

Annual report
Pražská plynárenská, a. s.
2014





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This Annual Report has been prepared in accordance with Act No. 563/1991 Coll., as amended and Act No. 90/2012 Coll., the Act on Corporations as amended.
All documents and materials referred to in this Annual Report may be reviewed at the Company's Head office.

In Prague, 9 April 2015



I. Introduction

Introductory words by the chairman of the Board of Directors

Dear ladies and gentlemen,

Should I characterize the year 2014 from the position of Pražská plynárenská, a. s., I would undoubtedly describe the past year as a year of changes. Perhaps often difficult, complex and painful ones, with limited time frame for their realization. We were also forced to implement them under an intense pressure resulting from the extremely competitive environment prevailing on the current energy market. However, those changes were crucial for further development and future prospect of our Company, bringing new challenges, possibilities and opportunities.

Importantly, many of them such as a new business strategy, restructuring of the Company or increasing the efficiency of its operation have begun to bring quite obvious and specific results. Courage to implement them has paid off and thanks to it, Pražská plynárenská, a. s. managed to meet forecasted financial results for the year 2014, despite of significantly unfavourable climatic conditions (in terms of gas sales), which this atypical year brought along. The recognition definitely belongs to all employees who have faced adversity and have done maximum for the Company's success.

Let me also thank to our business partners for their willingness and exemplary cooperation, and especially to our customers for their long-term stable relationship with Pražská plynárenská, a. s. We appreciate it a lot and I can promise you that we will spare no effort to position our Company as a reliable energy supplier that they can always rely on and that always makes a little more than what is expected.



A handwritten signature in blue ink, which appears to read 'Janeček'.

Ing. Pavel Janeček,
Chairman of the Board of Directors



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II. Selected data on the company

The information given in this chapter applies to the non-consolidated financial statements, unless stated otherwise.

Basic information on the Company

Business name:	Pražská plynárenská, a. s.
Registered office	Praha 1 – Nové Město, Národní 37/38
Post code:	110 00
Company ID No.:	601 93 492
Tax ID No.:	CZ60193492
Entry in the Commercial Register:	Municipal Court in Prague, Section B, file 2337
Bank details:	ČSOB, a. s. – account No.: 916780043/0300
Tel.:	+420 267 171 111
ID data boxes:	au7cgsv
Business offices:	Jungmannova 31, palác Adria, Praha 1 U Plynárny 500, building No. 37, Praha 4 Palackého třída 1931/105, Pardubice
Web pages:	www.ppas.cz

The Company's profile

Pražská plynárenská, a. s., is amongst the most important domestic energy suppliers and has been a reliable energy supplier to approximately 420,000 off-take-points across the Czech Republic. 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. In the area of energy use, the Company supports new, ecologic and effective technologies in a long-term aspect, especially the usage of natural gas in transportation.

Importance of the Company and its contribution to the region

The history of Pražská plynárenská, a. s., is integrally linked to the city of Prague where the gas industry roots can be tracked back to 1847 in the capital city. Today the Company is a reliable energy supplier and provides its services to customers throughout the Czech Republic. The Company has evolved over time, reflecting social changes as well as technological development. It has been repeatedly tested in various difficult circumstances in which the Company has succeeded and therefore gained

valuable experiences. This contributed to Pražská plynárenská, a. s., being a stable, modern and a prosperous energy company that is able to respond flexibly and rapidly to changing requests of its customers.

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

Basic economic indicators (2010–2014)

The average CZK/EUR exchange rate for 2014 was CZK/EUR 27.533 and was used for conversion of all data in the tables, including comparative information.

		2010	2011	2012	2013	2014 ⁶	
Revenues	in CZK '000	11,962,339	9,623,710	9,335,952	8,942,537	14,221,895	
	in EUR '000	434,473	349,534	339,082	324,793	516,540	
Profit before tax	in CZK '000	351,203	688,568	722,292	624,908 ⁴	812,636	
	in EUR '000	12,756	25,009	26,234	22,697	29,515	
Profit after tax	in CZK '000	341,247	659,657	672,963	582,053 ⁴	735,471	
	in EUR '000	12,394	23,959	24,442	21,140	26,712	
Equity	in CZK '000	3,381,465	3,522,288	3,673,145	6,872,400 ⁵	6,823,774	
	in EUR '000	122,815	127,930	133,409	249,606	247,840	
Share capital	in CZK '000 ¹	1,439,907	1,439,907	1,439,907	1,439,907	1,439,907	
	in EUR '000	52,297	52,297	52,297	52,297	52,297	
Number of employees as at 31 December		351	328	322	310	312	
Number of employees (FTE)		326	342	317	309	324	
Natural gas	Sales²	in kWh million	12,854.8	8,720.5	7,354.2	6,620.1	14,380.7
		in m ³ million	1,214.8	825.1	696.9	624.2	1,354.5
	Number of off-take-points as at 31 December		432,790	431,383	417,581	403,804	397,073
Electricity³	Sales	in kWh million	0	0	2.0	39.3	82.2
	Number of off-take-points as at 31 December		0	0	1,276	15,357	18,267

¹ Share capital registered in the Commercial Register.

² Volumes of natural gas measured in m³ are converted into kWh using a calorific value coefficient, the value of which is obtained from NET4GAS, s. r. o., based on a monthly hand-over protocol.

³ Sale of electricity began on 1 January 2012.

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

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

⁶ In 2014 Pražská plynárenská, a. s., and Pragoplyn, a. s., were merged.

Securities issued as at 31 December 2014

The share capital of CZK 1,439,907 thousand has not changed since the Company was incorporated. An overview of all shares issued by the Company is in the following table.

Type	Ordinary shares	Ordinary shares	Ordinary share
Form	bearer	registered	registered
Nature	booked securities	booked securities	booked securities
Number	950,338	489,568	1
Nominal value	CZK 1,000	CZK 1,000	CZK 1,000
Total issue value	CZK 950,338,000	CZK 489,568,000	CZK 1,000
ISIN	CZ 0005084350	CZ 0005123190	CZ 0005123208
Other information	Since 2008, shares have not been traded on the regulated market in the Czech Republic.	Registered shares have limited transferability. The Annual General Meeting must give the owner its consent for their transfer.	

Ownership structure of Pražská plynárenská, a. s., as at 31 December 2014

Pražská plynárenská, a. s., was controlled during the whole year 2014 by Pražská plynárenská Holding a. s. (with the registered office: Prague 4, U Plynárny 500, post code 140 00, Company ID No.: 26442272). PPH a. s. had a 50.2% share on the PP, a. s., share capital until 26 March 2014 and a 99.55% share on the PP, a. s., share capital from 27 March 2014. Effective from 16 June 2014 PPH a. s. has owned a 100% stake of the share capital of PP, a. s. No control agreement has been concluded between PP, a. s., and PPH a. s.

Structure of main shareholders of Pražská plynárenská, a. s., as at 1 January 2014

Shareholder	Address	Number of shares in PP, a. s.	Stake of share capital (in %)
Pražská plynárenská Holding a. s.	U Plynárny 500, 140 00 Praha 4	722,797*	50.20
E.ON Czech Holding AG	Arnulfstrasse 203, 80634 Munich, Federal Republic of Germany	710,551**	49.35
Other legal entities and natural persons	-	6,559	0.45
Total		1,439,907	100.00

* Of which 489,568 are registered shares.

** Of which 1 is a registered share..

Structure of main shareholders of Pražská plynárenská, a. s., as at 31 December 2014

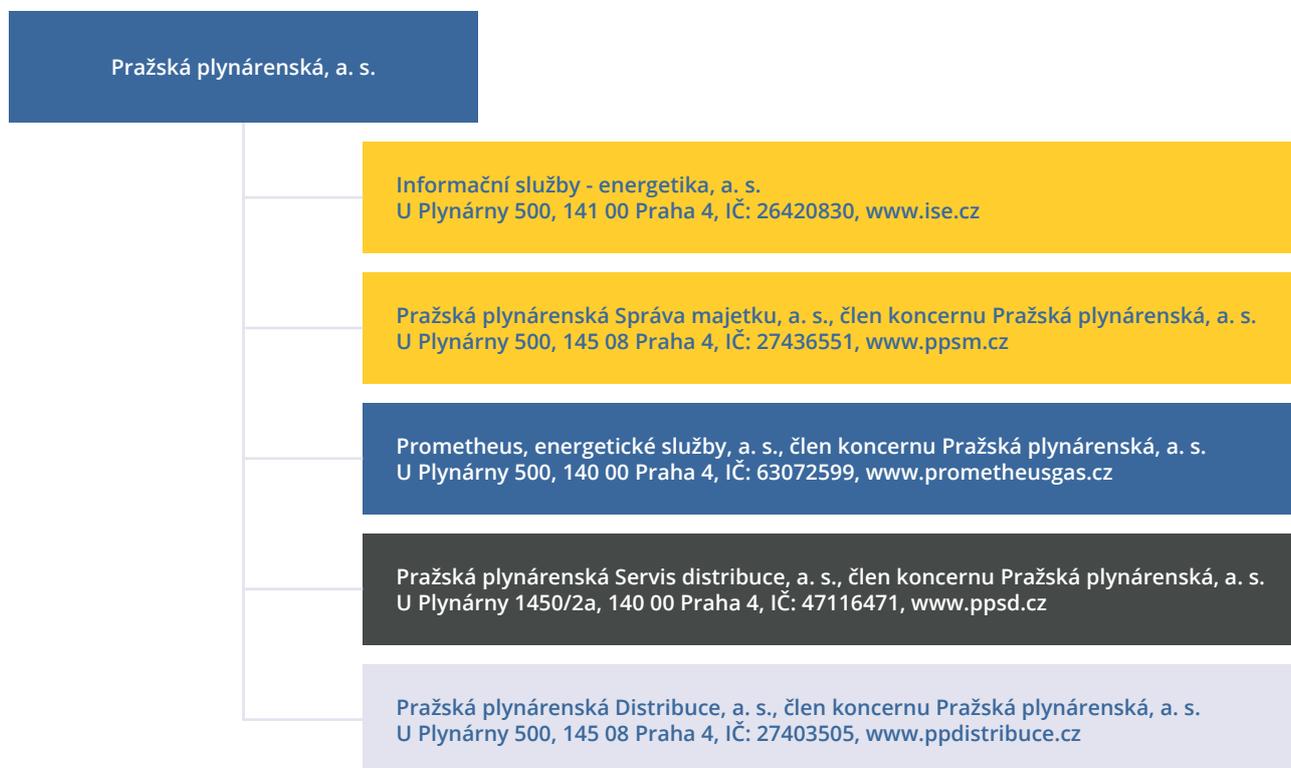
Shareholder	Address	Number of shares in PP, a. s.	Stake of share capital (in %)
Pražská plynárenská Holding a. s.	U Plynárny 500, 140 00 Praha 4	1,439,907	100.00
Total		1,439,907	100.00

Ownership interests

On 1 November 2014 PP, a. s., merged with Pragoplyn, a. s., its 100% subsidiary. As a result of the merger, Pragoplyn, a. s., was dissolved without liquidation and the net assets of the dissolved company were transferred to PP, a. s., as the successor company. The effective date of the merger was 1 January 2014.

On 1 November 2014 Pražská plynárenská Servis distribuce, a. s., člen koncernu PP, a. s., merged with Měření dodávek plynu, a. s., its 100% subsidiary. As a result of the merger, Měření dodávek plynu, a. s., was dissolved without liquidation and the net assets of the dissolved company were transferred to PPSD, a. s., člen koncernu PP, a. s., as the successor company. The effective date of the merger was 1 January 2014.

The following diagram shows the structure of Pražská plynárenská, a. s., Group as at 31 December 2014. Pražská plynárenská, a. s., has a 100% ownership interest in all its subsidiaries.



LEGEND:

- services
- trade and services
- trade, services and network administration
- distribution and network administration

In 2014 PP, a. s., had an organisational unit in Slovakia in a form of Pragoplyn, a. s., organizační složka SR.

Detailed data on the subsidiaries of PP, a. s., are given in the Notes to the consolidated financial statements which are included in this Annual Report.

Information on the Company's bodies and management

General Meeting

The General Meeting is the supreme body of the Company. The sole shareholder exercising the power of the General Meeting approved the distribution of the net profit for 2013 in the amount of CZK 642.25 million on 18 June 2014. CZK 4.95 million was transferred to the social fund, CZK 28.0 million was paid as directors' fees and CZK 633.56 million was paid as a dividend, representing CZK 440 of profit before tax for each share of the Company. The amount of CZK 24.26 million was paid out from "Retained earnings". General Meeting has also approved the report of the Board of Directors on the Company's business activities and the position of its assets in 2013 and the annual and consolidated financial statements.

Board of Directors

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

The Supervisory Board held on 27 March 2014 accepted the resignation of Eckart Baum and Dr. František Kotula - members of the Board of Directors of PP, a. s., Ing. Milan Fafejta resigned as member of the Board of Directors on 28 March 2014. The Supervisory Board of PP, a. s., held on 17 October 2014 dismissed Ing. Miroslav Nosál, CFA, from his position as a member of the Board of Directors.

As at 31 December 2014, the Board of Directors consisted of the following members:
Ing. Pavel Janeček, Chairman of the Board of Directors
Ing. Milan Jadlovský, Vice-Chairman of the Board of Directors
Ing. Alois Těšitel, Member of the Board of Directors
Ing. Petr Zmátlík, Member of the Board of Directors

Supervisory Board

The Supervisory Board is the Company's supervisory body and oversees how the Board of Directors exercises its authority; it elects and dismisses members of the Board of Directors and oversees the Company's business activities. It has nine members and the term of office of individual Members of the Supervisory Board is five years based on the Articles of Association. Dipl.-Ing. Michael Fehn, Magnus Alexander Brandau, Marc Müller, MBA and Lorenz Pronnet resigned from their memberships in the Supervisory Board of PP, a. s., on 27 March 2014.

As at 31 December 2014, the Supervisory Board consisted of the following members:

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

The Company's top management

Managing Director Ing. Milan Fafejta, Commercial Director Ing. Josef Hais and Financial Director Ing. Jiří Hamšík ended their employment with the Company at their own request on 31 January 2014. Effective from 1 February 2014, the Board of Directors nominated Ing. Marta Ptáčková as temporary Managing Director, Ing. Pavel Cajthaml as temporary Commercial Director and Ing. Jaroslav Kohoutek as temporary Financial Director.

The Board of Directors of PP, a. s., held on 7 April 2014 appointed new directors of the Company with the effective date from 8 April 2014.

Ing. Petr Zmátlík was appointed Managing Director, Ing. Miroslav Nosál, CFA, was appointed Financial Director and Ing. Alois Těšitel was appointed Commercial Director. The Board of Directors of PP, a. s., held on 25 June 2014 appointed Ing. Milan Jadloviský Strategy Director with the effective date from 1 August 2014.

The meeting of the Board of Directors of PP, a. s., held on 17 October 2014 approved the allocation of competences of its members in accordance with Section 156, paragraph 2 of the Civil Code with the effective date from 20 October 2014. The decision was executed in the following manner:

Ing. Pavel Janeček, Chairman of the Board of Directors, responsible for the Company's management, **Ing. Milan Jadloviský**, Vice-Chairman of the Board of Directors, responsible for the management of strategy department,

Ing. Alois Těšitel, Member of the Board of Directors, responsible for the management of commerce department, **Ing. Petr Zmátlík**, Member of the Board of Directors, responsible for the management of finance and administrative department.

Information on members of the Company's bodies and management in 2014

(Given in alphabetical order of surnames)

Eckart Baum – Vice-Chairman of the Board of Directors (until 27 March 2014)

Prior to starting and during his studies at the University of Humberide in Hull (Great Britain) and FH in Münster (Germany), Eckart Baum gained experience gradually in BMW AG (Spain and Germany), Banque Nationale de Paris SA (Luxembourg) and AMISA (Santiago de Chile / Lima). After finishing his studies, he worked at E.ON Energie AG head office in Munich since 1995 until December 1997, in the finance department / mergers and international acquisitions section. From January 1998 till October 2001 he worked as Financial Controller and Senior Finance Manager on secondment in Amata Power (Bangkok, Thailand). Since November 2001 till December 2004 he worked as the head of controlling & finance in E.ON Bohemia (Prague, Czech Republic). In January 2003 he became the Statutory Director of Ško-Energo Fin, s. r. o. In June 2004 he became a Member of the Supervisory Board of Teplárna (Heating Plant) Kyjov, a. s.; and in July 2004 he was elected the Vice-Chairman. In January 2005 he became a finance director (finance, accounting, taxes) in E.ON Česká republika, s. r. o. (České Budějovice). Since September 2006 until 27 March 2014 he was a Member of the Board of Directors of PP, a. s.,

and since November 2006 he was its Vice-Chairman. Since June 2007 until 27 March 2014 he was the Chairman of the Supervisory Board of PPD, a. s. Since July 2007 until 27 March 2014 he was the Chairman of the Board of Directors of Pragoplyn, a. s. Since November 2013 until 1 April 2014 he was the Vice-Chairman of the Board of Directors of PPH a. s.

MUDr. Iveta Borská – Member of the Supervisory Board

In 1990 she graduated from the First Faculty of Medicine of Charles University in Prague, majoring in general medicine at the First Faculty of Medicine of Charles University in Prague. She obtained the first and second grade attestation in the area of radiology in 1996, respectively in 2000. Since 1990 until 2000 she practiced medicine in state and private medical centres. Since 2000 until 2007 she worked at headquarters of Všeobecná zdravotní pojišťovna with the exception of 2004, firstly as head of department for health policy and ended in the position of director of department for payments for drugs and medical devices and drug policy. At the same time, she was a member of several expert committees at the Ministry of Health of the Czech Republic and represented VZP in an expert committee of AIM by EU in Brussels. Since 2007 until 2011 she was the executive director of branch in Slovakia, belonging to a multinational company Synlab and project specialist in the issue of compensation and communication with health insurance companies. In 2012 she worked briefly in position of health counsellor at the Ministry of Health in the Czech Republic. Since 2012 until now she has been practicing medicine again. In the election period since 2010 until 2014 as a councillor at Prague City Hall, she was a member of Prague City Council for providing grants in the environment area, a vice-chairwoman of Committee for health care, social care and housing, a member of Committee for providing grants in health care and a member of Audit Committee. Since 2012 she is a Member of the Supervisory Board of PPH a. s. and since 2014 a Member of the Supervisory Board of PP, a. s.

Magnus Alexander Brandau – Member of the Supervisory Board (until 27 March 2014)
From 1983 until 1985, he studied political science at Bonn University and then till 1986 at the "Institut d'études politiques de Paris" in Paris. From 1986 until 1991 he studied administration science at Constance University. Since 1991 until 1993, he worked as an official of the Baden-Württemberg CDU/CSU Land Group and then, until 1996, as the Economic-Political Official of the CDU/CSU Group in the Federal Parliament. Since 1996 till 1999, he held the position of Head of the VEBA AG Office in Bonn; since 1999 until 2000, he worked as Head of the E.ON AG representative office in Berlin and since 2000 until 2003 he worked in the E.ON Energie AG Board of Directors' Office. In November 2003 he became the Head of the E.ON Czech Holding AG Corporate Services division and since January 2005 he holds the position of Head of the Corporate Services and Corporate Communication divisions of the E.ON Czech Group. In 2007 he became

the Chairman of the Supervisory Board of Jihočeská plynárenská, a. s. (South Bohemia Gas Company). Since December 2009 until 27 March 2014 he was a Member of the Supervisory Board of PP, a. s., and since February 2010 until 1 April 2014 was a Member of the Supervisory Board of PPH a. s.

Ing. Milan Fafejta – Member of the Board of Directors (until 28 March 2014), Managing Director (until 31 January 2014)

After studying at the Chemical Technology University in Prague, he worked successively in the Czechoslovak Academy of Sciences as a specialist assistant and in Chemopetrol - Benzina Prague as a department manager. He has been working in the gas industry since 1987, in the following positions: in Středočeské plynárny, o. z. (Central Bohemia Gas Company, branch unit), ČPP Prague as head of the procurement department, in Středočeské plynárny, o. z. as branch unit director, in Pražské plynárny, o. z., as branch unit director. Since 1994 until 2002 he was the Chairman of the Board of Directors of PP, a. s., and then has been a Member of the Board of Directors. He was the Managing Director since December 1993 until January 2014 and also a proxy of PP, a. s., since 2002 until June 2013. Since March 2001 until December 2012 he was a Member of the Board of Directors of PPH a. s. and in June 2007, he became a Member of the Supervisory Board of PPD, a. s., and he was the Vice-Chairman since June 2008. On 28 March 2014 he resigned from the position of Member of the Board of Directors of PP, a. s., at his own request. At the meeting of the Board of Directors of PP, a. s., held on 1 April 2014, he was recalled from the position of a Member of the Supervisory Board of PPD, a. s.

Dipl.-Ing. Michael Fehn – Chairman of the Supervisory Board (until 27 March 2014)
Since 1980 until 1985, he studied electrical engineering at the Technical University in Munich. Since 1986, he worked for five years in Bayernwerk AG as a project engineer and deputy manager of the large projects funding section. In 1991 and 1992, he headed Bayernwerk's representative office in Slovakia. He worked for four years in EuroBayernwerk as head of the financial matters section, where he was responsible for the funding of international projects. In the period 1995 to 1998, he was the Statutory Director of Umwelt-Energie-Technik, then worked for one year as sales and marketing director in the distribution company Isar-Amperwerke, a subsidiary of Bayernwerk. Since February 1999, he has been working in the Czech Republic, where he became the Statutory Director of E.ON Bohemia, s. r. o. In 2002, he was appointed Chairman of the Board of Directors of E.ON Czech Holding AG. Since 2002 until 2007, he held the position of Vice-Chairman of the Supervisory Board of Jihočeská plynárenská, a. s. (South Bohemia Gas Company). In 2003, he was elected to the Supervisory Board of Jihomoravská plynárenská, a. s. (South Moravia Gas Company). In December 2004, he was elected Chairman of the Board of Directors

of E.ON Česká republika, a. s. In January 2005, he was elected Chairman of the Supervisory Board of E.ON Energie, a. s. He is the Statutory Director of E.ON Česká republika, s. r. o., and the Statutory Director of E.ON Czech Holding Verwaltungs GmbH. Since July 2008, he has been the Vice-Chairman of the Supervisory Board of E.ON Distribuce, a. s. Since April 2004 until 1 April 2014, he was a Member of the Supervisory Board of PPH a. s., since July 2007 he was the Vice-Chairman, and since November 2012 he was the Chairman. Since June 2004 until 27 March 2014, he was a Member of the Supervisory Board of PP, a. s., and since May 2006 he was the Chairman.

Ing. Josef Hais – Commercial Director (until 31 January 2014) and Proxy (until 8 January 2014)

He completed his studies at the Mechanical Engineering Faculty of the Czech Technical University, and three-years of study at the Theoretical Principles of Chemical Engineering Institute of the Czechoslovak Academy of Sciences. In 1982, he started to work in the Head Office of Středočeské plynárny, subsequently in Pražská plynárenská, a. s., where he worked in the following positions: head of technical controlling department, independent constructor, chief metrologist, head of the metering department, head of metering and dispatching services, and head of the gas dispatch and emergencies department. Since December 2004 until September 2005, he managed the Distribution Department in PP, a. s.; since December 2005 until January 2007 was a Member of the Supervisory Board of PPD, a. s. Since April 2004 until the end of 2006, he was a Statutory Director of Prometheus, energetické služby, s. r. o. Since April until November 2004, he was its Director. Since July 2007 until November 2010, he was a Member of the Supervisory Board of Pragoplyn, a. s., and since May 2008 until November 2010, he was the Chairman of the Supervisory Board of PPSM, a. s. Since November 2010 until May 2013, he was a Member of the Board of Directors of Pragoplyn, a. s. Since 2005 until January 2014, he was the Commercial Director of PP, a. s., and since July 2006 until January 2014 he was the Company's proxy.

Ing. Jiří Hamšík – Financial Director (until 31 January 2014) and Proxy (until 8 January 2014)

He studied at the National Economy Faculty of the Economics University in Prague in the Industrial Economics field, and Securities Valuation at the Assets Valuation Institute of the Economics University. In 1986, he was appointed court expert witness in the economics field for prices and estimates. Since 1983 until 1985, he worked at the Czech Ministry of Industry as senior specialist officer. Since 1985 until 1991, he worked in České plynárenské podniky (Czech Gas Companies) in the position of assistant to the director and then head of the Director General's office. Since 1991 until 1993, he worked in ADEKO as director of the strategy and development division. In 1993 and 1994, he held the post of commercial director in the ALL IN REAL ESTATE LEASING company. He worked

in the Sportvest, a. s., between 1994 and 1999 as a specialist in the field of marketing and market research and later as deputy managing director. Since 1996 until 1999, he was head of the strategic portfolio division and then head of the subsidiary companies section in Sazka, a. s. In 1999, he joined Inservis, a. s., where up to 2000 he worked as specialist consultant. Since 2000 until 2003, he held the post of director of Prometheus, energetické služby, s. r. o., and he was the Statutory Director since 2002 until 2005. Since 2004 until January 2014 he was the Financial Director of Pražská plynárenská, a. s., and since March 2004 until January 2014 also its proxy. Since December 2005 until March 2007, he was a Member of the Supervisory Board of PPD, a. s. Since March 2006 until April 2008, he was the Chairman of the Supervisory Board of PPSM, a. s. Since April 2008, he was the Chairman of the Supervisory Board of ISE, a. s. On 7 April 2014 he was recalled from position of member of the Supervisory Board of ISE, a. s.

