental burdens in PP, a.s.

The ecological burdens from 1926 to 1975 were in cooperation eliminated gradually in cooperation with the Ministry of the Environment. The costs of fulfilment of the ecological obligations were paid by the State through the Ministry of Finance of the Czech Republic. In 2017, negotiations with the Ministry of Finance of the Czech Republic and Ministry of the Environment continued for completion of the remediation of the last contaminated locality To complete the removal of the ecological burden, Pražská plynárenská, a.s., requested the Ministry of Finance of the Czech Republic to organize a tender for a survey, including update of the risk assessment that would be the basis for preparation of the project documentation for completion of the remediation in Pražská plynárenská, a.s. Pražská plynárenská, a.s., was not included in the plan of the priorities of the Ministry of Finance of the Czech Republic for 2017.

Negotiations with both ministries shall be held in 2018 on further procedure and its inclusion in the plan of priorities.

Pražská plynárenská, a.s., according to the requirement of the ČIŽP on own account also in 2017 performed the regular "Annual monitoring of ground water on the outflow line of the premises of Pražská plynárenská, a.s., Michle". The results of the performed analyses confirmed the stabilized condition of the locality. No major difference was ascertained as compared with the previous years and migration of PAH (polycyclic aromatic hydrocarbons) can be evaluated as very low without any risk for the Botiče eco system.

## SPONSORING ACTIVITIES AND DONATIONS

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

## THE SMEČKY GALLERY

The Smečka Gallery has been on the Prague art scene for 12 years already.

In this period, 60 art shows and thematic exhibitions of major Czech artists have been held in the gallery.

7 vernissages of the following exhibitions were held in 2017:

- Vladimír Renčín
- Svatopluk Klimeš / You cannot wrap fire in paper
- Lea Fekete in time, surface area, space and contexts
- Surrealism and collage
- Pavel Růt / Horror stories
- Umprum illustrations and graphics studio
- Fairy Tale / Themes of Czech Symbolism and Art Nouveau

Besides the regular vernissages of the individual exhibitions, the gallery also presented interesting commented tours with the participation of the authors or curators. The vernissages were attended by personalities from social, cultural and public life and were accompanied by live music presentations. Many interesting reports and spots have been broadcast from the vernissages both on TV and on radio, articles and reviews have also been published A catalogue containing colour reproductions was published for the visitors to each exhibition. Some exhibition projects were supplemented with recorded monographs about the authors or fairy stories for children on TV. If we summarize the operation of the gallery on the Prague scene, we can state that the number of visitors of the exhibitions in the gallery increases every year and the exhibitions are very positively evaluated by art experts and the layman public. The Smečka Gallery has in the period of its existence entered the awareness of the Prague residents, but also visitors from all over the country who have repeatedly visited the gallery in pursuit of quality cultural experiences and enjoy pleasant leisurely moments here.

## GAS MUSEUM

Since 1999, Pražská plynárenská, a.s., operates the only museum in the Czech Republic devoted to the gas industry at its Michle premises. It is located in one of the historical technology buildings of the former Michle gas plant. It raises awareness of the gas industry and is a sought-after destination for visits of elementary and secondary schools, professionals, foreigners and ordinary citizens, who are interested in history in general and in the development of technology and energetics. It 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. The attractions of the museum include the reconstructed model of Michle gas plant in 1937 at a scale of 1:100.

In 2017, we commemorated significant gas anniversaries. These were mainly the 170th anniversary of the commissioning of the first Prague gas works in Karlín, the 150th anniversary of commissioning of the first municipality gas works in Žižkov and the 90th anniversary of the Prague municipality gas works in Michle.

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.

In cooperation with the Czech Tourism Club, the Company organised several walks in 2017 that just communicated the current gas industry anniversaries.

In May 2017, the Gas Museum was part of the traditional Noci literatury (Literature Night) project, which took place this time in Prague 4. Czech actress Anna Geislerová presented the Swedish book for children titled "Piráti z ledového moře" (The Ice Sea Pirates) to the listeners. The event was attended by more than 300 people.

Already for the third time the Prague Museum Night attracted a record 450 visitors in June 2017 to the Gas Museum. The most impressive were the demonstrations of ironing using gas-fired irons, hair curling and roasting of fresh coffee using gas.

In 2017, the museum collections were enriched with many historical documents and exhibits from the Czech Republic and abroad. Many exhibits were professionally restored, the primary functions of selected historical appliances were restored, such that it was possible to demonstrate how gas was used in the past.

## ■ INFORMATION TECHNOLOGY

Information technology is perceived by the Company as an integral part of its business culture, which helps fulfil the Company goals. The relationship of all fields to information technology is comprehended as a mutual partnership where information technology is capable of comprehending the business goals of the Company, respond to them and come up with innovative solutions, which entail quality changes both in provision of services to the customers and improvement of the efficiency of intra-company processes.

The successes of 2017 include optimisation of the information infrastructure and improvement of the security of information technologies.

The restructuring and expansion of the customer care centre that responds to the requests of customers with the goal to increase serviceability were successful. The Company expanded the possibility for customer access in the area of communication with the customers.

The process of consolidation of the sales information systems was initiated. Information technology fully supports the legislative requirements in all the field of its business operations and places great emphasis on protection of the customers' personal data.

## HUMAN RESOURCES MANAGEMENT

### HR AND SOCIAL AFFAIRS

As at 31 December 2017 Pražská plynárenská, a.s., employed a total of 350 people, of whom 82 were men and 268 women.

In social affairs, emphasis was put on preventive medical care. The employees underwent regular medical examinations according to their occupations. In addition to this they could participate in Health Day, which included measuring of blood sugar, measuring of blood pressure, individual consultations regarding internal medicine, lecture on the topic of "Prevention of skin cancer" and examination of birthmarks using a dermatoscope.

The executives of PP, a.s., had an opportunity to participate in the annual development programme with the goal to motivate, stabilize and support the perception of new development opportunities and directions, strengthen loyalty and prevention of the burn out syndrome. Through team building activities and informal meetings, cooperation between the executives was supported across the Group, which resulted in the unification of middle management.

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



As at 31 December 2017  
Pražská plynárenská, a.s.,  
employed a total of

**350 people.**



## COLLECTIVE BARGAINING

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

## OCCUPATIONAL SAFETY AND HEALTH, FIRE PROTECTION

The system for ensuring occupational safety and health as well as fire protection is an integral part of the management of PP, a.s.

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

Due to the consistent application and observance of legislative and other requirements in the form of internal management acts and thanks to the preventive actions and inspection of the premises and workplaces of Pražská plynárenská, a.s., the undesirable impacts of the occupational activities on the health and safety of the employees are being eliminated or minimised. Only one occupational injury was investigated in 2017.

55 OSH and FP inspections were conducted in the Pražská plynárenská, a.s. Group in 2017. They concerned compliance with safety and fire conditions at the workplaces and all other premises as well as all the roads within the premises of the PP, a.s. Group. The deficiencies stated in the conclusions of the inspection protocols were remedied in time and measures were adopted to ensure that they would not recur.

During performance of state professional inspection by the Regional Labour Inspectorate, Fire Rescue Service of the Czech Republic, Hygiene Stations and SIBP UNIOS, no defects were found in the area of OSH and FP. and the SIBP UNIOS, no faults were found in the area of OSH and FP. The supervisory authorities stated a high level of organisation in the area of OSH and FP, both in terms of systemic processing and practical implementation.

## RISK MANAGEMENT

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

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

The Internal Audit Department acts in compliance with the tasks assigned to it by the Board of Directors PP, a.s. It especially investigates and processes individual internal audits, which it presents to the Management of PP, a.s., for approval and realization of the ascertained remedial measures. Within the scope of this activity, the Company also wants to use the complex audit universe, which assesses the gravity of the individual audit suggestions.

## INFORMATION ABOUT RESEARCH OR DEVELOPMENT OF NEW PRODUCTS OR PROCEDURES IN THE NORMAL ACCOUNTING PERIOD

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



**170**  
years

of the  
Prague gas  
industry

ALREADY AT THE TIME,  
WE WERE GOOD AT  
STORING GAS

# REPORT ON THE BUSINESS ACTIVITIES of the Pražská plynárenská, a.s. Group

The information in this chapter applies to the individual financial statements provided it is not stated otherwise. The consolidated financial statements were processed according to the IAS/IFRS in the form adopted by the EU.

The average CZK/EUR exchange rate for 2017 is 26.330 CZK/EUR and is used to convert all data in the tables (also for the preceding years).

## INFORMATION ABOUT THE ACTIVITIES AND FINANCIAL SITUATION

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

- Pražská plynárenská Distribuce, a.s., Member of the Pražská plynárenská, a.s. Group, ("PPD, a.s."),
- Pražská plynárenská Distribuce, a.s., Member of the Pražská plynárenská, a.s. Group, ("PPSD, a.s."),

- Pražská plynárenská Správa majetku, a.s., Member of the Pražská plynárenská, a.s. Group, ("PPSM, a.s."),
- Prometheus, energetické služby, a.s., Member of the Pražská plynárenská, a.s. Group, ("Prometheus, a.s."),
- Informační služby – energetika, a.s., ("ISE, a.s.").

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

### Other Group business activities are:

- building construction, maintenance, service and repair of gas equipment;
- Provision of services in the field of research of 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;
- provision of services in the field of administrative management and organisational maintenance management in relation to the movable assets and real estate property.

## PRE-TAX CONSOLIDATED PROFIT/LOSS

Consolidated profit/loss (in million CZK)	Facts 2017	Facts 2016	Comparison of facts 17/16
Operating economic result	2,156.0	1,833.8	322.2
Financial result	-163.0	-107.3	-55.7
<b>Total profit/loss</b>	<b>1,993.0</b>	<b>1,726.5</b>	<b>266.5</b>

Consolidated profit/loss (in million EUR)	Facts 2017	Facts 2016	Comparison of facts 17/16
Operating economic result	81.9	69.6	12.3
Financial result	-6.2	-4.0	-2.2
<b>Total profit/loss</b>	<b>75.7</b>	<b>65.6</b>	<b>10.1</b>

## CONSOLIDATED REVENUES

Consolidated revenues (in million CZK)	Facts 2017	Facts 2016	Comparison of facts 17/16
Total operating revenues	12,588.4	12,283.2	305.2
of which: revenues from natural gas sales and distribution*	11,171.4	11,331.2	-159.8
electric power sales*	1,131.9	666.6	465.3
Financial revenues	124.9	46.4	78.5
Total revenues	12,713.3	12,329.6	383.7

Consolidated revenues (in million EUR)	Facts 2017	Facts 2016	Comparison of facts 17/16
Total operating revenues	478.1	466.5	11.6
of which: revenues from natural gas sales and distribution*	424.3	430.4	-6.1
electric power sales*	43.0	25.3	17.7
Financial revenues	4.7	1.8	2.9
Total revenues	482.8	468.3	14.5

\*Licensed activity.

## CONSOLIDATED COSTS

Consolidated costs* (in million CZK)	Facts 2017	Facts 2016	Comparison of facts 17/16
Running costs in total	10,432.4	10,449.4	-17.0
of which: consumed gas costs**	6,591.6	7,254.2	-662.6
electric power purchase costs**	550.1	314.5	235.6
Financial costs	288.0	153.8	134.2
Total costs	10,720.4	10,603.2	117.2

Consolidated costs* (in million EUR)	Facts 2017	Facts 2016	Comparison of facts 17/16
Running costs in total	396.2	396.9	-0.7
of which: consumed gas costs**	250.3	275.5	-25.2
electric power purchase costs**	20.9	11.9	9.0
Financial costs	10.9	5.8	5.1
Total costs	407.1	402.7	4.4

\*Excluding income tax on current operations.

\*\*Licensed activities without the distribution charge.

## ■ FINANCIAL SITUATION

The Group covers its financial needs from its own sources and borrowings from the financing banks. The available funds are centralised within the scope of cash-pooling, which allows optimisation and simplification of Group financial management. It mainly makes it possible to reduce the debt to the banks and thus save interest costs

In June 2017, PP, a.s., emitted bonds of total nominal worth 400 million CZK with a maturity of 3 years and a coupon with a fixed interest yield of 0.90 % p.a. The emission was made at a time of record low interest rates and the Company effectively secured long-term external financing.

In 2016 the financing of PP, a.s. and PPD, a.s. was restructured thanks to utilisation of the situation on the financial markets resulted in significant savings on interest costs for PP, a.s., and securing of long-term external funding in the form of bonds issued by

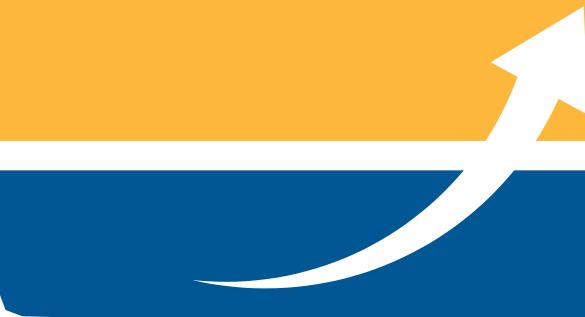
PP, a.s., has negotiated contractual short-term financing in a total volume of 4.6 billion CZK and long-term financing in the amount of 0.4 billion CZK. PPD, a.s., emitted bonds in 2016 in the total nominal value of 2.7 billion CZK with a maturity of 7 years and a coupon with a fixed interest yield of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

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



PP, a.s., has negotiated contractual short-term financing in a total volume of 4.6 billion

**4.6 billion CZK**



## ■ 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.

## ■ SOCIAL RESPONSIBILITY

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

The PP, a.s. Group is thus in addition to its business activities also focused on support for projects and subjects. Apart from the long-term projects, which the Group prefers and carefully chooses, if necessary it also engages in short-term or long-term aid projects. The employees of Pražská plynárenská, a.s., also participate in charity activities and development projects in all sorts of areas.

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

The employees of the PP, a.s. Group take care of the good reputation of the Group and develop it. They comply with legal regulations and do not overlook irregular conduct. They respect business partners and each other mutually. In all its activities, the PP, a.s. Group declares its commitment to ethical and unimpeachable conduct and respect for human rights while the minimum are the adopted internal standards of conduct anchored in the Code of Ethics. Pražská plynárenská, a.s., is aware of the gravity of the problem of corrupted conduct, and for this reason that it adopted a set of measures, which should minimise any eventual risks. The employees undergo periodical training and may utilise the whistle blowing programme – contact the compliance manager personally, or submit the suggestions anonymously through the ethics line.

## ENVIRONMENT

The environmental policy of PP, a.s. Group focuses on further improvement of environmental quality as a whole and all its components.

As a company operating in a Member State of the European Union, it places emphasis on the environment and on the fulfilment of the obligations under the ratified EU environmental legislation.

the Company is on prevention of pollution by choosing suitable procedures. This leads to savings in costs, raw materials and energies, which are achieved also by systematic environmental education and training of employees in the form of e-learning, which are components of the PP, a.s. Group policy.



As at 31 December 2017  
the Group employed a total of

**877 people.**

## HUMAN RESOURCES MANAGEMENT

### HR AND SOCIAL AFFAIRS

As at 31 December 2017 the Group employed a total of 877 people.

In social affairs, emphasis was put on preventive medical care. The employees underwent regular medical examinations according to their occupations. All employees were offered vaccinations against influenza and, some groups of employees were also offered vaccinations against viral hepatitis types A and B. In addition to this they could participate in Health Day, which included measuring of blood sugar, measuring of blood pressure, individual consultations regarding internal medicine, lecture on the topic of "Prevention of skin cancer" and examination of birthmarks using a dermatoscope.

The executives of the PP, a.s. Group had an opportunity to participate in the annual development programme with the goal to motivate, stabilize and support the perception of new development opportunities and directions, strengthen loyalty and prevention of the burn out syndrome. Through team building activities and informal meetings, cooperation between the executives was supported across the companies, which resulted in the unification of middle management.

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

### COLLECTIVE BARGAINING

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

### OCCUPATIONAL SAFETY AND HEALTH, FIRE PROTECTION

The system for ensuring occupational safety and health as well as fire protection is an integral part of the management of members of the PP, a.s. Group

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

Due to the consistent application and observance of legislative and other requirements in the form of internal management acts and thanks to the preventive actions and inspection of the premises and workplaces of the PP, a.s. Group, the undesirable impacts of the occupational activities on the health and safety of the employees are being eliminated or minimised.

55 OSH and FP inspections were conducted in the PP, a.s. Group in 2017. They concerned compliance with safety and fire conditions at the workplaces and all other premises as well as all the roads within the premises of the PP, a.s. Group. The deficiencies stated in the conclusions of the inspection protocols were remedied in time and measures were adopted to ensure that they would not recur.

During performance of state professional inspection by the Regional Labour Inspectorate, Fire Rescue Service of the Czech Republic, Hygiene Stations and SIBP UNIOS, no defects were found in the area of OSH and FP. and the SIBP UNIOS, no faults were found in the area of OSH and FP. The supervisory authorities stated a high level of organisation in the area of OSH and FP, both in terms of systemic processing and practical implementation.

## RISK MANAGEMENT

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

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

The Internal Audit Department acts in compliance with the tasks assigned to it by the Board of Directors PP, a.s. It especially investigates and processes individual internal audits, which it presents to the Management of PP, a.s., for approval and realization of the ascertained remedial measures. Within the scope of this activity, the Company also wants to use the complex audit universe, which assesses the gravity of the individual audit suggestions. The internal audit department provides its services to all the PP, a.s. Group member companies with certain legal limitations in the case of PPD, a.s.

## FINANCIAL RISKS

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

The goal for liquidity risk management is to keep a balance between financing 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 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 the market positions are important for cautious management of liquidity risk.

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

Movements in exchange rates represent a risk due to the fact that the Group purchases part of the gas in foreign currency. 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 gas purchases in foreign currency, it hedges itself against long-term currency risk.

## INFORMATION ABOUT AN ORGANIZATIONAL UNIT ABROAD

None of the Group companies had an organizational unit abroad as at 31 December 2017.

# IMPORTANT EVENTS AT THE BEGINNING OF 2018

At its meeting on 6 February 2018 the Supervisory Board of PP, a.s., recalled Ing. Alois Těšitel from the office of Member of the Board of Directors and elected Ing. Vladimír Vavřích, MBA in his place with immediate effect.

The Board of Directors of PP, a.s., at its meeting of 6 February 2018 decided to change the competencies of the members of the board of directors with immediate effect by course of Section 156(2) of the Civil Code as follows:

- Vice-Chairman of the Board of Directors, Ing. Milan Jadlovský is responsible for the management of the Strategy Department of PP, a.s.,
- Member of the Board of Directors Ing. Vladimír Vavřích, MBA, is responsible for the management of the Sales Department of PP, a.s.

Pražská plynárenská, a.s., successfully defended its prestigious Czech Business Superbrands award in 2018.

# EXPECTED DEVELOPMENT OF THE GROUP

In the area of electricity and gas sales, continued intensive market competition is assumed, which shall be influenced by the following fundamental factors. The first factor shall be the purchase prices of electricity and gas, which are volatile by nature and whose development is often influenced by conflicting influences. The second factor shall be the increasing awareness of the customers about the possibilities for price arbitration and emphasis on the negotiated conditions. on the individual traders and create new challenges for management of the purchasing positions of both energies and achievement of the expected business results.

Trade in energies in the coming year shall continue to be the object of interest of the state administration authorities, lawmakers and the regulatory authorities. to at least partially regulate the free market, further deepening of consumer protection and also pressure on ensuring the availability and reliability of deliveries. may result in requirements for stricter regulation of the wholesale market in order to ensure the bargain prices of both energies for all customers.

Recently, there has been growing interest in the use of energy from RES, increase in the cleanliness of the atmosphere, reduction of the emission of greenhouse gases. Many companies but also private individuals want to present their attitude to the environment. Interest is increasing in supply of electricity from RES as well as in own generation of electricity and also the related at least partial energy self-sufficiency. For this reason, PP, a.s., also in cooperation with partners shall continue to develop the area of services and products, such as installation of photovoltaic power plants.

The major indicators that the customers use to evaluate the quality of the suppliers is on-line communication, an option to submit requests electronically and the complexity of the handling of requested changes (level of bureaucracy). in 2018 review the internal processes with the goal to maximally digitalize them. In 2018 the new version of the Samoobsluha (Self-service) project shall be presented to the customers with expanded functionality Comfort and simplicity of the services provided to customers are the goal of PP, a.s.

In May 2018, the new EU legislation shall come into force, i.e. the Regulation of the European Parliament and Council on the protection of natural persons with regard to the processing of personal data Already in 2017, the Group companies started the activities necessary for its implementation and compliance with its stipulated rules.

PP, a.s., shall continue to support the development of clean mobility and gradually expand the offer of alternative fuels and technologies building on the National Action Plan for Clean Mobility approved by the Government of the

Czech Republic in November 2015, and in compliance with the Smart Prague Project. Republic, the Company shall continue building the network of charging stations to support the development of electromobility in Prague.

PP, a.s., shall as a major municipality company continue to actively support and assert steps to improve the environment in Prague, which is afflicted by a high level of traffic and emission load. It shall establish or continue co-operation with the municipality companies in ensuring ecological and austerity measures in the area of operation of vehicle fleets. It will offer natural gas for public buses, post vehicles, taxis vehicles, police vehicles, waste collection vehicles, vehicles for street cleaning and supply vehicles in the territory of Prague. It shall also gradually expand cooperation in the offer of the charging infrastructure for electric vehicles.