Pavel Hurda – Vice-Chairman of the Supervisory Board After completing his studies at grammar school and the Technical Civil Engineering Secondary School specialized in structural engineering, he worked as a construction site manager, building supervisor and investor's representative and in other positions in the Pozemní stavby (Structural Engineering Works), Pražská stavební obnova (Prague Building Restoration) companies and others. After 1990, he worked as a director of BP, s. p., then as the Chairman of the Board of Directors and the director of Správa komunálního majetku Prahy 3, a. s (Prague 3 District Communal Assets Administration), and then in the position of the Chairman of its Supervisory Board. Since 1998 until 2014, he was a Prague 3 District councillor and since 2002 until 2014 also served as a councillor at Prague City Hall. He has several years of experience as a Chairman, Vice-Chairman, Member of Statutory Bodies of joint-stock companies and in carrying out shareholders' rights. He was a Member of the Supervisory Board of PP, a. s., in years 2003 and 2004. Since 2004, he was the Chairman of the Board of Directors of PP, a. s., until October 2012 when he became the Vice-Chairman of the Supervisory Board of PP, a. s. Since July 2007 until October 2014, he was the Chairman of the Supervisory Board of Pragoplyn, a. s. He is also a Member of the Statutory Bodies of a number of other companies.

Ing. Milan Jadlovský – Vice-Chairman of the Board of Directors responsible for the management of strategy department, Strategy Director (since 1 August until 19 October 2014)

He studied at VŠB – Technical University of Ostrava in the field of Entrepreneurship and Management. Since 2002 he has been gained experiences in PP, a. s., particularly in the energy sector where he has been working in the department of purchasing and forecasts. Two years later he became the head of strategic marketing and gas purchase and subsequently he was appointed as head of the Director General's office

in 2006. In September 2007 he was appointed as the director of Pragoplyn, a. s., and was also elected as a Member of the Board of Directors of this company. On 14 April 2014 he became its Chairman. He held this post until 31 October 2014 when Pragoplyn, a. s., merged with PP, a. s. He was appointed to the Board of Directors of PP, a. s., on 27 March 2014 and since April 2014 he has become its Vice-Chairman. Since 1 August 2014 until 19 October 2014, he was the Strategy Director of PP, a. s. The Board of Directors entrusted him with managing of strategy department in October 2014. Within PP, a. s., Group, he also acts in the Supervisory Board of PPSD, a. s., ISE, a. s., and Prometheus, energetické služby, a. s., člen koncernu PP, a. s. Until 31 October 2014 he was the Vice-Chairman of the Supervisory Board of MDP, a. s.

Ing. Pavel Janeček – Chairman of the Board of Directors responsible for the Company's management. He completed his studies at the Faculty of Electrical Engineering of the Czech Technical University in Prague between 1986 and 1991. After graduation, he worked as commercial and marketing manager in Cheming Pardubice (now known as Suez Tractebel, Belgium). Firstly he worked as deputy commercial director from September 1997 and then as a director of Karma a. s. (traditional manufacturer of gas appliances) from February 1998. Since June 1998 until 2011 he worked as Management Advisor in Fég ZRt., Hungary. Additionally, in 2004 and 2005 he worked for company Pergo, Trelleborg in Sweden. He also worked as portfolio manager for Explorer Capital Investment, New York, between 2004 and 2011. He was appointed a Member of the Board of Directors of PP, a. s., on 27 March 2014 and he became the Chairman on 7 April 2014. Since April 2014 until 10 March 2015, he was the Vice-Chairman of the Board of Directors of PPH a. s. In October 2014 he was entrusted with governing the Company's management of PP, a. s. Furthermore, he also acts in the Supervisory Board of PPD, a. s., PPSD, a. s., and PPSM, a. s. Within PP, a. s., Group, he was also in the Supervisory Board of MDP, a. s., Pragoplyn, a. s., ISE, a. s., and Prometheus, energetické služby, a. s., člen koncernu PP, a. s.

Dr. František Kotula – Member of the Board of Directors (until 27 March 2014). He studied for four semesters at the Economics University in Prague. From 1969 to 1974, he studied economics at the J. W. Goethe Universität in Frankfurt am Main. In 1974, he took his final examination for the degree of Diplom-Kaufmann and in 1978 obtained a doctor's degree in Economic Sciences as Dr. rer. pol. Since 1978 until 1979, he worked in the auditing company Treuverkehr AG, then since 1979 until 1990 in the Head Office of the Federal Ministry of Economy (BAW) in the Energy Section. Since 1991, he worked as an advisor to the Czechoslovak Minister of the Economy for energy issues, on the Supervisory Board of OKD and also as head of the Czechoslovak and later the Czech representative office of Ruhrgas AG in Prague. Since 2004, he was a Member of the Board

of Directors of PP, a. s. Since 2004 until November 2013 he was a Member of the Board of Directors of PPH a. s. and was its Vice-Chairman since June 2007. Since July 2007, he was a Member of the Supervisory Board of Pragoplyn, a. s. Since May 2008, he was a Member of the Supervisory Board of PPD, a. s. On 27 March 2014 he resigned on position of a Member of the Boards of Directors of PP, a. s., a Member of the Supervisory Board of PPD, a. s., and a Member of the Supervisory Board of Pragoplyn, a. s.

Marc Müller, MBA – Member of the Supervisory Board (until 27 March 2014)

In the years 1995-2000, he studied law at the University of Freiburg. During the time at the Provincial Court of Offenburg, he obtained a master's degree in Financial Services at the University of Wales. After completing his legal studies, he worked as an independent lawyer in Offenburg. Since 2005, he has worked in the Law Department of E.ON Česká republika, s. r. o. (formerly E.ON Česká republika, a. s.), which he has led from the summer of 2011. From June 2011 to September 2012 he was also the Chairman of the Supervisory Board of Lumen Energy a. s. Since September 2012 until 27 March 2014, he was a Member of the Supervisory Board of PP, a. s.

Ing. Miroslav Nosál, CFA – Member of the Board of Directors (until 17 October 2014), Financial Director (since 8 April until 17 October 2014), Chairman of the Board of Directors (until 7 April 2014). Since 1983 until 1988 he studied at the Faculty of Electrical Engineering of the Czech Technical University in Prague in the field of Economics Energy Management. He is also the Chartered Financial Analyst (CFA). After graduation he worked in various positions in financial institutions such as Patria Finance in Prague (Executive Director), Merrill Lynch in London (director, equity research), VUB Bank in Bratislava (risk management) and PPF Investments in Prague and London (Chief Investment Officer). Since January 2011 until June 2012, he worked as the Chairman of the Board of Directors and CEO of Teplárna Košice, a. s. (heating plant). He was in the Board of Directors of PPH a. s. in 2012. Since October 2012, he has been a Member of the Board of Directors of PP, a. s., and since November of the same year, he became the Chairman. From April to October 2014 he worked as the Financial Director of PP, a. s. Since August 2013 until 10 March 2015, he acted in the Board of Directors of PPH a. s. Within PP, a. s., Group, he was also in the Supervisory Board of Pragoplyn, a. s., in the Board of Directors of MDP, a. s., PPSM, a. s., and ISE, a. s.

Lorenz Pronnet – Member of the Supervisory Board (until 27 March 2014)

Since 1984 till 1990, he studied Business Economics at Ludwig-Maximilians-Universität in Munich. Since 1990 he worked for ten years in Bayernwerk AG (now E.ON Energie AG) in the financing section, as deputy head of the financing section and later as head of the project funding section. In 2000 and 2001,

he was head of the financing section in E.ON Energie AG. Since December 1999, he has been working in the Czech Republic, where he became the Statutory Director of Energetika Invest, s. r. o., with its registered office in České Budejovice, and a Member of the Supervisory Board of Jihočeská Energetika, a. s. (South Bohemia Energy Company). In January 2001, he became the Statutory Director of E.ON Bohemia, s. r. o. Then in November of that year he became a Member of the Board of Directors of E.ON Czech Holding AG in Munich. Since 2003 until 2006, he was a Member of the Supervisory Board of Jihočeská plynárenská, a. s. (South Bohemia Gas Company), and since 2005 to 2006 he was a Member of the Supervisory Board of Západočeská plynárenská, a. s. (West Bohemia Gas Company).

In December 2004, he was elected Vice-Chairman of the Board of Directors of E.ON Česká republika, a. s. Since January 2005, he has been a Member of the Supervisory Board of E.ON Energie, a. s., and since March of the same year it's Vice-Chairman. In March 2005 he became the Chairman of the Supervisory Board of E.ON Distribuce, a. s. Since June 2006 until July 2010, he was a Member of the Supervisory Board of Teplárna České Budejovice, a. s. (heating plant). In December 2006, he was co-opted to the Supervisory Board of Energetika Malenovice, a. s. (energy company) and Teplárna Otrokovice, a. s. (heating plant) until 2013. He is the Statutory Director of E.ON Česká republika, s. r. o., and E.ON Czech Holding Verwaltungs GmbH. Since January 2011, he is also the Statutory Director of the Company LUMEN SYNERGY, s. r. o., and, as of May 2011, a Member of the Supervisory Board of E.ON Romania S.R.L. Since October 2006 until 27 March 2014, he was a Member of the Supervisory Board of PP, a. s., and since April 2007 until 1 April 2014 a Member of the Supervisory Board of PPH a. s. Since September 2010 until 27 March 2014 he was a Member of the Supervisory Board of ISE, a. s.

Ing. Marta Ptáčková – Member of the Supervisory Board

She earned her degree at the Business Faculty of the Economics University in Prague in the field of foreign trade. Since 1975 till 1978, she was employed in section of municipal economy at the Czech Ministry of Finance. Between 1979 and 1988, she worked as head of the finance department in Stavební strojírenství a lehké prefabrikace (Construction Engineering and Lightweight Prefab Products). Since 1989 to 1997, she worked in Český plynárenský podnik (Czech Gas Company) – Transgas, where, since 1992, she worked in the position of deputy finance director. Since 1997 to 2005, she held the post of director of the Česká plynárenská unie (Czech Gas Union). She currently works as head of the supervision and risk management department in PP, a. s. She has been a Member of the Supervisory Board of PP, a. s., since January 2007. Since July 2007 until 30 June 2014 she acted in statutory bodies of Pragoplyn, a. s.

Ing. Pavel Richter – Member of the Supervisory Board
He studied at the Faculty of Electrical Engineering of the Czech Technical University in Prague in the field of industrial power. Between 1990 and 2007, he worked in CTR group a. s., which is Czech-German group engaged in production of building materials, transportation and developing. There he held posts at the highest managerial positions and in statutory bodies of various companies. He was the Statutory Director in BETON – Těšovice, s. r. o., Muška s. r. o., Muška s. r. o., Slovensko, Muška GmbH, SRN FKM, s. r. o., and CL, s. r. o. He was the Chairman of the Supervisory Board in Betox, s. r. o., and a Member of the Board of Directors in VSH a. s. and CTR group a. s. Since 2007 until 2011 he was the Statutory Director in JPR projekt, s. r. o., and managed development projects. Between 2011 and 2013, he held a position of deputy mayor of capital city Prague. In 2012 he was a Member of the Supervisory Board of Pražské služby, a. s. Since January 2014, he has become a Member of the Board of Directors of PPD, a. s. On 27 March 2014 he was elected to the Supervisory Board of PP, a. s. Since April 2014 until 10 March 2015, he was a Member of the Supervisory Board of PPH a. s.

JUDr. Lubomíra Stojkovičová – Member of the Supervisory Board

She graduated from the Law School of Charles University in Prague in 1978 and has been working in the gas industry since 1978. She has worked as a lawyer in PP, a. s., including its legal predecessor companies. Since 1990 until 31 December 2014, she held the post of head of the legal department. She has been a Member of the Supervisory Board of PP, a. s., since 1995.

Ing. Alois Těšitel – Member of the Board of Directors responsible for the management of commerce department, Commercial Director (since 8 April until 19 October 2014)

Between 1975 and 1980, he studied at the Faculty of Civil Engineering of the Czech Technical University in Prague. Immediately after the graduation, he joined Stredočeské plynárny, koncernový podnik (Central Bohemia Gas Company) where he worked as a clerk. Subsequently he held there different positions and from 1993 to 2000 he acted as the Chairman of the Board of Directors and Director of Stredočeská plynárenská a. s. Then he held various managerial positions, for example as the director of operational division in Řízení letového provozu ČR or deputy managing director for trade in Česká pošta (Czech post). He was elected to the Board of Directors of PP, a. s., on 29 March 2014. He was appointed as Commercial Director of PP, a. s., on 8 April 2014 and in October 2014 he was entrusted by the Board of Directors with managing of commerce department in PP, a. s. He was a Member of the Board of Directors of PPH a. s. since April 2014 until 10 March 2015. 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., člen koncernu PP, a. s., a Member of the Board of Directors in ISE, a. s.

He held positions in statutory bodies of MDP, a. s., and Pragoplyn, a. s., until October 2014.

Dr.-Ing. Milan Urban – Chairman of the Supervisory Board

He earned his degree at the Architecture Faculty Bauhaus University in Weimar, with a PhD in the Department of Theory and History of Architecture - Monument Preservation (1980-1989). In 1992, he graduated from RIBA Part III Examination at the University of Westminster in London. He is authorized architect in the Czech Republic and Great Britain. Since 1989, he worked in Great Britain as a project architect and a land planner in companies John Simpson & Partners, DEGW, Chapman Taylor Partners, also he worked on the position of deputy director in Aukett Group Plc. The Company sent him to the Czech Republic, where he has been working since 2000. He was a founder and shareholder of the project office HKR Architects, HKR Prague, s. r. o. (2006-2009), and the project office Kling Consult, s. r. o., - branch of the international company Kling Consult GmbH (2010-2011). Since 2011, he has been a Director of the Division of Architecture of the multidisciplinary architectural and design company Helika a. s., in Prague, which is part of multinational Obermeyer Corporate Group. He is now its direct employee with managerial position outside the Czech Republic. In the election period from 2012 to 2014, he was a Member of the City Prague Council, Vice-Chairman of the Committee on City Regional Development and a Member of the Economic Policy Committee. Since 2012, he has been a Member of the Supervisory Board of Kongresové centrum Praha, a. s. (Prague Congress Centre). In October 2012 he became a Member of the Supervisory Board of PP, a. s. On 27 March 2014 he was elected the Chairman of the Supervisory Board of PP, a. s. From 17 June 2014 to 10 March 2015 he was a Member of the Supervisory Board of PPH a. s.

Jiří Vávra – Member of the Supervisory Board

Originally educated as a mechanical operator who did not continue in his studies due to common reasons under the previous regime, he has worked in the media and marketing market for the last 20 years. He held a position of product manager in Archa theatre since 1989 and subsequently in journal Pránýř between 1991 and 1992. Since 1992 until 1996 he was a deputy editor of Český denník (Czech daily newspaper) and project manager of newspaper Annonce. He was a co-founder of the Czech version's newspaper Metro and between 1996 and 2000 he was its chief editor. Since 2000 he served as chief editor of weekly journal Květy and held a position of commercial director and publishing director in Sanoma Magazines. He was elected to City Prague Council in 2010 and became the first deputy mayor of the capital city of Prague in June 2013. He held this position until November 2014. He was elected to the Supervisory Board of PP, a. s., on 27 March 2014 and then he was also appointed to the Supervisory Board of PPD, a. s., in April of the same year.

From April 2014 to 10 March 2015 he was a Member of the Supervisory Board of PPH a. s.

Mgr. Miroslav Vránek – Member of the Supervisory Board

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

Ing. Petr Zmátlík – Member of the Board of Directors responsible for the management of finance and administrative department, Managing Director (from 8 April until 19 October 2014).

In 1998 he graduated from the Faculty of Civil Engineering of the Czech Technical University in Prague in the field of building and specialised module of economics and management in the construction industry. After the completion of his studies, he worked in various positions and projects within the consulting company PricewaterhouseCoopers, including two years secondment in PwC London. During his last 8 years within the consultancy, he dealt mainly with the energy and utilities sector. He led an expert committee in London and then in Prague, which focused on the field of energy and utilities within PwC. He gained the extensive knowledge in this area through managing major projects for energy groups such as British Gas, RWE, E.ON and PP, a. s. He specializes especially in commercial-strategic management, process optimization and business development.

From April to October 2014 he acted as the Managing Director of PP, a. s. In October 2014 he was elected as a Member of the Company's Board of Directors and entrusted with managing of finance and administrative department. Additionally he has acted in the Board of Directors in ISE, a. s., PPSM, a. s., and in the Supervisory Board of Prometheus, energetické služby, a. s., člen koncernu of PP, a. s. Until 31 October 2014 he held position of a Member of the Supervisory Board of Pragoplyn, a. s.

Information on the Company's activities and financial position

Information on the main areas of activities

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

Revenues

Year		2012	2013	2014
Sales of own products, services and goods	CZK '000	8,844,035	8,432,577	13,688,919
	EUR '000	321,216	306,272	497,182

Revenues were generated in the Czech Republic.

Breakdown of operating revenues by activity

Type of activity	2012	2013	2014
Revenue from sale of gas*	95.2	93.0	95.1
Revenue from sale of electricity	0.1	1.8	1.9
Other operating revenues and income	4.7	5.2	3.0

* Licensed activity.

Capital investments

All capital investments in 2014 were financed from the Company's own resources and were located in the Czech Republic.

Capital investments in 2014 (excluding financial investments)

	Acquisition cost	
	In CZK million	In EUR million
Technological constructions	4.5	0.2
Other capital investments	38.1	1.4
Total	42.6	1.6

Information on research policy and the development of new products or procedures in the current accounting period, if significant

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

Data on court, administrative or arbitration proceedings commenced during the last two accounting periods which have or may have significant influence on the Company's financial position

No court, administrative or arbitration proceedings were conducted against Pražská plynárenská, a. s., which would have a significant influence on the Company's financial performance or its assets.



III. Report of the board of directors on the business activity of the company and its assets

The information given in this chapter applies to the standalone financial statements, unless stated otherwise.

The energy industry in 2014

Energy industry is a sector that has gone through substantial and dynamic development in recent years, bringing with it a number of changes. The last year was no exception in this respect as it can be characterized by ongoing competition for customers by individual suppliers of natural gas and electricity. Moreover, it was also the year of uncertainty, instability and changes. The year, when a number of energy companies asked the question of what will come next.

In connection with the instability in the geopolitical region caused by a developing crisis in Ukrainian and Russian relations, the economic dimension of the European energy sector mixed with an urgent issue of energy security and self-sufficiency. Issues relating to securing the supply of gas from Russia were discussed and addressed, including its alternative sources and the possibility of transporting natural gas to European Union countries. Last but not least was also the tightening of regulatory measures to increase energy security. Considering the increasing threat of global terrorism, the importance of protecting strategic infrastructure of energy networks, devices and systems from physical or cyber-attacks gained more importance.

Global development in the energy sector has been continuously reflected in events within the domestic energy sector where they have been combined with other clearly local issues. Consequently some of them enhanced the above mentioned element of uncertainty. In addition to the preparation of the Energy Act's amendment, there was also a discussion relating to setting new regulatory conditions for the fourth regulatory period. This issue was crucial for gas distribution companies whose future direction and planning was directly affected by its outcome.

In the background of the above mentioned events, managers and energy experts were forced to intensively think about the next direction of the whole sector and individual companies. Former principles of the energy sector have ceased to be valid and changes in the nature of energy companies' operation became fundamental. The development started gradually moving towards

renewable energy sources and to decentralized energy production. Moreover, customer orientation with its various and constantly changing needs and requirements became the point of focus. A typical energy consumer ceased to exist and was replaced by consumer groups. They differ in their lifestyles, their perception of the ideal product and the preferred forms of communication. Advanced taste, lifestyle and attitudes bringing individualism and customized offer to the client are becoming an absolute necessity.

Customer relationship based purely on simple supply and consumption of energy, which functioned well in the recent past, proves to be out of date in the context of the last years. Today's customers expect not only comfortable, modern and accessible services, control over their consumption and guarantee of security, but also added value in form of various additional services, benefits and bonuses. They take for granted that they receive a 100% quality and something extra on top of that.

Hand in hand with the above, it has become necessary to have a proactive approach in the field of energy savings together with the supply and implementation of specific customer solutions, as well as in alternative energy use. In addition, there is also a need for development and expansion of modern technologies in use, which will soon become relevant in the context of upcoming concept of smart households.

Energy suppliers must respond to all of these changing circumstances together with ensuring the maximum efficiency of their operations if they want to succeed. Pražská plynárenská, a. s., is no exception in this case and thus the year 2014 was full of changes. They were difficult and often complex, but they were fundamental and necessary for further development and direction. Thanks to their implementation, the Company has managed to maintain its position in the highly competitive energy market and created a good basis for future successful growth.

Significant events in 2014

January

On 1 January, pricing decision of the Energy Regulatory Office No. 3/2013, dated 27 November 2013, on the prices of regulated services related to the supply of gas, came into effect.

On 1 January, sales price of natural gas, pursuant to the price list PP 1/2014/ZP for all customer categories, came into effect.

On 1 January, the price for purchase of natural gas for covering the balance differences and own technological consumption of PPD, a. s., was officially set by Energy Regulatory Office.

On 1 January, pricing decision of the Energy Regulatory Office No. 5/2013, dated 27 November 2013, about the prices of regulated services related to the supply of electricity, came into effect.

On 1 January, pricing decision of the Energy Regulatory Office No. 6/2013, dated 27 November 2013, on the prices of regulated services related to the supply of electricity to customers from low voltage networks, came into effect.

On 1 January, sales price of electricity, pursuant to the price list PP, a. s., 1/2014 for small-scale customers – households and business category, came into effect.

On 1 January, actual sales price of power electricity of product „Discount 4 %“, pursuant to the price list PP, a. s., for small-scale customers – households and business category, came into effect.

March

On 27 March 710,550 bearer ordinary shares of PP, a. s., previously owned by company E.ON Czech Holding AG, were transferred to company Pražská plynárenská Holding a. s. Company PPH a. s. acquired 99.55% of the share capital with this transfer.

May

On 5 May, an extraordinary general meeting of PP, a. s., which approved the squeeze out of minority shareholders, took place.

June

On 16 June the remaining 6,560 shares of PP, a. s., were transferred from minority shareholders to company Pražská plynárenská Holding a. s., which became the sole shareholder of PP, a. s.

September

On 1 September a new sales office PP, a. s., was opened in Pardubice.

October

Starting from 30 October Household customers can take an advantage of the AXA Assistance card – basic program, which offers „Insurance of assistance services in household“.

November

On 1 November the Company merged with Pragoplyn, a. s., its 100% subsidiary. As a result of this merger Pragoplyn, a. s., was dissolved without liquidation with the effective date of 1 January 2014 and the net assets of the dissolved company were transferred to PP, a. s., as the successor company.

On 1 November Měření dodávek plynu, a. s., and Pražská plynárenská Servis distribuce, a. s., člen koncernu PP, a. s., 100% subsidiaries of PP, a. s., merged. As a result of the merger the company Měření dodávek plynu, a. s., was dissolved without liquidation with the effective date of 1 January 2014 and the net assets of the dissolved company were transferred to PPSD, a. s., člen koncernu PP, a. s., as the successor company.

Starting from 14 November, housing associations and associations of owners, businesses, trades and non-profit organizations can take an advantage of the AXA Assistance card – „Insurance of technical assistance“.

December

Pražská plynárenská was awarded the prestigious Czech Business Superbrands 2015 prize.

Profit before tax

(CZK million)

Profit before tax	Actual 2014	Actual 2013	Comparison Actual 14/13
Operating profit	404.1	250.6	153.5
Profit from financing activities	408.5	374.3	34.2
Profit before tax	812.6	624.9	187.7

(EUR million)

Profit before tax	Actual 2014	Actual 2013	Comparison Actual 14/13
Operating profit	14.7	9.1	5.6
Profit from financing activities	14.8	13.6	1.2
Profit before tax	29.5	22.7	6.8

Revenues

(CZK million)

Revenues	Actual 2014	Actual 2013	Comparison Actual 14/13
Total operating revenues	13,725.0	8,468.6	5,256.4
<i>of which: revenues from sale of natural gas*</i>	13,046.9	7,876.4	5,170.5
<i>revenues from sale of electricity</i>	266.5	156.6	109.9
Financial income	496.9	473.9	23.0
Total revenues and income	14,221.9	8,942.5	5,279.4

(EUR million)

Revenues	Actual 2014	Actual 2013	Comparison Actual 14/13
Total operating revenues	498.5	307.6	190.9
<i>of which: revenues from sale of natural gas*</i>	473.9	286.1	187.8
<i>revenues from sale of electricity</i>	9.7	5.7	4.0
Financial income	18.0	17.2	0.8
Total revenues and income	516.5	324.8	191.7

* Activity under licence.

Costs

(CZK million)

Costs*	Actual 2014	Actual 2013	Comparison Actual 14/13
Total operating costs	13,320.9	8,218.0	5,102.9
<i>of which: purchase of gas**</i>	10,222.4	5,557.7	4,664.7
<i>purchase of electricity**</i>	93.6	48.6	45.0
Financial expenses	88.4	99.6	(11.2)
Total costs and expenses	13,409.3	8,317.6	5,091.7

(EUR million)			
Costs*	Actual 2014	Actual 2013	Comparison Actual 14/13
Total operating costs	483.8	298.5	185.3
<i>of which: purchase of gas**</i>	371.3	201.9	169.4
<i>purchase of electricity**</i>	3.4	1.8	1.6
Financial expenses	3.2	3.6	(0.4)
Total costs and expenses	487.0	302.1	184.9

* Net of income tax on current activity.

** Activity under licence without distribution fees.

Financial situation

In 2014, Pražská plynárenská, a. s., remained a financially stable company, that paid all its liabilities within due dates (i.e. liabilities to suppliers, customers, employees and banking and state institutions).

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

Since 2009, the Company's permanent financial needs have been covered by a long-term loan maturing on 31 May 2016. As at 31 December 2014 the outstanding amount on the loan amounted to CZK 0.7 billion. Short-term loans are drawn on a daily basis, which allows optimisation of the Company's cash flow fluctuations resulting from purchase and sale of natural gas. As at 31 December 2014 the outstanding balance of loans amounted to CZK 793.8 million, representing a significant decrease (by CZK 1,157.0 million) from 31 December 2013 (CZK 1,950.8 million). The decrease of average daily amount of funding needs (CZK 2,059.4 million) by CZK 636.3 million compared to 2013 (CZK 2,695.7 million) is another sign of the lower financing needs (bank loans and funds drawn under cash pooling) in 2014. This is mainly due to very mild winter in 2014, which caused lower consumption of gas by customers and thus lower costs of gas purchased by the Company.

Consolidation of financing through all the available funds of the PP, a. s., Group companies (cash pooling) at an average daily amount of CZK 537.0 million, brought savings in interest costs of CZK 1.4 million in 2014.

In 2014, the Company cooperated with four banking institutions: Československá obchodní banka, a. s., Citibank Europe plc, organizační složka, Komerční banka, a. s., and Česká spořitelna, a. s.

Summary of property owned by PP, a. s.

As at 31 December 2014 the Company owned property (land, buildings, and other structures) in the total amount of CZK 1,094 million at cost. Buildings include mainly the Národní 37/38 premises and the buildings of Pražská plynárenská, a. s., areal in Prague 4 - Michle. The net book value of property owned by the Company's amounted to CZK 742.3 million.

Natural gas trading

(in mil. kWh)

Natural gas trading	2014
Purchased natural gas	14,496.3
Sale of natural gas – total	14,380.7
Sale of natural gas – licensed activity	14,358.5
Sale of CNG	22.2

The 2014 results of trading activities in the area of natural gas sales were affected by an active supply of competitive products and provision of high quality products to customers through traditional and modern systems of customer care, and on the other hand, they were affected by the hyper-competitive environment on the energy market, development of outside temperatures and the growing trend of savings on the customers side.

Electricity trading

(in mil. kWh)

Electricity trading	2014
Purchased electricity	82.2
Sale of electricity	82.2

The 2014 results of trading activities in the area of electricity sales were affected by the gradual increase of customer base using the favourable price developments on energy exchanges, which was partially offset by a tough competition in the supply of electricity which slows a more substantial increase of the PP, a. s., market share.

Marketing and customer care

Customer care

Pražská plynárenská, a. s., has a long term focus on building effective communication with its customers and on offering quality and affordable services and products. Throughout the whole year business offices and contact points, mobile business offices in the peripheral locations of Prague, customer service line, customer portal and website www.ppas.cz were available for the communication with the Company and for handling of customer needs. Customers can also use 102 Prague branches of the Czech Post (Česká pošta, s.p.) for dealing with the most common issues associated with the natural gas supply. A new sales office in Pardubice was opened on 1 September 2014 as well as a pilot project at 9 branches of the Czech Post in Pardubice and its near surrounding, where customers can get acquainted with the services of Pražská plynárenská, a. s., and through a contact form connect with dealers of PP, a. s., who will prepare offers for natural gas and electricity supplies.

The Company assisted its customers in case of unexpected events. There is an all-year-round customer assistance service „POMOC 24“ (HELP 24) available for cases of malfunction of gas appliances or related equipment. Within this service, subject to fulfilling certain conditions, the Company provided to its customers repair of gas appliances and other services free of charge or with the Company's financial participation. Effective from October 2014, customers from Household category can take an advantage of the AXA Assistance card – basic program, which offers „Insurance of assistance services in household“, which includes insurance „Technical assistance“. The insurance covers the provision of indemnification to

authorized person in a form of assistance services or possibly in a form of payment for work performed by a service provider, in the relevant scope and under specified conditions. Before the end of 2014, AXA Assistance card for insurance of assistance services were provided for housing associations and extra for businesses, trades and non-profit organizations. For customers were also available year-round discounts for gas appliances purchase at contractors of Pražská plynárenská, a. s.

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

Naturally, there were price advantages that the Company actively offered to different customer groups throughout the year. These for example included discounts for seniors, for ZTP/P card holders, discount of 6.5% from the gas price with a conclusion of the contract for two years, discount of 11% with a conclusion of the contract for three years, and others.

Charging an interest of more than 1% on overpayments resulting from billing of natural gas consumption is quite a unique measure on the domestic energy market.

To support conclusion of contracts for the natural gas and electricity consumption for a fixed period Pražská plynárenská, a. s., was offering bonus „Bonus 500 Kč“ (bonus of CZK 500) in the first billing in case that contract is signed for at least one year. The Company was also offering a product „Discount 4%“ of the current electricity price for customer categories MOO and MOP for the period from 1 January 2014 to 31 December 2014. Customers could have chosen one of the listed products when concluding the contract.

Vehicles running on compressed natural gas (CNG)

The project for the use of natural gas for vehicle propulsion is one of the strategic projects of Pražská plynárenská, a. s., which is a leader among gas companies in the Czech Republic in promoting natural gas in transport. In 2014 PP, a. s., was the third largest retailer of CNG in the Czech Republic.

Sale of CNG

Sale of CNG increased in Prague by 13.7% in 2014 compared to 2013 and reached 2,448.5 thousand kg. In 2014 sales of CNG at Pražská plynárenská, a. s., petrol stations reached 1,471.0 thousand kg.

CNG filling stations

10 CNG (compressed natural gas) public filling stations were in operation in the capital city of Prague at the end of 2014. Pražská plynárenská, a. s., owns and operates five stations in its premises – in Michle in Prague 4, at the SHELL petrol station at Švehlova Street, Prague 10, in the Pražské služby, a. s., grounds at Pod Šancemi in Prague 9, at the Q100 petrol station in Prague 4 – Hodkovičky and at Evropská Street in Prague 6 – Liboc. At every station, customers can choose whether to pay in cash, with a credit card or with the CNG CardCentrum card. Pražská plynárenská, a. s., is a supplier of natural gas for the next four CNG filling stations in Prague, owned by private companies.

CNG vehicles

135 vehicles (CNG) are currently being operated in Pražská plynárenská, a. s., and its subsidiaries, including CNG vehicles of the car rental centre. This means a growth of 3 CNG vehicles compared to 2013.

The joint project of the city of Prague, Pražské služby, a. s., and Pražská plynárenská, a. s., concerning the conversion of waste collection and cleaning vehicles to the compressed natural gas ones continued successfully. In 2014, Pražské služby, a. s., brought 13 delivery cars into operation in addition to the existing 72 CNG vehicles. The purchase of additional 10 - 15 CNG vehicles is planned for 2015. Municipal vehicles that run on CNG are mostly used in areas with the heaviest traffic and the most polluted environment in the city centre of Prague. A whole range of other businesses and institutions have expressed interest in CNG vehicles. In 2014, for instance, Česká pošta, s. p., added CNG vehicles in its vehicle fleet (202 CNG vehicles in Prague).

Pražská plynárenská, a. s., participates in the CNG CardCentrum single payment system used in the Czech Republic. As of 31 December 2014 Pražská plynárenská, a. s., issued 2,783 CNG loyalty cards. During the year 2014, a total 200 CNG cards were issued to new customers. The increase in the number of cards issued is mainly due to the Česká pošta, s.p., switching to CNG cars.

Customer cards

The customer loyalty program of the Company „Zákaznická karta Pražské plynárenské, a. s.“ offers to the Company's customers interesting discounts and benefits at more than 90 partners, which include benefits from leisure time, e.g. travelling, cultural activities and sport, education, retail, services etc. In order to support the loyalty program „Zákaznická karta Pražské plynárenské, a. s.“ the Company organised together with partners contests for valuable prizes (such as holiday packages, spa, and other prizes).

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

Sponsoring activities and donations

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

Social responsibility

Pražská plynárenská, a. s., acknowledges its social responsibility, both, on the side of financial results that it creates and also on the side of its contribution to the cultural and social life, where its support can significantly help. Among other things, PP, a. s., for example, provides a long-term support for „Naše dítě“ foundation, civil association Babybox and other health care facilities or important cultural and sporting events of the year.

Pražská plynárenská, a. s., also owns the largest collection of Czech collages, which it has collected and continuously complemented for many years. Its notable collection includes a representative spectrum from classics of Czech collages through strongly represented post-war generation to contemporary authors. Created collections with a rich exhibition program and regular publishing of art books, is unique in our environment thanks to its complexity and range. PP, a. s., is proud that it can preserve important cultural values for future generations and contribute to the development of cultural society.

The Smečky Gallery

There were 5 thematic exhibitions in the Smečky Gallery held in 2014:

- Jiří Brdečka
- Pavel Maťuška/Smiling
- Miroslav Šašek/This is Miroslav Šašek
- Jiří Kolář/Dancing in ruins – exhibition on the 100th anniversary of the author birth
- Karel Teige/Areas of dreams

All exhibitions were positively evaluated not only by visitors from the general public but also by experts in the field of fine arts. Press articles were issued and the exhibitions were covered by TV and radio. In addition to regular vernissages the Company continued throughout the first half of the year very popular informal meetings with celebrities from social and cultural sphere called “Below Image(s)”, whose guests included, e.g. Chantal Poullain Polívková – actress, Veronika Freimanová – actress, dr. Pavel Pafko - surgeon, Juraj Kukura - actor, Jiří Strach - director and actor.

The Company magazine

The magazine "U Plynárny" was published monthly from January till August, starting September it is made available to public quarterly. It is designed for current and future customers, business partners, representatives of the state and local administration, and of course employees of the Pražská plynárenská, a. s., Group. It particularly informs about current events in the Company, its services, offers, bonuses, products and activities. The individual issues of the magazine are also available on the web page www.ppas.cz.

Gas museum

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

In 2014 a worldwide unique exhibition „Historical Gas irons and mangles“ continued with more than 70 exhibits. Collections were enriched by a variety of historical documents and exhibits. The original declaration of St. Anežka, the Czech patron of the natural gas industry workers, by Cardinal František Tomášek in 1991 and Art Nouveau brass gas chandelier from the late 19th century belong to the most important ones.

Gas street lighting

The introduction of gas brought a revolution in public lighting in the cities. In Prague, gas lamps were lit in the years 1847 - 1985. The interest in gas lighting has been growing in Europe and worldwide. In a number of world cities gas lighting has been returning to the streets and is used especially in historical parts of towns. Gas lighting returned to Prague in 2002. Prague City Council intends to replace the present electric public lighting with gas lighting in the historical parts of Prague exposed to tourists, increase the attractiveness of the city and evoke a romantic atmosphere in the historic centre. The project's aim is to illuminate by gas the King's Road and other adjoining historically significant streets. In 2014, the project continued by a reconstructing of a historic four-armed candelabra in Dražického Square, which is owned by the City Prague Gallery.

Pražská plynárenská, a. s., significantly participated both financially and operationally at this event. At the end of 2014 there were 680 gas lamps in operation in Prague. The gas lamps lighting contributed to the unique atmosphere and old times romance of the Prague's historical streets and the PP, a. s., returns part of its business success back to the community.

Cooperation with other energy companies

The cooperation with PRE, a. s., through a joint business office has continued in 2014. The cooperation continued with PVK, a. s., and PRE, a. s., on the joint Customer Line 840 555 333.

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

Pražská plynárenská, a. s., cooperated with the ERO, in particular in preparing inputs for the amendment of the guidance on gas legislation on the rules of the gas market and in carrying out the Office's administrative activities. The traditionally close cooperation with the Czech Gas Association continued.

The Czech Gas Association is an independent association of firms and specialists operating in the gas industry and related sectors.

Information technology

In 2014, the activities in the information technology field focused on ensuring the reliable operation of information systems and their development for the full support of major business and distribution processes in the environment of liberalized energy market. The required system innovations were successfully provided in connection with developments in business strategy and legislation. Information technologies were gradually upgrade in order to ensure their latest version, trouble-free operation and simultaneously to ensure the Group's competitiveness on the market.

In the area of business support solutions, a project of transferring printing solution to own system was completed, a software solution to support prediction for purchases of electricity was implemented and a support for the merger of Pražská plynárenská, a. s., with Pragoplyn, a. s., and MDP, a. s., with PPSD, a. s., was provided.

In 2014 the project on the formation of a target concept of operational and technical information system (PTIS) was successfully completed and the implementation phase of this project was prepared. Deployment of PTIS will cover a significant part of the distribution processes, including development, construction, operation and maintenance of the distribution network in the future. Implementing a comprehensive system like PTIS brings significant implications and pressure on modifications of surrounding information systems. Changes were analysed and an integration model was designed as part of the overall IT strategy of the distribution, in such a way so that all systems can work together within one integrated distribution information system (DIS).

Human resources management

The personnel and social field

As at 31 December 2014 PP, a. s., employed 312 employees, out of which 76 were men and 236 women. In the area of social work, emphasis was placed on preventive health care. Employees participated in regular health checks according to their employment status. All employees were offered vaccinations against influenza and, for some groups of employees vaccinations against viral hepatitis types A and B. Employees could take part in various health prevention activities (e.g. podoscope, dental hygiene).

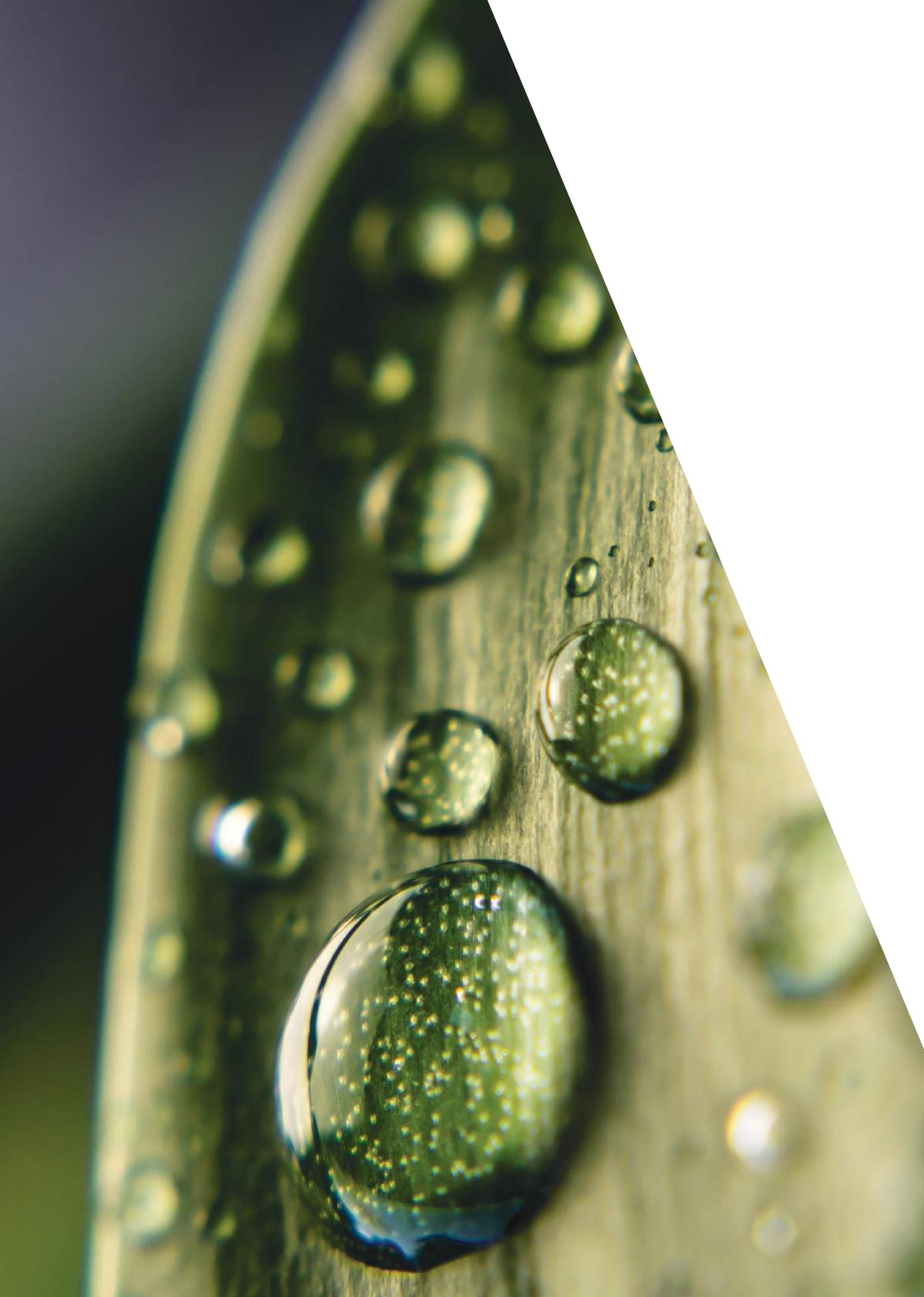
With the aim to improve relationships with employees on maternity or parental leave, a web portal is operated, which is partially connected with the Company's intranet offering useful information to these employees.

Collective bargaining

Labour, wages and other entitlements of PP, a. s., employees were satisfied in line with the collective agreement that was valid from 1 January 2013 to 31 January 2015. In the employment law area, employees took, for example, an additional week of holidays in addition to what is required by the Labour Code and took advantage of the catering facilities provided by the employer.

Health and safety at work, fire protection

In Pražská plynárenská, a. s., health and safety at work and fire protection are ensured in line with the relevant legal requirements, which are regularly updated. All incidents identified during regular investigation, reviews and inspections throughout the year are continuously being resolved in order to ensure uninterrupted operation of all technical, technological and organizational workforce. Thanks to the consistent application of technical, organisational and educational measures in accordance with health and safety protection at work and fire protection, there was no increase in the number of work



accidents, neither were there any findings or recommendations resulting from the oversight from the State Committee for Supervision in the Health and Safety area.

Fire safety is ensured by a thorough preventive measures and regular checks of all the workplaces and areas at PP, a. s.

A high level of safety and health protection at work and fire protection was confirmed by supervision authorities of Regional Labour Inspectorate, Fire Rescue Service and Regional Public Health Authority in PP, a. s., Group.

Environment

PP, a. s., adopts a responsible approach to environmental protection through regular checks of compliance with all required procedures during the performance of its business activities. Activities of the PP, a. s., Group's companies in all environmental areas are carried out in compliance with the relevant legal standards and internal directives.

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

PP, a. s., meets strategic goals of the Czech Republic Waste Management by adopting the principles of waste management primarily through preventive waste elimination, waste separation and consistent focusing on reduction of the impact of waste disposal on the environment.

As a result of these activities and continuous environmental education of employees a waste size has been decreased by 51% in between 2009 and 2014.

Clearing up old environmental liabilities

The geological environment and underground water at PP, a. s., sites are contaminated as a result of previous industrial activity. The environmental liability originated between 1926 and 1975. Contamination is gradually being removed. The costs incurred in clearing up environmental liabilities are reimbursed by the state through the Ministry of Finance of the Czech Republic.

In 2014, the melioration in PP, a. s., was not completed. It is awaiting the next step, which is to be determined by the Ministry of Finance of the CR. PP, a. s., signed new environmental agreement No. 0153/96/01 with the Ministry of Finance with the effective date as of 30 June 2010 to remove the environmental liabilities created before privatisation.

Risk management in PP, a. s.

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



IV. Important events in the first quarter of 2015

New logo of the Company

In January 2015 the Company logo was redesigned and has been gradually put into practice in the following periods.

Reduction of the share capital of the Company

On 4 March 2015 the reduction of the share capital of PP, a. s., became effective by its registration by the Commercial register. The resolution was made by the sole shareholder at the general meeting on 1 August 2014. The share capital was reduced by CZK 1,007,934,900, i.e. to the amount of CZK 431,972,100. The reason for reducing the Company's share capital was to optimize the capital structure in order to free available resources in favour of the sole shareholder.

Approval of the Company's financial statements and the distribution of profit for the year 2014

On 6 March 2015 at the general meeting the Company's sole shareholder approved the financial statements for the year 2014 and approved the allocation of the profit of CZK 1,831.93 million, i.e. of profit distribution for the year 2014 of CZK 735.47 million and retained earnings of CZK 1,096.46 million. To board members were paid bonuses of CZK 28.00 million, the share on the profit of the sole shareholder was CZK 1,803.93 million. The sole shareholder further approved the distribution of the reserve fund in the amount of CZK 453.82 million as another own resource of the Company.

Business activity of PP, a. s.

During the first quarter of 2015, the following events took place:

On 1 January, a price decision No. 4/2014 of Energy Regulatory Office on the prices of regulated services associated with gas supply, dated 25 November 2014, came into effect.

On 1 January, the sales prices for natural gas, pursuant to the Pricelist PP 1/2015/ZP came into force for all customer categories.

On 1 January, the price officially set by Energy Regulatory Office for purchase of natural gas for covering the balance differences and own technological consumption of PPD, a. s., came into effect.

On 1 January, Price decision No. 2/2014 of Energy Regulatory Office on the prices of regulated services associated with electricity supply, dated 25 November 2014, came into effect.

On 1 January, Price decision No. 3/2014 of Energy Regulatory Office on the prices of regulated services associated with electricity supply to customers from low voltage networks, dated 25 November 2014, came into effect.

On 1 January, sells prices for electricity pursuant to the Pricelist PP 1/2015 for customers category MOO and MOP, came into effect.

On 1 January, the offer of product „FLEXI- electricity“ for customers category MOO and MOP, came into effect.

On 1 January, Pražská plynárenská, a. s., became the subject of settlement in the electricity industry with the access to daily electricity market.

No other material events have occurred subsequent to the year-end.



V. Expected development of the company



Expected development of the company

Further developing relationships with customers based on a long-term cooperation is the main goal of the 2015 business policy. Knowing customer needs and expectations, which will enable the Company to focus commercial activities on the needs satisfaction and thus further development of partnership. The main instrument will be a range of offered products and services, bringing to our partners added value in the form of product variety and its advantageousness.

Due to the size of the energy market, the Company wants to intensively develop a network of external dealers, whether individuals or through partners. The aim is to build a highly flexible and low-cost structure of external partners, who will provide the business side of the centrally managed collaboration with large organizations and actively acquire new customers for Pražská plynárenská, a. s., in the area of its operation. Through this network, the Company wants to ensure retention activities that are necessary to protect these acquisitions from the pressure of competition.

Regarding financial situation of the first half of the year 2015 a gradual increase of the loan balance credit due to seasonal character of the gas consumption and payment of dividends to the parent company is expected. However, the volume of loans drawn (i.e. from banks and from subsidiaries in the form of cash pooling) is expected to slowly start decreasing later in the year until November 2015. As at 31 December 2015 the expected outstanding balance value of loans is CZK 2,214.0 million. It represents an increase by CZK 748.1 million compared to the balance of the loan as at 31 December 2014. According to the projected development of cash flow for 2015, the expected average balance of loan will be CZK 1,932.4 million, which is by CZK 127.0 million lower than in 2014.

The Company's financial needs in 2015 will still be covered by a long-term loan of CZK 0.7 billion arranged with Československá obchodní banka, a. s., and short-term credit lines arranged for a total amount of CZK 3.2 billion with Československá obchodní banka, a. s., Citibank Europe plc, organizační složka, Komerční banka, a. s., and Česká spořitelna, a. s.



VI. Financial section

Auditor's Report on the Unconsolidated Financial Statements

Unconsolidated Financial Statements of Pražská plynárenská, a. s., prepared in accordance with Czech accounting regulations as at 31 December 2014

Notes to the Unconsolidated Financial Statements of Pražská plynárenská, a. s., prepared in accordance with the Czech accounting regulations as at 31 December 2014

Auditor's Report on the Consolidated Financial Statements

Consolidated Financial Statements for the group of companies controlled by Pražská plynárenská, a. s., prepared in accordance with International Financial Reporting Standards IAS/IFRS as adopted by EU as at 31 December 2014

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 IAS/IFRS as adopted by EU as at 31 December 2014



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

We have audited the accompanying financial statements of Pražská plynárenská, a.s., identification number 60193492, with registered office at Národní 37, Praha 1 - Nové Město ("the Company"), which comprise the balance sheet as at 31 December 2014, the income statement for the year then ended and notes, including a summary of significant accounting policies and other explanatory information ("the financial statements").

Statutory Body's Responsibility for the Financial Statements

The Statutory Body is responsible for the preparation of the financial statements that give a true and fair view in accordance with Czech accounting legislation and for such internal control as the Statutory Body determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors of the Czech Republic, International Standards on Auditing and the related application guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2014 and its financial performance for the year then ended in accordance with Czech accounting legislation.

16 February 2015

PricewaterhouseCoopers Audit, s.r.o.
represented by

Jiří Zouhar
Jiří Zouhar
Partner

Petra Bočáková
Statutory Auditor, Licence No. 2253

Note

Our report has been prepared in the Czech language and in English. In all matters of interpretation of information, views or opinions, the Czech version of our report takes precedence over the English version.