The main target of PPD, a.s., in the area of management and operation of distribution system in Prague, is still ensuring reliable and safe operation of gas facilities. Emphasis will be placed mainly on the rehabilitation and recovery of gas equipment and measuring equipment. 2017 was the second year of the Fourth Regulation Period; the year in which the decision on the rules for the next regulation period was made. Following consistent discussions between all the regulated energy companies and the regulator, the current regulation period was extended by two years, i.e. to the usual five years. The extension provides us with stability in the next three years and time for implementation and calming of the impacts of dynamic changes, which the European Union is preparing for the energy sector.

The primary goal of PSD, a.s., for 2018 is to offer and provide comprehensive, high quality and professional services not only within the framework of safe and reliable operation of the distribution network for the most significant customer, which is PPD, a.s., as well as for other customers outside the PP, a.s. Group, with maximum emphasis on the application of new technologies and the professional qualifications of all personnel resources.

Further goals of the Group include intensive growth and development in the field of heat energy. The decisive factor for fulfilment of this goal is the intensity of the growth of the portfolio of operated boiler plants whose ratio mainly depends on the plan of investments and assumed acquisition activity.

In 2018, stable development of the financial situation in the Group is expected. At its meeting on 6 February 2018 the Supervisory Board of PP, a.s., recalled Ing. Alois Těšitel from the office of Member of the Board of Directors and elected Ing. Vladimír Vavřík, MBA in his place with immediate effect. The long-term sources of external funding are the re-emissions of the bonds of PPD, a.s., from November 2016 and the bond emission of PP, a.s., from June 2017. in a smaller volume than was the case in previous years due to the current financial situation of the PP, a.s. Group.

# FINANCIAL SECTION

- Notes to the Individual Financial Statements of Pražská plynárenská, a.s., prepared in accordance with the Czech accounting legislation as at 31 December 2017
- Notes to the Individual Financial Statements of Pražská plynárenská, a.s., prepared in accordance with the Czech accounting legislation as at 31 December 2017
- Consolidated Financial Statements for the group of companies controlled by Pražská plynárenská, a.s., prepared in accordance with International Financial Reporting Standards as adopted by the EU as at 31 December 2017
- Notes to the Consolidated Financial Statements for the group of companies controlled by Pražská plynárenská, a.s., prepared in accordance with International Financial Reporting Standards as adopted by the EU as at 31 December 2017

# INDIVIDUAL FINANCIAL STATEMENTS

## BALANCE SHEET

(in full '000 CZK)

Identification		ASSETS	31. 12. 2017			31. 12. 2016	
a	b		Gross	Corrections	Net		
		1	2	3	4		
	TOTAL ASSETS	15,579,186	-1,848,928	13,730,258	12,265,401		
B.	Fixed assets	7,549,073	-1,537,658	6,011,415	5,627,545		
B. I.	Intangible fixed assets	804,528	-750,497	54,031	65,794		
B. I. 2.	Assessable rights	730,073	-687,619	42,454	63,841		
2.1.	Software	714,026	-672,294	41,732	59,813		
2.2.	– Miscellaneous assessable rights	16,047	-15,325	722	4,028		
4.	Other intangible fixed assets	62,878	-62,878	0	34		
5.	Advance payments for intangible fixed assets and incomplete intangible fixed assets	11,577	0	11,577	1,919		
5.2.	Incomplete intangible fixed assets	11,577	0	11,577	1,919		
B. II.	Tangible fixed assets	1,661,190	-787,161	874,029	890,683		
B. II. 1.	Land, buildings and constructions	1,148,132	-417,373	730,759	751,816		
1.1.	Land	76,890	0	76,890	76,890		
1.2.	Buildings	1,071,242	-417,373	653,869	674,926		
2.	Movables and sets of movables	443,606	-365,533	78,073	74,276		
4.	Other tangible fixed assets	40,312	-4,255	36,057	34,617		
4.3.	Other tangible fixed assets	40,312	-4,255	36,057	34,617		
5.	Advance payments for tangible fixed assets and incomplete tangible fixed assets	29,140	0	29,140	29,974		
5.1.	Advances paid for tangible fixed assets	2,501	0	2,501	19,622		
5.2.	Incomplete tangible fixed assets	26,639	0	26,639	10,352		
B. III.	Long-term financial assets	5,083,355	0	5,083,355	4,671,068		
B. III. 1.	Shares – controlled or controlling entity	5,083,257	0	5,083,257	4,671,005		
5.	Other long-term securities and interests	2	0	2	2		
7.	Other long-term financial assets	96	0	96	61		
7.1.	Other long-term financial assets	96	0	96	61		
C.	Current assets	7,999,110	-311,270	7,687,840	6,618,663		
C. I.	Inventories	796,590	0	796,590	800,419		
C. I. 1.	Material	795,803	0	795,803	799,807		
3.	Products and goods	487	0	487	312		
3.2.	Goods	487	0	487	312		
5.	Advances for inventories provided	300	0	300	300		

<b>Identification</b>		<b>ASSETS</b>	<b>31. 12. 2017</b>			<b>31. 12. 2016</b>
			<b>Gross</b>	<b>Corrections</b>	<b>Net</b>	<b>Net</b>
<b>a</b>	<b>b</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	
C. II.	Receivables	5,876,977	-311,270	5,565,707	5,710,321	
C. II. 1.	Long term receivables	20,028	0	20,028	17,300	
C. II. 1.1.	Trade receivables	0	0	0	32	
C. II. 1.4.	Net deferred tax receivable	20,028	0	20,028	17,268	
C. II. 2.	Short-term receivables	5,856,949	-311,270	5,545,679	5,693,021	
C. II. 2.1.	Trade receivables	1,061,682	-298,528	763,154	786,145	
C. II. 2.4.	Receivables – others	4,795,267	-12,742	4,782,525	4,906,876	
C. II. 2.4.3.	The State – tax claims	41,167	0	41,167	41,193	
C. II. 2.4.4.	Short-term advance payments made	1,107,507	-1,905	1,105,602	1,090,016	
C. II. 2.4.5.	Contingent asset accounts	3,636,142	-2,032	3,634,110	3,760,218	
C. II. 2.4.6.	Other accounts receivable	10,451	-8,805	1,646	15,449	
C. III.	Short-term financial assets	500,000	0	500,000	0	
C. III. 2.	Other short-term financial assets	500,000	0	500,000	0	
C. IV.	Cash	825,543	0	825,543	107,923	
C. IV. 1.	Cash on hand	3,529	0	3,529	3,899	
C. IV. 2.	Money in bank accounts	822,014	0	822,014	104,024	
D.	Accrued assets	31,003	0	31,003	19,193	
D. 1.	Prepaid expenses	29,067	0	29,067	17,886	
D. 3.	Accrued income	1,936	0	1,936	1,307	

<b>Identification</b>	<b>LIABILITIES</b>	<b>31. 12. 2017</b>	<b>31. 12. 2016</b>
<b>a</b>	<b>b</b>	<b>5</b>	<b>6</b>
	<b>TOTAL LIABILITIES</b>	<b>13,730,258</b>	<b>12,265,401</b>
A.	Equity capital	6,049,839	5,009,169
A. I.	Registered capital	431,972	431,972
A. I. 1.	Share capital	431,972	431,972
A. II.	Share premium and capital funds	3,832,693	3,420,438
A. II. 2.	Capital funds	3,832,693	3,420,438
2.1.	Other capital funds	85,435	85,435
2.2.	Revaluation of assets and liabilities - differences (+/-)	3,747,258	3,335,003
A. III.	Profit funds	887	1,712
A. III. 2.	Statutory and other funds	887	1,712
A. IV.	Retained profit/loss	597,547	0
A. IV. 1.	Retained earnings	597,547	0
A. V.	<b>Profit/loss for current period (+/-)</b>	<b>1,186,740</b>	<b>1,155,047</b>
<b>B. + C.</b>	<b>External resources</b>	<b>7,679,906</b>	<b>7,256,057</b>
<b>B.</b>	<b>Reserves</b>	<b>194,787</b>	<b>195,628</b>
2.	Income tax provision	40,931	75,977
4	Other reserves	153,856	119,651
C.	Accounts payable	7,485,119	7,060,429
C. I.	Long-term liabilities	400,010	541
C. I. 1.	Issued bonds	399,574	0
1.2.	Other bonds	399,574	0
3.	Long-term advances received	55	155
9.	Liabilities - other	381	386
9.3.	Other liabilities	381	386
C. II.	Short-term liabilities	7,085,109	7,059,888
C. II. 2.	Dues to credit institutions	0	40,794
3.	Short-term advance payments received	3,705,668	3,785,418
4.	Trade payables	113,137	94,081
6.	Liabilities - controlled or controlling entity	1,057,028	905,847
8.	Liabilities - other	2,209,276	2,233,748
8.1.	Liabilities to shareholders	1,792	1,792
8.3.	Dues to employees (payroll)	11,346	12,091
8.4.	Social security and health insurance accounts payable	6,757	7,375
8.5.	The State – tax obligations and appropriations	88,493	75,235
8.6.	Contingent liability accounts	2,025,716	2,130,221
8.7.	Other liabilities	75,172	7,034
D.	Accrued liabilities	513	175
D. 1.	Accrued expenses	478	123
2.	Deferred revenues	35	52

## ■ PROFIT AND LOSS ACCOUNT

(in full '000 CZK)

Identification	TEXT	Actual position in accounting period	
		31. 12. 2017 1	31. 12. 2016 2
a	b		
I.	Sales of products and services	11,985,843	11,736,407
II.	Revenues from sale of goods	1,323	1,548
A.	Production consumption	10,328,393	10,310,875
A.	1. Expenses on sold goods	1,278	933
	2. Consumption of materials and energy	6,760,126	7,153,249
	3. Services	3,566,989	3,156,693
D.	Personnel costs	303,738	281,636
D.	1. Payroll costs	221,466	203,503
	2. Social security, health insurance and other costs	82,272	78,133
	2.1. Social security and health insurance expenses	72,123	68,919
	2.2. Other costs	10,149	9,214
E.	Adjustment of values in the operations area	94,473	109,562
E.	1. Adjustment of the value of intangible fixed and tangible assets	109,408	121,271
	1.1. Adjustment of the value of intangible fixed and tangible assets - permanent	109,432	121,294
	1.2. Adjustment of the value of intangible fixed and tangible assets - temporary	-24	-23
	3. Adjustment of the values of accounts receivable	-14,935	-11,709
III.	Other operating income	26,414	32,004
III.	1. Proceeds from the sale of fixed assets	1,096	3,989
	3. Other operating revenues	25,318	28,015
F.	Other operating costs	87,062	59,225
F.	1. Net book value of sold fixed assets	168	1,440
	3. Operating taxes and levies	13,372	3,913
	4. Position of operating reserves and complex accrued costs	34,206	11,544
	5. Other operating expenses	39,316	42,328
* * *	Operating profit/loss	1,199,914	1,008,661
IV.	Revenues from long-term financial assets - interests	330,853	341,679
IV.	1. Revenues from interests - controlled and controlling entity	330,853	341,679
VI.	Interest revenue and similar income	2,121	1,250
VI.	1. Interest revenue and similar income – controlled or controlling entity	853	524
	2. Other interest revenue and similar income	1,268	726
J.	Cost interest and similar expenses	4,879	12,180
J.	1. Cost interest and similar expenses – controlled or controlling entity	2,495	986
	2. Other cost interest and similar expenses	2,384	11,194
VII.	Other financial income	123,527	45,647
K.	Other financial costs	256,271	47,504
* * *	Financial profit/loss	195,351	328,892
** ** **	Pre-tax profit/loss	1,395,265	1,337,553
L.	Income tax	208,525	182,506
L.	1. Due income tax	211,285	183,655
	2. Deferred income tax (+/-)	-2,760	-1,149
** ** **	Profit (loss) after taxes	1,186,740	1,155,047
*** *** ***	Profit/loss for accounting period (+/-)	1,186,740	1,155,047
*	Net profit for the accounting period = I.+II.+III.+IV.+V.+VI.+VII.	12,470,081	12,158,535

## ■ OVERVIEW OF CHANGES IN STOCKHOLDERS' EQUITY for the year ending 31 December 2017

Changes/balances ('000 CZK)	Registere d capital	Capital funds	Other profit funds	Retained profit/loss	Profit/loss	Advance for shares of the profit	Total share capital
Balances at 31 December 2015	431,972	3,213,745	4,033	0	647,051	-418,000	3,878,801
Differences from the revaluation of capital interests in controlled entities using the equity method	0	206,693	0	0	0	0	206,693
Drawing of funds	0	0	-2,321	0	0	0	-2,321
Shares of the profit paid to the shareholders	0	0	0	0	-619,851	418,000	-201,851
Shares of the profit paid to members of the company bodies	0	0	0	0	-27,200	0	-27,200
Profit/loss for FY 2016	0	0	0	0	1,155,047	0	1,155,047
Balances at 31 December 2016	431,972	3,420,438	1,712	0	1,155,047	0	5,009,169
Differences from the revaluation of capital interests in controlled entities using the equity method	0	412,255	0	0	0	0	412,255
Allocations to funds and retained earnings	0	0	1,500	597,547	-599,047	0	0
Drawing of funds	0	0	-2,325	0	0	0	-2,325
Shares of the profit paid to the shareholders	0	0	0	0	-520,000	0	-520,000
Shares of the profit paid to members of the company bodies	0	0	0	0	-36,000	0	-36,000
Profit/loss for FY 2017	0	0	0	0	1,186,740	0	1,186,740
Balances at 31 December 2017	431,972	3,832,693	887	597,547	1,186,740	0	6,049,839

## ■ Cash flow statement for the year ending 31 December 2017

	('000 CZK)	2017	2016
Cash-flow from operations			
Profit from operations before tax	1,395,265	1,337,553	
<b>A.1 Adjustments for non-cash transactions:</b>	<b>-104,343</b>	<b>-198,197</b>	
A.1.1 Depreciation of fixed assets	109,432	121,294	
A.1.2 Change in the position of adjustments and reserves	19,247	-188	
A.1.3 Profit from the sale of fixed assets	-928	-2,549	
A.1.4 Revenues from shares of the profit	-330,853	-341,679	
A.1.5 Settled cost and yield interest	2,758	10,930	
A.1.6 Adjustments for other non-monetary operations	96,001	13,995	
A* Net cash flows from operations before tax and changes in working capital	1,290,922	1,139,356	
<b>A.2 Change in the non-monetary elements of working capital</b>	<b>-25,932</b>	<b>17,989</b>	
A.2.1 Change in the position of receivables and temporary asset accounts	117,576	116,957	
A.2.2 Change in short-term liabilities and temporary liability accounts	-147,337	-366,771	
A.2.3 Changes in inventory	3,829	267,803	
A** Net cash flow from operations before tax	1,264,990	1,157,345	
A.3 Interests paid	-2,591	-12,180	
A.4 Interest received	1,652	626	
A.5 Income tax paid	-246,332	-169,506	
A.6 Shares of the profit received	330,853	341,679	
A*** Net cash flow from operations	1,348,572	1,317,964	
Cash flows from investments			
B.1 Expenses on acquisition of fixed assets	-82,237	-398,739	
B.2 Revenues from sale of fixed assets	1,096	3,989	
B.3 Advances and loans to related parties	-35	5	
B*** Net cash flow from investments	-81,176	-394,745	
Cash flows from financial operations			
<b>C.1 Changes in the position of long-term and short-term accounts payable</b>			
C.1.1 Bond yields	398,192	0	
C.1.2 Repayment of bank loans*	-40,794	-1,216,084	
C.1.3 Income from cash pooling*	151,181	456,645	
C.1.4 Change in the position of long-term and short-term accounts payable	-100	0	
<b>C.2 Change in equity position:</b>			
C.2.5 Direct payments from the funds	-2,325	-2,321	
C.2.6 Shares of the profit paid (including advances paid)	-555,930	-229,051	
C*** Net cash flow from financial operations	-49,776	-990,811	
<b>Net increase (+) /decrease (-) of cash and cash equivalents</b>	<b>1,217,620</b>	<b>-67,592</b>	
Status of financial means and financial equivalents at the beginning of the year	107,923	175,515	
Status of financial means and financial equivalents at the end of the year	1,325,543	107,923	

\* Cash flows from cash pooling and bank loans are reported net because they constitute cash income and payments with quick turnover and short-term maturity.

# NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS

## 1. GENERAL INFORMATION

### 1.1. Basic information about the Company

Pražská plynárenská, a.s., (hereinafter the "Company") was registered in the Commercial Register at the Municipal Court in Prague, Part B., Entry 2337 on 31 December 1993 and its head office is in Prague 1 – Nové Město, Národní 37, Postal Code 110 00. The Company's main subject of business is trade with gas and electricity.

The Company by amendment of its Articles of Incorporation has subordinated itself to the Act on Business Corporations as a whole. This came into effect on the date of registration in the Commercial Register, i.e. on 18 July 2014.

## 2. ACCOUNTING POLICIES

### 2.1. Basic principles of financial statement preparation

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

From 15 June 2017 the Company is an issuer of investment securities that are negotiable on the Prague Stock Exchange (Burza cenných papírů Praha, a.s.). In compliance with the Accounts Act, the Company decided to apply the International Accounting Standards adapted to EU law to accounting and compilation of the financial statements from 1 January 2018.

### 2.2. Intangible fixed assets

Intangible assets with a useful life longer than one year and whose acquisition cost exceeds 5,000 CZK per item, are considered as intangible fixed assets.

Purchased intangible assets are first reported in acquisition values, which include the cost of acquisition and costs connected to acquisition.

Long-term intangible assets are depreciated using the method of depreciation in equal proportions based on their expected lifespan in the following manner:

Asset categories	Depreciation rate
Intangible (tangible) fixed assets with the acquisition price above 60,000 CZK:	
– Software	25.0%
– Other valuable rights, licences	25.0%
– Other intangible fixed assets	25.0%
Intangible fixed assets with acquisition price from 5,000 to 60,000 CZK	50.0%

The depreciation plan during the use of long-term intangible assets is updated based on the change of expected lifespan.

If the residual value of the asset exceeds its estimated recoverable amount, its residual value is reduced the recoverable amount is set on the basis of expected future monetary flows generated by the given asset.

Intangible assets with an acquisition price of up to 5,000 CZK per item are accounted to cost upon consumption.

### 2.3. Tangible fixed assets

Tangible and intangible assets with a useful life longer than one year and whose acquisition cost exceeds 10,000 CZK per item, are considered as tangible fixed assets.

Purchased long-term tangible assets are first reported in acquisition values, which include the cost of acquisition and costs related to its acquisition. Tangible fixed assets of own production are valued at prime cost. Assets acquired in the form of a gift are reported at reproduction acquisition price on the date of its takeover.

Tangible fixed assets with the exception of land, which is not depreciated, are depreciated using the method of even depreciations on the basis of the expected service life of such assets as follows:

Asset categories	Depreciation rate
Tangible fixed assets with acquisition price above 40,000 CZK:	
– buildings and constructions	2.0%
– Computer and office equipment	25.0%
– Passenger cars	25.0%
Tangible fixed assets with acquisition price from 10,000 to 40,000 CZK	50.0%

The depreciation plan during the use of long-term intangible assets is updated based on the expected lifespan.

If the residual value of the asset exceeds its estimated recoverable amount, its residual value is reduced the recoverable amount is set on the basis of expected future monetary flows generated by the given asset.

Costs of repairs and maintenance of fixed tangible assets are accounted for directly as costs. Technical improvements of tangible fixed assets are capitalized.

Tangible assets with an acquisition price of up to 10,000 CZK per item are accounted to cost upon consumption.

### 2.4. Investments in controlled entities / subsidiaries

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

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

### 2.5. Inventories

The purchased inventories are stated at the lower of cost and net realisable amount. The acquisition price includes all costs related to the acquisition of the given inventories (mainly transport costs, customs duty, etc.). The Company applies the weighted average cost method to all disposals.

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

### 2.6. Receivables

Receivables are reported at nominal value less provisions for doubtful debts. is created for doubtful debts on the basis of the age structure of the receivables and individual assessment of the creditworthiness of the debtors. The Company does not create provisions for receivables from related parties.

### 2.7. Foreign currency translation

Transactions in foreign currencies are translated and recognized at the exchange rate in force on the transaction date.

Balances of monetary assets, receivables and liabilities maintained in foreign currency have been converted at the foreign exchange rate published by the Czech National Bank as at the balance sheet date. All the exchange gains and losses from the translation of monetary assets, receivables and payables are recorded under the profit and loss account.

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

## **2.8. Other securities and ownership interests**

The Company divides securities and ownership interests, which are ownership Interests in a subsidiary or related company into the following categories: traded securities, securities held to maturity and realized securities.

Debt securities that the Company issues and is capable of holding to maturity are classified as securities held to maturity and included in the fixed assets, if they do not fall due within 12 months after the date of the financial statements.

Securities and ownership interests are reported at acquisition cost including the transaction costs. Securities held to maturity are subsequently valued at amortized cost. Other securities are valued at fair value.

## **2.9. Financial derivatives**

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

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

Changes in the fair value of derivatives held for trading are reported in the financial results.

The Company has financial derivatives used in compliance with the Company's risk management strategies as an effective hedging tool, but to which hedging accounting cannot be applied because they do not qualify for hedge accounting under Czech accounting rules. For this reason, these derivatives are presented as trading derivatives.