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Balance sheet in thousand Czech crowns

Ref.	ASSETS		31.12.2014			31.12.2013 (restated)
			Gross	Provision	Net	Net
a	b		1	2	3	4
	TOTAL ASSETS		16,764,836	(1,630,427)	15,134,409	14,543,552
B.	Fixed assets		8,816,001	(1,304,010)	7,511,991	7,877,382
B. I.	Intangible fixed assets		677,143	(581,658)	95,485	123,241
B. I.	1.	Formation expenses	101	(101)	0	0
	2.	Software	569,915	(517,259)	52,656	79,540
	3.	Royalties	9,916	(5,968)	3,948	6,075
	4.	Other intangible fixed assets	62,878	(58,330)	4,548	8,581
	5.	Intangible fixed assets in the course of construction	34,333	0	34,333	29,045
B. II.	Tangible fixed assets		1,597,477	(722,352)	875,125	924,983
B. II.	1.	Land	76,890	0	76,890	76,890
	2.	Constructions	1,017,156	(351,724)	665,432	683,644
	3.	Equipment	442,047	(367,272)	74,775	98,153
	4.	Other tangible fixed assets	37,765	(3,356)	34,409	34,446
	5.	Tangible fixed assets in the course of construction	23,619	0	23,619	21,676
	6.	Advances paid for tangible fixed assets	0	0	0	10,174
B. III.	Long-term investments		6,541,381	0	6,541,381	6,829,158
B. III.	1.	Investments in subsidiaries	6,541,379	0	6,541,379	6,829,156
	2.	Other long-term investments in securities	2	0	2	2
C.	Current assets		7,931,245	(326,417)	7,604,828	6,640,105
C. I.	Inventories		965,560	0	965,560	793,706
C. I.	1.	Raw materials	965,010	0	965,010	793,237
	2.	Goods for resale	250	0	250	169
	3.	Advances paid for inventory	300	0	300	300
C. II.	Long-term receivables		3,164	0	3,164	34,452
C. II.	1.	Trade receivables	3,164	0	3,164	5,100
	2.	Other receivables	0	0	0	3,380
	3.	Deferred tax asset	0	0	0	25,972
C. III.	Short-term receivables		6,411,309	(326,417)	6,084,892	5,806,199
C. III.	1.	Trade receivables	960,963	(326,417)	634,546	475,217
	2.	Taxes - receivables from the state	86,801	0	86,801	44
	3.	Short-term advances paid	1,206,407	0	1,206,407	1,354,419
	4.	Estimated receivables	4,135,116	0	4,135,116	3,941,890
	5.	Other receivables	22,022	0	22,022	34,629
C. IV.	Financial assets		551,212	0	551,212	5,748
C. IV.	1.	Cash in hand	1,353	0	1,353	1,601
	2.	Cash at bank	549,859	0	549,859	4,147
D. I.	Prepayments and accrued income		17,590	0	17,590	26,065
D. I.	1.	Prepaid expenses	17,540	0	17,540	26,065
	2.	Accrued income	50	0	50	0

Ref.	LIABILITIES AND EQUITY			31.12.2014	31.12.2013 (restated)
a	b			5	6
	TOTAL LIABILITIES AND EQUITY			15,134,409	14,543,552
A.	Equity			6,823,774	6,872,400
A. I.	Share capital			1,439,907	1,439,907
A.	I.	1.	Share capital	1,439,907	1,439,907
A. II.	Capital contributions			3,091,424	3,368,970
A.	II.	1.	Other capital contributions	85,406	85,176
		2.	Assets and liabilities revaluation	3,006,018	3,283,794
A. III.	Other reserves			460,517	457,112
A.	III.	1.	Reserve fund	453,823	451,823
		2.	Statutory and other reserves	6,694	5,289
A. IV.	Retained earnings/Accumulated losses			1,096,455	1,024,358
A.	IV.	1.	Retained earnings	1,156,650	1,024,358
		2.	Restatements of retained earnings	(60,195)	0
A. V.	Profit/(loss) for the current period			735,471	582,053
B.	Liabilities			8,310,518	7,671,091
B. I.	Provisions			33,911	55,498
B.	I.	1.	Income tax provision	0	10,351
		2.	Other provisions	33,911	45,147
B. II.	Long-term liabilities			6,855	205
B.	II.	1.	Long-term advances received	205	205
		2.	Deferred tax liability	6,650	0
B. III.	Short-term liabilities			7,475,951	5,664,620
B.	III.	1.	Trade payables	144,954	14,261
		2.	Liabilities - subsidiaries / controlling parties	672,098	448,866
		3.	Liabilities to shareholders	1,831	1,892
		4.	Liabilities to employees	10,373	9,908
		5.	Liabilities for social security and health insurance	6,236	6,115
		6.	Taxes and state subsidies payable	5,578	31,847
		7.	Short-term advances received	4,255,110	3,529,044
		8.	Estimated payables	2,338,315	1,577,179
		9.	Other payables	41,456	45,508
B. IV.	Bank loans & overdrafts			793,801	1,950,768
B.	IV.	1.	Long-term bank loans	700,000	1,000,000
		2.	Short-term bank loans and overdrafts	93,801	950,768
C. I.	Accruals and deferred income			117	61
C.	I.	1.	Accrued expenses	117	61

Income statement in thousand Czech crowns

Ref.			DESCRIPTION	Accounting period	
				2014	2013 (restated)
a			b	1	2
	I.		Sales of goods	2,230	2,177
A.			Cost of goods sold	1,622	1,494
	+		Gross profit	608	683
	II.		Sales of production	13,686,689	8,430,400
	II.	1.	Sales of own products and services	13,686,689	8,430,400
B.			Cost of sales	12,831,787	7,640,891
B.		1.	Raw materials and consumables used	10,220,091	5,541,648
		2.	Services	2,611,696	2,099,243
	+		Added value	855,510	790,192
C.			Staff costs	293,138	240,701
C.		1.	Wages and salaries	205,173	166,329
		2.	Emoluments of board members	13,883	8,736
		3.	Social security and health insurance costs	65,237	56,977
		4.	Other social costs	8,845	8,659
D.			Taxes and charges	13,617	7,223
E.			Depreciation and amortisation expense	116,787	131,804
	III.		Sales of fixed assets and raw materials	5,627	5,701
	III.	1.	Sales of fixed assets	5,627	5,701
F.			Net book value of fixed assets and raw materials sold	4,068	3,705
F.		1.	Net book value of fixed assets sold	4,068	3,705
G.			Changes in operating provisions and complex prepaid expenses	(61,829)	151,267
	IV.		Other operating income	30,447	30,369
H.			Other operating expenses	121,660	40,913
	*		Operating result	404,143	250,649
	VII.		Income from long-term investments	440,780	455,674
	VII.	1.	Income from investments in subsidiaries and associates	440,780	455,674
	IX.		Gain on revaluation of securities and derivatives	30,762	13,620
L.			Loss on revaluation of securities and derivatives	24,738	46,295
	X.		Interest income	2,361	2,677
N.			Interest expense	39,144	43,016
	XI.		Other financial income	22,999	1,919
O.			Other financial expenses	24,527	10,320
	*		Financial result	408,493	374,259
Q.			Tax on profit or loss on ordinary activities	77,165	42,855
Q.		1.	- current	42,380	58,102
		2.	- deferred	34,785	(15,247)
	**		Profit or loss on ordinary activities after taxation	735,471	582,053
	***		Net profit / (loss) for the financial period	735,471	582,053
	****		Net profit / (loss) before taxation	812,636	624,908

1. General information

Introductory information about the Company

Name of the entity: **Pražská plynárenská, a. s.** (hereinafter only as “the Company”)
Legal form: joint stock company

Company incorporation date: 31 December 1993

Registered office of the entity: Národní 37/38
Prague 1 – Nové Město
Postcode 110 00

Company ID No.: 60193492

Subject of business:
The Company's core business activity is gas trading.

Share capital: CZK 1,439,907,000

Composition of the Board of Directors as at 31 December 2014 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. Petr Zmátlík	Member of the Board of Directors

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

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

Composition of the Board of Directors as at 31 December 2013 was as follows:

Ing. Miroslav Nosál, CFA	Chairman of the Board of Directors
Eckart Baum	Vice-Chairman of the Board of Directors
Ing. Milan Fafejta	Member of the Board of Directors
Dr. František Kotula	Member of the Board of Directors

Composition of the Supervisory Board as at 31 December 2013 was as follows:

Dipl.-Ing. Michael Fehn	Chairman of the Supervisory Board
Pavel Hurda	Vice-Chairman of the Supervisory Board
Magnus Alexander Brandau	Member of the Supervisory Board
Marc Müller, MBA	Member of the Supervisory Board
Lorenz Pronnet	Member of the Supervisory Board
Ing. Marta Ptáčková	Member of the Supervisory Board
JUDr. Lubomíra Stojkovičová	Member of the Supervisory Board
Dr.-Ing. Milan Urban	Member of the Supervisory Board
Mgr. Miroslav Vránek	Member of the Supervisory Board

The Company updated its Articles of Association that are now fully governed by the new Corporations Act. This fact became effective as at the date of its registration in the Commercial Register, specifically on 14 August 2014.

The Company merged with the Company Pragoplyn, a. s., („dissolved company“), with its registered office at Prague 1 - Nové Město, Jungmannova 36/31, ID no: 27933318, which was dissolved without liquidation and which transferred all its net assets to the Company pursuant to the Act No. 125/2008 Coll. on transformations of commercial companies and cooperatives, with the decisive date 1 January 2014. The merger became effective on 1 November 2014 by registration in the Commercial Register. As at 1 January 2014 the opening balance sheet of the Company was prepared and was verified by the auditor.

The Company took over all components of assets and liabilities of the dissolved company, including accruals, which were valued at the value and in the structure resulting from the final financial statement of the dissolved company.

Merging of the final financial statement of the dissolved company into the final financial statement of the Company was performed by a simple sum of individual items of assets and liabilities in their accounting values. Valuation of the property by an independent expert wasn't required due to the fact that during the merger the Company's share capital did not increase. The comparative figures for 31 December 2013 include only the figures of the Company.

Accounting for merger as at 1. 1. 2014

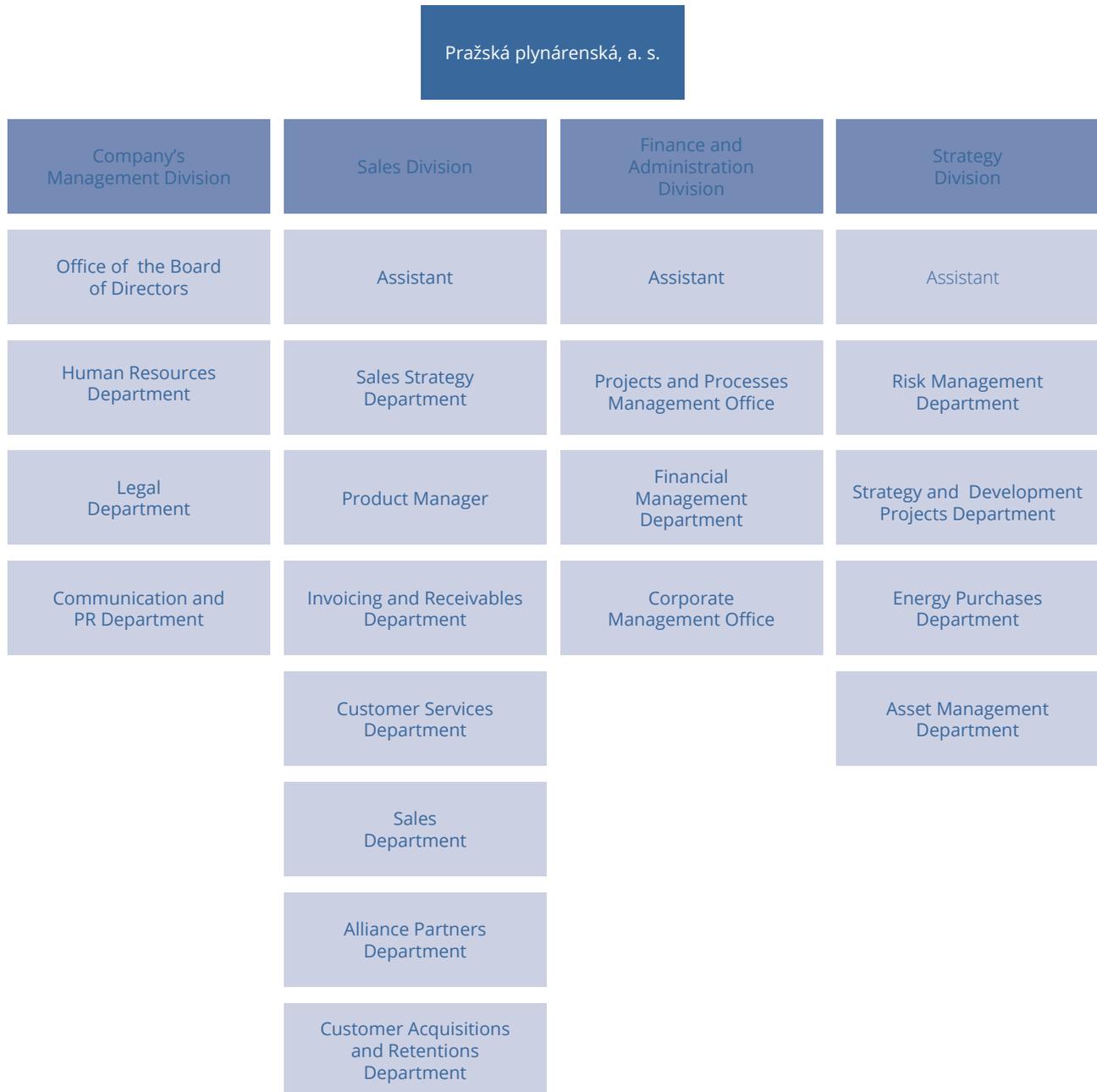
Net amounts in CZK ´ 000

ASSETS		Pražská plynárenská, a. s.	Pragoplyn, a. s.	Merger impact	Pro-forma opening balance sheet
		31. 12. 2013	31. 12. 2013		1. 1. 2014
B.	Fixed assets	4,593,588	2,128	(10,000)	4,585,716
B. I.	Intangible fixed assets	123,241	1,200	0	124,441
B. I.	1. Software	79,540	1,143	0	80,683
	2. Royalties	6,075	57	0	6,132
	3. Other intangible fixed assets	8,581	0	0	8,581
	4. Intangible fixed assets in the course of construction	29,045	0	0	29,045
B. II.	Tangible fixed assets	924,983	928	0	925,911
B. II.	1. Land	76,890	0	0	76,890
	2. Constructions	683,644	0	0	683,644
	3. Equipment	98,153	928	0	99,081
	4. Other tangible fixed assets	34,446	0	0	34,446
	5. Tangible fixed assets in the course of construction	21,676	0	0	21,676
	6. Advances paid for tangible fixed assets	10,174	0	0	10,174
B. III.	Long-term investments	3,545,364	0	(10,000)	3,535,364
B. III.	1. Investments in subsidiaries	3,545,362	0	(10,000)	3,535,362
	2. Other long-term investments in securities	2	0	0	2
C.	Current assets	7,429,846	3,461,963	(774,578)	10,117,231
C. I.	Inventories	793,706	0	0	793,706
C. I.	1. Raw materials	793,237	0	0	793,237
	2. Finished goods	169	0	0	169
	3. Advances paid for inventory	300	0	0	300
C. II.	Long-term receivables	20,332	2,162	0	22,494
C. II.	1. Trade receivables	5,100	0	0	5,100
	2. Other receivables	3,380	0	0	3,380
	3. Deferred tax asset	11,852	2,162	0	14,014
C. III.	Short-term receivables	6,610,060	3,141,268	(774,578)	8,976,750
C. III.	1. Trade receivables	549,532	438,508	(237)	987,803
	2. Taxes – receivables from the state	44	88,602	0	88,646
	3. Short-term advances paid	1,567,524	802,032	(312,646)	2,056,910
	4. Estimated receivables	3,941,890	1,729,369	(461,695)	5,209,564
	5. Other receivables	551,070	82,757	0	633,827
C. IV.	Financial assets	5,748	318,533	0	324,281
C. IV.	1. Cash in hand	1,601	0	0	1,601
	2. Cash at bank	4,147	318,533	0	322,680
D. I.	Prepayments and accrued income	26,065	116	0	26,181
D. I.	1. Prepaid expenses	26,065	116	0	26,181
TOTAL ASSETS		12,049,499	3,464,207	(784,578)	14,729,128

Net amounts in CZK ´ 000

LIABILITIES AND EQUITY		Pražská plynárenská, a. s.	Pragoplyn, a. s.	Merger impact	Pro-forma opening balance sheet
		31. 12. 2013	31. 12. 2013		1. 1. 2014
A.	Equity	3,648,801	173,956	(10,000)	3,812,757
A. I.	Share capital	1,439,907	10,000	(10,000)	1,439,907
A. I. 1.	Share capital	1,439,907	10,000	(10,000)	1,439,907
A. II.	Capital contributions	85,176	210	0	85,386
A. II. 1.	Other capital contributions	85,176	210	0	85,386
A. III.	Reserve fund and other reserves	457,112	3,192	0	460,304
A. III. 1.	Reserve fund	451,823	2,000	0	453,823
	Statutory and other reserves	5,289	1,192	0	6,481
A. IV.	Retained earnings / Accumulated losses	1,024,358	135,839	0	1,160,197
A. IV. 1.	Retained earnings	1,024,358	135,839	0	1,160,197
A. V. 1.	Profit / (loss) for the current period	642,248	24,715	0	666,963
B.	Liabilities	8,400,637	3,290,251	0	10,916,310
B. I.	Provisions	55,498	6,777	0	62,275
B. I. 1.	Income tax provision	10,351	0	0	10,351
	2. Other provisions	45,147	6,777	0	51,924
B. II.	Long-term liabilities	205	0	0	205
B. II. 1.	Long-term advances received	205	0	0	205
B. III.	Short-term liabilities	6,394,166	3,283,474	(774,578)	8,903,062
B. III. 1.	Trade payables	14,261	216,101	(237)	230,125
	2. Liabilities – subsidiaries/ controlling parties	448,866	170,702	0	619,568
	3. Liabilities to shareholders	1,892	0	0	1,892
	4. Liabilities to employees	9,908	1,207	0	11,115
	5. Liabilities for social security and health insurance	6,115	747	0	6,862
	6. Taxes and state subsidies payable	31,847	282	0	32,129
	7. Short-term advances received	4,258,590	1,247,912	(312,646)	5,193,856
	8. Estimated payables	1,577,179	1,646,494	(461,695)	2,761,978
	9. Other payables	45,508	29	0	45,537
B. IV.	Bank loans & overdrafts	1,950,768	0	0	1,950,768
	1. Long-term bank loans	1,000,000	0	0	1,000,000
	2. Short-term bank loans and overdrafts	950,768	0	0	950,768
C. I.	Accruals and deferred income	61	0	0	61
C. I. 1.	Accrued expenses	61	0	0	61
TOTAL LIABILITIES AND EQUITY		12,049,499	3,464,207	(784,578)	14,729,128

The Company's organizational structure



2. Accounting policies

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

a) Intangible fixed assets

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

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

Intangible fixed assets with an acquisition cost exceeding CZK 60,000 are amortised applying the straight-line method over their estimated useful lives as follows:

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

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

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

b) Tangible fixed assets

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

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

Tangible fixed assets with an acquisition cost exceeding CZK 40,000 are amortised applying the straight-line method over their estimated useful lives as follows:

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

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

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

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

c) Investments in controlled entities/subsidiaries

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

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

d) Inventories

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

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

e) Receivables

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

f) Cash and cash equivalents

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

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

The Company uses so-called cash-pooling within the group.

g) Foreign currency translation

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

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

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

h) Loans

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

i) Derivative financial instruments

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

Certain derivatives embedded in other financial instruments are treated as separate derivatives. Changes in the fair value of derivatives held for trading are included in net profit or loss from financial operations.

j) Provisions

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

The Company recognizes a provision for an unpaid income tax obligation against current tax expense. If advances paid for the income tax are higher than the estimated income tax payable the difference is recognised as a short-term receivable.

k) Revenues

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

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

Natural gas

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

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

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

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

Electricity

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

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

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

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

Revenues from VO consist of actually billed revenues.

l) Leases and rent

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

m) Employee benefits

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

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

n) Deferred tax

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

o) Related parties

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

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

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

p) Subsequent events

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

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

q) Changes of accounting policies and corrections of prior period

Changes of accounting policies

In 2014, based on the decision of the Company, shares have been revaluated in controlled entities using the equity method. The impact of the change in method has been recognized in equity as at 31 December 2014. The comparative figures have been restated as if the revaluation of shares in subsidiaries and equity method took place on 1 January 2013.

(in CZK '000)

Balance sheet line item	As at 1. 1. 2013 (original)	Change of accounting policy	As at 1. 1. 2013 (adjusted)	Revaluation in 2013	As at 31. 12. 2013 (restated)
Investments in subsidiaries	3,545,362	3,340,419	6,885,781	(56,625)	6,829,156
Long-term investments	3,555,164	3,340,419	6,895,583	(66,425)	6,829,158
Revaluation of assets	0	3,340,419	3,340,419	(56,625)	3,283,794
Capital funds	85,125	3,340,419	3,425,544	(56,574)	3,368,970

In order to improve the presentation of the financial statements the Company changed the recognition of VAT from advances paid and advances received in 2014, which presented on the on the Short-term advances received, respectively Short-term advances paid line in 2014. The comparative information as at 31 December 2013 was adjusted to reflect the change.

(in CZK '000)

Balance sheet line item	As at 31. 12. 2013 (original)	Change of accounting policy	As at 31. 12. 2013 (restated)
Short-term prepayments	1,567,524	(213,105)	1,354,419
Other receivables	551,070	(516,441)	34,629
Short-term advances received	4,258,590	(729,546)	3,529,044

Corrections of prior period errors

In 2014 Company's management decided to correct the error in the calculation of the allowance for overdue receivables.

In 2014 it was noted that the allowance for overdue receivables as at 31 December 2013 was calculated based on incorrect due dates and its balance should have been higher by CZK 74,315,000. The deferred tax asset was adjusted to reflect this change. The deferred tax asset should have been higher by CZK 25,972,000.

The comparative period as at 31 December 2013 was adjusted to reflect the correction and is presented in the following tables:

(in CZK '000)

Income statement line item	As at 31. 12. 2013 (original)	Correction	As at 31. 12. 2013 (adjusted)
Increase (+) / decrease (-) in operating provisions	76,952	74,315	151,267
Operating results	324,964	(74,315)	250,649
Deferred tax on profit or loss on ordinary activities	(1,127)	(14,120)	(15,247)
Profit or loss on ordinary activities after taxation	642,248	(60,195)	582,053
Net profit / (loss) for the financial period	642,248	(60,195)	582,053
Net profit / (loss) before taxation	699,223	(74,315)	624,908

(in CZK '000)

Balance sheet line item	As at 31. 12. 2013 (original)	Correction	As at 31. 12. 2013 (adjusted)
Trade receivables	549,532	(74,315)	475,217
Deferred tax asset	11,852	14,120	25,972
Profit for the current period	642,248	(60,195)	582,053

3. Additional data for the balance sheet and the income statement

a) Intangible fixed assets

2014

(in CZK '000)

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

ACCUMULATED AMORTISATION	1 January 2014	Merger impact	Additions	Disposals	31 December 2014
Incorporation expenses	0	101	0	0	101
Software	463,627	613	53,019	0	517,259
Royalties, licenses	3,773	11	2,184	0	5,968
Other intangible assets	56,478	0	4,033	2,181	58,330
Total	523,878	725	59,236	2,181	581,658
Net book value	123,241				95,485

2013

(in CZK '000)

ACQUISITION COST	1 January 2013	Acquisition	Disposals	31 December 2013
Software	533,097	50,298	40,228	543,167
Royalties, licenses	4,348	5,500	0	9,848
Other intangible assets	63,409	1,650	0	65,059
Intangible fixed assets in the course of construction	55,720	30,773	57,448	29,045
Total	656,574	88,221	97,676	647,119

ACQUISITION COST	1 January 2013	Additions	Disposals	31 December 2013
Software	436,273	67,582	40,228	463,627
Royalties, licenses	2,515	1,258	0	3,773
Other intangible assets	52,070	4,408	0	56,478
Total	490,858	73,248	40,228	523,878

Net book value	165,716			123,241
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b) Tangible fixed assets

2014

(in CZK '000)

ACQUISITION COST	1 January 2014	Merger impact	Acquisitions	Disposals	31 December 2014
Land	76,890	0	0	0	76,890
Buildings and constructions	1,014,047	0	3,109	0	1,017,156
Separate movable items	450,129	1,867	15,678	25,627	442,047
Other tangible assets	37,511	0	254	0	37,765
Tangible fixed assets in the course of construction	21,676	0	20,963	19,020	23,619
Advances paid for tangible fixed assets	10,174	0	10,542	20,716	0
Total	1,610,427	1,867	50,546	65,363	1,597,477

ACCUMULATED DEPRECIATION	1 January 2014	Merger impact	Additions	Disposals	31 December 2014
Buildings and constructions	329,879	0	21,346	0	351,225
Separate movable items	351,976	939	35,914	21,557	367,272
Other tangible assets	3,065	0	291	0	3,356
Total	684,920	939	57,551	21,557	721,853

PROVISIONS	1 January 2014	Merger impact	Additions	Disposals	31 December 2014
Buildings and constructions	524	0	0	25	499
Total	524	0	0	25	499

Net book value	924,983				875,125
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2013

(in CZK '000)

ACQUISITION COST	1 January 2013	Acquisition	Disposals	31 December 2013
Land	84,468	467	8,045	76,890
Buildings and constructions	1,014,083	780	816	1,014,047
Separate movable items	451,359	33,586	34,816	450,129
Other tangible assets	37,451	60	0	37,511
Tangible fixed assets in the course of construction	16,061	40,508	34,893	21,676
Advances paid for tangible fixed assets	5,682	15,946	11,454	10,174
Total	1,609,104	91,347	90,024	1,610,427

ACCUMULATED DEPRECIATION	1 January 2013	Additions	Disposals	31 December 2013
Buildings and constructions	309,458	21,182	761	329,879
Separate movable items	348,423	37,082	33,529	351,976
Other tangible assets	2,774	291	0	3,065
Total	660,655	58,555	34,290	684,920

PROVISIONS	1 January 2013	Additions	Disposals	31 December 2013
Buildings and constructions	547	0	23	524
Total	547	0	23	524

Net book value	947,902			924,983
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In 2014 the Company purchased fixed assets with a unit cost of less than CZK 10,000. These assets were expensed and simultaneously recorded in the operating records in the total amount of CZK 1,475,000 (2013: CZK 2,582,000).

c) Investments in subsidiaries

As at 31 December 2014:

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

As at 31 December 2013:

Domestic	Number of shares	Nominal value of shares (CZK ths)	Carrying value (CZK ths)	% of capital	Net profit (CZK ths)	Equity (CZK ths)	Dividend income (CZK ths)
Pražská plynárenská Distribuce, a.s., člen koncernu Pražská plynárenská, a.s.	5,207	5,207,000	6,391,764	100	343,487	6,391,764	409,702
Pražská plynárenská Servis distribuce, a.s., člen koncernu Pražská plynárenská, a.s.	202,106	15,080	90,728	100	22,995	90,728	6,200
Pražská plynárenská Správa majetku, a.s., člen koncernu Pražská plynárenská, a.s.	10	2,000	7,287	100	2,275	7,287	2,484
Prometheus, energetické služby, a.s., člen koncernu Pražská plynárenská, a.s.	128	128,000	132,200	100	3,213	132,200	3,109
Pragoplyn, a.s.	10	10,000	173,956	100	24,715	173,956	20,000
Informační služby - energetika, a.s.	20	2,000	15,701	100	9,556	15,701	8,775
Měření dodávek plynu, a.s.	5	5,000	17,520	100	5,918	17,520	5,404
Net book value			6,829,156				

Information about subsidiaries:

Pražská plynárenská Distribuce, a. s., člen koncernu Pražská plynárenská, a. s.
Registered office: U Plynárny 500, Prague 4, Postcode 145 08

Pražská plynárenská Servis distribuce, a. s., člen koncernu Pražská plynárenská, a. s.
Registered office: U Plynárny 1450/2a, Prague 4, Postcode 140 00

Pražská plynárenská Správa majetku, a. s., člen koncernu Pražská plynárenská, a. s.
Registered office: U Plynárny 500, Prague 4, Postcode 145 08

Prometheus, energetické služby, a. s., člen koncernu Pražská plynárenská, a. s.
Registered office: U Plynárny 500, Prague 4, Postcode 140 00,

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

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

As at 31 October 2014 the companies mentioned below ceased to exist following the result of the merger. The Company's share in these controlled entities has been dissolved or was transferred to the acquiring company:

Měření dodávek plynu, a. s.
Registered office: U Plynárny 500/44, Prague 4, Postcode 145 08

Pragoplyn, a. s.
Registered office: Jungmannova 36/31, Prague 1, Postcode 110 00

d) Inventories

The item Raw materials represents gas stored in the gas storage as at 31 December 2014 in the amount of CZK 965,010,000 (as at 31 December 2013: CZK 793,237,000).

e) Receivables

(in CZK '000)

	31 December 2014	31 December 2013 (restated)
Trade receivables - not due	568,904	544,268
- overdue	392,059	286,161
Estimated receivables	4,135,116	3,941,890
Short-term advances paid	1,206,407	1,354,419
Other receivables	108,823	34,673
Total short-term receivables	6,411,309	6,161,411
Provisions for doubtful receivables	(326,417)	(355,212)
Net value of long-term receivables	6,084,892	5,806,199
Long-term receivables	3,164	34,452
Net value of total receivables	6,088,056	5,840,651

Unsettled receivables have not been secured and none of them are due for more than 5 years. Short term advances paid consist mainly of cash paid in respect of subsequent purchases of natural gas and gas distribution.