## **2.10. Fair value measurement**

The Company values derivatives at fair value. The Company uses the quoted market price to determine the fair value of derivatives traded in an active market. For measurement of the fair value of these derivatives, the Company uses the standard models with

## **2.11. Equity**

If the Company decides to pay advances toward shares of the profit, it shall report this fact as a reduction of the shareholders' equity If the Company suffers a loss or earns a lower profit than the paid advance by balance sheet date, it shall recognize the advance payment of the shares of the profit or its part on the balance sheet at the end of the accounting period as a claim against the shareholders.

## **2.12. Reserves**

The Company creates provisions to cover its obligations or costs whose nature is clearly defined and which shall probably or certainly occur by the balance sheet date, but whose size or moment of occurrence are not certain. The provisions on the balance sheet date are the best estimate of the costs, which shall probably be incurred, or in the case of a liability, the amount required for their settlement

The Company creates provisions for future income tax obligations less advance income tax payments made. If the income tax advances paid exceed the expected tax amount, the relevant balance is recorded as a short-term receivable.

The Company further creates provisions for unused leave, rewards to employees and competition clauses and a provision for bad contracts.

## **2.13. Employee benefits**

These employee benefits are continuously charged to cost in the period to which they relate factually and in terms of time. Regular contributions are made to the state budget to fund the national pension plan.

## **2.14. Dues to credit institutions**

Short-term and long-term accounts payable to the credit institutions (loans) are monitored at their nominal value. Short-term loans also include the portion of long-term loans due within one year after the date of the financial statements. All cost interest is recorded under cost. Long-term liabilities are not discounted.

## **2.15. Issued bonds**

The Company initially recognizes the issued debt securities at acquisition price on the date of their creation. After initial recognition, these financial liabilities are valued at amortized value.

## **2.16. Sales**

Sales are recognized on the date of service provision and acceptance by buyer, and are reported after deduction of discounts and value added tax. Sales are recognized on the date of provision of services and are reported less discounts and ex-VAT.

### **Natural gas**

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

The price for final customers consists of the price of the consumed gas supplies and other services (transport, structuring, flexibility), distribution price and the price of the Market Operator's services.

Gas supply and distribution to high-volume and middle-volume customer categories are billed on a monthly basis according to the measured consumption. Gas supplies to low-volume customer categories ("MO") and households ("DOM") are billed periodically once every 12 months (according to Article 15, Act No. 70/2016 Coll.), based on the reading of the consumption of each off take point, respectively based on customer self-reading.

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

### **Electric power**

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

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

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

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

Revenues from VO consist of actually billed revenues.

## **2.17. Related parties**

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

- parties that can directly or indirectly apply decisive influence in the Company and companies where such parties have controlling or significant influence,
- parties, which can directly or indirectly exercise significant influence in the Company,
- members of the statutory, supervisory and management bodies of the company or its parent company, and persons related to such persons, including companies in which the members or persons have a significant or controlling influence;
- subsidiary companies.

Material transactions and outstanding balances with related parties are disclosed in Note 15 Related party transactions and 16 Employees.

## **2.18. Leases**

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

## **2.19. Cost interest**

All cost interest is recorded under cost. Long-term liabilities are not discounted.

## **2.20. Deferred tax**

Deferred tax is reported for all temporary differences between the balance value of assets and/or liabilities in the balance sheet and their tax value. The deferred tax receivable is recognized in the event that it will probably be allowable for tax purposes in future.

## **2.21. Cash flow statement**

The Company compiled the cash flow statement using the indirect method. Cash equivalents are short-term highly liquid investments that can be exchanged for a predictable amount of cash and are not expected to undergo significant changes in value over time. Cash equivalents are cash deposits with a maximum notice period of three months and liquid debt securities for trading on the public market.

The Company uses so-called cash-pooling within the group which is recognized in the balance under Receivables – subsidiaries/controlling parties or under Liabilities – subsidiaries / controlling parties. A receivable, or a claim that arises from the title of cash-pooling is not reported on the Cash Flow Statement as a component of Cash and Cash Equivalents.

## **2.22. Subsequent events**

The effects of events which occur between the balance sheet date and the day of drawing up the financial statement is recorded in accounting statements in the event that such events provide supplementary information on facts which existed as of the balance sheet date.

If between the balance sheet date and the date of preparation of the financial statements any significant events affecting the Company occurred after the balance sheet date, the consequences of such events are described and their impacts are quantified in the notes to the financial statements, but are not recognized in the accounting reports.

### 3. FIXED INTANGIBLE ASSETS

**2017:**

ACQUISITION PRICE ('000 CZK)	01 January 2017	Increases/carry forward	Reductions*	31 December 2017
Software	686,832	27,194	0	714,026
Other valuable rights, licences	15,829	218	0	16,047
Other intangible fixed assets	62,878	0	0	62,878
Incomplete intangible fixed assets	1,919	37,070	27,412	11,577
Advances paid for intangible fixed assets	0	35	35	0
<b>Total</b>	<b>767,458</b>			<b>804,528</b>
 <b>DEPRECIATION ('000 CZK)</b>	 <b>01 January 2017</b>	 <b>Increments</b>	 <b>Decreases</b>	 <b>31 December 2017</b>
Software	627,019	45,275	0	672,294
Other valuable rights, licences	11,801	3,524	0	15,325
Other intangible fixed assets	62,844	34	0	62,878
<b>Total</b>	<b>701,664</b>			<b>750,497</b>
 Residual value	 65,794			 54,031

**2016:**

ACQUISITION PRICE ('000 CZK)	01 January 2016	Increases/carry forward	Reductions*	31 December 2016
Software	614,655	72,177	0	686,832
Other valuable rights, licences	11,202	4,627	0	15,829
Other intangible fixed assets	62,979	0	101	62,878
Incomplete intangible fixed assets	45,537	33,186	76,804	1,919
Advances paid for intangible fixed assets	0	33	33	0
<b>Total</b>	<b>734,373</b>			<b>767,458</b>
 <b>DEPRECIATION ('000 CZK)</b>	 <b>01 January 2016</b>	 <b>Increments</b>	 <b>Decreases</b>	 <b>31 December 2016</b>
Software	568,754	58,265	0	627,019
Other valuable rights, licences	7,817	3,984	0	11,801
Other intangible fixed assets	61,000	1,945	101	62,844
<b>Total</b>	<b>637,571</b>			<b>701,664</b>
 Residual value	 96,802			 65,794

\* The declines represent retirement of assets and transfers of incomplete intangible assets and recognition of advances.

#### 4. TANGIBLE FIXED ASSETS

**2017:**

ACQUISITION PRICE ('000 CZK)	01 January 2017	Increases/carry forward	Reductions*	31 December 2017
Land	76,890	0	0	76,890
Buildings	1,069,445	1,797	0	1,071,242
Movables and sets of movables	417,565	41,584	15,543	443,606
Other tangible fixed assets	38,569	1,743	0	40,312
Incomplete tangible fixed assets	10,352	61,411	45,124	26,639
Advances paid for tangible fixed assets	19,622	9,650	26,771	2,501
Total	1,632,443			1,661,190
DEPRECIATION ('000 CZK)	01 January 2017	Increments	Decreases	31 December 2017
Buildings	394,066	22,878	0	416,944
Movables and sets of movables	343,289	37,388	15,144	365,533
Other tangible fixed assets	3,952	303	0	4,255
Total	741,307			786,732
ALLOWANCES ('000 CZK)	01 January 2017	Increments	Decreases	31 December 2017
Buildings	453	0	24	429
Total	453			429
Residual value	890,683			874,029

**2016:**

ACQUISITION PRICE ('000 CZK)	01 January 2016	Increases/carry forward	Reductions*	31 December 2016
Land	77,373	0	483	76,890
Buildings	1,017,944	51,785	284	1,069,445
Movables and sets of movables	436,811	42,471	61,717	417,565
Other tangible fixed assets	38,478	91	0	38,569
Incomplete tangible fixed assets	19,058	85,641	94,347	10,352
Advances paid for tangible fixed assets	45,497	64,736	90,611	19,622
Total	1,635,161			1,632,443
DEPRECIATION ('000 CZK)	01 January 2016	Increments	Decreases	31 December 2016
Buildings	372,633	21,625	192	394,066
Movables and sets of movables	368,945	35,131	60,787	343,289
Other tangible fixed assets	3,654	298	0	3,952
Total	745,232			741,307
ALLOWANCES ('000 CZK)	01 January 2016	Increments	Decreases	31 December 2016
Constructions	476	0	23	453
Total	476			453
Residual value	889,453			890,683

\* The declines represent retirement of assets and transfers of incomplete tangible assets and recognition of advances.

## 5. INVESTMENTS IN CONTROLLED ENTITIES

### Information about subsidiary companies:

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 Plynáry 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.  
Registered office: U Plynárny 500, Prague 4, Postal Code 141 00

At 31 December 2017:

Domestic	Number of shares (in pcs)	Nominal value of the shares ('000 CZK)	Book value of the capital interests ('000 CZK)	Share of the registered capital (in %)	Profit/loss ('000 CZK)	Equity capital ('000 CZK)	Dividends received in the given year ('000 CZK)
Pražská plynárenská Distribuce, a.s., Member of the Group Pražská plynárenská, a.s.	5,207	2,707,640	4,743,913	100	652,307	4,743,913	250,000
Pražská plynárenská Servis distribuce, a.s., Member of the Group Pražská plynárenská, a.s.	202,106	15,080	188,030	100	88,501	188,030	71,892
Pražská plynárenská Správa majetku, a.s., Member of the Group Pražská plynárenská, a.s.	10	2,000	11,053	100	6,308	11,053	3,676
Prometheus, energetické služby, a.s., Member of the Group Pražská plynárenská, a.s.	128	128,000	130,695	100	1,594	130,695	283
Informační služby – energetika, a.s.	20	2,000	9,566	100	3,538	9,566	5,002
Residual value			5,083,257				330,853

**At 31 December 2016:**

<b>Domestic</b>	<b>Number of shares (in pcs)</b>	<b>Nominal value of the shares ('000 CZK)</b>	<b>Book value of the capital interests ('000 CZK)</b>	<b>Share of the registered capital (in %)</b>	<b>Profit/loss ('000 CZK)</b>	<b>Equity capital ('000 CZK)</b>	<b>Dividends received in the given year ('000 CZK)</b>
Pražská plynárenská Distribuce, a.s., Member of the Group Pražská plynárenská, a.s.	5,207	2,707,640	4,347,136	100	452,716	4,347,136	255,870
Pražská plynárenská Servis distribuce, a.s., Member of the Group Pražská plynárenská, a.s.	202,106	15,080	174,645	100	74,888	174,645	64,250
Pražská plynárenská Správa majetku, a.s., Member of the Group Pražská plynárenská, a.s.	10	2,000	8,575	100	3,830	8,575	6,486
Prometheus, energetické služby, a.s., Member of the Group Pražská plynárenská, a.s.	128	128,000	129,409	100	295	129,409	3,823
Informační služby – energetika, a.s.	20	2,000	11,240	100	5,212	11,240	11,250
Residual value			4,671,005				341,679

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

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

Change in the valuation of the ownership interests in subsidiary companies using the equity method:

('000 CZK)	<b>Subsidiary companies</b>	
	<b>2017</b>	<b>2016</b>
Initial balance as at 1 January	4,671,005	4,164,312
Increase in value	412,252	206,693
Acquisition of ownership interests	0	300,000
Final balance as at 31 December	5,083,257	4,671,005

## 6. INVENTORIES

The raw material item is mainly represented by natural gas stored in the gas storage as at 31 December 2017 in the amount of 793,923,000 CZK (as at 31 December 2016: CZK (as at 31 December 2016: 797,649,000 CZK).

The Company did not create provisions for inventories as at 31 December 2017 or as at 31 December 2016.

## 7. RECEIVABLES

Receivables overdue as at 31 December 2017 amounted to 355,478,000 CZK (as at 31 December 2016: 367,497,000 CZK).

The provision for receivables as at 31 December 2017 amounted to 311,270,000 CZK (as at 31 December 2016: 326,205 thousand CZK). The receivables are not covered by factual guarantees and none of them have a maturity above 5 years.

The Company does not have receivables or conditional receivables on record, which are reported on the balance sheet.

Short-term advance payments made are mainly cash provided from the title of subsequent purchase and distribution of natural gas.

Contingent receivables include mainly the estimated unbilled gas including distribution as at 31 December 2017 in the amount of 3,342,227,000 CZK (as at 31 December 2016: 3,518,059,000 CZK) and estimated unbilled electricity sold as at 31 December 2017 CZK (as at 31 December 2016: 233,993,000 CZK).

## 8. SHORT-TERM FINANCIAL ASSETS

The Company acquired the corporate bills of ČSOB Leasing as at 20 December 2017. This concerned 5 bills of exchange of total worth 500,000 thousand CZK due on 2 January 2018. The yield to maturity was 0.01 % p.a. The yield to maturity was 0.01% p.a. This financial operation optimized the Company's cash-flow positions in the bank accounts in relation to the obligatory payments of the banks to the resolution fund according to the applicable legislation as at 31 December 2017.

## 9. EQUITY

CZK. 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.

The Company is a member of one consolidated unit whose parent company is Pražská plynárenská Holding a.s. with registered office at U Plynárny 500/44, Prague 4, Postal Code 140 00.

The final parent company of the Company is the Capital of Prague.

The consolidated financial statements compiled for the consolidated unit to which the Company belongs can be obtained from the Pražská plynárenská Holding a.s. with registered office at U Plynárny 500/44, Prague 4, Postal Code 140 00.

The Company is fully governed by the Corporations Act and used the option not to create a reserve fund, which is further allowed by the Articles of Associations of the Company

On 4 April 2017 Pražská plynárenská Holding a.s., as the sole shareholder of the Company acting in the power of the general meeting of the shareholders, approved the Company's financial statements for 2016 and decided about the allocation of the profit earned in 2016 in the amount of 1,155,047,000 CZK and distribution of dividends to in the amount of 520,000,000 CZK to the shareholders. CZK.

The Company proposed distribution of the profit for 2017 by the date of issue of these financial statements.

## 10. RESERVES

('000 CZK)	31 December 2017	31 December 2016
Income tax provision	40,931	75,977
Other reserves	153,856	119,651
Total provisions	194,787	195,628

Income tax advance payments made by the Company in the amount of 168,135,000 CZK as at 31 December 2017 (as at 31 December 2016: The bonds were accepted for trading on the regulated stock exchange (Prague Stock Exchange - Burza cenných papírů Praha, a.s.). 114,977 thousand 190,954 thousand CZK).

Other provisions include mainly the provision for unused leave, rewards to employees and competition clauses and a provision for bad contracts.

## 11. LIABILITIES, FUTURE AND CONDITIONAL LIABILITIES

The liabilities are not covered by factual guarantees and do not have a maturity above 5 years.

The Company has secured its financial liabilities under the Agreement on combined supplies of natural gas at Československá obchodní banka, a.s., only to the benefit of TRADE CENTRE PRAHA a.s., as at 31 December 2017 in the amount of 500,000 CZK (as at 31 December 2016 to the benefit of RWE Supply Trading GmbH, in the amount of 10,000,000 EUR from the title of operations on the gas market). These liabilities are not included in the balance sheet.

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

Estimated payables include an accrual for unbilled purchased gas and gas distribution as at 31 December 2017 CZK (as at 31 December 2016: 1,923,528,000 CZK (as at 31 December 2016: 195,897,000 CZK).

The total amount of payables not included in the Balance Sheet based on the concluded operative lease contracts as at 31 December 2017 amounted to 13,151,000 CZK (as at 31 December 2016: 10,243,000 CZK).

The future liabilities arising from contracts for lease of gas storage as of 31 December 2017 amounted to 458,821 thousand CZK (as at 31 December 2016: 521,246,000 CZK).

The total amount of future liabilities arising from contracts which do not relate to gas was as at 31 December 2017 amounted to 21,004,000 CZK (as at 31 December 2016: 27,224,000 CZK).

The Company as at 31 December 2017 did not provide any material guarantees, which are not reported on the balance sheet. The Company Management is not aware of any conditional liabilities of the Company as at 31 December 2017.

## 12. BONDS ISSUED

In June 2017, PP, a.s., emitted bonds of total nominal worth 400 million CZK with a maturity of 3 years and a coupon with a fixed interest yield of 0.90 % p.a. The issue rate of these bonds was 99.548 % and the emission yield was 398,192,000 CZK. The emitted bonds were redeemed by Česká spořitelna, a.s., and Československá obchodní banka, a.s.

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

No pre-emptive or exchange rights attach to the bonds. The bonds may be freely negotiable and their transferability is unlimited. The issuer (Company) may redeem the bonds at any time on the market or otherwise at any price.

The bonds are subject to the condition of compliance with the financial indicators. If these conditions are not observed, pre-mature redemption of the bonds may be sought. These are the same financial indicators that also apply to the credit documentation from May 2016 (see Note 13).

### 13. PAYABLES TO CREDIT INSTITUTIONS AND OTHER LOANS

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

('000 CZK)	31 December 2017	31 December 2016
Overdraft credit lines	0	40,794
Total bank loans	0	40,794
Short-term loans – cash-pooling	1,057,028	905,847

The structure of the Company's external funding is contractually secured until May 2019 and includes overdraft credit lines, exchange program for drawing the necessary resources in the form bills of exchange in auctions and a line for negotiation of bank guarantees. These external financial resources are provided by a consortium of two banks, i.e. Československá obchodní banka, a.s., and Česká spořitelna, a.s.

Short-term funding structure as at 31 December 2016:

('000 CZK)	Limit	from	to	interest rate
Overdraft credit lines	900,000	24. 5. 2016	24. 5. 2019	floating
Guarantee line	700,000	24. 5. 2016	24. 5. 2019	fixed
Exchange program	3,400,000	24. 5. 2016	24. 5. 2019	floating
Total	5,000,000			

Within the framework of 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 PP, a.s., and Československá obchodní banka, a.s.,
- Agreement on the establishment of a lien on the company's plant between PP, a.s., and Česká spořitelna, a.s.,
- Agreement on the establishment of a lien on the receivables under bank account management agreements between PP, a.s., and Československá obchodní banka, a.s.,
- Agreement on the establishment of a lien on the receivables under bank account management agreements between PP, a.s., and Česká spořitelna, a.s.,
- Agreement establishing a ban on burdening and alienation between PP, a.s., and Československá obchodní banka, a.s.

The given agreements do not contravene the right of lien related to the bonds issued by the subsidiary company Pražská plynárenská Distribuce, a.s., Member of the Pražská plynárenská, a.s. Group,

In connection with the conditions under the loan agreements concluded in 2016, financial indicators are monitored at the consolidated Company data level. In case of their non-fulfilment, the banks may request premature loan repayment. The Company fulfilled the financial indicators in 2017 and 2016.

The credit lines as at 31 December 2016 were drawn in the form of an overdraft in the amount of 40,794,000 CZK. The average interest rate of the overdraft was 0.84 % p.a. in 2016.

In connection with the Company bond issue (see Note 12) of 15 June 2017, the volume of short-term funding was cut by the volume of issued bonds in the amount of 0.4 billion CZK so as to prevent increase of the total external funding volume. secured short-term financing in the amount of 4.6 billion CZK and long-term financing in the amount of 0.4 billion CZK. These external financial resources are provided by a consortium of two banks, i.e. Československá obchodní banka, a.s., and Česká spořitelna, a.s.

Structure of financing from 15 June 2017:

('000 CZK)	Limit	from	to	interest rate
Overdraft credit lines	900,000	24. 5. 2016	24. 5. 2019	floating
Guarantee line	700,000	24. 5. 2016	24. 5. 2019	fixed
Exchange program	3,000,000	7. 6. 2017	24. 5. 2019	floating
PP, a.s. bonds (see Note 12)	400,000	15. 6. 2017	15. 6. 2020	fixed
Total	5,000,000			

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

- Amendment No. 1 to the Exchange Program Contract of 24 May 2016,
- Framework Agreement on receipt of investment instruments for trading on the stock market,
- Agreement on management of the emission and handling of payments,
- Agreement on subscription and purchase of bonds

A component of the process of issue of the bonds on the regulated stock market (Burza cenných papírů Praha, a.s.) was issue of the Bond Prospectus. The prospectus was approved by the Czech National Bank on 9 July 2017.

The credit lines in 2017 were drawn in the form of an overdraft (as at 31 December 2017 in the amount of 0 thousand CZK). The average interest rate on the overdraft loan in 2017 was 0.42 % p.a.

Drawing of short-term bank loans allows the Company to optimize coverage of seasonal fluctuations in its cash flows, which accompany the purchase and sale of energy. The financial resources in the cash-pool that are reported in the line Liabilities – controlled or controlling entity in 2017 and 2016 were subject to the interest rate O/N PRIBOR + 0.05 % p.a.

## 14. REVENUES

Revenues can be classified as follows:

('000 CZK)	2017	2016
Revenues related to natural gas and CNG trade	10,492,982	10,730,694
Revenues related to electricity trade	1,136,834	671,741
Revenues from sale of services	356,027	333,972
Revenues from goods sold	1,323	1,548
Total	11,987,166	11,737,955

In 2017 and 2016, all the revenues were realized in the Czech Republic.

## 15. TRANSACTIONS WITH RELATED PARTIES

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

('000 CZK)	2017	2016
Sale of natural gas and CNG	161,973	199,593
Sale of electricity	4,912	5,154
Provision of services including lease of assets	322,671	306,294
Sale of goods and material	114	140
Sale of assets	0	1,246
Income from dividends	330,853	341,679
Interest yields	854	524
Other income	1	1
Total revenues	821,378	854,631
Purchase of services	1,780,611	1,735,442
Purchase of material and electricity	13,845	12,657
Cost interest	2,495	986
Other costs	59	158
Total costs	1,797,010	1,749,243
Investments	51,804	56,100

The Company reported these balances with related parties:

('000 CZK)	31 December 2017	31 December 2016
Trade receivables	328,073	337,834
Short-term advances paid*	862,726	874,288
Estimated receivables	28,284	34,245
Other receivables and accruals	13,957	2,589
Total receivables	1,233,040	1,248,956
Liabilities to companies in the consolidated unit:	1,776,977	1,625,252
– Trade payables	31,419	32,771
– Short-term advances received*	18,709	21,840
– Loans received – cash-pooling (see Note 13)	1,057,028	905,847
– Estimated payables	669,343	664,675
– Other payables and accruals	478	119
Liabilities to companies outside the consolidated unit:	87	305
– Trade payables	77	295
– Long-term advances received*	10	10
Total accounts payable	1,777,064	1,625,557

\* The balances of these items are reported including VAT.

Company cars are available for use by the management staff and board members. The remuneration for the members of the Board of directors and Supervisory board is part of the staff costs. Supervisory Board members and members of the Board of Directors were paid dividends according to the decision of Pražská plynárenská Holding a.s as the sole shareholder of the Company.

## 16. EMPLOYEES

('000 CZK)	2017		2016	
	Quantity	Personnel costs	Quantity	Personnel costs
Company management payroll costs	24	56,254	23	47,576
Payroll costs of other employees	328	165,212	310	155,927
Social security and health insurance expenses		72,123		68,919
Other social costs		10,149		9,214
<b>Total</b>		<b>303,738</b>		<b>281,636</b>

The company's management includes the members of the Supervisory Board and the Board of Directors and management staff. Management staff are employees directly subordinate to the statutory body and who are also subordinate to another member of the management staff.

Other transactions with the Company Management are described in Note 15. Transactions with related parties.

## 17. AUDITORS' REMUNERATION

Information about the fees paid to the audit company PricewaterhouseCoopers Audit, s.r.o., is given in the Notes to the Consolidated Financial Statements of the Parent Company Pražská plynárenská Holding a.s.

## 18. INCOME TAX

The tax cost includes:

('000 CZK)	2017	2016
Tax due (19 %)	209,066	190,954
Deferred tax	-2,760	-1,149
Adjustment of prior year tax expense based on final CIT return	2,219	-7,299
Total tax cost	208,525	182,506

The deferred tax was calculated at 19 % (the rate enacted for 2016 and subsequent years).

The deferred tax receivable can be analysed as follows:

('000 CZK)	31 December 2017	31 December 2016
Deferred tax payable (-)/receivable (+) from the title of:		
a difference in the book and tax residual value of assets	-30,084	-29,509
provisions and allowances	50,967	47,119
other temporary differences	-855	-342
Net deferred tax receivable	20,028	17,268

## 19. SUBSEQUENT EVENTS

The Supervisory Board at its meeting on 6 February 2018 recalled Mr. Alois Těšitel from the office of member of the Supervisory Board and elected Mr. Vladimír Vavříček to replace him with immediate effect.

After the balance sheet date, no events occurred which could have a significant impact on the Financial Statements as of 31 December 2017.

20. March 2018

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

**Ing. Milan Cízl**  
Member of the Board of Directors

# CONSOLIDATED FINANCIAL STATEMENTS

## ■ Consolidated statement of financial position as of 31 December 2017

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

(in full '000 CZK)

	Note:	31. 12. 2017	31. 12. 2016
<b>ASSETS</b>			
<b>Fixed assets</b>			
Land, property, plant and equipment	6.1	6,673,492	6,377,721
Intangible assets	6.2	52,429	53,127
Other fixed assets		1,687	102,859
Fixed assets – total		6,727,607	6,533,707
<b>Short-term assets</b>			
Inventories	6.3	824,960	831,587
Trade and other receivables	6.4	1,779,310	940,964
Other tax receivables		0	11
Cash and cash equivalents	6.5	1,328,211	111,658
Other assets		34,470	22,932
Short-term assets – assets		3,966,951	1,907,152
TOTAL ASSETS		10,694,558	8,440,859
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Registered capital	6.6	431,972	431,972
Profit funds	6.7	238,960	238,960
Retained earnings		3,321,893	2,235,510
Equity – total		3,992,825	2,906,442
<b>Long-term liabilities</b>			
Trade liabilities and other long-term liabilities	6.8	834	1,491
Bonds	6.11	3,051,809	2,643,687
Deferred tax liability	6.12	414,785	387,933
Reserves	6.14	0	200,000
Long-term liabilities – total		3,467,427	3,233,111
<b>Short-term liabilities</b>			
Trade payables and advances received	6.9 + 6.10	2,599,369	1,810,553
Bank loans	6.11	0	40,794
Other liabilities	6.9	320,225	262,576
Due income tax	6.13	38,784	72,966
Other tax liabilities	6.13	99,468	84,164
Reserves	6.14	176,459	30,253
Short-term liabilities – total		3,234,306	2,301,306
TOTAL EQUITY AND LIABILITIES		10,694,558	8,440,859

## ■ Consolidated statement of comprehensive income for the year ended 31 December 2017

Compiled in compliance with the IFRS in the wording adopted by the EU  
(in full '000 CZK)

	Note:	2017	2016
Sales	6.15	12,549,226	12,241,353
Purchased gas, electricity, materials and services connected with gas and electricity supplies	6.16	8,517,676	8,609,557
Other operating income	6.17	39,203	41,894
Personnel costs	6.18	685,675	661,570
Depreciation of intangible and tangible fixed assets	6.19	418,009	424,749
Other operating costs	6.20	811,024	753,528
Operating profit/loss		2,156,045	1,833,843
Financial costs	6.21	288,013	153,787
Financial revenues	6.21	124,949	46,421
Financial profit/loss		-163,064	-107,366
Profit before tax		1,992,981	1,726,477
Income tax	6.22	386,598	329,813
Profit/loss after tax for the period		1,606,383	1,396,664
Settlement of interest rate swaps		0	25,175
Deferred tax on interest rate swaps	6.22	0	4,783
Other comprehensive income		0	20,392
Total comprehensive income		1,606,383	1,417,056

## ■ CONSOLIDATED STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2017

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

(in full '000 CZK)

	Registered capital	Profit funds	Revaluation of hedging	Retained earnings	Total
Note	6.6	6.7			
Balance as at 1 January 2016	431,972	238,960	-20,392	1,040,697	1,691,237
Profit/loss after tax for the period	0	0	0	1,396,664	1,396,664
Other comprehensive income	0	0	20,392	0	20,392
<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>	<b>20,392</b>	<b>1,396,664</b>	<b>1,417,056</b>
<b>Transactions with owners of the Company:</b>					
Dividends paid	0	0	0	-619,851	-619,851
Interim dividends paid	0	0	0	418,000	418,000
Balance as at 31 December 2016	431,972	238,960	0	2,235,510	2,906,442
Profit/loss after tax for the period	0	0	0	1,606,383	1,606,383
<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,606,383</b>	<b>1,606,383</b>
<b>Transactions with owners of the Company:</b>					
Dividends paid	0	0	0	-520,000	-520,000
Balance as at 31 December 2017	431,972	238,960	0	3,321,893	3,992,825

## ■ Consolidated statement of cash flows for the year ended 31 December 2017

Compiled in compliance with the IFRS in the wording adopted by the EU  
(in full '000 CZK)

	2017	2016
<b>Profit before tax</b>	<b>1,992,981</b>	<b>1,726,477</b>
<b>Adjustments of profit before tax</b>	<b>473,668</b>	<b>524,696</b>
Depreciation of fixed assets	418,009	424,749
Write-off of receivables	32,457	36,590
Change in the position of adjustments and reserves	-67,935	-13,668
Income from sale of fixed assets	-1,977	-3,461
Net interest	28,716	63,103
Other non-cash movements (revaluation of derivatives)	64,398	17,383
<b>Net cash flows from operations before tax and changes in working capital</b>	<b>2,466,649</b>	<b>2,251,173</b>
<b>Change in working capital needs</b>	<b>27,522</b>	<b>78,867</b>
Changes in the position of receivables from operations	-768,691	186,300
Change in liabilities from operations	789,510	-365,756
Movement in inventories (gross)	6,703	258,323
<b>Net cash flow from operations before tax</b>	<b>2,494,171</b>	<b>2,330,040</b>
Interest paid	-19,437	-67,564
Interest received	865	104
Income tax on current activities and additional tax paid minus tax refunds	-394,431	-246,195
<b>Net cash flow from operations</b>	<b>2,081,168</b>	<b>2,016,385</b>
Acquisition cost of fixed assets	-715,779	-725,557
Revenues from sale of fixed assets	4,730	4,852
Credit and loans to associates	-58	4
<b>Net cash flow from investments</b>	<b>-711,107</b>	<b>-720,701</b>
<b>Change in liabilities from financing activities</b>		
Change in long-term liabilities	-100	-80,450
Bond yields	398,192	2,641,734
Redemption of issued bonds	0	-2,500,000
Repayment of short-term bank loans*	-40,794	-1,216,084
Change in the position of the loan from the parent company PPH *	9,194	-5,120
<b>Changes in equity</b>		
Dividends paid	-520,000	-201,851
Net cash flows from financing activities	-153,508	-1,361,771
Cash and cash equivalents balance at the beginning of the accounting period	111,658	177,745
<b>Net movement in cash and cash equivalents for the accounting period</b>	<b>1,216,553</b>	<b>-66,087</b>
Cash and cash equivalents balance at the end of the accounting period	1,328,211	111,658

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. BASIC INFORMATION

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

Pražská plynárenská, a.s., (hereinafter referred to as "the Company") was incorporated on 31 December 1993 and has its registered office at the address Prague 1 – Nové Město, Národní 37/38, Post Code 110 00, Czech Republic. The Company's ID number is 601 93 492. The LEI of the Company is 315700QBYOTLGRRMOO11.

### 1.2. 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

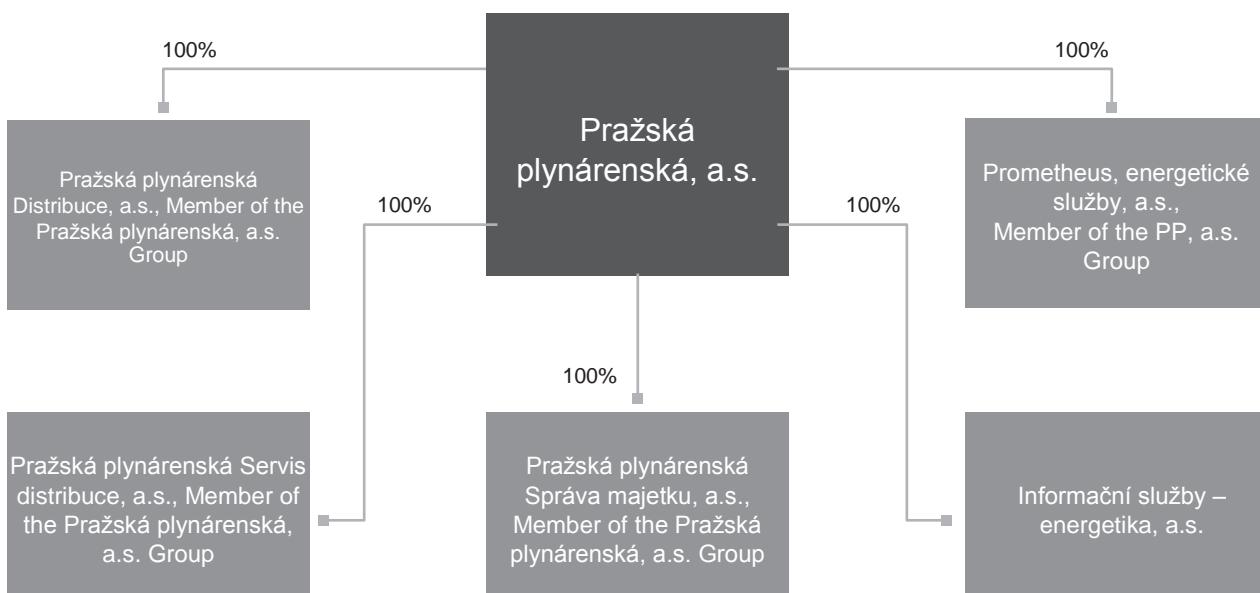
and all its subsidiaries. The Group's core business activity is the sale/distribution of natural gas and the sale of electricity.

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 of 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.

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

Organizational structure of the Group as at 31 December 2017 and 31 December 2016:



### 1.3. Organizational structure of the Company's Board of Directors and Supervisory Board as at 31 December 2017

Structure of the Board of Directors:	
Ing. Pavel Janeček	Chairman of the Board of Directors
Ing. Milan Jadlovský	Vice-Chairman of the Board of Directors
Ing. Milan Cízl	Member of the Board of Directors
Ing. Alois Těšitel	Member of the Board of Directors (recalled with effect from 6 February 2018)

Structure of the Supervisory Board:	
Ing. Michal Hašek	Chairman of the Supervisory Board
Mgr. Luboš Koželuh, MBA	Vice-Chairman of the Supervisory Board
Bc. Martin Čáslavka	Member of the Supervisory Board
RNDr. Marcela Plesníková	Member of the Supervisory Board
JUDr. Štěpán Stupčuk	Member of the Supervisory Board
Mgr. Miroslav Vránek	Member of the Supervisory Board
Petr Klepáček	Member of the Supervisory Board
Radomír Nepil	Member of the Supervisory Board
Ing. Petra Zemanová	Member of the Supervisory Board

Structure of the Audit Committee (appointed on 26 September 2017):	
Ing. Lenka Mrázová, FCCA	Chairperson of the Audit Committee
Ing. Pavlína Kouřilová	Member of the Audit Committee
Ing. Marta Ptáčková	Member of the Audit Committee

### 1.4. Major shareholders of the Company

The sole shareholder controlling the Company as at 31 December 2017 and 31 December 2016, is Pražská plynárenská Holding a.s. ("PPH"), which is controlled by the Capital City of Prague.

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

### 2.1. New standards, amendments and interpretations mandatory for the first time for the financial year 2017

- IAS 7, Cash Flow Statement: Publishing initiative – amendment (effective for the accounting period starting on 1 January 2017). to IAS 7 requires publishing of the table of changes in the liabilities from financial operations. The Group published the required information in Note 6.11.

Other new standards, amendments, interpretations and improvement of existing standards, which come into force for the first time for the accounting period starting on 1 January 2017, which have an insignificant or no impact on the consolidated financial statements of the Group.

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

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

- IFRS 9, Financial instruments – classification and evaluation (approved by the European Union, in force for the accounting period starting on 1 January 2018). The new IFRS 9 standard replaces IAS 39 which relates to classification and measurement of financial assets and it also changes some requirements for publishing regulated by IFRS 7. Standard IFRS 9 specifies three categories for all financial assets, currently regulated by standard IFRS 39 – assets valued at net book value determined by effective rate method, assets in fair value through other comprehensive income and fair value through profit and loss. The effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss are required to be presented in other comprehensive income. The new IFRS 9 contains a more progressive impairment (ECL) model that also reflects the expected credit losses in comparison with the model of loss incurred as per IAS 39. Hedge accounting requirements were amended to align accounting more closely with risk management. An option to apply IFRS 9, or IAS 39 to all hedging relationships was introduced. Based on the analyses done, the Group expects the following impacts of IFRS 9 on the comparable information as at 1 January 2018 in the consolidated financial statements for 2018: As at 1 January 2018, the Group recognizes additional creation of allowances to financial assets that reflects the expected credit losses for all financial assets. The equity shall be reduced accordingly as at 1 January 2018. Because the Group has a larger share of receivables covered by received operational advances, this amendment shall not have a significant impact.
- IFRS 15, Revenue from Contracts with Customers, including the amendment (approved by the European Union, in force for the accounting period starting on 1 January 2018). IFRS 15 introduces the basic policy that revenues are recognised at the transaction price at the time when the goods or services are transferred to a customer. The goods or services are transferred to a customer when the customer takes control over them. All separated deliverables with different substance must be reported individually and all discounts and rebates from the contract price are allocated to individual deliverables. Variable consideration is included in the transaction price to the extent, which should eliminate the significant risk of "substantial debiting of revenues" in future. Customer acquisition costs must be capitalised and amortized during the period they are bringing benefits according to contract. The amendment mainly supplements how to determine the individual considerations or how to determine whether it concerns an agent and further introduces simplification for initial use of the standard. Based on the analyses done, the Group expects the following impacts of IFRS 15 on the comparable information as at 1 January 2018 in the consolidated financial statements for 2018: until 31 December 2017 the given accruals shall be spread over the terms of the given contracts after 1 January 2018 and the equity shall be raised appropriately as at 1 January 2018. This adjustment shall not have a significant impact. Further, the Group as at 1 January 2018 capitalizes the time specific part of the commission to the business representatives and mediators when canvassing for customers who were recognized in the income statement as at 31 December 2017 and apply to contracts with customers that are valid after 1 January 2018, and such commission shall be accrued for the duration of these contracts. The equity shall be increased accordingly as at 1 January 2018. This adjustment shall not have a significant impact. The Group further assesses whether in case of revenues from the distribution of gas and electricity under combined contracts with the customers, it is in the position of a principal or agent, and thus whether the distribution fee revenue should be recognized or not. In such case, the Group has not yet arrived at a clear conclusion and awaits clarification and unification of the approach within the sector in which the Group operates. The impact shall not affect the Group's equity as at 1 January 2018.
- IFRS 16, Leases (approved by the European Union, effective for the periods beginning 1 January 2019). The new IFRS 16 fully replaces accounting requirements for leases according to IAS 17. Major changes mainly comprise recognition of leases on the side of the Lessee. IFRS 16 introduces a single lessee accounting model for recognition of all lease transactions. Lessees will be required to recognise an asset – right to operate the asset and lease liabilities. The requirements on the Lessor side are more or less comparable with IAS 17. The Group is currently assessing the full impact of IFRS 16.

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

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

#### **3.1. Declaration of 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 2017.

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

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

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

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

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

#### **3.4. Consolidation basis**

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

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

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

The accounting policies used when preparing the subsidiaries' financial statements are in compliance with the accounting policies of the parent company. All intra-group transactions, balances, revenues and costs are eliminated during the consolidation.

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

#### **3.5. Intangible assets**

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

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

##### **3.5.2. Amortization**

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

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

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

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

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

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

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

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

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.

#### **3.6.2. Depreciation**

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

Land owned by the Group is not depreciated.

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

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

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

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

#### **3.6.3. Disposals**

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

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

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

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

### **3.8. Inventories**

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

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

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

### **3.9. Financial assets**

The Group classifies its financial assets in the following categories: financial assets at fair value recognized in the profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. As at 31 December 2017 and 31 December 2016, the Group recognized the following categories of financial assets:

#### **3.9.1. Loans and receivables**

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

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

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

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

<b>Time overdue</b>	<b>Amount of impairment loss</b>
1-3 months	5 %
3-6 months	20 %
6-12 months	50 %
Above 12 months	100%

A 100 % impairment loss is created for receivables under bankruptcy proceedings. These rules are based on the analysis of the receivables' ageing and the risk of default. The amount of the provision for impairment approximates the difference between the receivables' carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. Impairment loss is recognized as other operating costs in the consolidated profit or loss. When trade receivables are non-collectable, they are written-off at the moment when it is not possible to assume their financial settlement. Recoveries of amounts previously written-off that are subsequently received are credited to profit or loss.

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

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

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

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

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

### **3.9.3. Derivatives**

Derivatives are initially recognized at fair value as at the date when the contract is concluded. Derivatives are subsequently measured at fair value.

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

## **3.10. Cash and cash equivalents**

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

## **3.11. Equity**

### **3.11.1. Registered capital**

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

### **3.11.2. Profit funds**

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

## **3.12. Financial liabilities**

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

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

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

Any resulting profit or loss is recognized under the item Financial expenses or revenues as profit or loss as at balance sheet date.

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

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

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

### **3.12.3. Trade payables**

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

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

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

### **3.13. Unbilled supplies and advances received**

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

### **3.14. Bank loans**

Loans and financial aid are initially recognized 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 recognized at amortized cost considering the materiality principle and using the effective interest rate method. Any difference between proceeds (less transaction costs incurred) and redemption value is recognized in profit or loss over the period of the loan using the effective interest rate method. Borrowing costs related to particular asset are capitalized into acquisition costs of this asset.

#### **3.14.1. 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 capitalization.

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

### **3.15. 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.

### **3.16. Reserves**

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

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

### **3.17. Revenues**

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

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

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

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

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

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

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

Gas supply and distribution to high-volume and middle-volume customer categories are billed on a monthly basis according to the measured consumption. Gas supplies to low-volume customer categories ("MO") and households ("DOM") are billed periodically once every 12 months (according to Article 15, Act No. 70/2016 Coll.), based on the reading of the consumption of each off take point, respectively based on customer self-reading.