Estimated receivables consist mainly of accrual for unbilled gas and gas distribution in the amount of CZK 3,991,763,000 as at 31 December 2014 (as at 31 December 2013: CZK 3,822,312,000) and accrual for unbilled electricity in the amount of CZK 133,753,000 as at 31 December 2014 (as at 31 December 2013: CZK 98,962,000).

Analysis of the change in the provision for doubtful receivables:

(in CZK '000)

	2014	2013 (restated)
Opening balance as at 1 January	355,212	237,358
Corrections	0	74,315
Charge for the year	431,664	90,319
Released during the year	460,459	46,780
Closing balance as at 31 December	326,417	355,212

f) Equity

Statement of changes in equity

(in CZK '000)

Changes /remaining balances	Share capital	Capital funds"	Statutory reserve fund	Other profit based funds	Retained earnings	Profit for the period	Total equity
Balance as at 1 January 2013	1,439,907	85,125	451,823	5,423	1,017,904	672,963	3,673,145
Change of accounting polices	0	3,340,419	0	0	0	0	3,340,419
Revaluation of investments in controlled entities using the equity method	0	(56,574)	0	0	0	0	(56,574)
Allocations to funds and retained earnings	0	0	0	4,950	6,454	(11,404)	0
Use of funds	0	0	0	(5,084)	0		(5,084)
Dividends paid	0	0	0	0	0	(633,559)	(633,559)
Directors` fees	0	0	0	0	0	(28,000)	(28,000)
Profit for financial period 2013	0	0	0	0	0	582,053	582,053
Balances as at 31 December 2013 (restated)	1,439,907	3,368,970	451,823	5,289	1,024,358	582,053	6,872,400
Merger impact as at 1.1.2014	0	10,210	2,000	1,192	135,839	24,715	173,956
Revaluation of investments in controlled entities using the equity method	0	(287,756)	0	0	0	0	(287,756)
Corrections of prior periods	0	0	0	0	(60,195)	60,195	0
Allocations to funds and retained earnings	0	0	0	5,350	20,715	(26,065)	0
Use of funds	0	0	0	(5,137)	0	0	(5,137)
Dividends paid	0	0	0	0	(24,262)	(609,298)	(633,560)
Directors` fees	0	0	0	0	0	(31,600)	(31,600)
Profit for financial period 2014	0	0	0	0	0	735,471	735,471
Balance as at 31 December 2014	1,439,907	3,091,424	453,823	6,694	1,096,455	735,471	6,823,774

Based on the Company's decision the investments in subsidiaries were revalued using the equity method as at 31 December 2014.

The Company is fully governed by the new Corporations Act; however, it did not use the option not to create a reserve fund. The Company continues to create the reserve fund and its use is governed by its Articles of Association.

The general meeting of the shareholders held on 18 June 2014 approved the financial statements for 2013 and decided about the allocation of profit earned of CZK 642,248,000 and payment of dividends of CZK 633,560,000.

g) Main shareholders of the Company

Shareholder's name	Share (%)	
	31 December 2014	31 December 2013
Pražská plynárenská Holding a. s.	100,00	50,20
E.ON Czech Holding AG	0,00	49,35
Others	0,00	0,45
Total	100,00	100,00

The Company's share capital was CZK 1,439,907,000 as at 31 December 2014 and as at 31 December 2013, and is divided into 950,338 bearer shares with a nominal value of CZK 1,000 and CZK 489,569 registered shares at a nominal value of CZK 1,000. Bearer shares were issued in booked form. Registered shares are in booked form, their transferability is limited and the general meeting of the shareholders must give the owner its consent for their transfer, following discussion at the Board of Directors and the Supervisory Board.

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

On the same day also 710,550 pieces of ordinary bearer shares of the Company that were owned by E.ON Czech Holding AG were transferred to PPH. This way PPH became 99.55 % owner of the Company. On 16 June 2014 the remaining 6,560 pieces of Pražská plynárenská, a. s., owned by minority shareholders were transferred to PPH. This led to PPH becoming the sole shareholder of the Company. The ultimate owner of the Company is the capital city of Prague.

h) Provisions

	(in CZK '000)	
	31 December 2014	31 December 2013
Income tax provision	0	10,351
Other provisions	33,911	45,147
Total	33,911	55,498

Advances for income tax of CZK 62,457,000 paid by the Company as at 31 December 2014 (as at 31 December 2013: CZK 46,581,000) are netted off with the provision for income tax of CZK 41,770,000 as at 31 December 2014 (as at 31 December 2013: CZK 56,932,000).

Other provisions include a provision for untaken holiday and employee bonuses.

i) Liabilities

(in CZK '000)

	31 December 2014	31 December 2013 (restated)
Trade payables - current	141,847	13,863
- overdue	3,107	398
Short-term advances received	4,255,110	3,529,044
Liabilities - cash-pooling	672,098	448,866
Other liabilities	65,474	95,270
Estimated payables	2,338,315	1,577,179
Total short-term liabilities	7,475,951	5,664,620
Long-term advances received	205	205
Deferred tax liability	6,650	0
Total long-term liabilities	6,855	205
Total short-term and long-term liabilities	7,482,806	5,664,825

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

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

Estimated payables include an accrual for unbilled purchased gas and gas distribution of CZK 2,184,113,000 as at 31 December 2014 (as at 31 December 2013: CZK 1,456,694,000).

j) Bank loans and overdrafts

(in CZK '000)

	31 December 2014	31 December 2013
Bank overdrafts	93,801	650,768
Short-term bank loans	0	300,000
Long-term bank loans with maturity from 1 to 5 years	700,000	1,000,000
Total bank loans and overdrafts	793,801	1,950,768
Short-term loans - cash-pooling	672,098	448,866

During the fiscal years 2014 and 2013 the Company had at its disposal four short-term credit lines with the following banks: Československá obchodní banka, a. s., Citibank Europe plc, organizační složka, Komerční banka, a. s., a Česká spořitelna, a. s.

Credit lines are drawn in the form of overdraft or loan tranche. In 2014 average interest rate of loans drawn was 0.50 % p.a. (2013: 0.50 % p.a.). The short-term bank loans allow the Company to cover fluctuations in cash flows, which are due to the seasonal nature of gas sales.

The long-term credit line is granted by Československá obchodní banka, a. s. The average interest rate of long-term bank loan in 2014 was 3.50 % p.a. (2013: 3.51 % p.a.). There are no collaterals in connection with this loan. The whole amount of the loan is to be repaid on 31 May 2016.

The average cash-pooling interest rate was 0.20% p.a. in 2014 (2013: 0.22% p.a.).

k) Derivative financial instruments

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

(in CZK '000)

	31 December 2014			31 December 2013		
	Real value		Nominal value	Real value		Nominal value
	Positive	Negative		Positive	Negative	
Currency forward	1,032	0	23,628	9,454	1,208	419,336
Embedded derivative	0	41,040	700,000	0	45,000	700,000

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

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

l) Income tax

(in CZK '000)

	2014	2013 (restated)
Current tax expense (19 %)	41,770	56,932
Deferred tax expense	34,785	(1,127)
Correction of prior period error	0	(14,120)
Previous period tax expense adjusted in respect of the tax return filed	610	1,170
Total income tax expense	77,165	42,855

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

Analysis of deferred tax asset / (liability):

(in CZK '000)

	31 December 2014	31 December 2013 (restated)
Accelerated tax depreciation of fixed assets	(30,800)	(30,332)
Provisions and allowances	24,713	42,272
Other	(563)	(88)
Correction of prior period error	0	14,120
Net deferred tax asset/(liability)	(6,650)	25,972

m) Revenue analysis

Operating revenues were generated as follows:

(in CZK '000)

	2014	2013
Revenues related to natural gas trade	13,076,237	7,903,703
Revenues related to electricity	266,520	156,679
Revenues from provision of services	343,932	370,018
Revenues from resale of goods	2,230	2,177
Revenues from sale of assets	5,627	5,701
Other revenues	30,447	30,369
TOTAL	13,724,993	8,468,647

In 2014 and in 2013 all revenues were generated in the Czech Republic.

n) Personal costs and employees

(in CZK '000)

	2014		2013	
	Number	Personal costs	Number	Personal costs
Employees	313	211,681	293	183,214
Company management	24	81,457	26	57,487
TOTAL		293,138		240,701

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

In connection with the replacement of directors by Executive Boards members as at 1 December 2014, Company's management has reassessed the definition of the Company's management, which now includes not only directors and the management but also members of the Supervisory Board and the Board of Directors. An employee who reports directly to the statutory body and at the same time there is another manager who reports to this employee is considered to be part of the management. The comparative figures for 31 December 2013 have been restated in accordance with this new definition.

o) Transactions with related parties

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

(in CZK '000)

	2014	2013
Sale of natural gas	240,149	453,512
Sale of electricity	101	93
Provision of services incl. lease of assets	317,315	347,341
Resale of goods and raw materials	195	231
Sale of assets	258	3,070
Dividend revenue	440,780	455,674
Interest revenues	592	1,146
Other revenues	10	116
Total revenues	999,400	1,261,183
Purchase of services	1,605,729	1,569,940
Purchase of Raw materials, gas and electricity	14,555	3,323,824
Interest costs	1,105	1,289
Other costs	184	556
Total costs	1,621,573	4,895,609
Acquisition of investments	38,244	55,125

Annual significant decrease in the cost of purchasing gas and electricity is related to the merger with the Company Pragoplyn, a. s., which was a major supplier of these commodities as a subsidiary. In 2014, the Company purchases from external suppliers.

The following related party balances were outstanding as at:

(in CZK '000)

	31 December 2014	31 December 2013
Trade receivables	302,365	234,403
Short term advances paid	771,228	1,202,287
Long-term receivables	0	3,380
Estimated receivables	36,954	42,934
Total receivables	1,110,547	1,483,004
Trade payables	11,484	335
Short-term advances received	34,941	41,149
Long-term advances received	50	50
Loans received – cash - pooling	672,098	448,866
Estimated payables	605,717	1,172,038
Total liabilities	1,324,290	1,662,438

Annual significant decrease in the value of short-term advances paid and estimated payables is related to the merger with the Company Pragoplyn, a. s., which was a major trading partner as a subsidiary and which dissolved as a separate entity at the date of the merger.

Company cars are made available for use by board members and other management.

Total remuneration for the members of the Board of directors and Supervisory board is part of the staff costs.

Supervisory Board members and members of the Board of Directors were paid royalties according to the decision of the general meeting of the Company's profit distribution.

p) Fees paid and payable to the audit company

The information relating to the fees paid and payable for services performed by the audit company is included in the consolidated financial statements of the Company Pražská plynárenská Holding a. s. as at 31 December 2014.

4. Other significant facts

a) Share capital decrease

The sole shareholder of the Company, Pražská plynárenská Holding a. s., identity number: 26442272, with its registered office in Prague 4, U Plynárny 500, post code 140 00, approved the decrease of the share capital of the Company at the General Meeting held on 1 August 2014. The Company's capital is reduced by the amount of CZK 1,007,934,900 from the current amount of CZK 1,439,907,000 to the amount of CZK 431,972,100 after the reduction. The share capital is reduced by reducing the nominal value of all shares of the Company pursuant to the provisions of section 524 and following of Act no. 90/2012 Coll., on the Commercial Companies and Cooperatives (Business Corporations Act). The nominal value of the shares is reduced proportionally for all shares of the Company, i.e. for 950,338 pieces of bearer shares with a nominal value of CZK 1,000 and 489,569 pieces of shares with a nominal value of CZK 1,000 in such a way that the new value of each booked bearer share and each individual share would be CZK 300. The reason for the reduction of the share capital of the Company is to optimize the capital structure of the Company following the revaluation of the Company's assets and thus releasing the excess working capital to the sole shareholder. The capital reduction is done in order to free available resources in favour of the sole shareholder of the Company. The of capital reduction was not effective as at 31 December 2014.

b) Contractual commitments

The Company has not undertaken any significant investment commitments.

The total amount of commitments under the operative lease agreements which were not reported in the balance sheet as at 31 December 2014, was CZK 9,839,000 (as at 31 December 2013: CZK 4,676,000).

The future liabilities arising from contracts for lease of gas storage as of 31 December 2014 amounted to CZK 513,010,000 (as at 31 December 2013: CZK 534,969,000).

The total amount of future liabilities arising from contracts which do not relate to gas was as at 31 December 2014 CZK 25,029,000 (as at 31 December 2013: CZK 219,341,000).

The Company has secured its financial obligations arising from the operation of the gas market with Komerční banka, a. s., in favour of OTE, a. s., as at 31. December 2014 up to CZK 350,000,000 (as at 31 December 2013: up to CZK 360,000,000). These liabilities are not disclosed in the balance sheet.

As at 1 January 2014 the Company took over the financial liabilities security of the dissolving company at Komerční banka, a. s., in favour of RWE Supply Trading CZ, a. s., up to the amount of CZK 250,000,000 as at 31 December 2014 (as at 31 December 2013: CZK 100,000,000), in favour of RWE Supply Trading GmbH up to the amount of EUR 5,500,000 as at 31 December 2014, at Citibank Europe plc, organizační složka, also in favour of RWE Supply Trading CZ, a. s., up the amount of CZK 290,000,000 as at 31 December 2014 and in favour of RWE GasNet, s.r.o., up to the amount of CZK 70,000,000 as at 31 December 2014. These liabilities are not disclosed in the balance sheet.

5. Contingent liabilities

Management of the Company is not aware of any significant unrecorded contingent liabilities as at 31 December 2014.

6. Subsequent events

No events have occurred subsequent to year-end that would have a material impact on the financial statements as at 31 December 2014.

Prague, 16 February 2015



Ing. Pavel Janeček
Chairman of the Board of Directors



Ing. Petr Zmátlík
Member of the Board of Directors



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

We have audited the accompanying consolidated financial statements of Pražská plynárenská, a.s., identification number 60193492, with registered office at Národní 37, Praha 1 - Nové Město ("the Company") and its subsidiaries (together "the Group"), which comprise the statement of financial position as at 31 December 2014, the statements of income, comprehensive income, changes in equity and cash flows for the year then ended and notes, including a summary of significant accounting policies and other explanatory information ("the consolidated financial statements").

Board of Directors' Responsibility for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors of the Czech Republic, International Standards on Auditing and the related application guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company as at 31 December 2014, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

17 March 2015

PricewaterhouseCoopers Audit, s.r.o.
represented by

Jiří Zouhar
Jiří Zouhar
Partner

Petra Bočáková

Petra Bočáková
Statutory Auditor, Licence No. 2253

Note

Our report has been prepared in the Czech language and in English. In all matters of interpretation of information, views or opinions, the Czech version of our report takes precedence over the English version.

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PricewaterhouseCoopers Audit, s.r.o., registered seat Hvězdova 1734/2c, 140 00 Prague 4, Czech Republic, Identification Number: 40765521, registered with the Commercial Register kept by the Municipal Court in Prague, Section C, Insert 3637, and in the Register of Audit Companies with the Chamber of Auditors of the Czech Republic under Licence No 021.

Pražská plynárenská, a. s.
 Consolidated statement of financial
 position as at 31 December 2014
 Prepared in accordance with IFRS
 as adopted by the EU

Note

31.12.2014
(CZK '000)

31.12.2013 - restated
(CZK '000)

1.1.2013 - restated
(CZK '000)

ASSETS				
Non-current assets				
Land, property, plant and equipment	6.1	5,770,799	5,600,868	5,436,786
Intangible assets	6.2	81,319	106,259	145,904
Financial borrowings provided		0	0	9,802
Other non-current assets		4,612	6,799	9,148
Total non-current assets		5,856,730	5,713,926	5,601,640
Current assets				
Inventories	6.3	984,934	811,139	952,313
Trade and other receivables	6.4	1,145,524	2,180,299	2,759,661
Tax receivables		21	30	29
Cash and cash equivalents		554,423	327,605	145,694
Other assets		22,850	28,570	17,228
Income tax	6.12	30,096	0	57,387
Total current assets		2,737,848	3,347,643	3,932,312
TOTAL ASSETS		8,594,578	9,061,569	9,533,952
EQUITY AND LIABILITIES				
Equity				
Share capital	6.5	1,439,907	1,439,907	1,439,907
Statutory reserve funds	6.6	692,783	675,120	661,863
Retained earnings		2,411,822	2,334,257	2,420,480
Total equity		4,544,512	4,449,284	4,522,250
Non-current liabilities				
Trade liabilities and other non-current liabilities	6.7	2,033	4,647	11,886
Bank loans	6.11	700,000	1,000,000	1,000,000
Deferred tax liability	6.8	373,508	355,897	323,203
Total non-current liabilities		1,075,541	1,360,544	1,335,089
Current liabilities				
Trade liabilities and advances received	6.9	2,178,886	1,857,163	2,448,737
Bank loans	6.11	93,802	950,759	1,109,807
Other liabilities	6.9	417,428	115,072	80,778
Income tax	6.12	0	54,297	0
Other tax liabilities	6.12	9,315	8,263	8,498
Provisions	6.13	275,094	266,187	28,793
Total current liabilities		2,974,525	3,251,741	3,676,613
TOTAL EQUITY AND LIABILITIES		8,594,578	9,061,569	9,533,952

Pražská plynárenská, a. s. Consolidated statement of comprehensive income for the year ended 31 December 2014 Prepared in accordance with IFRS as adopted by the EU			
	Note	2014 (CZK '000)	2013 - restated (CZK '000)
Revenues	6.14	13,750,690	16,858,918
Purchased gas and electricity, materials and services related to gas and electricity supplies	6.15	11,134,794	14,058,044
Other operating income	6.16	53,388	150,905
Personnel costs	6.17	661,050	675,535
Amortization and depreciation of non-current assets	6.18	371,034	370,764
Other operating costs	6.19	754,102	1,077,075
Operating profit		883,099	828,405
Financial costs	6.20	88,341	138,867
Financial income	6.20	55,689	78,791
Financial loss		(32,651)	(60,076)
Profit before tax		850,448	768,329
Income tax	6.21	121,660	207,736
Profit after tax		728,788	560,593
Other comprehensive income		0	0
Total comprehensive income		728,788	560,593

Pražská plynárenská, a. s. Consolidated statement of changes in equity for the year ended 31 December 2014 Prepared in accordance with IFRS as adopted by the EU				
	Share capital (CZK '000)	Statutory reserve funds (CZK '000)	Retained earnings (CZK '000)	Total (CZK '000)
Note	6.5	6.6		
Balance as at 1 January 2013	1,439,907	661,863	2,420,480	4,522,250
Profit for the period			560,593	560,593
Transactions with owners of the Company:				
Dividends paid			(633,559)	(633,559)
Contribution to statutory reserve funds		13,257	(13,257)	0
Balance as at 31 December 2013 (restated)	1,439,907	675,120	2,334,257	4,449,284
Profit for the period			728,788	728,788
Transactions with owners of the Company:				
Dividends paid			(633,560)	(633,560)
Contribution to statutory reserve funds		17,663	(17,663)	0
Balance as at 31 December 2014	1,439,907	692,783	2,411,822	4,544,512

Pražská plynárenská, a. s. Consolidated statement of cashflows for the year ended 31 December 2014 Prepared in accordance with IFRS as adopted by the EU	2014 (CZK '000)	2013 - restated (CZK '000)
Profit before tax	850,448	768,329
Adjustments of profit before tax	468,921	799,746
Amortization and depreciation of non-current assets	371,034	370,764
Write-off of receivables	99,888	17,923
Change in provisions and reserves	(27,013)	348,023
Profit from sale of non-current assets	(5,705)	(4,461)
Net interest	36,741	41,479
Other non-cash movements (revaluation of derivatives)	(6,024)	26,018
Net cash flows from operating activities before tax and working capital changes	1,319,369	1,568,075
Change in working capital needs	1,129,661	(1,137)
Change in receivables from operations	819,804	441,604
Change in liabilities from operations	483,947	(581,943)
Movements in inventories (gross)	(174,090)	139,202
Net cash flows from operating activities before tax	2,449,030	1,566,938
Interest paid	(38,602)	(43,175)
Interest received	2,044	1,856
Income tax on current activities and additional tax paid minus tax refunds	(190,148)	(63,376)
Net cash flows from operating activities	2,222,324	1,462,243
Acquisition cost of non-current assets and material	(543,751)	(507,306)
Proceeds from sale of non-current assets and material	33,757	26,819
Net cash flows from investing activities, acquisition and sale of material	(509,994)	(480,487)
Change in liabilities from financing activities	(1,159,571)	(166,286)
Change in long-term liabilities	(2,614)	(7,238)
Received loans	5,946,405	8,952,801
Loans repayment	(7,103,362)	(9,111,849)
Dividends paid	(633,560)	(633,559)
Loans from parent company PPH	307,619	0
Net cash flows from financing activities	(1,485,512)	(799,845)
Cash and cash equivalents balance at the beginning of the accounting period	327,605	145,694
Net movement in cash and cash equivalents for the accounting period	226,818	181,911
Balance of cash and cash equivalents at the end of the accounting period	554,423	327,605

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

1.2. Definition of group and its business activities

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

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

The Group also operates in the following business activities:

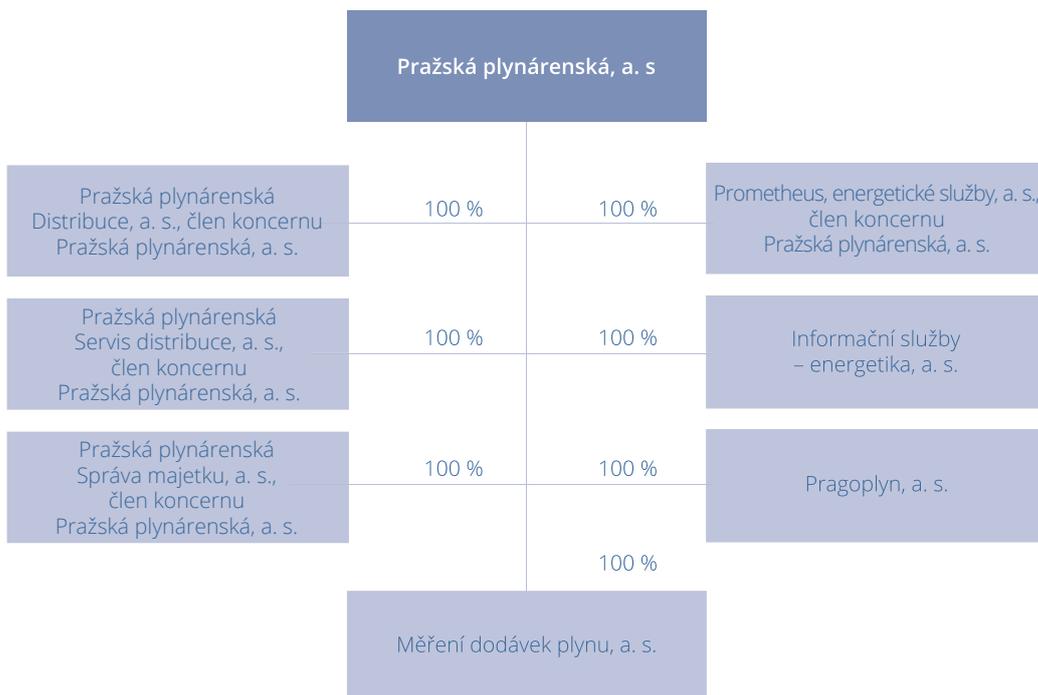
- Rendering services relating to information technology and the purchase and sale of hardware and software;
- Rendering services relating to researching the causes of losses of natural gas, measurement and metrology in the gas industry;
- Service, maintenance, repairs and construction of gas facilities;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

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

Organizational structure of the Group as at 31 December 2014:



Organizational structure of the Group as at 31 December 2013:



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

Měření dodávek plynu, a. s.

Registered office: U Plynárny 500/44, Prague 4, post code 145 08

Successor company: Pražská plynárenská Servis distribuce, a. s., člen koncernu Pražská plynárenská, a. s.

Pragoplyn, a. s.

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

Successor company: Pražská plynárenská, a. s.

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

Members of the Board of Directors:

Ing. Pavel Janeček

Ing. Milan Jadlovský

Ing. Alois Těšitel

Ing. Petr Zmátlík

Chairman of the Board of Directors

Vice Chairman of the Board of Directors

Member of the Board of Directors

Member of the Board of Directors

Members of the Supervisory Board:

Dr.-Ing. Milan Urban

Pavel Hurda

MUDr. Iveta Borská

Ing. Marta Ptáčková

Ing. Pavel Richter

JUDr. Lubomíra Stojkovičová

Jiří Vávra

Mgr. Miroslav Vránek

Chairman of the Supervisory Board

Vice Chairman of the Supervisory Board

Member of the Supervisory Board

1.4. Major shareholders of the Company

The sole shareholder controlling the Company is Pražská plynárenská Holding a. s. („PPH“), which is controlled by the capital city of Prague.