Revenues from MO and DOM categories consist of actually billed revenues and revenues from so called "unbilled gas" (see Notes 3.22.1. and 4.1.) The amount of unbilled gas is calculated from the total amount of purchased gas in the particular year based on past behaviour of individual customers and is valued in relation to the valid price list of the Group companies, or to individual prices adjusted by discounts

#### **3.17.2. Revenues from sale 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 can vary by different distributors.

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.

The price for the electricity supply is derived from price on the energy stock exchange. The final price also includes the electricity tax and VAT.

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

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

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

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

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

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

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

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

## **3.18. Leases**

Leases of property, plant and equipment where the majority of the risks and rewards of ownership have been transferred to the Group are classified as finance leases. Financial leases are capitalized at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated a limit for settlement of the liability and financial cost. A related lease liability is recognized as a long-term or short-term liability the interest is charged directly to the consolidated statement of comprehensive income over the lease period so as to achieve a constant rate of interest on the liability. The assets acquired via financial leases are recorded in the consolidated statement of financial position and depreciated over their estimated useful lives.

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

## **3.19. Foreign currency translation**

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

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

## **3.20. Employee benefits**

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

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

### **3.20.2. Additional pension and life insurance**

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

### **3.20.3. Other benefits**

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

### **3.20.4. Termination benefits**

The Company also provides termination benefits to its executives. These benefits are granted if certain conditions are met, i.e. in the case of complying with competition and confidentiality clauses. Amounts are determined based on their monthly pay. The Company recognizes the liability for the termination benefits as at the date when it can no longer withdraw the offer, i.e. as at the signature date of the performance contract.

### 3.21. Taxes

Income tax comprises current and deferred tax.

#### 3.21.1. Current tax

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

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

#### 3.21.2. Deferred tax

Deferred tax is recognized on all temporary differences between the carrying amount of an asset or liability in the consolidated statement of financial position and their tax bases. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination. A deferred tax receivable is recognized if it is probable that taxable profit shall be earned in future, which shall 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 realized or the tax liability is settled, according to tax law enacted as at the end of the reporting period.

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

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

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

#### 3.22.1. Unbilled gas supplies

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

This estimate is determined using the balancing method, as the difference between total gas purchases and sales of monthly invoiced customers, losses and 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 unbilled gas supplies to the VO and SO customers are also recognized within 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 2017 is 2.16 %. The long-term average ratio of losses to the distributed amount for the last 6 years is equal to 2.37 %. If the ratio of losses to the total amount of gas distributed in 2017 was equal to the long-term average, then it was less (greater) than 0.21 percentage points (while all other variables remained constant), the profit before tax as at 31 December, 2017 would have been 19,741,000 CZK higher (lower) under the influence of higher (lower) revenues in the unbilled gas supplies.

## 4. FINANCIAL RISK MANAGEMENT

### 4.1. Credit risk

Credit risk is defined as a risk that one party of the financial instrument causes financial loss to other party by failure to comply with its obligation. There is a credit risk arising to the Group as a consequence of the business conducted with VO, SO and MODOM customers.

Business relationships with significant customers are rated in respect to the adherence of contractual terms and the main risk indicator is considered to be non-observance of payment terms and conditions and the length of the payment delay. The renewal of contractual relationships particularly in the case of traders with final customers is assessed according to historical experience and also on the basis of continuous personal meetings with these subjects.

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

Advance payments from VO and SO customers are paid several times per month and the amount reflects expected consumption of gas for every month. MODOM customers pay advances in monthly or quarterly intervals in the amount of 90% of the expected consumption or according to agreement. For all categories, the setting of the advances takes historical consumption into consideration (from March 2016 the algorithm based on three-year historical consumption is used), seasonal character of the gas consumption and price

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

An individual approach is taken towards each VO and SO customer; firstly, a reminder is sent in the form of notification letters, instalment calendars, and subsequently court collection and seizure. The reminder letters and instalment calendars are also used for MODOM customers. Legal action is taken after the given period for an out-of-court settlement expires. The Group uses the services of external firms and law offices for out-of-court settlements and legal enforcement.

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

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

The Group states an analysis of its trade receivables at nominal value in the following table:

31 December 2017:

<b>Receivables by maturity ('000 CZK)</b>	<b>Cat. DOM</b>	<b>Cat. MO</b>	<b>Cat. VO/SO</b>	<b>Other</b>	<b>Total</b>
Receivables not overdue	265,951	504,960	467,634	345,703	1,584,248
Overdue within 1 month	8,125	6,582	13,038	5,893	33,638
1-3 months	6,712	5,329	788	4,215	17,044
3-6 months	4,119	3,165	476	1,941	9,701
6-12 months	11,288	7,288	555	7,707	26,838
Above 12 months	100,032	89,141	13,725	78,174	281,072
<b>Total receivables</b>	<b>396,227</b>	<b>616,465</b>	<b>496,216</b>	<b>443,633</b>	<b>1,952,541</b>
Of which under court collection process	100,425	90,704	14,498	13,735	219,362

<b>Receivables not overdue with expected % settlement ('000 CZK)</b>	<b>Cat. DOM</b>	<b>Cat. MO</b>	<b>Cat. VO/SO</b>	<b>Other</b>	<b>Total</b>
Receivables not overdue	265,951	504,960	467,634	345,703	1,584,248
Expected % settlement rate	69%	74%	77%	81%	

31 December 2016:

<b>Receivables by maturity ('000 CZK)</b>	<b>Cat. DOM</b>	<b>Cat. MO</b>	<b>Cat. VO/SO</b>	<b>Other</b>	<b>Total</b>
Receivables not overdue	24,354	29,822	578,393	205,287	837,856
Overdue within 1 month	10,353	10,468	26,615	10,434	57,870
1-3 months	8,162	4,771	1,756	2,089	16,778
3-6 months	6,020	3,550	263	2,376	12,209
6-12 months	16,214	7,551	562	3,196	27,523
Above 12 months	101,801	100,645	11,442	75,380	289,268
<b>Total receivables</b>	<b>166,904</b>	<b>156,807</b>	<b>619,031</b>	<b>298,762</b>	<b>1,241,504</b>
Of which under court collection process	104,118	104,988	10,548	71,379	291,033

<b>Receivables not overdue with expected % settlement ('000 CZK)</b>	<b>Cat. DOM</b>	<b>Cat. MO</b>	<b>Cat. VO/SO</b>	<b>Other</b>	<b>Total</b>
Receivables not overdue	24,354	29,822	578,393	205,287	837,856
Expected % settlement rate	62 %	69%	76 %	71 %	

Based on historical data, 75% of all incurred receivables are paid before their maturity, 15% of receivables are paid after their due date, and the remaining 10% of receivables are collected through legal proceedings; the success rate of these claims collections is different in the individual years.

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

The long-term external rating of banks with which the Group has financial transactions is A2 according to the rating agency Moody's. For comparison, we state that the rating of the Czech Republic is A1.

The following tables show the analysis of the Group's unimpaired and impaired financial assets. The impaired assets are trade receivables for which the Group assumes a higher risk of default based on historical data:

31 December 2017:

<b>('000 CZK)</b>	<b>Unimpaired financial assets not yet due</b>	<b>Unimpaired financial assets overdue</b>	<b>Impaired financial assets</b>	<b>Total</b>
Trade receivables	401,541	65,534	301,389	768,464
Unbilled deliveries	1,182,045	0	2,032	1,184,077
Cash and cash equivalents	1,328,211	0	0	1,328,211
<b>Total</b>	<b>2,911,797</b>	<b>65,534</b>	<b>303,421</b>	<b>3,280,752</b>

31 December 2016:

<b>('000 CZK)</b>	<b>Unimpaired financial assets not yet due</b>	<b>Unimpaired financial assets overdue</b>	<b>Impaired financial assets</b>	<b>Total</b>
Trade receivables	374,810	92,999	329,639	797,448
Unbilled deliveries	444,056	0	0	444,056
Cash and cash equivalents	111,658	0	0	111,658
<b>Total</b>	<b>930,524</b>	<b>92,999</b>	<b>329,639</b>	<b>1,353,162</b>

## 4.2. Liquidity risk

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

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

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

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

The structure of the Group's short-term external funding is contractually secured until May 2019 and includes overdraft credit lines, exchange program for drawing the necessary resources in the form bills of exchange in auctions and a line for negotiation of bank guarantees. These external financial resources are provided by a consortium of two banks, i.e. Československá obchodní banka, a.s., and Česká spořitelna, a.s.

Short-term funding structure as at 31 December 2016:

	Limit	From	To	Interest rate
Overdraft credit lines	900,000,000 CZK	24. 5. 2016	24. 5. 2019	floating
Guarantee line	700,000,000 CZK	24. 5. 2016	24. 5. 2019	fixed
Exchange program	3,400,000,000 CZK	24. 5. 2016	24. 5. 2019	floating
Total	5,000,000,000 CZK			

The credit lines as at 31 December 2016 were drawn in the form of an overdraft in the amount of 40,794,000 CZK. The average interest rate on the overdraft loan in 2016 was 0.84 % p.a. Furthermore, as at 31 December 2016 funds were drawn from the parent company PPH in the amount of 29,390,000 CZK, which represent a liability from the title of cash-pooling. The average cash-pooling interest rate for 2016 was 0.18% p.a.

In connection with refinancing, in 2016 the Group concluded the following documents 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 PP, a.s., and Československá obchodní banka, a.s.,

Due to the favourable developments on the financial markets, bonds with a floating interest rate in the volume of 2.5 billion CZK that were issued in May 2015 by Pražská plynárenská Distribuce, a.s. (hereinafter "PPD") were refinanced in November 2016 and bonds in the volume of 2.7 billion CZK with a fixed interest rate were issued with maturity in 2023. The issue rate of these bonds was 97.842% and the emission yield was 2,641,734,000 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 lien is established on the plant of Pražská plynárenská, a.s. to the benefit of the bond holders attaches to the PPD bonds.

Long-term funding structure as at 31 December 2016:

	Limit	From	To	Interest rate
PPD Bond 0.70%/2023 ISIN CZ0003515348	2,700,000,000 CZK	14. 11. 2016	14. 11. 2023	fixed

In June 2017, PP, a.s., emitted bonds of total nominal worth 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 exchange (Prague Stock Exchange - Burza cenných papírů Praha, a.s.). The issue rate of these bonds was 99.548 % and the emission yield was 398,192,000 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 component of the process of issue of the bonds on the regulated stock market was issue of the Bond Prospectus. The prospectus was approved by the Czech National Bank on 9 July 2017.

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

- Amendment No. 1 to the Exchange Program Contract of 24 May 2016
- Framework Agreement on receipt of investment instruments for trading on the stock market
- Agreement on management of the emission and handling of payments
- Agreement on subscription and purchase of

bonds

#### Bonds issued by the Group

<b>Bond title</b>	<b>Nominal value of the issue ('000 CZK)</b>	<b>Issue rate (%)</b>	<b>Date of maturity</b>	<b>Coupon rate p.a. (%)</b>	<b>Coupon maturity</b>	<b>Book value as at 31. 12. 2017 ('000 CZK)</b>	<b>Book value as at 31. 12. 2016 ('000 CZK)</b>
PPAS Bond 0.90/2020 ISIN CZ0003516809	400,000	99.548	15. 6. 2020	0.90	annual	399,574	0
PPD Bond 0.70%/2023 ISIN CZ0003515348	2,700,000	97.842	14. 11. 2023	0.70	annual	2,652,235	2,643,687

Long-term funding structure from 15 June 2017 and as at 31 December 2017:

	<b>Limit</b>	<b>From</b>	<b>To</b>	<b>Interest rate</b>
PPAS Bond 0.90/2020 ISIN CZ0003516809	400,000,000 CZK	15. 6. 2017	15. 6. 2020	fixed
PPD Bond 0.70%/2023 ISIN CZ0003515348	2,700,000,000 CZK	14. 11. 2016	14. 11. 2023	fixed
Total	3,100,000,000 CZK			

In connection with the Company bond issue (see Note 12) of 15 June 2017, the volume of short-term funding was cut by the volume of issued bonds in the amount of 0.4 billion

0.4billion CZK so as to prevent increase of the total external funding volume. secured short-term financing in the amount of 4.6 billion CZK and long-term financing in the amount of 3.1 billion CZK. These external financial resources are provided by a consortium of two banks, i.e. Československá obchodní banka, a.s., and Česká spořitelna, a.s.

Short-term funding structure from 15 June 2017 and as at 31 December 2017:

	<b>Limit</b>	<b>From</b>	<b>To</b>	<b>Interest rate</b>
Overdraft credit lines	900,000,000 CZK	24. 5. 2016	24. 5. 2019	floating
Guarantee line	700,000,000 CZK	24. 5. 2016	24. 5. 2019	fixed
Exchange program	3,000,000,000 CZK	7. 6. 2017	24. 5. 2019	floating
Total	4,600,000,000 CZK			

The credit lines in 2017 were drawn in the form of an overdraft (as at 31 December 2017 in the amount of 0 thousand CZK). The average interest rate on the overdraft loan in 2017 was 0.42 % p.a. Furthermore, as at 31 December 2017 funds were drawn from the parent company PPH in the amount of 38,584,000 CZK, which represent a liability from the title of cash-pooling. The average interest rate for cash-pooling between the Company and the parent company PPH for 2017 was 0.24 % p.a.

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

<b>('000 CZK)</b>	<b>Book value</b>	
	<b>2017</b>	<b>2016</b>
PPAS Bond 0.90/2020 ISIN CZ0003516809	399,574	0
PPD Bond 0.70%/2023 ISIN CZ0003515348	2,652,235	2,643,687
Short-term bank loans	0	40,794

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

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

An integral part of Group funding is the utilization of the financial resources of Group companies aggregated in cash-pooling. Use of these free resources results in reduction of the drawings of short-term loans from the banks.

In connection with the conditions under the loan agreements and bond emission conditions, concluded in 2016 and 2017, financial indicators are monitored at the consolidated Group data level. In case of their non-fulfilment, the banks may request premature loan repayment and bond redemption. These indicators were fulfilled as at 31 December 2017 and 31 December 2016. Details are provided in Chapter 5.

Impact of the cost interest related to the bonds on the profit and loss as at 31 December 2017: 29 512 thousand CZK (as at 31 December 2016: 30 444 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 the algorithm based on three-year historical consumption is used), seasonal character of the gas consumption and price

The following tables show the liabilities grouped by residual period to contractual maturity as at 31 December 2017 and as at 31 December 2016. 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 2017 and the interest rates in force on the financial market as at 31 December 2017 (including bank margin).

31 December 2017:

('000 CZK)	0-3 months	3-6 months	6-12 months	1-3 years	Between 3-5 years	5-7 years
Derivatives (currency forwards and commodity futures)	1,133,362	663,461	967,783	899,233	0	0
Bonds	0	3,600	18,900	445,000	37,800	2,718,900
Trade and other liabilities	1,120,942	27	54	708	71	0
Loan from the parent company PPH – cash-pooling	38,585	0	0	0	0	0
Total	2,292,889	667,088	986,737	1,344,941	37,871	2,718,900

31 December 2016:

('000 CZK)	0-3 months	3-6 months	6-12 months	1-3 years	Between 3-5 years	5-7 years
Bank loans	40,794	0	0	0	0	0
Derivatives (currency forwards)	909,112	640,502	37,298	9,648	0	0
Bonds	0	0	18,900	37,800	37,800	2,737,800
Trade and other liabilities	1,242,536	69	54	769	568	0
Loan from the parent company PPH – cash-pooling	29,390	0	0	0	0	0
Total	2,221,832	640,571	56,252	48,217	38,368	2,737,800

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

#### Guarantees concluded

The Group has secured its financial liabilities under the Agreement on combined supplies of natural gas at Československá obchodní banka, a.s., only to the benefit of TRADE CENTRE PRAHA a.s., as at 31 December 2017 in the amount of 500,000 CZK (as at 31 December 2016 to the benefit of RWE Supply Trading GmbH, in the amount of 10,000,000 EUR from the title of operations on the gas market). These liabilities are not included in the balance sheet.

#### 4.3. Market risk

##### 4.3.1. Interest rate risk

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

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

The Group Management monitors interest rate risk on the basis of regular reporting, which includes information about the current interbank interest rates (mainly PRIBOR) and assessment of actual interest expenses. The Group Management is provided with a short term forecast of these interest rates. All the individual short-term loan drawings of the Group in 2017 and 2016 have floating interest rates derived from the applicable PRIBOR.

##### Sensitivity Analysis:

If the interest rate had increased/decreased by 10 basic points with all other variables held constant as at 1 January 2017, profit before tax as at 31 December 2017 would have been 76,000 CZK lower/higher as a result of the increased interest expense (as at 31 December 2016: 533,000 CZK).

##### 4.3.2. Exchange rate risk

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

Movements in exchange rates represent a risk due to the fact that the Group purchases a significant portion of the gas and electricity in foreign currency (about 95 % of the total volume of the natural gas and electricity purchased). 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. 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 the customers at the listed price using the exchange rate in force on the purchase date. The Group actively manages this risk through monitoring foreign exchange developments and through the above management of natural gas and electricity purchases in foreign currency, it hedges itself against long-term currency risk.

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

##### Sensitivity Analysis:

If the CZK/EUR exchange rate had weakened (increased) / strengthened (dropped) by 0.5 CZK/EUR with all other variables held constant as at 31 December 2017 profit before tax as at 31 December 2017 as a result of revaluation of receivables in EUR would have been 1,835,000 CZK higher/lower (as at 31 December 2016: 29,463,000 CZK).

If the CZK/EUR exchange rate had weakened (increased) / strengthened (dropped) by 0.5 CZK/EUR with all other variables held constant as at 31 December 2017 profit before tax as at 31 December 2017 as a result of revaluation of liabilities in EUR would have been 403,000 CZK lower/higher (as at 31 December 2016: 202,000 CZK).

If the CZK/EUR exchange rate had weakened (increased) / strengthened (dropped) by 0.5 CZK/EUR with all other variables held constant as at 31 December 2017 profit before tax as at 31 December 2017 as a result of revaluation of receivables in EUR would have been 1,835,000 CZK higher/lower (as at 31 December 2016: 1,909,000 CZK).

('000 CZK)	2017	2016	2017	2016
	increase of 0.5 CZK/EUR		decrease of 0.5 CZK/EUR	
Forward purchases in EUR	68,387	29,463	-68,387	-29,463
Liabilities in EUR	-403	-202	403	202
Receivables in EUR	1,835	1,909	-1,835	-1,909
Impact on profit before tax	69,819	31,170	-69,819	-31,170

#### 4.4. Fair value estimate

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

As at the end of the reporting period, the Group classified its financial assets and liabilities at fair value through profit or loss under Level 2 featuring entry data used to determine the fair value (see Note 4.1.)

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

#### 4.5. Offsetting of financial instruments

31 December 2017:

	<b>Gross amount of compensation in the Statement of financial position</b>	<b>Gross amount of credit in the Statement of financial position</b>	<b>Net amount after compensation in the Statement of financial position</b>	<b>The amount, which is the subject to master netting agreements and similar arrangements in the Statement of financial position</b>	<b>Total net exposure</b>
Trade and other receivables	1,647,675	0	1,647,675	102,945	1,544,730
Trade and other financial liabilities	1,233,746	0	1,233,746	102,945	1,130,801

31 December 2016:

	<b>Gross amount of compensation in the Statement of financial position</b>	<b>Gross amount of credit in the Statement of financial position</b>	<b>Net amount after compensation in the Statement of financial position</b>	<b>The amount, which is the subject to master netting agreements and similar arrangements in the Statement of financial position</b>	<b>Total net exposure</b>
Trade and other receivables	911,865	0	911,865	79,458	832,407
Trade and other financial liabilities	1,277,286	0	1,277,286	79,458	1,197,828

#### 4.6. Net profit and losses from financial instruments

<b>('000 CZK)</b>	<b>2017</b>	<b>2016</b>
Trade receivables (particularly depreciation of receivables and creation of provisions)	-10,256	-10,664
Cash and cash equivalents	-7,470	-8,421
Other financial assets	-2,032	0
Bonds (particularly cost interest)	-30,140	-32,514
Financial derivatives	-119,957	-46,925
Bank loans (particularly cost interest)	-2,460	-14,520
Other financial liabilities	4,596	-260
Net gains (+) / losses (-) reported on the income statement	-167,719	-113,304
Financial derivatives in other comprehensive income (settlement)	0	25,175
Net gains (+) / losses (-) reported in other comprehensive Income	0	25,175
<b>Total net gains (+) / losses (-)</b>	<b>-167,719</b>	<b>-88,129</b>

## 5. CAPITAL RISK MANAGEMENT

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

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

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

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

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

## 6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 6.1. Property, plant and equipment

Property, plant, and equipment ('000 CZK)	Land	Depreciation of buildings and other constructions	Movables and sets of movables	Boiler installations and other Long-term tangible assets	Incomplete Long-term tangible assets	Advance payments for Long-term tangible assets	Total
<b>Acquisition cost</b>							
Balance as at 1.1. 2016	123,358	9,304,274	1,820,071	165,966	170,228	29,279	11,613,176
Purchases	0	0	0	0	713,944	28,787	742,731
Transfers	1,003	634,094	205,980	5,972	-847,049	0	0
Decreases	-609	-65,079	-148,700	-762	0	-29,279	-244,429
<b>Balance as at 31.12. 2016</b>	<b>123,752</b>	<b>9,873,289</b>	<b>1,877,351</b>	<b>171,176</b>	<b>37,123</b>	<b>28,787</b>	<b>12,111,478</b>
Purchases	0	0	0	0	721,043	18,756	739,799
Transfers	1,499	520,110	140,918	19,529	-682,056	0	0
Decreases	-190	-74,622	-131,563	-1,014	0	-37,535	-244,924
<b>Balance as at 31.12. 2017</b>	<b>125,061</b>	<b>10,318,777</b>	<b>1,886,706</b>	<b>189,691</b>	<b>76,110</b>	<b>10,008</b>	<b>12,606,353</b>
Accumulated depreciation, impairment, depreciation, recharging							
<b>Balance as at 1.1. 2016</b>	<b>0</b>	<b>3,956,083</b>	<b>1,550,180</b>	<b>56,150</b>	<b>0</b>	<b>0</b>	<b>5,562,413</b>
Depreciation	0	225,308	133,276	8,857	0	0	367,441
Adjustment items	0	452	93	0	0	0	545
Accumulated depreciation for disposals	0	-55,831	-140,279	-532	0	0	-196,642
<b>Balance as at 31.12. 2016</b>	<b>0</b>	<b>4,126,012</b>	<b>1,543,270</b>	<b>64,475</b>	<b>0</b>	<b>0</b>	<b>5,733,757</b>
Depreciation	0	232,370	138,598	9,750	0	0	380,718
Adjustment items	0	429	62	0	0	0	491
Accumulated depreciation for disposals	0	-59,753	-122,129	-223	0	0	-182,105
<b>Balance as at 31.12. 2017</b>	<b>0</b>	<b>4,299,058</b>	<b>1,559,801</b>	<b>74,002</b>	<b>0</b>	<b>0</b>	<b>5,932,861</b>
Net book value 2016	123,752	5,747,277	334,081	106,701	37,123	28,787	6,377,721
Net book value 2017	125,061	6,019,719	326,905	115,689	76,110	10,008	6,673,492

Movables and sets of movables – detail ('000 CZK) Acquisition value	Vehicles (Means of transport)	Computer equipment	Gas meters, reducers and regulators	Regulating station technology	Other movables	Total
<b>Balance as at 1.1. 2016</b>	<b>108,116</b>	<b>185,320</b>	<b>650,314</b>	<b>458,720</b>	<b>417,601</b>	<b>1,820,071</b>
Transfers	20,410	20,433	94,184	16,642	54,311	205,980
Decreases	-14,153	-50,031	-71,429	-5,561	-7,526	-148,700
<b>Balance as at 31.12. 2016</b>	<b>114,373</b>	<b>155,722</b>	<b>673,069</b>	<b>469,801</b>	<b>464,386</b>	<b>1,877,351</b>
Transfers	21,387	10,107	47,080	5,347	56,997	140,918
Decreases	-14,499	-7,154	-92,575	-3,340	-13,995	-131,563
<b>Balance as at 31.12. 2017</b>	<b>121,261</b>	<b>158,675</b>	<b>627,574</b>	<b>471,808</b>	<b>507,388</b>	<b>1,886,706</b>
Accumulated depreciation, impairment, depreciation, recharging						
<b>Balance as at 1.1. 2016</b>	<b>69,611</b>	<b>160,746</b>	<b>585,318</b>	<b>369,969</b>	<b>364,536</b>	<b>1,550,180</b>
Depreciation	14,503	14,714	60,843	17,924	25,292	133,276
Adjustment items	0	0	0	0	93	93
Accumulated depreciation for disposals	-13,392	-49,989	-71,133	-1,493	-4,272	-140,279
<b>Balance as at 31.12. 2016</b>	<b>70,722</b>	<b>125,471</b>	<b>575,028</b>	<b>386,400</b>	<b>385,649</b>	<b>1,543,270</b>
Depreciation	17,637	7,942	66,344	18,201	28,474	138,598
Adjustment items	0	0	0	0	62	62
Accumulated depreciation for disposals	-14,085	-6,952	-91,426	-3,340	-6,326	-122,129
<b>Balance as at 31.12. 2017</b>	<b>74,274</b>	<b>126,461</b>	<b>549,946</b>	<b>401,261</b>	<b>407,859</b>	<b>1,559,801</b>
Net book value 2016	43,651	30,251	98,041	83,401	78,737	334,081
Net book value 2017	46,987	32,214	77,628	70,547	99,529	326,905

The Group has placed the plant of Pražská plynárenská, a.s., under lien in the amount of 7.3 billion CZK, i.e. 4.6 billion CZK within the scope of short-term financing and 2.7 billion CZK within the re-emission of bonds by the subsidiary Pražská plynárenská Distribuce, a.s., Member of the Pražská plynárenská, a.s. Group, in compliance with the Agreement establishing a lien on the plant that was negotiated within the scope of refinancing in 2016 and in compliance with Amendment No. 1 to the Agreement on the exchange program, which defines the reduction of the maximum volume of the given exchange program 0.4 billion CZK at the amount of 3 billion CZK.

## 6.2. Intangible assets

Intangible assets ('000 CZK) Acquisition cost	Goodwill	Software	Assessable rights	Intangible fixed assets under construction	Total
<b>Balance as at 1.1. 2016</b>	<b>171</b>	<b>594,871</b>	<b>6,786</b>	<b>39,908</b>	<b>641,736</b>
Purchases	0	0	0	29,980	29,980
Transfers	0	63,461	4,706	-68,167	0
Decreases	0	-39	0	0	-39
<b>Balance as at 31.12. 2016</b>	<b>171</b>	<b>658,293</b>	<b>11,492</b>	<b>1,721</b>	<b>671,677</b>
Purchases	0	0	0	36,593	36,593
Transfers	0	27,223	218	-27,441	0
Decreases	0	-175	0	0	-175
<b>Balance as at 31.12. 2017</b>	<b>171</b>	<b>685,341</b>	<b>11,710</b>	<b>10,873</b>	<b>708,095</b>
Accumulated depreciation, depreciation, impairment					
<b>Balance as at 1.1. 2016</b>	<b>0</b>	<b>557,766</b>	<b>3,515</b>	<b>0</b>	<b>561,281</b>
Depreciation	0	53,343	3,965	0	57,308
Accumulated depreciation for disposals	0	-39	0	0	-39
<b>Balance as at 31.12. 2016</b>	<b>0</b>	<b>611,070</b>	<b>7,480</b>	<b>0</b>	<b>618,550</b>
Depreciation	0	33,753	3,538	0	37,291
Accumulated depreciation for disposals	0	-175	0	0	-175
<b>Balance as at 31.12. 2017</b>	<b>0</b>	<b>644,648</b>	<b>11,018</b>	<b>0</b>	<b>655,666</b>
Net book value 2016	171	47,223	4,012	1,721	53,127
Net book value 2017	171	40,693	692	10,873	52,429

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

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

### 6.3. Inventories

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

No surpluses and/or shortfalls in inventories were found during stock-taking in 2017.

### 6.4. Short-term and other receivables

Type of receivable ('000 CZK)	31 December 2017	31 December 2016
Trade receivables from third parties	768,211	796,817
Trade receivables from related parties	253	631
<b>Financial trade receivables</b>	<b>768,464</b>	<b>797,448</b>
Allowances for trade receivables	-302,834	-329,639
<b>Net trade receivables – financial</b>	<b>465,630</b>	<b>467,809</b>
Unbilled deliveries	1,184,077	444,056
Allowances for unbilled supplies	-2,032	0
<b>Total trade and other receivables – financial</b>	<b>1,647,675</b>	<b>911,865</b>
Short-term operational advances made	78,610	11,866
Other receivables – refinancing	63,788	17,233
Allowances for other receivables and advances paid	-10,763	0
<b>Total trade and other receivables – refinancing</b>	<b>131,635</b>	<b>29,099</b>
<b>Total trade and other receivables – short-term</b>	<b>1,779,310</b>	<b>940,964</b>

Short-term operating advances provided to individual suppliers for natural gas and electricity purchases and purchases of gas distribution services were offset with anticipated payables created in 2017 the offset amount of advances with anticipated payables was 406,678,000 CZK (2016: 378,222,000 CZK).

Outstanding trade receivables have not been secured. Receivables from related parties are analysed in Note 6.24.

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 '000 CZK)	31 December 2017	31 December 2016
within 30 days	32,630	57,474
<b>Total</b>	<b>32,630</b>	<b>57,474</b>

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 '000 CZK)	31 December 2017	31 December 2016
within 6 months	37,871	29,383
6-12 months	29,557	27,523
Above 1 year	281,168	289,268
<b>Total</b>	<b>348,596</b>	<b>346,174</b>

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

Allowances for receivables ('000 CZK)	31 December 2017	31 December 2016
Initial balance as at 1 January	329,639	341,620
Creation of an allowance for receivables	20,127	26,468
Use of the allowance	34,137	38,449
Final balance as at 31 December	315,629	329,639

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

31 December 2017:

Allowances for receivables ('000 CZK)	Due	Ageing of allowances for overdue receivables					Total
		Within 1 month	1-3 months	3-6 months	6-12 months	Above 12 months	
cat. MO	0	755	1,605	1,659	4,543	89,141	97,703
cat. DOM	0	139	327	811	5,679	100,032	106,988
cat. VO/SO	0	0	39	95	3,434	13,821	17,389
cat. Other	11,253	114	643	713	2,652	78,174	93,549
Total	11,253	1,008	2,614	3,278	16,308	281,168	315,629

31 December 2016:

Allowances for receivables ('000 CZK)	Due	Ageing of allowances for overdue receivables					Total
		Within 1 month	1-3 months	3-6 months	6-12 months	Above 12 months	
cat. MO	0	0	239	1,602	4,729	100,645	107,215
cat. DOM	0	0	398	1,490	8,304	101,801	111,993
cat. VO/SO	0	362	995	239	477	11,442	13,515
cat. Others	18,990	34	175	708	1,629	75,380	96,916
Total	18,990	396	1,807	4,039	15,139	289,268	329,639

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

Obchodní a jiné pohledávky ('000 CZK)	31 December 2017	31 December 2016
Change in allowance – for existing receivables	-14,010	-11,981
Trade receivables written-off	32,457	36,590
Total net loss from trade receivables	18,447	24,609

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

## 6.5. Cash and cash equivalents

The Group acquired the corporate bills of ČSOB Leasing as at 20 December 2017. This concerned 5 bills of exchange of total worth 500,000 thousand CZK due on 2 January 2018. The yield to maturity was 0.01 % p.a. This financial operation optimized the Group's cash-flow positions in the bank accounts in relation to the obligatory payments of the banks to the resolution fund according to the applicable legislation as of 31 December 2017. The structure of cash and cash equivalents is shown below:

Cash and cash equivalents ('000 CZK)	31 December 2017	31 December 2016
Cash on hand	5,454	5,360
Money in bank accounts	822,757	106,298
Short-term investments – bills	500,000	0
Total	1,328,211	111,658

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

## 6.6. Registered capital

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

Bearer shares are issued in book-registered form.

The registered shares are issued in book-registered form, their transferability is limited and the general meeting of the shareholders must give the owner its consent for their transfer, following discussion at the Board of Directors and the Supervisory Board. All shares have equal rights. All the shares are fully paid-up. Shareholders have both rights and obligations. The basic duty of the shareholders is the obligation to deposit. The rights of shareholders include:

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

## 6.7. Profit funds

The Companies from the Group are fully governed by the new Corporations Act and utilised the option not to create a reserve fund. Usage of funds created from profit is in accordance with the Articles of incorporation of the Group companies.

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

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

Other liabilities ('000 CZK) Maturity	Long-term advances received Advances	Other long-term liabilities	Total
<b>Balance as at 31 12. 2016</b>	<b>155</b>	<b>1,336</b>	<b>1,491</b>
– of which: due in less than 5 years	155	1,336	1,491
– of which: due after 5 years	0	0	0
<b>Balance as at 31 12. 2017</b>	<b>55</b>	<b>779</b>	<b>834</b>
– of which: due in less than 5 years	55	779	834
– of which: due after 5 years	0	0	0
Total as at 31 December 12. 2016	155	1,336	1,491
Total as at 31 December 12. 2017	55	779	834

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

Trade payables, advances, principal received – current ('000 CZK)	31 December 2017	31 December 2016
Trade payables to third parties	1,110,645	1,235,629
Trade payables to related parties	8,586	5,239
Current operating advances and principal received (non-financial liabilities)	1,480,138	569,685
Trade payables, advances received and principal - total	2,599,369	1,810,553

<b>Other liabilities ('000 CZK)</b>	<b>31 December 2017</b>	<b>31 December 2016</b>
Loan from the parent company PPH	38,584	29,390
Liabilities from derivatives	74,139	5,236
Other financial liabilities	1,792	1,792
<b>Total financial liabilities</b>	<b>114,515</b>	<b>36,418</b>
Liabilities towards employees	185,421	204,680
Liabilities for social insurance	17,520	17,309
Other liabilities – non-financial	2,769	4,169
<b>Non-financial liabilities - total</b>	<b>205,710</b>	<b>226,158</b>
Other liabilities - total	320,225	262,576

<b>Total trade payables and advances received – current (by maturity) ('000 CZK)</b>	<b>Trade payables</b>	<b>Short-term advances received and principal</b>	<b>Contingent liability accounts</b>	<b>Total</b>
<b>Balance as at 31 12. 2016</b>	<b>126,351</b>	<b>569,685</b>	<b>1,114,517</b>	<b>1,810,553</b>
– of which: due in less than 6 months	126,297	569,685	1,114,517	1,810,499
– of which: due from 6 months to 1 year	54	0	0	54
<b>Balance as at 31 12. 2017</b>	<b>145,880</b>	<b>1,480,138</b>	<b>973,351</b>	<b>2,599,369</b>
– of which: due in less than 6 months	145,826	1,480,138	973,351	2,599,315
– of which: due from 6 months to 1 year	54	0	0	54
Total as at 31 December 12. 2016	126,351	569,685	1,114,517	1,810,553
Total as at 31 December 12. 2017	145,880	1,480,138	973,351	2,599,369

Payables to related parties are disclosed in Note 6.24.

Trade payables and other liabilities have not been secured by any Group assets. As at 31 December 2017 funds were drawn from the parent company PPH in the amount of 38,584,000 CZK (as at 31 December 2016: 29,390,000 CZK), which represent a liability from the title of cash-pooling. The average cash-pooling interest rate for 2017 was 0.24% p.a. (for 2016 0.18% p.a.).

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

Dues to employees also include liabilities from the title of wages and unpaid future performance of the members of the statutory bodies of the Group according to the contract on performing the function of an executive (Note 3.20.4.) in the amount of 76,198,000 CZK (2016: 88,458,000 CZK). CZK (2016: 88,458 thousand CZK).

### 6.9.1. Derivatives

#### 6.9.1.1. Financial derivatives for trading

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

('000 CZK)	31 December 2017			31 December 2016		
	Fair value		Nominal value	Fair value		Nominal value
	Positive	Negative		Positive	Negative	
Currency forwards	210	69,845	3,572,602	439	5,675	1,596,560
Commodity futures	0	4,504	91,237	0	0	0

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

### 06.10 Unbilled supplies and advances received

31 December 2017 ('000 CZK)	Cat. DOM	Cat. MO	Cat. VO/SO	Other	Total
Unbilled deliveries	2,006,696	1,021,278	523,759	370,326	3,922,059
Advances received	-2,130,023	-1,347,813	-198,573	-399,070	-4,075,479
Clearing of Accounts	1,760,708	556,312	159,726	261,236	2,737,982
Unbilled deliveries – after offset	245,988	464,966	364,033	109,090	1,184,077
Advances received – after offset	-369,315	-791,501	-38,847	-137,834	-1,337,497

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

### 6.11. Bank loans and bonds

Short-term funding structure as at 31 December 2016:

	Limit	From	To	Interest rate
Overdraft credit lines	900,000,000 CZK	24. 5. 2016	24. 5. 2019	floating
Guarantee line	700,000,000 CZK	24. 5. 2016	24. 5. 2019	fixed
Exchange program	3,400,000,000 CZK	24. 5. 2016	24. 5. 2019	floating
Total	5,000,000,000 CZK			

The credit lines as at 31 December 2016 were drawn in the form of an overdraft in the amount of 40,794,000 CZK. The average interest rate on the overdraft loan in 2016 was 0.84 % p.a.

Long-term funding structure as at 31 December 2016:

	Limit	From	To	Interest rate
PPD Bond 0.70%/2023 ISIN CZ0003515348	2,700,000,000 CZK	14. 11. 2016	14. 11. 2023	fixed

On 15 June 2017 the Company issued bonds of total nominal worth 400 million CZK with a maturity of 3 years and a coupon with a fixed interest yield of 0.90% p.a. In connection with the Company bond issue, the volume of short-term funding was cut by the volume of issued bonds so as to prevent increase of the total external funding volume. secured short-term financing in the amount of 4.6 billion CZK and long-term financing in the amount of 3.1 billion CZK. These external financial resources are provided by a consortium of two banks, i.e. Československá obchodní banka, a.s., and Česká spořitelna, a.s.

Short-term funding structure from 15 June 2017 and as at 31 December 2017:

	Limit	From	To	Interest rate
Overdraft credit lines	900,000,000 CZK	24. 5. 2016	24. 5. 2019	floating
Guarantee line	700,000,000 CZK	24. 5. 2016	24. 5. 2019	fixed
Exchange program	3,000,000,000 CZK	7. 6. 2017	24. 5. 2019	floating
Total	4,600,000,000 CZK			

The credit lines in 2017 were drawn in the form of an overdraft (as at 31 December 2017 in the amount of 0 thousand CZK). The average interest rate on the overdraft loan in 2017 was 0.42 % p.a.

Long-term funding structure from 15 June 2017 and as at 31 December 2017:

	Limit	From	To	Interest rate
PPAS Bond 0.90/2020 ISIN CZ0003516809	400,000,000 CZK	15. 6. 2017	15. 6. 2020	fixed
PPD Bond 0.70%/2023 ISIN CZ0003515348	2,700,000,000 CZK	14. 11. 2016	14. 11. 2023	fixed
Total	3,100,000,000 CZK			

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

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

('000 CZK)	Book value	
	2017	2016
PPAS Bond 0.90/2020 ISIN CZ0003516809	399,574	0
PPD Bond 0.70%/2023 ISIN CZ0003515348	2,652,235	2,643,687
Total volume of long-term bonds	3,051,809	2,643,687
Short-term bank loans	0	40,794

The details of the bank loans and bonds issued are given in Note 4.2.

In connection with the conditions under the loan agreements and bond emission conditions, concluded in 2016 and 2017, financial indicators are monitored at the consolidated Group data level. In case of their non-fulfilment, the banks may request premature loan repayment and bond redemption. These indicators were fulfilled as at 31 December 2017 and 31 December 2016. Details are provided in Chapter 5.

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

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

('000 CZK)	31.12. 2016	Cash flows	Non-cash flows – revaluation of liabilities using the effective interest rate method	31. 12. 2017
Bank overdrafts	40,794	-40,794	0	0
PP Bonds	0	398,192	1,382	399,574
PPD Bonds	2,643,687	-18,900	27,448	2,652,235
Loan from the parent company PPH – cash pooling (see Note 6.9.)	29,390	9,194	0	38,584
Total	2,713,871	347,692	28 830	3,090,393

## 6.12. Deferred tax liability

Compensation of deferred tax assets and liabilities was as follows:

('000 CZK)	31 December 2017	31 December 2016
Deferred tax asset to be recovered after more than 12 months	-4,260	-19,497
Deferred tax asset to be recovered within 12 months	-64,665	-61,050
Deferred tax liability payable after more than 12 months	483,710	468,480
Net deferred tax liability	414,785	387,933

The deferred tax was calculated at 19 % (the rate enacted for 2016 and subsequent years).

Deferred tax liability (+) and deferred tax receivable (-) in '000 CZK (Item)	31 December 2017	31 December 2016
Tax liability deferred due to different book values of fixed assets	482,854	468,138
Tax non-deductible part of allowances for receivables	-22,664	-24,766
Tax non-deductible impairment of materials	-378	-393
Provisions for litigation and anticipated compensation from the insurance company	-3,800	-19,000
Provisions and other temporary differences	-18,450	-10,908
Obligations to employees and board members	-22,777	-25,139
Total	414,785	387,933

Deferred tax liability (+) and deferred tax receivable (-) (in '000 CZK)	Difference in the residual prices of fixed assets	Tax non-deductible part of allowances for receivables	Obligations to employees and board members	Other	Total
31 December 2016	468,138	-24,766	-25,139	-30,300	387,933
profit (-) / loss (+)	14,716	2,102	2,362	7,672	26,852
31 December 2017	482,854	-22,664	-22,777	-22,628	414,785

### 6.13. Income tax due and other tax liabilities

Tax liabilities (in '000 CZK)	Income tax	Other tax liabilities
<b>Book value</b>		
Balance as at 31.12.2016	72,966	84,164
Balance as at 31.12.2017	38,784	99,468

Other tax liabilities in 2017 consist of personal income tax in the amount of 6,030,000 CZK (2016: 6,149,000 CZK), VAT in the amount of 88,163,000 CZK (2016: 72,795,000 CZK) and other taxes and charges in the amount of 5,275,000 CZK (2016: 5,220,000 CZK).