Shareholder's name	Share (%)	
	As at 31 December 2014	As at 31 December 2013
Pražská plynárenská Holding a. s.	100,00	50,20
E.ON Czech Holding AG *	0,00	49,35
Other shareholders	0,00	0,45
Total	100,00	100,00

* Pražská plynárenská, a. s., approved provision of information for the shareholder for consolidation purposes.

According to the contract signed on 31 December 2013 742,580 pieces of certificated shares, representing 49% of equity share in Pražská plynárenská Holding a. s. were transferred from E.ON Czech Holding AG to the capital city of Prague on 27 March 2014. The capital city of Prague became a 100% shareholder of PPH. On the same day 710,550 pieces of ordinary bearer shares of the Company that were owned by E.ON Czech Holding AG were transferred to PPH. Subsequently PPH acquired a 99.55% share in the Company. On 16 June 2014 the remaining 6,560 pieces of Pražská plynárenská, a. s., owned by minority shareholders were transferred to PPH. Subsequently PPH became the sole shareholder of the Company. The ultimate owner of the Company is the capital city of Prague.

2. Application of new and amended international financial reporting standards (IFRS)

2.1. New standards, amendments and interpretations mandatory for the first time for the financial year 2014

IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for accounting periods beginning on January 1, 2014 or later) change mainly the instructions relating to the definition of control and consolidation determination IAS 27 Consolidated and Individual Financial Statements and SIC-12 Consolidation - Special Purpose Entities.

IFRS 12, Disclosure of Interests in Other Entities (issued in May 2011 and effective for accounting periods beginning on January 1, 2014 or later) is applicable to the entity which has holdings either in subsidiaries, associates, joint ventures or unconsolidated structured entity.

IAS 27, Separate Financial Statements (revised in May 2011 and effective for accounting periods beginning on January 1, 2014 or later) was modified in order to determine the extent of the presentation and disclosure requirements for investments in subsidiaries, joint ventures and associates.

Amendment to IAS 32, Financial Instruments: Presentation - offsetting financial assets and financial liabilities (issued in December 2011 and effective for annual periods beginning January 1, 2014 or later).

Amendment to IAS 39, Financial Instruments: Recognition and Measurement, derivatives and hedge accounting continuity (issued in June 2013 and effective for annual periods beginning January 1, 2014 or later).

Amendment to IAS 36 - determining annex for recoverable value of non-financial assets (issued May 29, 2013 and effective for periods beginning on 1 January 2014).

Amendments to IFRS 10, 11 and 12 - part governing the transition to IFRS standards (issued in July 2012, effective for annual periods beginning on 1 January 2014).

Unless otherwise stated, the new standards and interpretations do not significantly affect the financial statements of the Group.

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

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

IFRS 15, Revenue from Contracts with Customers (issued in May 2014, effective date for EU still not announced, in IASB effective from periods beginning 1 January 2017 or later). This new standard introduces, that revenues are recognised in transaction price at time, when goods or services are transferred to a customer and the customer takes control over them. All separated deliverables with different substance must be reported individually and all discounts and rebates from the contract price are allocated to individual deliverables. Variable consideration is included in the transaction price to the extent, which should eliminate significant risk of „substantial debiting of revenues“ in future. Customer acquisition costs must be capitalised and amortized during the period they are bringing benefits according to contract. The Group is currently assessing the impact of IFRS 15.

IFRS 9, Financial Instruments - recognition and measurement (issued in July 2014, effective date for EU still not announced, in IASB effective from periods beginning 1 January 2018 or later). The new IFRS 9 standard replaces IAS 39 which relates to classification and measurement of financial assets and it also changes some requirements for publishing regulated by IFRS 7. Standard IFRS 9 specifies three categories for all financial assets, currently regulated by standard IFRS 39 – assets valued by net book value determined by effective rate method, assets in fair value through other comprehensive income and fair value through profit and loss. The effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss are required to be presented in other comprehensive income. The new IFRS 9 contains new more progressive recognition of impairment losses (ECL) model considering also expected credit losses in comparison to model of loss incurred as per IAS 39. Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges. The Group is currently assessing the impact of IFRS 9.

IFRIC 21 - Levies (issued in May 2013 and effective for annual periods beginning on or after 1 January 2015). The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The interpretation defines obligating event that gives rise to a liability. The Company's management analyses Levies and expects that this interpretation will have impact on the presentation of the company financial statements. The Group doesn't expect significant impact on consolidated financial statements of the Company.

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

IFRS 14, Regulatory Deferral Accounts rate-categorised presentation (issued in January 2014, effective date for EU still not announced, in IASB effective from periods beginning 1 January 2016 or later). IFRS 14 provides an exemption for first-time adopters of IFRS to continue to show balances related to regulation by rate of return under the basis of accounting used immediately before adopting IFRS. For better comparability with entities already applying IFRS, who do not present such balances, the impact of regulatory deferral account balances are presented separately from other items. If the entity already applies IFRS, it is not permitted to use this standard. This standard will not have any impact on consolidated financial statements of the Company.

Amendment to IFRS 11, Joint arrangements, Accounting for Acquisitions of Interests in Joint Operations (issued in May 2014, effective date for EU still not announced, in IASB effective from periods beginning 1 January 2016 or later). The amendment clarifies the accounting for acquisitions of an interest in a joint operation and correctness of such accounting. This standard will not have any significant impact on consolidated financial statements of the Group.

Amendment to IAS 16, Property, Plant and Equipment, and IAS 38 Intangible Assets, clarification of acceptable methods of depreciation and amortisation (issued in May 2014, effective date for EU still not announced, in IASB effective from periods beginning 1 January 2016 or later). This standard will not have any impact on consolidated financial statements of the Company.

Amendment to IAS 16, Property, Plant and Equipment and IAS 41 Agriculture, change in accounting of bearer plants, e.g. grape-vine, gum-tree and palms (issued in June 2014, effective date for EU still not announced, in IASB effective from periods beginning 1 January 2016 or later). This standard will not have any impact on consolidated financial statements of the Company.

Amendments to IAS 27, Separate Financial Statements, (issued in August 2014, effective date for EU still not announced, in IASB effective from periods beginning 1 January 2016 or later). The amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. This standard will not have any impact on consolidated financial statements of the Group.

Amendments to IFRS 10, Consolidated Financial Statements and IAS 28, Investments in Associates (issued in September 2014, effective date for EU still not announced, in IASB effective from periods beginning 1 January 2016 or later). The amendments address a conflict between the requirements of IFRS 10 and IAS 28 concerning sale or contribution of assets between an investor and its associate or joint venture. The Group doesn't expect significant impact of this standard on consolidated financial statements of the Group.

Disclosure initiative to Amendment to IAS 1, (issued in December 2014, effective date for EU still not announced, within IASB effective for accounting period beginning on 1 January 2016 or later). The standard was changed in order to clarify concept of materiality and explains, that accounting entity is not required to report information required by IFRS, assuming that information is immaterial even when an IFRS requires a specific disclosure, materiality considerations do apply. The amendment also introduces new guidance on subtotals in financial statements. Significant influence of the standard on consolidated financial statements of the Group is not expected.

Investment Entities: Applying the consolidation exception, amendments to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014, effective date for EU still not announced, within IASB effective for accounting period beginning on 1 January 2016 or later). Significant influence of the standard on consolidated financial statements of the Group is not expected.

Improvements to 2012 International Financial Reporting Standards issued in December 2013 and effective on or after 1 July 2015:

- IFRS 2, Share-based payments
- IFRS 3, Business combinations
- IFRS 8, Operating segments
- IFRS 13, Fair Value Measurement
- IAS 16, Property, Plant and Equipment
- IAS 38, Intangible Assets: Revaluation method
- IFRS 9, Financial Instruments, and resulting impact on IAS 37, Provisions
- IAS 39, Financial Instruments

Improvements to 2013 International Financial Reporting Standards issued in December 2013 and effective on or after 1 July 2014:

- IFRS 1, First-time Adoption of International Financial
- IFRS 3, Business Combinations
- IFRS 13, Fair Value Measurement
- IAS 40, Investment Property

Improvements to 2014 International Financial Reporting Standards issued in September 2014, effective date for EU has not been stated yet:

- IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, regarding the methods of disposal
- IFRS 7, Financial Instruments: Disclosure of information regarding service contracts
- IAS 19, Employee Benefits regarding discount rates
- IAS 34, Interim Financial Reporting dealing with disclosure

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

2.3. Other standards, amendments to standards and interpretations effective from 1 January 2014, which are not relevant for the Company:

- IFRS 11, Joint Arrangements (issued in May 2011 and effective for accounting periods beginning on January 1, 2014 or later).
- IAS 28, Investments in associates and joint ventures (revised in May 2011 and effective for accounting periods beginning on January 1, 2014 or later) extended billing of joint ventures using the equity method.
- Amendments to IFRS 10, IFRS 12 and IAS 27 standards governing investment companies (issued in October 2012 and effective for annual periods beginning January 1, 2014 or later).

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

3.1. Declaration of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations as adopted by the European Union applicable in 2014.

3.2. Basis of preparation of consolidated financial statements

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

3.3. Functional and presentation currency of consolidated financial statements

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

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

3.4. Consolidation background

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

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

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

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

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

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

3.5. Intangible assets

3.5.1. Recognition and measurement

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

3.5.2. Amortization

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

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

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

3.6. Property, plant and equipment

3.6.1. Recognition and measurement

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

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

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

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

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

3.6.2. Depreciation

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

Land owned by the Group is not depreciated.

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

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

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

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

3.6.3. Disposals

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

3.7. Impairment of non-financial assets

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

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

3.8. Inventories

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

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

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

3.9. Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables. The classification depends on the purpose for which the financial assets were acquired. As at 31 December 2014 and 2013, the Group recognized the following categories of financial assets:

3.9.1. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading with the receivable. They are included in current assets, except for maturities greater than 12 months after the reporting period. These are classified as non-current assets. Loans and receivables are included in the row 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 and are subsequently measured using the effective interest method, less an impairment loss. An impairment loss for receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

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

The Group recognizes an impairment loss for overdue trade receivables, which are grouped to similar receivables' portfolio. The amount of impairment loss is based on experience from settlement of the overdue trade receivables:

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

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

3.9.2. Financial assets at fair value through profit or loss

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

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

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

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

3.9.3. Derivatives

Derivatives are initially recognized at fair value as at the date when the contract is concluded. Derivatives are subsequently measured at fair value. The Group does not apply hedge accounting. All derivatives are classified as Other assets if their fair value is positive, and under Other liabilities if their fair value is negative. Changes in the fair value are recognised in the consolidated profit or loss within Financial expense (-) / income (+). The fair value of derivatives is calculated as the present value of expected future cash flows from derivatives. The expected cash flows are based on current market data (foreign exchange rates) as at the end of the reporting period.

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

3.10. Cash and cash equivalents

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

3.11. Equity

3.11.1. Share capital

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

3.11.2. Statutory reserve funds

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

3.12. 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 are subject to currency derivatives, the performance of which is evaluated in accordance with the risk management strategy.

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

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

3.12.2. Other financial liabilities

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

3.12.3. Trade payables

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

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

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

3.13. Unbilled supplies and advances received

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

3.14. Bank loans

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

3.14.1. Borrowing costs

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

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

All other borrowing costs are recognized as Interest expense in the consolidated statement of total comprehensive income.

3.15. Provisions

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

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

Market interest rates are used for discounting.

3.16. Revenue recognition

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

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

3.16.1. Revenues from sale and distribution of gas

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

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

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

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

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

Revenues from MO and DOM categories consist of actually billed revenues and revenues from so called "unbilled gas" (see Notes 3.21.1 and 4.1). The amount of unbilled gas is calculated from the total amount of purchased gas in the particular year based on past behaviour of individual customers, divided into periods on the basis of the so-called load profiles ("TDD") and is valued in relation to the valid price list of the Group corrected by discounts.

3.16.2. Revenues from sale of electricity

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

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

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

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

Revenues in categories "MOO" and "MOP" customers consist of revenues actually billed and revenues of unbilled electricity sales. The unbilled electricity value calculation is based on total volume of electricity purchased during the current year, the consumer's behaviours in previous year and the actual pricelist of the Company, eventually based on individually assessed prices and updated by given discounts. Supplies and electricity distribution for high-volume customers ("VO") whose distribution points are on high or very high voltage level are invoiced monthly based on actual measured consumption. Revenues of the VO category consist of revenues based on actual invoicing.

3.16.3. Revenues from sale goods

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

3.16.4. Revenues from sale of other services and other revenues

Sales are recognized as at the date the services are rendered and are stated net of discounts and Value Added Tax. Revenues from sale of other services are mainly construction and maintenance of gas and water pipelines, rent and IT services.

3.17. Leases

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

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

3.18. 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.

3.19. Employee benefits

3.19.1. 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.

3.19.2. Pension and life insurance

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

3.19.3. Other obligations

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

3.20. Taxes

The tax expense comprises current and deferred income tax.

3.20.1. Current tax

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

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

3.20.2. Deferred tax

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

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

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

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

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

3.21.1. Unbilled gas supplies

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

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

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

Sensitivity analysis:

If the ratio of losses to the total amount of gas distributed in 2014 had been lower (higher) by 0.36 percentage points (with all other variables held constant), the profit before tax as at 31 December 2014 would have been higher (lower) by CZK 40,008,000, due to higher (lower) revenues in unbilled gas supplies.

3.22. Restatement of comparative information

The following corrections were made in 2014 – a correction of an error in the calculation of provision for overdue receivables as at 31 December 2013; a correction of the presentation of advances received from customers for unbilled gas and electricity supplies and a correction of presentation of VAT arising from received and paid advances.

In 2014 it was noted that provision for overdue receivables as at 31 December 2013 had been calculated based on incorrect maturity dates. The value of the provision should have been higher by CZK 74,315,000. The calculation of deferred tax liability was amended to reflect this change. This error had no impact on 2012 year.

In addition, in 2014 the amount of unbilled gas and electricity supplies was compensated with advances received. The resulting value per individual customer, approximate the actual receivable from or payable to a customer. The above mentioned compensation was recognized in accordance with IAS 8 as a correction of prior period error, i.e. the consolidated statements of financial position as at 31 December 2013 and as at 1 January 2013 were restated. This change has no impact on the consolidated statement of comprehensive income.

In 2014 recognition of VAT arising from received and paid advances changed. As a result of the correction, trade and other receivables, trade payables and advances received decreased.

The above mentioned fact was presented in accordance with IAS 8 as a correction of prior period errors, i.e. the consolidated statements of financial position as at 31 December 2013 and the consolidated statement of comprehensive income for the year 2013 were restated. The change has no impact on 2012.

In accordance with the amendment to IAS 32, presentation of compensation of financial assets and liabilities changed in 2014. In accordance with the requirements of the amended standard the change was applied retrospectively and the consolidated statements of financial position as at 31 December 2013 and 1 January 2013 were restated.

In order to improve the presentation of the consolidated financial statements the Group also changed the classification of purchases and services associated with electricity from Other operating expenses to Purchased gas and electric energy, materials and services related to the supply of gas and electricity. This adjustment has no impact on the comprehensive income for the years 2013 and 2012.

The impact on the comparative period

Following tables show the excerpt positions from the consolidated financial statements as at 31 December 2013 and 1 January 2013, which were restated:

Consolidated statement of financial position as at 31 December 2013

(in CZK ´000)	Note	Originally disclosed	Compensation of unbilled supplies and advances received	Change in the VAT reporting	Change in compensation of financial assets and liabilities	Correction of the allowance for receivables	Restated balance
Trade and other receivables	6.4	6,775,507	(3,811,165)	(736,260)	26,532	(74,315)	2,180,299
Total Current assets		7,942,851	(3,811,165)	(736,260)	26,532	(74,315)	3,347,643
TOTAL ASSETS		13,656,777	(3,811,165)	(736,260)	26,532	(74,315)	9,061,569
Deferred tax liability	6.8	370,017			0	(14,120)	355,897
Total non-current liabilities		1,374,664	0	0	0	(14,120)	1,360,544
Trade payables and advances received	6.9	6,378,355	(3,811,165)	(736,559)	26,532	0	1,857,163
Other liabilities	6.9	114,773		299		0	115,072
Total current liabilities		7,772,634	(3,811,165)	(736,260)	26,532	0	3,251,741
Retained earnings		2,394,452			0	(60,195)	2,334,257
Total equity		4,509,479	0	0	0	(60,195)	4,449,284
TOTAL EQUITY AND LIABILITIES		13,656,777	(3,811,165)	(736,260)	26,532	(74,315)	9,061,569

Consolidated statement of financial position as at 1 January 2013

(in CZK ´000)	Note	Originally disclosed	Compensation of unbilled supplies and advances received	Change in the VAT reporting	Change in compensation of financial assets and liabilities	Correction of the allowance for receivables	Restated balance
Trade and other receivables	6.4	6,907,238	(3,828,053)	(458,250)	138,726	0	2,759,661
Total current assets		8,079,889	(3,828,053)	(458,250)	138,726	0	3,932,312
TOTAL ASSETS		13,681,529	(3,828,053)	(458,250)	138,726	0	9,533,952
Trade payables and advances received	6.9	6,609,661	(3,828,053)	(471,597)	138,726	0	2,448,737
Other liabilities	6.9	67,431		13,348		0	80,779
Total current liabilities		7,824,190	(3,828,053)	(458,249)	138,726	0	3,676,614
TOTAL EQUITY AND LIABILITIES		13,681,529	(3,828,053)	(458,249)	138,726	0	9,533,953

Consolidated statement of comprehensive income for the year ending 31 December 2013

(in CZK '000)	Note	Originally disclosed	Reclassification	Correction of prior period error	Restated balance
Purchased gas, electricity, materials and services related to gas and electricity supplies	6.15	13,815,990	242,054	0	14,058,044
Other operating income	6.16	173,264	(22,359)	0	150,905
Other operating expense	6.19	1,267,173	(264,413)	74,315	1,077,075
Operating profit		902,720	0	(74,315)	828,405
Profit before tax		842,644	0	(74,315)	768,329
Income tax	6.21	221,856	0	(14,120)	207,736
Profit after tax		620,788	0	(60,195)	560,593
Total comprehensive income		620,788	0	(60,195)	560,593

4. Financial risk management

4.1. Credit risk

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

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

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

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

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

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

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

In 2014 and 2013, the higher pressure on customers in out-of-court collection has been developed. Non-paying customers were disconnected from gas delivery, reminders via phone for overdue receivables and advances were in place.

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

31 December 2014:

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

Expected percentage of settlement for receivable not overdue	DOM (CZK '000)	MO (CZK '000)	VO (CZK '000)	Other (CZK '000)	Total (CZK '000)
Not overdue	57,535	30,923	665,855	151,289	905,602
expected settlement rate	52%	48%	65%	15%	

31 December 2013 (restated):

Ageing of receivables	DOM (CZK '000)	MO (CZK '000)	VO (CZK '000)	Other (CZK '000)	Total (CZK '000)
Not overdue	933,535	26,085	792,726	156,352	1,908,698
overdue within 1 month	14,276	9,925	29,221	4,886	58,308
1 - 3 months	22,715	19,073	8,161	7,132	57,081
3 - 6 months	25,223	17,176	1,851	1,162	45,412
6 - 12 months	43,087	25,442	5,030	6,500	80,059
over 12 months	133,845	141,018	35,059	4,153	314,075
Total receivables	1,172,681	238,719	872,048	180,185	2,463,633
of which under court collection process	73,592	111,330	23,210	3,550	211,682

Expected percentage of settlement for receivable not overdue	DOM (CZK '000)	MO (CZK '000)	VO (CZK '000)	Other (CZK '000)	Total (CZK '000)
Not overdue	933,535	26,085	792,726	156,352	1,908,698
expected settlement rate in%	51%	47%	88%	25%	

1 January 2013 (restated):

Ageing of receivables	DOM (CZK '000)	MO (CZK '000)	VO (CZK '000)	Other (CZK '000)	Total (CZK '000)
Not overdue	1,109,954	97,490	896,606	53,261	2,157,311
overdue within 1 month	15,037	8,534	15,894	15,483	54,948
1 - 3 months	12,813	9,088	2,995	1,637	26,533
3 - 6 months	17,135	6,310	850	517	24,812
6 - 12 months	22,756	14,857	20,462	1,115	59,190
over 12 months	66,162	86,666	13,366	4,126	170,320
Total receivables	1,243,857	222,945	950,173	76,139	2,493,114
of which under court collection process	50,724	82,419	31,315	3,409	167,867

Expected percentage of settlement for receivable not overdue	DOM (CZK '000)	MO (CZK '000)	VO (CZK '000)	Other (CZK '000)	Total (CZK '000)
Not overdue	1,109,954	97,490	896,606	53,261	2,157,311
expected settlement rate in%	39%	42%	44%	46%	

Based on historical data 66 % of receivables are paid before the maturity and 24 % of receivables are paid after due date. The remaining 10 % of receivables are collected through out-of-court process or eventually through legal proceedings. The success rate of these claims collections is each year different.

Due date of receivables is based on invoicing and the collection period is subsequently not prolonged or changed in respect to the customers.

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

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

31 December 2014:

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

31 December 2013 (restated):

	Not impaired financial assets not yet due	Not impaired financial assets overdue	Impaired financial assets	Total (CZK '000)
Trade receivables	452,915	58,308	496,627	1,007,850
Unbilled deliveries	1,455,783	0	0	1,455,783
Cash and cash equivalents	327,605	0	0	327,605
Financial derivatives	10,891	0	0	10,891
Other long term assets	6,799	0	0	6,799
Total	2,253,993	58,308	496,627	2,808,928

1 January 2013 (restated):

	Not impaired financial assets not yet due	Not impaired financial assets overdue	Impaired financial assets	Total (CZK '000)
Trade receivables	599,841	54,948	280,855	935,644
Unbilled deliveries	1,557,470	0	0	1,557,470
Cash and cash equivalents	145,694	0	0	145,694
Financial derivatives	5,076	0	0	5,076
Other long term assets	9,148	0	0	9,148
Total	2,317,229	54,948	280,855	2,653,032

4.2. Liquidity risk

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

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

Management of the Group minimize liquidity risk (i.e. the risk of a lack of cash to pay liabilities) by continuous ongoing management and planning of its future cash flows. 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 pay its liabilities. The availability of funding and the possibility of closing the market positions are important for caution management of liquidity risk.

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

From 2009 a long-term loan, as at 31 December 2014 in the amount of CZK 0.7 billion, with maturity on 31 May 2016, is used for long-term financing. Short-term loans, especially in the form of authorized overdraft loans, are used to fund seasonal fluctuations in cash flows of the Group resulting from the sale and purchase of natural gas with maximum efficiency. Interest rates of all loans withdrawn are floating interest rates based on the PRIBOR rate. The integral part of financing the Group is the use of cash from all companies within the Group through a cash pooling instrument. The use of surplus cash through cash pooling reduces the need for external financing through short-term bank loans.

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

short-term credit lines

Bank	limit	from	to	interest rate
ČSOB	CZK 300 mio.	26.6.2014	29.6.2015	floating
Citibank	CZK 600 mio.	21.2.2012	21.2.2015	floating
Komerční banka	CZK 1 300 mio.	13.3.2014	27.2.2015	floating
Česká spořitelna	CZK 1 000 mio.	26.11.2014	30.11.2015	floating

long-term credit lines

Banka	limit	from	to	interest rate
ČSOB	CZK 700 mio.	31.12.2014	31.5.2016	floating

As at 31 December 2014 the Group used credit in the amount of CZK 793,802,000, further as at 31 December 2014 the Group used financial resources from the parent company PPH a. s. in the amount of CZK 307,619,000 (as at 31. 12. 2013 it was not used), that represent cash pooling liabilities. The average interest rate on cash pooling for 2014 was 0.20% p.a.

Summary of the short-term and the long-term credit lines as at 31 December 2013:

short-term credit lines

Bank	limit	from	to	interest rate
ČSOB	CZK 800 mio.	26.6.2013	26.6.2014	floating
Citibank	CZK 600 mio.	21.2.2012	21.2.2015	floating
Citibank	CZK 400 mio.	21.2.2012	21.2.2015	floating
Komerční banka	CZK 500 mio.	29.11.2013	27.2.2014	floating
Komerční banka	CZK 1 300 mio.	21.11.2013	27.2.2014	floating
Česká spořitelna	CZK 1 000 mio.	26.8.2013	30.9.2014	floating

long-term credit lines

Bank	limit	from	to	interest rate
ČSOB	CZK 1 000 mio.	15.10.2009	31.5.2016	floating

The Group used credit in the amount of CZK 1,950,759,000 as at 31 December 2013 (see Note 6.11).

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

The following tables present liabilities grouped according to their remaining maturity as at 31 December 2014 and 31 December 2013. The liabilities contained in the tables are the undiscounted cash flows, including interest, where relevant. The interest amount is based on the loans values as at 31 December 2014 and on interest rates on financial market as at 31 December 2014 (including bank margins).

31 December 2014:

(CZK '000)	less than 1 year	1 - 3 years	3 - 5 years
Bank loans	100,914	702,917	0
Derivatives	33,492	7,678	0
Trade payables and other liabilities	1,501,213	1,758	75
Financial resources from PPH - cashpooling	307,770	0	0
Total	1,943,389	712,353	75

31 December 2013 (restated):

(CZK '000)	less than 1 year	1 - 3 years	3 - 5 years
Bank loans	1,004,428	1,051,710	0
Derivatives	20,926	24,364	0
Trade payables and other liabilities	1,438,652	4,647	0
Total	2,464,006	1,080,721	0

1 January 2013 (restated):

(CZK '000)	less than 1 year	1 - 3 years	3 - 5 years
Bank loans	1,155,138	55,155	1,012,019
Derivatives	194,826	767	0
Trade payables and other liabilities	1,796,744	11,886	0
Total	3,146,708	67,808	1,012,019

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

Guarantees concluded

The Group has guarantees covering its financial liabilities arising from its activities on the gas trading market at Komerční banka, a. s., in favour of OTE, a. s., as at 31 December 2014 up to the amount of CZK 350,000,000 (as at 31 December 2013: CZK 360,000,000), in favour of RWE Supply Trading CZ, a. s., up to the amount of CZK 250,000,000 as at 31 December 2014 (as at 31 December 2013: CZK 100,000,000), in favour of RWE Supply Trading GmbH up to the amount of EUR 5,500,000 as at 31 December 2014, at Citibank Europe plc, organizační složka, also in favour of RWE Supply Trading CZ, a. s., up to the amount of CZK 290,000,000 as at 31 December 2014 (as at 31 December 2013: CZK 350,000,000) in favour of RWE GasNet, s. r. o., up to the amount of CZK 70,000,000 as at 31 December 2014 (as at 31 December 2013: CZK 104,000,000). These liabilities are not included in the balance sheet, however liabilities to which these guarantees apply, are recognized in accordance with the Group's accounting policies.

4.3. Market risk

4.3.1. Interest rate risk

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

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

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

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

The Group's entire short-term and long-term bank loans as at 31 December 2014 and 2013 have floating interest rates derived from the relevant interbank rate PRIBOR.

Sensitivity analysis:

If the interest rate had increased/decreased by 20 basic points with all other variables held constant as at 1 January 2014, profit for the year before tax as at 31 December 2014 would have been CZK 1,005,000 lower/higher as a result of the increased interest expense (as at 31 December 2013: CZK 2,567,000).

4.3.2. Currency risk

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

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

4.4. Fair value measurement

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

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

The carrying amounts of short-term receivables less the impairment provision and short-term payables approximate their fair values.

4.5. Offsetting of financial instruments

31 December 2014:

(CZK '000)	Gross amount of financial receivables and liabilities, which might be offset	Gross amount of offset financial receivables and liabilities	Net amount of offset receivables and liabilities, which might be offset	Amount of financial receivables and liabilities, which can't be offset	Total net amount
Trade and other receivables	233,854	0	233,854	746,740	980,594
Trade payables and other financial liabilities	711,153	0	711,153	1,145,550	1,856,703

31 December 2013 (restated):

(CZK '000)	Gross amount of financial receivables and liabilities, which might be offset	Gross amount of offset financial receivables and liabilities	Net amount of offset receivables and liabilities, which might be offset	Amount of financial receivables and liabilities, which can't be offset	Total net amount
Trade and other receivables	367,923	0	367,923	1,734,286	2,102,209
Trade payables and other financial liabilities	519,559	0	519,559	965,985	1,485,544

5. Capital risk management

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

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

Following the conditions resulting from the loan agreements, net debt indicator is also monitored.

Following table shows the ratio of equity and debts to total assets:

(CZK '000)	2014	2013
Equity	4,544,512	4,449,284
Equity-to-debt ratio	53%	49%
Long term bank loans	700,000	1,000,000
Short term bank loans	93,802	950,759
Loans from parent company PPH	307,619	0
Cash and cash equivalents	(554,423)	(327,605)
Net debt	546,998	1,623,154
Total capital	8,594,578	9,061,569
Net debt to total capital ratio	6%	18%
Equity and liabilities total	8,594,578	9,061,569

The Group's objective is to meet all conditions arising from debt covenants resulting from short and long term loans (see Note 6.11.).

The debt ratio as at 31 December 2014 is 0.9 (as at 31 December 2013: 1.0).

6. Notes to consolidated financial statements

6.1. Land property, plant and equipment

Property, plant and equipment (CZK '000) Acquisition cost	Land	Gas pipes, buildings and other instructions	Separate movable items	Boiler installations and other tangible fixed assets	Fixed assets under course of instruction	Fixed for tangible non-current assets	Total
Balance as at 1. 1. 2013	121,511	8,271,662	1,758,716	134,220	79,485	19,448	10,385,042
Purchases	0	0	0	0	533,411	8,448	541,859
Transfers	4,796	371,112	116,662	7,394	(499,964)	0	0
Retirements	(8,207)	(51,348)	(88,690)	0	0	(19,448)	(167,693)
Balance as at 31. 12. 2013	118,100	8,591,426	1,786,688	141,614	112,932	8,448	10,759,208
Purchases	0	0	0	0	495,823	9,566	505,389
Transfers	84	449,142	118,712	3,673	(571,611)	0	0
Retirements	0	(20,068)	(89,610)	0	0	(8,448)	(118,126)
Balance as at 31. 12. 2014	118,184	9,020,500	1,815,790	145,287	37,144	9,566	11,146,471
Accumulated depreciation, impairment, depreciation, recharging							
Balance as at 1. 1. 2013	0	3,447,228	1,467,528	33,500	0	0	4,948,256
Depreciation	0	215,617	81,970	7,054	0	0	304,641
Impairment	0	523	628	0	0	0	1,151
Accumulated depreciation for disposals	0	(46,357)	(49,351)	0	0	0	(95,708)
Balance as at 31. 12. 2013	0	3,617,011	1,500,775	40,554	0	0	5,158,340
Depreciation	0	193,751	117,909	7,435	0	0	319,095
Impairment	0	499	347	0	0	0	846
Accumulated depreciation for disposals	0	(16,334)	(86,275)	0	0	0	(102,609)
Balance as at 31. 12. 2014	0	3,794,927	1,532,756	47,989	0	0	5,375,672
Net book value 2013	118,100	4,974,415	285,913	101,060	112,932	8,448	5,600,868
Net book value 2014	118,184	5,225,573	283,034	97,298	37,144	9,566	5,770,799

Separate movable items - net book value (CZK '000)	2014	2013
Passenger cars	38,913	35,578
Computer equipment	26,233	37,165
Gas meters	62,926	56,809
Regulating stations-technology	89,867	76,882
Other property	65,095	79,479
Total	283,034	285,913

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

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

6.2. Intangible assets

Intangible assets (CZK '000) Acquisition cost	Goodwill	Software	Royalties	Intangible fixed assets under course of construction	Advances for intangible assets	Total
Balance as at 1. 1. 2013	171	527,028	0	54,317	0	581,516
Purchase	0	0	0	26,477	0	26,477
Transfers	0	49,466	5,500	(54,966)	0	0
Retirements	0	(40,229)	0	0	0	(40,229)
Balance as at 31. 12. 2013	171	536,265	5,500	25,828	0	567,764
Purchase	0	0	0	29,063	0	29,063
Transfers	0	24,550	0	(24,550)	0	0
Retirements	0	(2,878)	0	0	0	(2,878)
Balance as at 31. 12. 2014	171	557,937	5,500	30,341	0	593,949
Accumulated depreciation, impairment, depreciation						
Balance as at 1. 1. 2013	0	435,612	0	0	0	435,612
Depreciation	0	65,664	458	0	0	66,122
Impairment						0
Accumulated depreciation for disposals	0	(40,229)	0	0	0	(40,229)
Balance as at 31. 12. 2013	0	461,047	458	0	0	461,505
Depreciation	0	50,564	1,375	0	0	51,939
Accumulated depreciation for disposals	0	(814)	0	0	0	(814)
Balance as at 31. 12. 2014	0	510,797	1,833	0	0	512,630
Net book value 2013	171	75,218	5,042	25,828	0	106,259
Net book value 2014	171	47,140	3,667	30,341	0	81,319

No impairment of goodwill was identified in 2014 and 2013.

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

6.3. Inventories

Inventories represent mainly gas stored in the gas storage. In 2014 this gas has been used and accounted for as consumption in the amount of CZK 479,134,000 (2013: CZK 1,016 738,000). No surpluses and/or shortfalls in inventories were found during stock-taking in 2014.

6.4. Trade and other receivables

Trade and other receivables (CZK '000)	31 December 2014	31 December 2013 (restated)	1 January 2013 (restated)
Trade receivables from third parties	678,133	1,007,037	934,969
Trade receivables from related parties	225	813	675
Financial trade receivables	678,358	1,007,850	935,644
Allowances for receivables	(328,511)	(372,315)	(249,774)
Net trade receivables - financial	349,847	635,535	685,870
Unbilled deliveries	629,715	1,455,783	1,557,470
Receivables from derivative transactions	1,032	10,891	5,076
Total financial trade and other receivables	980,594	2,102,209	2,248,416
Operating short-term advances paid	71,576	8,389	361,346
Other receivables - non-financial	93,354	69,701	149,899
Total non-financial trade and other receivables	164,930	78,090	511,245
Total trade and other receivables	1,145,524	2,180,299	2,759,661

Short-term operating advances provided to individual suppliers for natural gas and electricity purchases and purchases of gas distribution services were offset with anticipated payables created in connection with these suppliers. In 2014 the offset amount of advances with anticipated payables was CZK 600,110,000 (2013: CZK 821,067,000).

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

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

Overdue receivables (CZK '000)	31 December 2014	31 December 2013 (restated)
Up to 30 days	51,917	58,308
Total	51,917	58,308

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

Overdue receivables (CZK '000)	31 December 2014	31 December 2013 (restated)
Up to 6 months	36,445	102,493
6 to 12 months	45,482	80,059
Over 1 year	268,627	314,075
Total	350,554	496,627

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

Allowances for trade and other receivables (CZK '000)	31 December 2014	31 December 2013 (restated)
Opening balance as at 1 January	372,315	249,774
Creation of allowance for receivables	57,576	144,122
Use of allowance	101,380	21,581
Balance as at 31 December	328,511	372,315

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

31 December 2014

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

31 December 2013

Allowances (CZK '000)	Ageing of allowances for overdue receivables				Total
	1 to 3 months	3 to 6 months	6 to 12 months	Over 12 months	
MO	971	3,565	13,075	141,018	158,629
DOM	1,182	5,077	21,649	133,846	161,754
VO	872	370	2,974	39,607	43,823
Oter	61	169	3,700	4,179	8,109
Total	3,086	9,181	41,398	318,650	372,315

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

Trade and other receivables (CZK '000)	31 December 2014	31 December 2013 (restated)
Change in allowance - for existing trade receivable	(43,804)	122,541
Trade receivables written-off	99,888	17,923
Total net loss from trade receivable	56,084	140,464

The Group has no long-term receivables.

6.5. Share capital

Form of shares	2014		2013	
	Number	Nominal value (CZK)	Number	Nominal value (CZK)
Bearer shares	950,338	1,000	950,338	1,000
Registered shares	489,569	1,000	489,569	1,000
Total	1,439,907		1,439,907	

Bearer shares are in booked form.

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

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

During 2014 there were no changes in share capital.

6.6. Funds from profit

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

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

6.7. Trade payables and other long-term liabilities

Other liabilities (CZK '000) due	Long-term advances received	Other long-term liabilities	Total
Balance as at 31. 12. 2013	200	4,447	4,647
of which: due in less than 5 years	200	4,447	4,647
of which: due after 5 years	0	0	0
Balance as at 31. 12. 2014	200	1,833	2,033
of which: due in less than 5 years	200	1,833	2,033
of which: due after 5 years	0	0	0
Total as at 31. 12. 2013	200	4,447	4,647
Total as at 31. 12. 2014	200	1,833	2,033

6.8. Deferred tax liability

Compensation of deferred tax assets and liabilities:

(CZK '000)	31 December 2014	31 December 2013 (restated)
Deferred tax asset to be recovered after more than 12 months	(382)	(384)
Deferred tax asset to be recovered within 12 months	(51,435)	(80,406)
Deferred tax liability payable after more than 12 months	425,325	436,687
Deferred tax liability payable within 12 months	0	0
Net deferred tax liability	373,508	355,897

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

Deferred tax liability (+) and deferred tax asset (-) (CZK '000) Item	31 December 2014	31 December 2013 (restated)
Deferred tax liability in respect of net book value of non-current assets	425,325	436,687
Tax non-deductible part of allowances for receivables	(18,296)	(48,918)
Tax non-deductible impairment of materials	(221)	(165)
Other differences	(33,300)	(31,707)
Total	373,508	355,897

Deferred tax liability (+) and deferred tax asset (-) (CZK '000)	Difference of net book value of non-current assets	Tax non deductible portion of allowance for doubtful receivables	Tax non-deductible impairment of material	Other	Total
1 January 2013	362,072	(33,065)	(174)	(5,630)	323,203
profit (-) / loss (+)	74,615	(15,853)	9	(26,077)	32,694
31 December 2013 (restated)	436,687	(48,918)	(165)	(31,707)	355,897
profit (-) / loss (+)	(11,362)	30,622	(56)	(1,593)	17,611
31 December 2014	425,325	(18,296)	(221)	(33,300)	373,508

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

Trade payables and short-term advances received	31 December 2014	31 December 2013 (restated)	1 January 2013 (restated)
Trade payables to third parties	1,500,909	1,362,102	2,087,085
Trade payables to related parties	304	76,550	18,547
Short-term advances received	677,673	418,511	343,105
Total trade payables and advances received	2,178,886	1,857,163	2,448,737

Other liabilities	31 December 2014	31 December 2013 (restated)	1 January 2013 (restated)
Financial resources from PPH	307,619	0	0
Liabilities from derivatives	41,040	45,000	0
Other liabilities - financial	1,831	1,892	1,685
Total financial liabilities	350,490	46,892	1,685
Liabilities to employees	45,740	46,807	44,296
Liabilities for social insurance	15,269	17,088	15,411
Other liabilities - non-financial	5,929	4,285	19,386
Total non-financial liabilities	66,938	68,180	79,093
Total other liabilities	417,428	115,072	80,778

Trade payables and short-term advances received (CZK '000) Carrying amount	Trade payables	Short-term advances received	Estimated liabilities	Total
Balance as at 1. 1. 2013 (restated)	307,413	343,105	1,798,219	2,448,737
Balance as at 31. 12. 2013 (restated)	347,893	418,511	1,090,759	1,857,163
Balance as at 31. 12. 2014	261,011	677,673	1,240,202	2,178,886

Trade payables and short-term advances received (maturity) (CZK '000)	Trade payables	Short-term advances received	Estimated liabilities	Total
Balance as at 1. 1. 2013 (restated)	307,413	343,105	1,798,219	2,448,737
of which: due within 6 months	307,413	343,105	1,798,219	2,448,737
of which: due more than 6 months but within 1 year	0	0	0	0
Balance as at 31. 12. 2013 (restated)	347,893	418,511	1,090,759	1,857,163
of which: due within 6 months	347,893	418,511	1,090,759	1,857,163
of which: due more than 6 months but within 1 year	0	0	0	0
Balance as at 31. 12. 2014	261,011	677,673	1,240,202	2,178,886
of which: due within 6 months	261,011	677,673	1,240,202	2,178,886
of which: due more than 6 months but within 1 year	0	0	0	0
Total as at 1. 1. 2013 (restated)	307,413	343,105	1,798,219	2,448,737
Total as at 31. 12. 2013	347,893	418,511	1,090,759	1,857,163
Total as at 31. 12. 2014	261,011	677,673	1,240,202	2,178,886

Payables to related parties are disclosed in Note 6.23.

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

6.9.1. Derivative financial instruments

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

(CZK '000)	31 December 2014			31 December 2013		
	Fair value		Nominal value	Fair value		Nominal value
	Positive	Negative		Positive	Negative	
Currency forward	1,032	0	23,628	12,099	1,208	457,527
Embedded forward	0	41,040	700,000	0	45,000	700,000

Change in fair value of financial derivatives held-for-sale is recognized in the consolidated statement of comprehensive income.

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

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

The Group has financial derivatives with the function as efficient hedging tool but according to IAS 39 the hedge accounting is not applicable due to the unmatched criteria. Therefore derivatives mentioned above are recognized as derivatives for trading.

Financial costs relating to derivatives are recognized in the consolidated statement of comprehensive income for the year 2014 in the amount of CZK 6,024,000 (2013: cost in the amount of CZK 26,019,000) (Note 6.20.).

6.10. Unbilled supplies and advances received

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

31 December 2013 (CZK '000)	kat. DOM	kat. MO	kat. VO	Ostatní	Celkem
Unbilled supplies	3,163,921	908,896	912,566	281,564	5,266,947
Advances received	(2,268,478)	(1,327,407)	(441,852)	(191,938)	(4,229,675)
Netting	2,268,478	908,896	441,852	191,938	3,811,164
Unbilled supplies – after netting	895,443	0	470,714	89,626	1,455,783
Advances received – after netting	0	(418,511)	0	0	(418,511)

31 December 2012 (CZK '000)	DOM	MO	VO	Other	Total
Unbilled supplies	3,095,435	945,446	1,251,063	93,579	5,385,523
Advances received	(2,078,738)	(1,288,551)	(714,542)	(89,327)	(4,171,158)
Netting	2,078,738	945,446	714,542	89,327	3,828,053
Unbilled supplies – after netting	1,016,697	0	536,521	4,252	1,557,470
Advances received – after netting	0	(343,105)	0	0	(343,105)

6.11. Bank loans and borrowings

Bank loans (CZK '000)	2014			2013		
	Principal	Interest	Due date	Principal	Interest	Due date
ČSOB – dlouhodobý	700,000	floating	31.5.2016	1,000,000	floating	31.5.2016

The interest rate for the long-term bank loan is set as 1M PRIBOR + bank margin. The loan was provided without any requirement for guarantee by the Group. The loan is repayable in one instalment as at 31 May 2016.

The bank loan agreement consists of several covenants (i.e. interest cover, total equity over total equity and liabilities and liquidity). All covenants were fulfilled during 2014. The average interest rate for the year 2014 was 3.50 % (in 2013: 3.51%).

The Group used 4 lines of credit to compensate a lack of cash flow caused by seasonal fluctuations of gas trade during 2014 apart from long term loan. All short-term lines of credit are concluded for 12 months and are renewed regularly for the next 12 months at the end of the period.

All short-term credits were provided from banks without any requirement for guarantee by the Group. All covenants are fulfilled. The average interest rate for the lines of credit was 0.50% in 2014 (in 2013: 0.51%).

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

(CZK '000)	Book value		Fair value	
	2014	2013	2014	2013
Bank loans - long-term	700,000	1,000,000	700,000	1,000,000
Bank loans - short-term	93,802	950,759	93,802	950,759

The fair value of bank loans was determined as a Level 2 (Note 3.9.2.).

6.12. Tax receivables and liabilities

Tax liability (+) and asset (-) (CZK '000) Carrying value	Income tax	Other tax liabilities
Balance as at 31. 12. 2013	54,297	8,263
Balance as at 31. 12. 2014	(30,096)	9,315

Other tax liabilities in year 2014 consists of CZK 6,140,000 (2013: CZK 6,416,000) in respect of personal income tax and CZK 3,175,000 (2013: CZK 1,847,000) in respect of other taxes and charges.

6.13. Provisions

Provisions (CZK '000) Carrying value	Other provisions
Balance as at 1. 1. 2013	28,793
Creation of provision	266,187
Use of provisions	(28,793)
Balance as at 31. 12. 2013	266,187
Creation of provision	75,094
Use of provisions	(66,187)
Balance as at 31. 12. 2014	275,094
Net book value 2013	266,187
Net book value 2014	275,094

Provisions recognized as at 31 December 2014 contain provision for property reimbursement related to extraordinary event of damage in Divadelni Street, Prague, in amount of CZK 200,000,000.

6.14. Revenues

Revenues (CZK '000)	2014	2013
Sale and distribution of natural gas	13,231,634	16,360,406
- large customers*	7,470,255	8,894,727
- small customers	2,750,674	3,008,495
- domestic customers	3,010,705	4,457,183
Sale of heat and CNG	107,868	111,258
Unused tolerance	257	552
Sale of electricity	266,419	259,738
Other services	135,826	115,345
out of that repair and maintenance	24,044	14,297
out of that IT services	6,227	11,239
out of that rent	20,585	22,394
out of that pipelines construction	45,585	21,368
out of that other services	39,385	46,047
Sale of goods and products	8,686	11,619
Total	13,750,690	16,858,918

* including the sale of natural gas to a large customer, medium-sized customer categories and sale at a virtual selling point.

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

Purchased gas, electricity, materials and services connected with gas and electricity supplies (CZK '000)	2014	2013 (restated)
Costs of gas purchases	10,383,340	13,256,383
of which operating leasing (see Note 6.25)	150,627	124,984
Distribution fee	504,856	559,607
The costs associated with the purchase of electricity	93,614	111,212
The fee for the distribution of electricity	152,984	130,842
Total	11,134,794	14,058,044

Costs related to operating leasing represents expenses for rent of gas storage.

6.16. Ostatní provozní výnosy

Other operating income (CZK '000)	2014	2013 (restated)
Income from sale of non-current assets	2,188	1,020
Income from sale of materials	3,517	3,441
Income from contractual fines and default interest	8,428	9,970
Income from write-off of receivables	1,492	3,658
Income from write-off of lapsed liabilities	7,215	5,370
Court fee compensations	10,274	6,273
Gifts received and investment contributions	20	51
Benefits from insurance	14,097	7,029
Other	6,157	114,094
Total	53,388	150,905

Other operating income for 2013 include income recognizes as accrual for unpaid insurance settlement in connection with extraordinary damage event in Divadelni Street, Prague, in amount of CZK 100,000,000.

6.17. Personnel costs

Personnel costs (CZK '000)	2014	2013
Salaries	421,680	440,921
Remuneration of board members	63,259	57,783
Statutory social insurance	143,807	143,978
Compensation of sick leave	818	1,225
Statutory social costs	4,741	4,491
Other social costs	26,744	27,137
Total	661,050	675,535

In the years 2014 and 2013 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 are made available for use by the board members and other management.

Remuneration of Directors and remuneration to the members of the Supervisory Board of the Company is included in personnel costs.

The contribution to state pension and other social funds amounted to CZK 95,079,000 in 2014 (2013: CZK 92,209,000).

6.18. Amortization and depreciation of non-current assets

Amortisation and depreciation of non-current assets (CZK '000)	2014	2013
Depreciation of pipelines and gas equipment	237,695	221,272
Depreciation of buildings and constructions (apart from the buildings of regulating stations and pipelines)	24,786	26,304
Depreciation of motor vehicles	14,716	15,510
Amortisation of intangible assets	51,939	66,122
Depreciation of computer equipment	16,059	14,226
Other depreciation	25,839	27,330
Total	371,034	370,764

6.19. Other operating costs

Other operating costs (CZK '000)	2014	2013 (restated)
Materials and energy consumption	84,235	87,207
Costs of goods	5,619	7,482
Services	565,160	602,442
out of that repair and maintenance of assets	218,198	218,967
out of that collection of debts	21,213	30,139
out of that advertisement	61,086	47,575
out of that operating lease payments (Note 6.25)	62,413	61,949
out of that maintenance of IT systems	44,764	53,088
out of that the cost of commissions paid to agents	33,193	42,641
out of that costs of consultancy	21,644	17,286
out of that costs of the gas meter readings	18,893	18,888
out of that other services	83,756	111,909
Taxes and charges	14,620	10,110
Allowances and write-off of receivables	57,566	143,621
Other	26,902	226,213
Total	754,102	1,077,075

Other operating costs contain costs related to provision created in respect to potential property reimbursement (see Note 6.13.).

Information on the auditors' fees is disclosed in the notes to the consolidated financial statements of Pražská plynárenská Holding a. s. as of 31 December 2014.

6.20. Financial income and expenses

Financial income and expenses (CZK '000)	2014	2013
Interest income	1,861	1,696
Interest expense	(38,602)	(43,175)
Derivative transactions income	30,762	27,136
Derivative transactions expense	(24,738)	(53,155)
Other financial income	23,066	49,960
Other financial expense	(25,000)	(42,537)
Net financial income/expense	(32,651)	(60,076)

Other financial income and expenses represent mainly foreign exchange differences.

6.21. Income tax

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

Income tax (CZK '000)	2014	2013 (restated)
Income tax - current	104,049	175,042
Income tax - deferred	17,611	32,694
Total	121,660	207,736

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

(CZK '000)	2014	2013 (restated)
Net profit before taxation	850,448	768,329
Theoretical income tax rate according to law 19%	161,585	145,982
Non-taxable income	(1,897)	(4,474)
Tax non-deductible expense	10,581	11,078
Donations	(822)	(483)
Other	(47,787)	55,633
Total income tax	121,660	207,736

6.22. Dividends paid

Dividends amounted in 2014 to CZK 633,560,000 (CZK 440 per share), in year 2013 dividends amounted CZK 633,559,000 (CZK 440 per share).

Dividend recipient (CZK '000)	2014	2013
Pražská plynárenská Holding a. s.	633,560	318,031
E.ON Czech Holding AG	0	312,642
The owners with non-controlling interests	0	2,886
Dividends total	633,560	633,559

6.23. Related party transactions and balances

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

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

Revenues (CZK '000)	2014	2013
Revenues from sale and distribution of natural gas	38,047	48,424
Revenues from service provision	17,252	49,209
Other revenues / income	4	2
Total revenues	55,303	97,635

Costs (CZK '000)	2014	2013
Costs related to purchase of natural gas and electricity and distribution	35,409	183,506
Cost of services relating to energy distribution	81,995	82,526
Material purchase	0	11
Other expenses	164	49
Total costs	117,568	266,092

The following related party balances were outstanding:

Payables and receivables (CZK '000)	31. 12. 2014	31. 12. 2013
Trade receivables	225	813
Short-term advances paid	1,795	30,629
Estimated receivables	0	11,520
Total receivables	2,020	42,962
Trade payables	304	331
Short-term advances received	8	10,057
Long-term advances received	0	50
Estimated liabilities	0	75,737
Financial resources from PPH	307,619	0
Other liabilities	0	6,901
Total liabilities	307,931	93,076

Dividends paid to shareholders in 2014 and 2013 are disclosed in Note 6.22.

The key management represented by the board members is also considered a related party of the Group. The amount of benefits for the key management is governed by the applicable collective agreement for 2014. The amount of severance payment for an employee, which was given a notice of termination of employment by the employer for reasons mentioned in section 52 point. a) to c) of the Labour Code, is calculated based on the years of employment in the Group. The amount of severance payment may reach the maximum of six times of the average salary over the legal redundancy payment.