### 6.14. Reserves

Provisions (in '000 CZK)	Long-term	Short-term
<b>Book value</b>		
Balance as at 31.12.2016	200,000	32,237
Creation of provisions	0	2,666
Use of provisions	0	-4,650
<b>Balance as at 31.12.2016</b>	<b>200,000</b>	<b>30,253</b>
Creation of provisions	0	74,848
Reversals of provisions	0	-80,000
Use of provisions	0	-48,642
Recharging of provisions	-200,000	200,000
<b>Balance as at 31.12.2017</b>	<b>0</b>	<b>176,459</b>
Net book value 2016	200,000	30,253
Net book value 2017	0	176,459

Provisions recognized as at 31 December 2017 contain a provision for property reimbursement related to extraordinary event of damage on Divadelní ulice (Street), Prague, in the amount of 71,477,000 CZK. In 2017 part of litigation in this damages issue was solved amiably with payment of indemnity to the aggrieved; in the rest of the cases, settlements are being negotiated or court proceedings are still in progress. The Company management as per assessment created provisions for litigation in progress in the amount of probable consideration to third parties.

Other short-term provisions created as at 31 December 2017 include mainly the provision of loss-making contracts.

**6.15. Sales**

<b>Sales ('000 CZK)</b>	<b>2017</b>	<b>2016</b>
Sale of natural gas	7,949,369	8,243,088
Sale of own and foreign distribution of gas	3,221,244	3,087,924
Sale of heat and CNG	124,607	120,350
Unused tolerance	769	195
Sale of electricity	563,081	342,629
Sale of foreign distributions of electricity	568,840	323,959
Other services	115,346	116,650
– of which: revenues from asset repairs and maintenance	22,907	22,599
– of which: sales of IT services	570	2,209
– of which: revenues from property leases	24,836	20,878
– of which: revenues from construction of gas pipelines	18,447	33,006
– of which: revenues from other services	48,586	37,958
Sale of goods and products (services)	5,970	6,558
Total	12,549,226	12,241,353

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

<b>Purchased gas, electricity, materials and services connected with gas and electricity supplies ('000 CZK)</b>	<b>2017</b>	<b>2016</b>
Costs of gas purchases	6,591,641	7,254,181
– of which: operating leases (Note 6.27.)	185,513	192,207
Gas distribution fee	803,730	715,684
Costs of electricity purchases	550,140	314,531
Electricity distribution fee	572,165	325,161
Total	8,517,676	8,609,557

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

**6.17. Other operating income**

<b>Other operating income ('000 CZK)</b>	<b>2017</b>	<b>2016</b>
Income from sale of fixed assets	1,977	3,461
Income from sale of material	7,026	5,677
Income from contractual fines and default interest	8,086	7,243
Income from write-off of receivables	1,768	2,011
Income from write-off of lapsed liabilities	5,973	6,778
Court fee compensations	7,183	9,520
Benefits from insurance (indemnity)	2,452	2,303
Other operating income	4,738	4,901
Total	39,203	41,894

**6.18. Personnel costs**

<b>Personnel costs ('000 CZK)</b>	<b>2017</b>	<b>2016</b>
Employees	566,391	525,241
Members of statutory bodies	118,015	112,280
Future benefits to members of statutory bodies under contracts (Note 3.20.4.)	1,269	24,049
Total	685,675	661,570

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

In the years 2017 and 2016 no loans were provided to members of the Board of Directors, members of the Supervisory Board and other members of Company management and Subsidiaries' management Company cars, computer and telecommunication equipment are made available for use by the board members and other management.

In 2017, the personnel costs of statutory bodies include also paid dividends to members of statutory bodies in the amount of 44,571,000 CZK (2016: 35,521,000 CZK) and consideration was paid according to the executive contracts (see Note 3.20.4.) in the amount of 5,292,000 CZK (2016: 4,327,000 CZK).

Contributions to the State pension scheme (on the basis of defined contributions) in 2017 amounted to 104,250,000 CZK (2016: 98,123,000 CZK).

#### 06.19 Depreciation of intangible and tangible fixed assets

Amortisation of intangible and tangible fixed assets ('000 CZK)	2017	2016
Depreciation of buildings and other constructions	30,321	27,381
Depreciation of pipelines	197,517	193,615
Depreciation of the buildings of regulating stations	4,532	4,312
Depreciation of the technology of regulating stations	18,201	17,924
Depreciation of gas meters, reducers and regulators	66,344	60,843
Depreciation of boiler installations and other fixed assets	9,750	8,857
Depreciation of vehicles	17,637	14,503
Depreciation of intangible assets	37,291	57,308
Depreciation of IT equipment	7,942	14,714
Depreciation of other movables	28,474	25,292
– of which: depreciation of other gas facilities	8,344	6,267
– of which: depreciation of other assets (inventory, and the like)	20,130	19,025
Total	418,009	424,749

#### 06.20 Other operating costs

Other operating costs ('000 CZK)	2017	2016
Consumption of materials and energy	73,065	69,971
Costs of goods	3,251	3,208
Services	694,364	640,166
– of which: asset repair and maintenance costs	289,874	270,471
– of which: claims collection costs	10,239	12,207
– of which: advertising and repair costs	88,526	95,846
– of which: operating lease payments (Note 6.27.)	63,849	61,285
– of which: IT systems management and repair costs	58,339	56,984
– of which: business representatives' commission costs	59,064	19,542
– of which: consulting costs	22,834	22,504
– of which: gas meter reading costs	17,635	16,868
– of which: costs of other services	84,004	84,459
Taxes and charges	13,993	4,804
Allowances and write-off of receivables	19,996	26,765
Other	6,355	8,614
Total	811,024	753,528

Information on the auditors' fees is disclosed in the notes to the consolidated financial statements of Pražská plynárenská Holding, a.s., as at 31 December 2017.

## 6.21. Financial income and expenses

Financial expenses and income ('000 CZK)	2017	2016
Interest income	1,333	728
Interest expense	-30,049	-63,831
Derivative transactions income	101,211	39,490
Derivative transactions expense	-221,168	-64,508
Other financial income	22,405	6,202
Other financial costs	-36,796	-25,447
Net financial expense	-163,064	-107,366

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

## 6.22. Income tax

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

('000 CZK)	2017	2016
Income tax – current	358,061	316,843
Income tax – previous years adjustment	1,685	-692
Income tax – deferred	26,852	13,662
Income tax – profit	386,598	329,813
Income tax – deferred (hedge accounting)	0	4,783
Income tax – comprehensive income	386,598	334,596

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

('000 CZK)	2017	2016
Profit before tax	1,992,981	1,726,477
Income tax at the statutory rate of 19 %	378,666	328,031
Non-taxable income	-3,743	-5,237
Tax non-deductible expenses	16,088	15,836
Gifts	-979	-1,681
Other	-3,434	-7,136
Total income tax	386,598	329,813

## 6.23. Dividends paid

As at 4 April 2017, there was a dividend paid in the amount of 520,000,000 (361 CZK per share), in year 2016: 619,851 thousand CZK (CZK 430 per share).

## 6.24. Related party transactions and balances

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

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

<b>CONTROLLING PARTY</b>		<b>2017</b>	<b>2016</b>
<b>Revenues ('000 CZK)</b>			
Revenues from rendering of services		939	947
Total revenues		939	947
<b>Costs ('000 CZK)</b>		<b>2017</b>	<b>2016</b>
Other costs		136	115
Total costs		136	115
<b>FINAL PARENT COMPANY</b>		<b>2017</b>	<b>2016</b>
<b>Revenues ('000 CZK)</b>			
Revenues from rendering of services		400	736
Total revenues		400	736
<b>Costs ('000 CZK)</b>		<b>2017</b>	<b>2016</b>
Purchase of other services		4,289	4,428
Other costs		0	1
Total costs		4,289	4,429
<b>OTHER RELATED PARTIES</b>		<b>2017</b>	<b>2016</b>
<b>Revenues ('000 CZK)</b>			
Revenues from sale of services		1,370	1,534
Other revenue		12	110
Total revenues		1,382	1,644
<b>Costs ('000 CZK)</b>		<b>2017</b>	<b>2016</b>
Purchase of other services		89,634	85,806
Other costs		31	18
Total costs		89,665	85,824

The Group recognized the following balances with related parties:

<b>CONTROLLING PARTY</b>		<b>31 December 2017</b>	<b>31 December 2016</b>
<b>Receivables and liabilities ('000 CZK)</b>			
Trade receivables		1	28
Contingent asset accounts		26	45
Total receivables		27	73
Short-term advances received*		24	24
Financial resources from PPH		38,584	29,390
Other liabilities		18	4
Total accounts payable		38,626	29,418

\*balances presented with VAT.

<b>FINAL PARENT COMPANY</b>		<b>31 December 2017</b>	<b>31 December 2016</b>
<b>Receivables and liabilities ('000 CZK)</b>			
Trade receivables		2	384
Short-term advances paid*		21	21
Total receivables		23	405
Trade payables		0	20
Total accounts payable		0	20

\*balances presented with VAT.

<b>OTHER RELATED PARTIES</b>		<b>31 December 2017</b>	<b>31 December 2016</b>
<b>Receivables and liabilities ('000 CZK)</b>			
Trade receivables		250	219
Short-term advances paid*		1,575	0
Total receivables		1,825	219
Trade payables		8,586	5,219
Short-term advances received*		5,064	5,134
Long-term advances received*		10	10
Total accounts payable		13,660	10,363

\*balances presented with VAT.

Dividends paid to shareholders in 2017 and 2016 are disclosed in Note 6.23.

Transactions made with the Group's management are disclosed in Notes 6.18. and 6.9.

## 6.25. 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)
- Distribution (this applies to the data of the subsidiary company PPD)
- 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. 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 with the Czech Accounting Standards ("CAS").

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 at 31 December 2017:

('000 CZK)	Trade	Distribution	Distribution Service	Other	Consolidation regulation	Adjustments from CAS for IFRS	Consolidated Data
Sales excluding sales between segments	11,503,585	879,767	65,770	96,864	0	3,240	12,549,226
Sales between segments	483,581	1,550,989	968,451	300,412	-3,303,433	0	0
Total revenues	11,987,166	2,430,756	1,034,221	397,276	-3,303,433	3,240	12,549,226
Operating revenues excluding revenues between segments	26,414	6,055	42,588	1,720	0	-37,574	39,203
Operating revenues between segments	0	88	696	2,940	-3,724	0	0
Total operating revenues	26,414	6,143	43,284	4,660	-3,724	-37,574	39,203
Depreciation	109,432	466,551	9,223	13,468	-165,555	-15,110	418,009
EBIT	1,199,914	826,996	109,831	14,500	36,066	-31,262	2,156,045
Financial costs	261,149	29,666	164	246	-3,212	0	288,013
Financial revenues	456,501	2,074	179	260	-334,065	0	124,949
EBT	1,395,266	799,404	109,846	14,514	-294,787	-31,262	1,992,981
Taxes in total	208,525	147,097	21,344	3,074	0	6,558	386,598
After tax profit	1,186,741	652,307	88,502	11,440	-294,787	-37,820	1,606,383
Fixed assets	928,060	8,136,258	55,547	98,511	-2,492,455	0	6,725,921
Acquisition of fixed assets (i.e. Increases without recharging)	100,982	773,118	13,192	19,998	-139,646	0	767,644
Bonds	399,574	2,652,235	0	0	0	0	3,051,809

The following table summarises the information about the operations segments as at 31 December 2016:

('000 CZK)	Trade	Distribution	Distribution Service	Other	Consolidated Adjustments	Adjustments from CAS for IFRS	Consolidated Data
Sales excluding sales between segments	11,231,625	837,127	74,560	96,174	0	1,867	12,241,353
Sales between segments	506,330	1,517,264	834,285	291,716	-3,149,595	0	0
Total revenues	11,737,955	2,354,391	908,845	387,890	-3,149,595	1,867	12,241,353
Operating revenues excluding revenues between segments	30,758	4,784	31,796	1,503	0	-26,947	41,894
Operating revenues between segments	1,246	85	33,214	1,945	-36,490	0	0
Total operating revenues	32,004	4,869	65,010	3,448	-36,490	-26,947	41,894
Depreciation	121,295	486,833	8,029	12,512	-193,685	-10,235	424,749
EBIT	1,008,659	654,858	92,105	11,965	100,462	-34,206	1,833,843
Financial costs	59,683	95,203	60	235	-1,394	0	153,787
Financial revenues	388,577	610	115	192	-343,073	0	46,421
EBT	1,337,553	560,265	92,160	11,922	-241,217	-34,206	1,726,477
Taxes in total	182,506	107,549	17,272	2,586	0	19,900	329,813
After tax profit	1,155,047	452,716	74,888	9,336	-241,217	-54,106	1,396,664
Fixed assets	956,477	7,868,971	54,413	94,086	-2,543,099	0	6,430,848
Acquisition of fixed assets (i.e. Increases without recharging)	138,449	725,236	11,375	16,245	-118,594	0	772,711
Bank loans and bonds	40,794	2,643,687	0	0	0	0	2,684,481

The prices in some transactions between the segments are regulated by the ERO (see Note 6.26.).

## 6.26. 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 distribution network operator. Under the granted licences, the Company trades in natural gas and electricity.

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

The gas and electricity market is fully 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.

2017 was the second year of the Fourth Regulation Period; the year in which the decision on the rules for the next regulation period was made. Following consistent discussions between all the regulated energy companies and the regulator, the current regulation period was extended by two years, i.e. to the usual five years. The extension provides us with stability in the next three years and time for implementation and calming of the impacts of dynamic changes, which the European Union is preparing for the energy sector.

For each year, the ERO in compliance with the applicable methodology of distribution regulation sets the overall level of allowed revenues and uses it to set fixed prices for the distribution network services to the customer's consumption point according to the off-take zone for the individual distribution companies. The regulated price and distribution network service conditions for 2017 were set by Price Decision of the ERO No. 6/2016 of 25 November 2016, as amended by Price Decision No. 1/2017 of 2 March 2017.

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 the price regulation is stipulated under the provisions of...

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. In case of variance between the regulated allowed revenues for the regulated year and the subsequently factually earned revenues in the given regulated year, the ERO shall set-off this variance in the following period.

## 6.27. Contractual and other future commitments

The expenditure on acquisition of tangible and intangible assets contracted as at 31 December 2017, which has not yet been incurred amounts to 362,090,000 CZK (2016: 436,314,000 CZK).

('000 CZK)	2017	2016
Up to 1 year	66,551	109,773
1-3 years	200,920	232,428
Between 3-5 years	71,587	81,849
More than 5 years	23,032	12,264
Total	362,090	436,314

Operating leasing expenditures charged to the consolidated statement of comprehensive income are recognized in row Services in Notes 6.16. and 6.20. These expenditures represent mainly rent for gas storage and real estate.

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

The future aggregate minimum lease payments under non-cancellable agreements (without valid VAT) as at 31 December 2017, was 497,230 thousand CZK (as at 31 December 2016: 556,813,000 CZK).

('000 CZK)	2017	2016
Up to 1 year	210,901	220,180
1-3 years	233,592	287,393
Between 3-5 years	46,501	49,154
More than 5 years	6,236	86
Total	497,230	556,813

## 7. ADDITIONAL FACTS

### 7.1. Contingent liabilities

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

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

The Company's management is not aware of any important potential Group liabilities as at 31 December 2017 apart from the potential liabilities mentioned in Note 6.14.

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

The Supervisory Board at its meeting on 6 February 2018 recalled Mr. Alois Těšitel from the office of member of the Supervisory Board and elected Mr. Vladimír Vavříček to replace him with immediate effect.

No events have occurred subsequent to the year-end that would have a material impact on the consolidated financial statements as at 31 December 2017.

### 7.3. Authorization of the financial statements

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

Prague, 20 March 2018

Ing. Pavel Janeček

Chairman of the Board of Directors

Ing. Milan Cízl

Member of the board of Directors

# INFORMATION ABOUT THE PERSONS responsible for the annual report and audit of 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 to the facts and that no matters of substance which could affect a true and fair assessment of Pražská plynárenská, a.s., have been omitted.**

20 March 2018

20 March 2018

**Ing. Pavel Janeček**

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

**Ing. Milan Jadlovský**

Vice-Chair of the Board of Directors  
and the Pražská plynárenská, a.s. Group

The Company's consolidated financial statements for 2017 were audited by PricewaterhouseCoopers Audit, s. r. o., with its registered office at 407 65 521, registered in the Business Register maintained by the Municipal Court in Prague, section C, file 3637 and on the list of auditing companies at the Chamber of Auditors of the Czech Republic under Licence No. 021.

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**170**  
years of the  
Prague gas  
industry

ALREADY BACK THEN, WE  
WERE HELPING IN  
HOUSEHOLDS

# REPORT ON RELATIONS between the controlling and controlled party and relations between the controlled party and other parties under the control of the same party (related parties) for 2017

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

This report has been prepared by the Board of Directors of the controlled party pursuant to the provisions of Act No. 90/2012 Coll., Act on commercial companies and cooperatives (Act on Corporations), hereinafter referred to as the „Act on Corporations“, for the year 2017 (the “Accounting Period“). The report has been processed by the .... Section 82 ... Section 504 ....

## INTRODUCTION

The enclosed graphical representation of the shareholder structure of Pražská plynárenská, a.s., (hereinafter referred to as “PP, a.s.“) as at 31 December 2017 shows the basic relations of the related parties. As the graph shows, the controlling party Pražská plynárenská Holding a.s. (hereinafter referred to as “PPH a.s.“) is controlled by another party, the Capital City of Prague, which holds 100% of the registered capital of PPH a.s.

Based on the Articles of Incorporation of PPH, a.s., the sole shareholder elects and dismisses members of the Board of Directors and the Supervisory Board acting in the capacity of the General Meeting (which, at 31 December 2017, 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 CONTROLLING RELATIONS

### 1.1. PARTY INDIRECTLY CONTROLLING THE CONTROLLED PARTY

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

### 1.2. PARTY DIRECTLY CONTROLLING THE CONTROLLED PARTY

The controlling party in 2017 was Pražská plynárenská Holding a.s., with registered office at U Plynárny 500/44, Michle, 140 00 Prague 4, Company ID No.: 264 42 272.

In 2017, the capital interest of the party directly controlling the controlled party was 100 % of the share capital of the controlled party.

### 1.3. CONTROLLED PARTY

prepared by the Board of Directors of Pražská plynárenská, a.s., with its registered office at Národní 37/38, 110 00 Prague 1 – Nové Město, Company ID No.: 601 93 492 (hereinafter also “PP, a.s.,“ or “controlled party“).

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

The organisations and companies, in which the Capital City of Prague had a major share in 2017 and with whom PP, a.s., entered into a contractual relationship in 2017 are listed below in Section No. 2.

## 1.5. RELATED PARTIES

These are the companies Pražská plynárenská, a.s., Pražská plynárenská Holding a.s., the Capital City of Prague and companies or organizations and companies, in which the Capital City of Prague had a decisive ownership interest in 2017.

## 1.6. THE ROLE OF PP, A.S., WITHIN 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 RELATIONS BETWEEN RELATED PARTIES

## 2.1. CONTROL 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. CONTRACT CONCLUDED BETWEEN THE RELATED PARTIES IN FORCE IN 2017

### 2.2.1. Contracts concluded between PP, a.s., and the Capital City of Prague or parties under its control

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

- AKROP, s. r. o., Ke Špejcharu 392, Tuchoměřice
- Akademie řemesel Praha – Střední škola technická, Zelený pruh 1294/52, Prague 4
- Dětský domov a Školní jídelna, Národních hrdinů 1, Prague 9 – Dolní Počernice
- Divadlo na Vinohradech, náměstí Míru 1450/7, Prague 2
- Divadlo pod Palmovkou, Zenklova 566/34, Prague 8 – Libeň
- Dopravní podnik hl. m. Prahy, akciová společnost, Sokolovská 217/42, Prague 9
- Dům dětí a mládeže Prague 3 – Ulita, Na Balkáně 2866/17a, Prague 3
- Dům dětí a mládeže Prague 4 – Hobby centrum 4, Bartákova 1200/4, Prague 4
- Dům dětí a mládeže, Rohová 540/7, Prague 6 – Suchdol
- Fakultní základní umělecká škola Hudební a taneční fakulty AMU v Praze, K Brance 72/2, Prague 5
- Galerie hlavního města Prahy, Staroměstské náměstí 605/13, Prague 1
- Gymnázium Jaroslava Heyrovského, Mezi Školami 2475/29, Prague 5
- Gymnázium Karla Sladkovského, Sladkovského náměstí 8, Prague 3
- Gymnázium Omská, Omská 1300/4, Prague 10 – Vršovice

- Gymnázium Budějovická, Budějovická 680, Prague 4
- Gymnázium Na Vítězné pláni, Na Vítězné pláni 1160/1, Prague 4
- Gymnázium Ústavní, Ústavní 400, Prague 8
- Gymnázium, Sříšení odborná škola a Mateřská škola pro sluchově postižené, Ječná 27, Prague 2
- The Capital City of Prague with registered office at Mariánské nám. 2, Prague 1
- Hudební divadlo v Karlíně, Křížíkova 283/10, Prague 8
- Hvězdárna a planetárium hlavního města Prahy, Královská obora 233, Prague 7
- Jedličkův ústav a Mateřská škola a Základní škola a Střední škola, V Pevnosti 13/4, Prague 2
- Kolektory Praha, a.s., Pešlova 3, No. 341, Prague 9
- Kongresové centrum Praha, a.s., 5. května 1640/65, Prague 4
- Lesy hl. m. Prahy, Práčská 1885, Prague 10
- Mateřská škola speciální Na Lysinách, Na Lysinách 41/6, Prague 4 – Hodkovičky
- Městská nemocnice následné péče, K Moravině 343/6, Prague 9
- Minor, Vodičkova 674/6, Prague 1
- Národní kulturní památka Vyšehrad, V pevnosti 159/5b, Prague 2
- Obecní akademie, Kubelíkova 37, Prague 3
- Obecní dům, a.s., nám. Republiky 1090/5, Prague 1
- Pohřební ústav hl. m. Prahy, Staroměstské nám. 608/10, Prague 1
- Pražská strojírna, a.s., Mladoboleslavská 133, Prague 9 – Vinoř
- Pražské služby, a.s., Pod Šancemi 444/1, Prague 9
- Smíchovská střední průmyslová škola Preslova, Preslova 25, Prague 5
- Středisko praktického vyučování, Seydlerova 2451/8, Prague 5 – Nové Butovice
- Střední odborná škola civilního letectví, K Letišti 278, Prague 6 – Ruzyně
- Střední odborné učiliště gastronomie, U Krbu 521/45, Prague 10
- Střední odborné učiliště gastronomie a podnikání, Za Černým mostem 362/3, Prague 9
- Střední průmyslová škola dopravní, a.s., Plzeňská 298/217a, Prague 5
- Střední průmyslová škola elektrotechnická V Úžlabině, V Úžlabině 320/23, Prague 10
- Střední průmyslová škola elektrotechnická Ječná, Ječná 517/30, Prague 2
- Střední průmyslová škola sdělovací techniky, Panská 856/3, Prague 1
- Střední škola a Mateřská škola Aloyse Klara, Vídeňská 756/28, Prague 4
- Střední škola automobilní a informatiky, Weilova 1270/4, Prague 10 – Hostivař
- Střední škola designu a umění, knižní kultury a ekonomiky Náhorní, U Měšťanských škol 525/1, Prague 8
- Střední škola elektrotechniky a strojírenství, Jesenická 1, Prague 10 – Záběhlice
- Školní jídelna, Štefánikova 235/11, Prague 5 – Smíchov
- Technická správa komunikací hl. m. Prahy, Řásnovka 770/8, Prague 1 – Staré Město
- TRADE CENTRE PRAHA, a.s., Blanická 1008/28, Prague 2
- Výstaviště Praha, a.s., Výstaviště 67, Prague 7 – Bubeneč
- Vyšší odborná škola a Střední průmyslová škola dopravní, Masná 18, Prague 1
- Vyšší odborná škola a Střední umělecká škola Václava Hollara, Hollarovo nám. 2, Prague 3
- Vyšší odborná škola ekonomických studií a Střední průmyslová škola potravinářských technologií, Podskalská 365/10, Prague 2

- Vyšší odborná škola stavební a Střední průmyslová škola stavební, Dušní 17, Prague 1
- Základní škola, Pod Radnicí 315/5, Prague 5
- Základní umělecká škola Iiji Hurníka, Slezská 920/21, Prague 2
- Základní umělecká škola Klementa Slavického, Zderazská 60/6, Prague 5 – Radotín
- Základní umělecká škola, Biskupská 1276/12, Prague 1
- Základní umělecká škola, U Půjčovny 4, Prague 1
- Základní umělecká škola, Bajkalská 1512/11, Prague 10
- Základní umělecká škola, Lounských 129/4, Prague 4
- Základní umělecká škola, Nad Alejí 1879/28, Prague 6
- Základní umělecká škola, Klapkova 25, Prague 8
- Základní umělecká škola, Učňovská 1, Prague 9
- Zoologická zahrada hl. m. Prahy, U Trojského zámku 120/3, Prague 7
- Želivská provozní, a.s., K Horkám 16/23, Prague 10

#### b) Other agreements

- Divadlo Na zábradlí, Anenské náměstí 209/5, Prague 1 – Cooperation agreement
- Domov pro seniory Krč, Sulická 1085/53, Prague 4 – Agreement on sale of compressed natural gas (CNG)
- The Capital City of Prague with registered office at Mariánské nám. 2, Prague 1 – Non-residential Property Lease Agreements, Agreements on lease of parking space, Agreements on lease of business space, Agreement on establishment of an easement – electricity and natural gas connections at CNG station Q 100, Agreement on provision of telecommunication services
- Kolektory Praha, a.s., Pešlova 3, No. 341, Prague 9 – Agreement on sale of compressed natural gas (CNG)
- Lesy hl. m. Prahy, Práčská 1885, Prague 10 – Advertising and promotion agreement
- Městská knihovna v Praze, Mariánské nám. 98/1, Praha 1 – Non-residential Property Lease Agreement, Memorandum on future lease contract, Lease agreement, Settlement agreement
- Městská poliklinika Praha, Spálená 12, Praha 1 – Agreement on sale of compressed natural gas (CNG)
- Muzeum hlavního města Prahy, Kožná 475/1, Prague 1, Agreement on lease of an exhibit
- Palata – Domov pro zrakově postižené, Na Hřebenkách 5, Prague 5 – Agreement on sale of compressed natural gas (CNG)
- Pražská energetika, a.s., Na Hroudě 1492/4, Prague 10 – EFET Agreement (purchase/sale of natural gas), Master agreement on transfer of unused tolerance, Non-residential Property Lease Agreement
- Pražské služby, a.s., Pod Šancemi 444/1, Prague 9 – Agreement on sale of compressed natural gas (CNG), Advertising and promotion agreement, CNG station lease agreement
- Technická správa komunikací hl. m. Prahy, a.s., Řásnovka 770/8, Prague 1 – gas connection easement for the CNG station at Modřanská ul.
- Zoologická zahrada hl. m. Prahy, U Trojského zámku 120/3, Praha 7 – Agreement on sale of compressed natural gas (CNG)

#### 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 non-residential property and movables
- c) Agreement on lease of business premises

- d) Agreement on cash-pooling within the PP, a.s. Group
- e) Order contract for consideration payout to minority shareholders (the third party is Československá obchodní banka, a.s.).

#### 2.2.3. Overview of the conduct of the controlled party in favour of or upon request of the related parties

During the Accounting Period, Pražská plynárenská, a.s., and its controlled party, i.e. The subsidiary company Pražská plynárenská Distribuce, a.s., Member of the Pražská plynárenská, a.s. Group, realized a transaction on the basis of a contract

In the Accounting Period no decision was made by Pražská plynárenská Holding a.s., as the sole shareholder Pražská plynárenská Holding a.s. as the sole shareholder exercising the powers of the general meeting of Pražská plynárenská, a.s., regarding conduct that would affect the assets of Pražská plynárenská, a.s., whose value would exceed 10 % of the equity of Pražská plynárenská, a.s., according to the last financial statements, i.e. whose value would exceed the amount of 604,984,000 CZK according to the financial statements as at 31 December 2017.

#### 2.3. OTHER LEGAL ACTS

A Memorandum of cooperation and mutual support during the preparation of youth for vocational certificate fields in the Capital City of Prague was signed with the Capital City of Prague.

The controlled party does not suffer any detriment from this relationship.

#### 2.4. ASSESSMENT OF DETERIMENT CAUSED TO THE CONTROLLED PARTY

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 2017 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

## 2.6. OTHER FACTS

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

In 2017, 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 RELATION OF PRAŽSKÁ PLYNÁRENSKÁ, a.s., AND RELATED PARTIES AS AT 31 DECEMBER 2017





**170**  
years of the  
Prague gas  
industry

EVEN THEN WE USED TO  
HEAT WATER FOR BATHING

 PRAŽSKÁ  
PLYNÁRENSKÁ

# ABBREVIATIONS

<b>a.s.</b>	joint-stock company
<b>AMU</b>	Academy of Performing Arts in Prague
<b>BOZP</b>	Occupational Safety and Health
<b>CFO</b>	Chief Financial Officer
<b>CNG</b>	Compressed Natural Gas
<b>CZK</b>	Czech Crown
<b>č. ú.</b>	Account Number
<b>ČIŽP</b>	Czech Environmental Inspectorate
<b>ČNB</b>	Czech National Bank
<b>ČR</b>	Czech Republic
<b>ČSLH</b>	Czech Ice Hockey Federation
<b>ČSOB, a.s.</b>	Československá obchodní banka, a.s.
<b>ČSSD</b>	Česká strana sociálně demokratická
<b>ČÚS</b>	Czech Accounting Standards
<b>ČVUT</b>	Czech Technical University in Prague
<b>ČZU</b>	Czech University of Life Sciences in Prague
<b>DHM</b>	Tangible fixed assets
<b>DIČO</b>	Tax Identification Number (VAT No.)
<b>DNM</b>	Intangible fixed assets
<b>DOM</b>	Domestic customer – natural person using gas for personal needs connected with housing or for personal needs of members of the natural person's household
<b>DPH (= VAT)</b>	Value Added Tax
<b>ERÚ (= ERO)</b>	Energy Regulatory Office
<b>EU</b>	European Union
<b>EUR</b>	Euro – common currency of the European Union
<b>EVVO</b>	Environmental education, training and raising of awareness
<b>FZŠ</b>	Fakultní základní škola
<b>GDPR</b>	General Data Protection Regulation
<b>GmbH</b>	Gesellschaft mit beschränkter Haftung (German abbreviation for a limited liability company)
<b>hl. m. Praha</b>	Capital City of Prague
<b>IAS/IFRS</b>	International accounting standards
<b>ICT</b>	Information and communication technology
<b>IČO</b>	Business ID Number
<b>ISE, a.s.</b>	Informační služby – energetika, a.s.
<b>ISIN</b>	Identification number under which a share was kept in the Securities Centre and is now kept in the Central Securities Depository, a.s.
<b>IT</b>	information technology
<b>Kč (= CZK)</b>	Czech crown
<b>kg</b>	kilogram
<b>ks</b>	piece
<b>kWh</b>	kilowatt-hour
<b>m<sup>3</sup></b>	Cubic meter
<b>MČ</b>	City District
<b>mil.</b>	million
<b>mld.</b>	billion

<b>MO</b>	Small customer – end customer who is not a large, medium-sized or domestic customer
<b>MOO</b>	Electricity retail customer population
<b>MOP</b>	Electricity retail business population
<b>MŠMT</b>	Ministerstvo školství, mládeže a tělovýchovy (Ministry of Education, Youth and Sport)
<b>MWh</b>	megawatt-hour
<b>OSVČ</b>	self-employed person
<b>OTE</b>	Market operator
<b>p.a.</b>	per annum – annual interest rate
<b>FP</b>	požární ochrana
<b>PP, a.s.</b>	Pražská plynárenská, a.s.
<b>PPD, a.s.</b>	Pražská plynárenská Distribuce, a.s., Member of the Pražská plynárenská, a.s. Group
<b>PPH a.s.</b>	Pražská plynárenská Holding a.s.
<b>PPSD, a.s.</b>	Pražská plynárenská Servis distribuce, a.s., Member of the Pražská plynárenská, a.s. Group
<b>PPSM, a.s.</b>	Pražská plynárenská Správa majetku, a.s., Member of the Pražská plynárenská, a.s. Group
<b>PR</b>	Public Relations
<b>Prometheus, a.s.</b>	Prometheus, energetické služby, a.s., Member of the Pražská plynárenská, a.s. Group
<b>PSČ</b>	Postal Code
<b>s. p.</b>	state enterprise
<b>s. s. r. o.</b>	limited liability company
<b>Sb.</b>	Collection of the laws of the Czech Republic
<b>SO</b>	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
<b>Tel.</b>	telephone number
<b>'000</b>	thousand
<b>TU</b>	Technical University
<b>TV</b>	television
<b>VH</b>	Net profit/loss
<b>VO</b>	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
<b>ZHMP</b>	Prague City Assembly



## ***Report of the Independent Auditor***

**to the shareholder of Pražská plynárenská, a.s.**

### **Auditor's Report on the Consolidated and Individual Financial Statements**

#### ***Auditor's statement***

In our opinion:

- the submitted consolidated financial statements give a true and fair picture of the consolidated financial position of Pražská plynárenská, a.s., with registered office at Národní 37, Prague 1 – Nové Město ("the Company") and its subsidiary companies (together "the Group") as at 31 December 2017, its consolidated financial performance and consolidated cash flows for the year ended 31 December 2017 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 2017, its financial performance and cash flows for the year ended 31 December 2017 in compliance with the Czech accounting regulations.

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) No 537/2014 ("EU Regulation").

#### ***Scope of audit***

The consolidated financial statements of the Group consist of the following:

- Consolidated statement of financial position as at 31 December 2017,
- Consolidated statement of comprehensive income for the year ended 31 December 2017,
- Consolidated statement of changes in equity for the year ended 31 December 2017,
- Consolidated statement of cash flows for the year ended 31 December 2017 and
- 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:

- balance sheet as at 31 December 2017,
- profit and loss account for the year ending 31 December 2017,
- overview of the changes in equity capital for the year ending 31 December 2017,
- cash-flow statement for the year ending 31 December 2017 and
- notes to the individual financial statements, which contain the significant accounting methods and other explanatory information.

#### ***Basis for the statement***

We conducted the audit in compliance with the Act on Auditors, EU Regulation and the auditing standards of the Chamber of Auditors of the Czech Republic, which are the International Standards on Auditing (ISA), eventually supplemented and modified with the related application clauses. Our responsibility as stipulated by these regulations is outlined in detail in the section on the Auditor's responsibility for the audit of the financial statements. We assume that the evidence that we obtained provides a sufficient and appropriate basis for us to make our statement.

#### ***Independence***

In accordance with the Act on Auditors of the Czech Republic, EU Regulation and the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA) and adopted by the Chamber of Auditors of the Czech Republic, we are independent of the Group and the Company, we did not provide any banned non-audit services stipulated in Article 5 of the EU Regulation and we also fulfilled other ethics duties arising from the stated regulations.

PricewaterhouseCoopers Audit, s.r.o., with registered office at Hvězdova 1734/2c, 140 00 Prague 4, Business ID No.: +420 251 151 111, F: +420 252 156 111, [www.pwc.com/cz](http://www.pwc.com/cz)

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to the shareholder of Pražská plynárenská, a.s.  
Report of the Independent Auditor

## Access to the audit

### Overview



#### Confidence level

- Overall confidence level for the consolidated financial statements of the Group: 313.7 million CZK, which is 2.5 % of Group sales revenue.
- Overall confidence level for the individual financial statements of the Company: 309 million CZK, which is 2.5 % of Company's sales revenue.

#### Determination of the scope of audit of the Group

- The Company and all its subsidiary companies were audited by PwC in Prague, Czech Republic.

#### Major audit issues

- The risk of non-compliance with the applicable legal regulations for reason of issue of Pražská plynárenská bonds on the regulated market.

When planning the audit, we set the confidence level and assessed the risks of material misstatement in the consolidated and individual financial statements (together "the financial statements"), in which the management applied its judgement, e.g. in 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 whether prejudice was not ascertain that

#### 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.

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	313.7 million CZK
The overall confidence level of the Company	309 million CZK
How it was set	2.5% of consolidated and individual sales revenues

#### Substantiation of the basis used for determination of significance

Determination of the confidence level includes use of professional judgement. When determining the confidence level, we considered the quantitative and qualitative factors the sector in which the Group and the Company operate is a highly competitive environment with very low margins, and for this reason profit is not a suitable basis for determination of the significance. We thus chose sales as the most suitable variable because the Group and the Company orient mainly on keeping their customers and the market share and thus on sales. Sales are at the same time a key performance indicator for the Group and Company management. Sales are generally accepted as the selected criteria in the energy sales and distribution sector 2.5 % as the applied percentage is within the limits of the acceptable quantitative factors of the confidence level and best reflects the risk profile of the Group and Company.



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### **Major audit issues**

According to our professional judgement, the main audit issues are the issues that were the most significant during the audit of the financial statements for the current period. We examined these issues in the context of the audit of the financial statements as a whole and in connection with the formation of an opinion on these financial statements. We do not express a separate opinion on these issues.

Major audit issues	How the audit dealt with the major audit issues
<p><b>The risk of non-compliance with the applicable legal regulations in consequence of issue of the Pražská plynárenská bonds on the regulated market</b></p> <p>On 15 June 2017 Pražská plynárenská, a.s. issued bonds in the total nominal value of 400 million CZK with a maturity of 3 years and a coupon rate of 0.90% p.a. The bonds were issued according to Czech law as bearer book-entry securities. The nominal value value of each bond is five million CZK. The bond trading method is by separate auctions. The holders of the bonds from the outset are Česká spořitelna, a.s. and Československá obchodní banka, a.s., each holding 40 bonds of total worth CZK 200 million.</p> <p>In consequence of issue of these bonds on a regulated European market, the Company became a subject of public interest pursuant to Act No. 563/1991 Coll.,</p> <p>We mainly focused on fulfilment of the obligations arising from the Accounting Act in the area of application of the international accounting standards for accounting and compilation of the financial statements and the disclosure of non-financial information.</p> <p>We further focused on fulfilment of obligations arising from Act No. 256/2004 Coll., Capital Market Undertakings Act in the area of specific information obligations.</p> <p>Information about the issued bonds is given in Note 12 of the individual financial statements and in chapters 4.2. and 6.11. of the consolidated financial statements for the year ended 31 December 2017.</p> <p>Within the framework of audit of the issued bonds, cash and cash equivalents, cash flow statement and statement of comprehensive income, among other things, we also obtained evidence of the amount obtained from the issue of the bonds, of the effects on the volume of external resources in the statement of financial</p>	<p>position and of the effects on the interest costs in the statement of comprehensive. on the prospectus for emission of the bonds, bank account statements and confirmation from the bondholders</p> <p>We ascertained that the accounting policies and valuation principles used by management as a whole are adequate, and that in both financial statements of the Company for the year ended 31 December 2017, they properly reflect the impact of the bond issue on the regulated market of Prague Stock Exchange - Burza cenných papírů Praha, a.s.</p> <p>We met with the Company management, the newly established Audit Committee and the internal legal representative, in order to get acquainted with the procedures applied for the purpose of fulfilment of the statutory requirements arising from the issue of the bonds on the regulated market, we evaluated them and comprehended the process for ensuring compliance with the applicable legislation that is implemented in the Company. We evaluated these procedures as adequate for the given purpose.</p> <p>Our procedures included assurance of the preparation of the application of international accounting standards for compilation of the individual financial statements from 1 January 2018, which is in compliance with the Accounting Act in the event that the bonds were emitted during the 2017 accounting period.</p> <p>We assessed the disclosure of non-financial information in the Annual Report of the Group and Company according to the Accounting Act with regard to completeness, adequacy We did not identify major deficiencies in this regard</p> <p>We further assessed the use of the exemption from the information duty according to Section 119c of Act No. 256/2004 Coll., Capital Market Undertakings Act, under which the Group and Company are exempt from the obligation to disclose information required from issuers of securities admitted to the regulated market We did not identify major findings in this regard.</p> <p>We also assessed the fulfilment of the statutory requirements for establishment of the Audit Committee, its expertise and independence as well as performance of its activities according to Act No. 93/2009 Coll., on auditors. We did not identify major findings in this regard.</p>



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#### ***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 and the sectors in which the Group and Company operate.

The Group consists of the Company and its five subsidiaries. We audited all the companies in the Group, and thus consider the scope of audit as adequate for us to express our opinion.

#### ***Other information***

The other information complies with Section 2, b) of the Act on Auditors, including non-financial information about the Group, which is stated in the annual report off the financial statements and our auditor's report. The Company's Board of Directors is responsible for the other information.

Our opinion on the financial statements does not apply to the other information. In spite of this, it is part of our duty related to the audit of the financial statements to get acquainted with the other information and assess whether the other information does not significantly conflict with the financial statements or our knowledge of the Group and Company obtained during the audit or whether this information does not otherwise seem to be significantly misstated. We also assess whether the other information was processed in all significant aspects in compliance with the applicable legal regulations. This assessment means whether the other information fulfils the requirements of the legal regulations for formal essentials and procedures for processing of other information in the context of significance, i.e. whether any non-observance of the given requirements could influence the judgement made on the basis of other information.

Based on the accomplished procedures, to the extent to which we can judge, we state that

- the other information, which describes the facts that are also the subject of the picture in the financial statements in all major aspects complies with the financial statements and
- the other information was processed in compliance with the legal regulations.

We are further required on the basis of the knowledge and awareness of the Group and Company we obtained during the audit to state whether the other information does not contain significant material misstatements. Within the scope of the given procedures, we did not find any significant material misstatements in the other information received.

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

The Company's Board of Directors is responsible for the preparation of the consolidated financial statements, providing a faithful and fair image in compliance with the International Accounting Standards adopted by the EU and for issue of the individual financial statements giving a faithful and fair image in compliance with the Czech Accounting Regulations 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.

#### ***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.



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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 to 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.

#### ***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:

##### *Appointment of the auditor and duration of the audit operations*

We were appointed as the Company's auditor on 1 November 2016 by decision of the Company's General Assembly. We have been the Company's auditor for 8 consecutive years.



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*Non-audit services provided*

We did not provide non-audit services to the Group.

*Non-financial information*

At the same time, pursuant to Section 32i, Accounting Act, we state that the Group processed its non-financial information for 2017 and stated it in this Annual Report.

20 March 2018

Represented by

Ing. Václav Prýmek

Ing. Petra Bočáková  
Statutory Auditor No. 2253

■ **NOTES**



Pražská plynárenská, a.s.  
[www.ppas.cz](http://www.ppas.cz)