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

6.24. Regulatory framework

Since 1 January 2007, the legal unbundling of distribution services from the originally vertically integrated gas organization has been in place. Based on licences acquired the Company carries on trading with natural gas and electricity and the subsidiary Pražská plynárenská Distribuce, a. s., člen koncernu Pražská plynárenská, a. s., operates the gas distribution network. As at 1 January 2001, the Company separated part of its business in accordance with the European Union Directives and the amendment of the Energy Act and contributed this part of the business related to gas distribution to its subsidiary, which assumed the role of the distribution network provider.

a) Price regulation – gas sale

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

b) Price regulation – distribution

The prices for natural gas distribution on Czech gas market are regulated in accordance with the energy act and published in a price list of the independent regulatory body, the Energy Regulatory Office. Year 2014 was the fifth year of so-called 3rd Regulatory period which is effective until 2010-2015.

The Energy Regulatory Office sets the ultimate level of allowed revenues for the distribution companies and it also sets the procedures for calculation of tariffs for the usage of distribution network. These tariffs were set for 2014 in Pricing Decision of Energy Regulatory Office No. 3/2013 from 27 November 2013 and Pricing Decision of Energy Regulatory Office No. 7/2013 from 12 December 2013.

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

6.25. Commitments

Capital expenditures contracted as at 31 December 2014, but not yet incurred amount to CZK 406,536,000 (2013: CZK 439,042,000). These expenses will be incurred over the next five years.

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

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

The future aggregate minimum lease payments under non-cancellable agreements (without valid VAT) amounted as on 31 December 2014 to CZK 614,925,000 (as on 31 December 2013: CZK 565,054,000).

(CZK '000)	2014	2013
No later than 1 year	169,168	176,466
Later than 1 year and no later than 3 years	233,139	183,194
Later than 3 year and no later than 5 years	188,976	126,421
Later than 5 years	23,642	78,973
Total	614,925	565,054

7. Other matters

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.

The Company's management is not aware of any important potential Group's liabilities as at 31 December 2014 apart of potential liabilities mentioned in Note 6.13.

7.2. Share capital reduction

The sole shareholder of the Company, Pražská plynárenská Holding a. s., identity number: 26442272, with its registered office in Prague 4, U Plynárny 500, post code 140 00, at the General Meeting held on 1 August 2014 made the decision to reduce the share capital of the Company. The Company's share capital is reduced by the amount of CZK 1,007,934,900 from the current amount of CZK 1,439,907,000 to the new amount of CZK 431,972,100 after the reduction. The share capital is reduced by the nominal value of all shares of the Company pursuant to the provisions of section 524 and following of Act no. 90/2012 Coll., on the Commercial Companies and Cooperatives (Business Corporations Act). The nominal value of the shares is reduced proportionally for all shares of the Company, i.e. for 950,338 pieces of bearer shares with a nominal value of CZK 1,000 and 489,569 pieces of shares with a nominal value of CZK 1,000 in such a way that the new value of each booked bearer share and each individual share would be CZK 300. The reason for the reduction of the share capital of the Company is to optimize the capital structure of the Company in connection with revaluation of fixed assets by the Company and thus release of the excess working capital to the sole shareholder. Share capital reduction is done in order to mobilize available resources in favour of the sole shareholder of the Company. The reduction of capital was not effective as at 31 December 2014.

7.3. Subsequent events

No events have occurred subsequent to the year-end that would have a material impact on the consolidated financial statements as at 31 December 2014.

7.4. Financial statements authorization

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

Prague, 17 March 2015



Ing. Pavel Janeček
Chairman of the Board of Directors



Ing. Petr Zmátlík
Member of the Board of Directors





VII. Auditor's opinion on the annual report

VIII. Information about the persons responsible for the annual report and audit of financial statements



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

We have audited the financial statements of Pražská plynárenská, a.s., identification number 60193492, with registered office at Národní 37, Praha 1 - Nové Město ("the Company") for the year 2014 disclosed in the annual report and issued the opinion dated 16 February 2015 and disclosed in chapter 6. We have also audited the consolidated financial statements of the Company and its subsidiaries ("the Group") for the year 2014 disclosed in the annual report and issued the opinion dated 17 March 2015 and disclosed in chapter 6 ("the financial statements").

Report on the Annual Report

We have verified that the other information included in the annual report of the Company for the year 2014 is consistent with the financial statements which are included in this annual report. The Statutory Body is responsible for the accuracy of the annual report. Our responsibility is to express an opinion on the consistency of the annual report with the financial statements based on our verification procedures.

Auditor's Responsibility

We conducted our verification procedures in accordance with the International Standards on Auditing and the related application guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the verification procedures to obtain reasonable assurance about whether the other information included in the annual report which describes matters that are also presented in the financial statements is, in all material respects, consistent with the relevant financial statements. We believe that the verification procedures performed provide a reasonable basis for our opinion.

Opinion

In our opinion, the other information included in the annual report of the Company for the year 2014 is consistent, in all material respects, with the financial statements.

Report on review of the Report on Relations

In addition we have also reviewed the accompanying report on relations between the Company and its controlling party and between the Company and the other persons controlled by the same controlling party for the year 2014 ("the Report"). The completeness and accuracy of the Report is the responsibility of the Statutory Body of the Company. Our responsibility is to express our conclusion on the Report based on performed review.

Scope of Review

We conducted our review in accordance with Audit standard 56 of the Chamber of Auditors of the Czech Republic. This standard requires that we plan and perform the review to obtain limited assurance as to whether the Report is free of material factual misstatement. A review is limited primarily to inquiries of Company personnel, analytical procedures and examination, on a test basis, of factual accuracy of data. A review therefore provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Report has not been properly prepared, in all material respects, in accordance with the requirements of Article 82 of the Corporations Act.

9 April 2015

PricewaterhouseCoopers Audit, s.r.o.
zastoupená

Jiří Zouhar
Ing. Jiří Zouhar
partner

Petra Bočáková
Ing. Petra Bočáková
statutární auditorka, oprávnění č. 2253

Note

Our report has been prepared in the Czech language and in English. In all matters of interpretation of information, views or opinions, the Czech version of our report takes precedence over the English version.

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PricewaterhouseCoopers Audit, s.r.o., registered seat Hvězdova 1734/2c, 140 00 Prague 4, Czech Republic, Identification Number: 40765521, registered with the Commercial Register kept by the Municipal Court in Prague, Section C, Insert 3637, and in the Register of Audit Companies with the Chamber of Auditors of the Czech Republic under Licence No 021.

Information about the persons responsible for the annual report and audit of financial statements

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

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

9 April 2015

9 April 2015



Ing. Pavel Janeček
Chairman of the Board of Directors



Ing. Milan Jadlovský
Vice-Chairman of the Board of Directors

The Company's financial statements for 2014 were audited by PricewaterhouseCoopers Audit, s. r. o., with its registered office at Hvězdova 1734/2c, 140 00 Prague 4, Company ID No.: 407 65 521, registered in the Business Register maintained by the Municipal Court in Prague, section C, file 3637 and on the list of auditing companies at the Chamber of Auditors of the Czech Republic under Licence No. 021.

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IX. Abbreviations



a. s.	Joint-stock company
AG	Aktiengesellschaft (German abbreviation for a joint stock company)
BP, s. p.	(Housing Management, state enterprise)
CDU/CSU	Christian Democratic Union of Germany/Christian Social Union of Bavaria
CNG	Compressed natural gas
Coll.	Collection of Laws of the Czech Republic
CZK	Czech crowns
CPP	Český plynárenský podnik (Czech Gas Company)
CR	Czech Republic
CSOB, a. s.	Československá obchodní banka, a. s.
DIS	Distribution Information System
DOM	Domestic customer – natural person using gas for personal needs connected with housing or for personal needs of members of the natural person's household
ERO	Energy Regulator's Office
EU	European union
EUR	Euro
FH	Fachhochschule (German abbreviation for a limited liability company)
GmbH	Gesellschaft mit beschränkter Haftung (German abbreviation for a limited liability company)
hl. m. Praha	Capital city of Prague
IAS/IFRS	International Accounting standards / International Financial Reporting Standards
ID No.	Identification (ID) number
ISE	Informační služby – energetika, a. s. (Information Services – Energy Sector Company)
ISIN	Identification number under which a share was kept in the Securities Centre and is now kept in the Central Securities Depository, a. s.
IT	Information Technology
kWh	Kilowatthour
MDP	Měření dodávek plynu, a. s.
Mil.	Million
Mld.	Billion
MO	Small customer – end customer who is neither a large, medium-sized or domestic customer
MOO	Electricity retail customer population
MOP	Electricity retail business population
MWh	Megawatthour
NG	Natural gas
o. z.	Branch unit
OKD	Ostravsko-karvinské doly (Ostrava-Karviná Mining Company)
OM	Extraction point
OTE	Market operator
Plc.	Public Limited Company
PP	Pražská plynárenská, a. s. (Prague Gas Company)
PPD	Pražská plynárenská Distribuce, a. s., člen koncernu Pražská plynárenská, a. s. (Distribution Company, a member of the Pražská plynárenská, a. s., Group)
PPH	Pražská plynárenská Holding a. s.
PPSD	Pražská plynárenská Servis distribuce, a. s., člen koncernu Pražská plynárenská, a. s.
PPSM	Pražská plynárenská Správa majetku, a. s., člen koncernu Pražská plynárenská, a. s.
PR	Public Relations
PRE	Pražská energetika, a. s. (Prague Energy Company)
PSČ	Postal code
PTIS	Operations and Technical Information System
PVK	Pražské vodovody a kanalizace, a. s. (The Prague Water and Sewage Utility Company)
PwC	PricewaterhouseCoopers
s. p.	State enterprise
s. r. o.	Limited liability company

S.R.L.	Società a responsabilità limitata (Italian acronym for Limited liability company)
SA	Société Anonyme (French abbreviation for joint stock company)
SO	Medium-sized customer – natural person or legal entity whose offtake gas facility is connected to the transport or distribution system and whose annual consumption at the offtake point is at least 630 MWh but does not exceed 4,200 MWh
Ths.	Thousands
UK	Univerzita Karlova - Charles University
VAT	Value added tax
VO	Large customer – natural person or legal entity whose offtake gas facility is connected to the transport or distribution system and whose annual consumption at the offtake point exceeds 4,200 MWh
VZP	Všeobecná zdravotní pojišťovna České republiky
ZTP/P	Persons particularly seriously handicapped with guide



X. Report on relations between the controlling and the controlled party

Report on relations between the controlling and the controlled party and on relations between the controlled party and other parties controlled by the same controlling party (related parties) for 2014

prepared by the Board of Directors of Pražská plynárenská, a. s., with its registered office at Národní 37/38, 110 00 Prague 1 - Nové Mesto, 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 2014 (the „Accounting Period“). The report was prepared by the Board of Directors in accordance with the Section 82 of the said Act, having regard to the provisions of Section 504 of Act No. 89/2012 Coll., The Civil Code, which relates to trade secrets.

Introduction

The basic relationships between the related parties can be seen in the graph of the PP's shareholder structure as at 31 December 2014 given in the attachment. As the graph shows, the controlling party (Pražská plynárenská Holding a. s.), is controlled by another party, the Capital City of Prague, which holds 100% in the registered capital of the controlling company, (till 26 March 2014 the Capital City of Prague owned 51% interest in the registered capital of the controlling party).

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 2014, was the Capital City of Prague).

For these reasons, in this report the Board of Directors of PP, a. s., describes the relationships between:

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

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

1. Structure of the controlling relations

1.1. Parties controlling indirectly the controlled party

Until 26 March 2014

These parties act in agreement:

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

E.ON Czech Holding AG, with its registered office at Arnulfstr. 203, 80634, Munich, Federal Republic of Germany

From 27 March 2014

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

1.2. The party controlling directly the controlled party

The controlling party in 2014 was the company Pražská plynárenská Holding a. s., with its registered office at U Plynárny 500, 140 00 Prague 4, Company ID No. 26442272.

Until 26 March 2014, the share of the party controlling directly the controlled party in the registered capital of the controlled party was a 50.20% , from 27 March 2014 the share of the party controlling directly the controlled party in the registered capital of the controlled party was 99.55% and from 16 June 2014 the share of the party controlling directly the controlled party in the registered capital of the controlled party was a 100%.

1.3. Controlled party

This is the Company Pražská plynárenská, a. s., with its registered office at Národní 37/38, 110 00, Prague 1 - Nové Mesto, Company ID No: 60193492 (hereinafter referred to as the „PP“ or the „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 2014 and with whom PP, a. s., entered into a contractual relationship in 2014 are listed below in Section No. 2.

The organisations and companies, in which E.ON Czech Holding AG had a major share in 2014 and with whom PP, a. s., entered into a contractual relationship in 2014, are listed below in Section No. 2.

1.5. Related parties

These are all the parties given under points 1.1. to 1.4.

1.6. The role of PP, a. s., in the Group

PP, a. s., is the parent company in the Concern of Pražská plynárenská, a. s., and can influence subsidiary companies through participation at general meetings, respecting § 59a, paragraph 2c) Energy Act No. 458/2000 Coll. in case of company Pražská plynárenská Distribuce, a. s., člen koncernu Pražská plynárenská, a. s.

2. Description of relationships between the related parties

2.1. Ways and means of control

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

2.2. Contracts concluded between the related parties in force in 2014

2.2.1. Contracts concluded between the parties stated under point 1.1. and PP, a. s.

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

a) contracts concluded for gas and electricity offtake

Akademické gymnázium Štěpánská, Štěpánská 22, Praha 1

AKROP, s. r. o., Ke Špejcharu 392, Tučhoměřice

Botanická zahrada hl. m. Prahy, Trojská 800/196, Praha 7 – Troja

Centrum sociálních služeb Praha, Chelčického 39, Praha 3

Československá akademie obchodní Dr. Edvarda Beneše, střední odborná škola, Resslova 8, Praha 2

Československá akademie obchodní, střední odborná škola, Resslova 5, Praha 2

Dětské centrum Paprsek, Šestajovická 19, Praha 9

Dětský domov a Školní jídelna, Národních hrdinů 1, Praha 9 – Dolní Počernice
 Dětský domov a Školní jídelna, Smržovská 77, Praha 9 – Klánovice
 Dětský domov Charlotty Masarykové, U Včely 176, Praha 5 – Zbraslav
 Divadlo Minor, Vodičkova 6, Praha 1
 Divadlo na Vinohradech, náměstí Míru 1450/7, Praha 2
 Divadlo pod Palmovkou, Zenklova 566/34, Praha 8 – Libeň
 Divadlo v Dlouhé, Dlouhá 729/39, Praha 1
 Domov mládeže a školní jídelna, Neklanova 32, Praha 2
 Domov mládeže a školní jídelna, Pobřežní 6, Praha 8
 Domov mládeže a školní jídelna, Studentská 10, Praha 6 – Dejvice
 Domov pro osoby se zdravotním postižením Lochovice, Lochovice 222, Zdice
 Domov pro osoby se zdravotním postižením Sulická, Sulická 48, Praha 4 – Krč
 Domov pro seniory Ďáblice, Kubíkova 1698/11, Praha 8
 Domov pro seniory Dobřichovice, Brunšov 365, Všenory
 Domov pro seniory Háje, K Milíčovu 734, Praha 4
 Domov pro seniory Heřmanův Městec, Masarykovo nám. 37, Heřmanův Městec
 Domov pro seniory Chodov, Donovalská 2222, Praha 4
 Domov pro seniory Kobyličky, Mirovická 19/1027, Praha 8 – Kobyličky
 Domov pro seniory Krč, Sulická 1085, Praha 4
 Domov pro seniory Pyšely, náměstí T. G. Masaryka 1, Pyšely
 Domov pro seniory Zahradní Město, Sněžňenkova 2973/8, Praha 10
 Domov se zvláštním režimem Krásná Lípa, Čelakovského 13, Krásná Lípa
 Domov se zvláštním režimem Terezín, náměstí Čs. armády 84, Terezín
 Dopravní podnik hl. m. Prahy, akciová společnost, Sokolovská 217/42, Praha 9
 Dům dětí a mládeže Praha 10 – Dům UM, Pod Strašnickou vinicí 23/623, Praha 10
 Dům dětí a mládeže Praha 12 – Monet, Herrmannova 2016/24, Praha 4
 Dům dětí a mládeže Praha 2, Slezská 21/920, Praha 2
 Dům dětí a mládeže Praha 5, Štefánikova 235/11, Praha 5
 Dům dětí a mládeže Praha 7, Šimáčkova 16/1452, Praha 7
 Dům dětí a mládeže, Rohová 7, Praha 6 – Suchbátka
 Galerie hlavního města Prahy, Staroměstské náměstí 605/13, Praha 1
 Gymnázium a Hudební škola hlavního města Prahy, Komenského náměstí 400/9, Praha 3
 Gymnázium Arabská, Arabská 14, Praha 6
 Gymnázium Botičská, Botičská 1, Praha 2
 Gymnázium Budějovická, Budějovická 680, Praha 4
 Gymnázium Českolipská, Českolipská 373, Praha 9 – Prosek
 Gymnázium Christiana Dopplera, Zborovská 45/621, Praha 5 – Smíchov
 Gymnázium Jana Keplera, Parlérova 2, Praha 6
 Gymnázium Jana Nerudy, škola hlavního města Prahy, Hellichova 3, Praha 1
 Gymnázium Jaroslava Heyrovského, Mezi Školami 2475/29, Praha 5
 Gymnázium Karla Sladkovského, Sladkovského náměstí 8, Praha 3
 Gymnázium Litoměřická, Litoměřická 726, Praha 9 – Prosek
 Gymnázium Na Pražačce, Nad Ohradou 2825/23, Praha 3 – Žižkov
 Gymnázium Na Vítězné pláni, Na Vítězné pláni 1160, Praha 4
 Gymnázium Nad Alejí, Nad Alejí 1952/5, Praha 6
 Gymnázium Nad Kavalírkou, Nad Kavalírkou 1, Praha 5
 Gymnázium Nad Štolou, Nad Štolou 1/1510, Praha 7
 Gymnázium Omská, Omská 1300, Praha 10 – Vršovice
 Gymnázium Opatov, Konstantinova 1500, Praha 4
 Gymnázium prof. Jana Patočky, Jindřišská 966/36, Praha 1
 Gymnázium Přípotoční, Přípotoční 1337, Praha 10
 Gymnázium Špitálská, Špitálská 2/700, Praha 9
 Gymnázium U Libeňského zámku, U Libeňského zámku 1, Praha 8
 Gymnázium Ústavní, Ústavní 400, Praha 8
 Gymnázium Voděradská, Voděradská 2/900, Praha 10 – Strašnice
 Gymnázium, Střední odborná škola, Základní škola a Mateřská škola pro sluchově postižené, Ječná 27, Praha 2
 Hotelová škola Radlická, Radlická 115, Praha 5 – Jinonice

Hudební divadlo Karlín, Křižíkova 283/10, Praha 8
Hvězdárny a planetárium hl. m. Prahy (Štefánikova hvězdárna, Planetárium Praha, Hvězdárna Ďáblice),
Petřín 205, Praha 1
Integrované centrum pro osoby se zdravotním postižením Horní Poustevna, Horní Poustevna 40,
Dolní Poustevna
Integrované centrum sociálních služeb Odlochovice, Odlochovice 1, Jankov
Jedličkův ústav a Mateřská škola a Základní škola a Střední škola, V Pevnosti 4, Praha 2
Karlínské gymnázium, Pernerova 25, Praha 8
Kolektory Praha, a. s., Pešlova 341, Praha 9
Kongresové centrum Praha, a. s., 5. května 65, Praha 4
Lesy hl. m. Prahy, Práčská 1885, Praha 10 – Záběhllice
Mateřská škola speciální Drahaňská, Drahaňská 779/ 7, Praha 8
Mateřská škola speciální Na Lysinách, Na Lysinách 6/41, Praha 4 – Hodkovičky
Mateřská škola speciální Sluníčko, Deylova 3, Praha 5
Mateřská škola speciální, Základní škola praktická a Základní škola speciální Bártlova, Bártlova 83, Praha 9
Městská divadla pražská (Divadlo ABC, ROKOKO), V Jámě 1, Praha 1
Městská knihovna v Praze, Mariánské náměstí 1/98, Praha 1
Městská nemocnice následné péče, K Moravině 343/6, Praha 9
Městská poliklinika Praha, Spálená 12, Praha 1
Muzeum hlavního města Prahy, Kožná 475/1, Praha 1
Národní kulturní památka Vyšehrad, V Pevnosti 159/5b, Praha 2
Obecní dům, a. s., náměstí Republiky 1090/5, Praha 1
Obchodní akademie Dušní, Dušní 7, Praha 1
Obchodní akademie Heroldovy sady, Heroldovy sady 1, Praha 10
Obchodní akademie Hovorčovická, U Vinohradského hřbitova 3, Praha 3
Obchodní akademie Kubelíkova, Kubelíkova 37, Praha 3
Obchodní akademie Svatoslavova, Svatoslavova 333, Praha 4
Obchodní akademie Vinohradská, Vinohradská 38, Praha 2
Odborné učiliště Vyšehrad, Vratislavova 6, Praha 2
Palata – Domov pro zrakově postižené, Na Hřebenkách 5, Praha 5
Pedagogicko-psychologická poradna pro Prahu 10, Jabloňová 3141/30a, Praha 10 – Zahradní Město
Pohřební ústav hl. m. Prahy, Staroměstské nám. 608/10, Praha 1
Pražská konzervatoř, Na Rejdišti 1, Praha 1
Pražská strojírna, a. s., Mladoboleslavská 133, Praha 9 – Vinoř
Pražská teplárenská Holding a. s., Partyzánská 1, Praha 7
Pražské služby, a. s., Pod Šancemi 444/1, Praha 9
Smíchovská střední průmyslová škola Preslova, Preslova 25, Praha 5
Správa pražských hřbitovů, Vinohradská 294/212, Praha 10 – Strašnice
Správa služeb hlavního města Prahy, Kunderatka 19, Praha 8 – Libeň
Středisko praktického vyučování, Seydlerova 2451, Praha 5 – Nové Butovice
Střední odborná škola civilního letectví, K Letišti 278, Praha 6 – Ruzyně
Střední odborná škola Drtinova, Drtinova 3/498, Praha 5
Střední odborná škola pro administrativu Evropské unie, Lipí 1911, Praha 9 – Horní Počernice
Střední odborné učiliště gastronomie a podnikání, Za Černým mostem 3/362, Praha 9
Střední odborné učiliště gastronomie, U Krbu 521/45, Praha 10
Střední odborné učiliště kadeřnické Karlínské náměstí, Karlínské náměstí 8/225, Praha 8 – Karlín
Střední odborné učiliště obchodní Belgická, Belgická 29/250, Praha 2
Střední odborné učiliště, Ohradní 57, Praha 4
Střední odborné učiliště, Pod Klapicí 11/15, Praha 5 – Radotín
Střední průmyslová škola dopravní, a. s., Plzeňská 298/217a, Praha 5
Střední průmyslová škola elektrotechnická Ječná, Ječná 30, Praha 2
Střední průmyslová škola elektrotechnická V Úžlabině, V Úžlabině 320, Praha 10
Střední průmyslová škola na Proseku, Novoborská 2, Praha 9
Střední průmyslová škola Na Třebešíně, Na Třebešíně 2299, Praha 10
Střední průmyslová škola sdělovací techniky Panská, Panská 856/3, Praha 1
Střední průmyslová škola stavební Josefa Gočára, Družstevní ohoz 1659/3, Praha 4
Střední průmyslová škola strojnická, škola hlavního města Prahy, Betlémská 287/4, Praha 1

Střední škola – Centrum odborné přípravy technickohospodářské Poděbradská, Poděbradská 1/179, Praha 9
 Střední škola a Mateřská škola Aloyse Klara, Vídeňská 756/28, Praha 4
 Střední škola automobilní a informatiky, Weilova 1270/4, Praha 10 – Hostivař
 Střední škola dostihového sportu a jezdeckví, U Závodiště 325/1, Praha 5 – Velká Chuchle
 Střední škola elektrotechniky a strojírenství, Jesenická 1, Praha 10 – Záběhlíce
 Střední škola Náhorní, U Měšťanských škol 525/1, Praha 8
 Střední škola technická Zelený pruh, Zelený pruh 1294, Praha 4
 Střední škola umělecká a řemeslná, Nový Zlíchov 1, Praha 5
 Střední škola, základní škola a mateřská škola Chotouňská, Chotouňská 476, Praha 10
 Střední škola, Základní škola a Mateřská škola pro sluchově postižené Výmolova, Výmolova 169, Praha 5 – Radlice
 Symfonický orchestr hlavního města Prahy FOK, náměstí Republiky 660/5, Praha 1
 Školní jídelna, Štefánikova 11/235, Praha 5 – Smíchov
 Technická správa komunikací hl. m. Prahy, Řásnovka 770/8, Praha 1 – Staré Město
 TRADE CENTRE PRAHA, a. s., Blanická 1008/28, Praha 2
 Vyšší odborná škola a Střední průmyslová škola dopravní, Masná 18, Praha 1
 Vyšší odborná škola a Střední průmyslová škola elektrotechnická Františka Křižíka, Na Příkopě 16, Praha 1
 Vyšší odborná škola a Střední škola slaboproudé elektrotechniky, Novovysočanská 48/280, Praha 9 – Vysočany
 Vyšší odborná škola a Střední umělecká škola Václava Hollarova, Hollarovo náměstí 2, Praha 3
 Vyšší odborná škola pedagogická a sociální, Střední odborná škola pedagogická a Gymnázium, Evropská 33, Praha 6
 Vyšší odborná škola stavební a Střední průmyslová škola stavební, Dušní 17, Praha 1
 Vyšší odborná škola uměleckoprůmyslová a Střední uměleckoprůmyslová škola, Žižkovo náměstí 1, Praha 3
 Vyšší odborná škola zdravotnická a Střední zdravotnická škola, 5. května 51, Praha 4
 Vyšší odborná škola zdravotnická a Střední zdravotnická škola, Alšovo nábřeží 6, Praha 1
 Základní škola a Mateřská škola, Za Invalidovnou 3, Praha 8
 Základní škola a střední škola waldorfská, Křejského 1501, Praha 4
 Základní škola logopedická a Mateřská škola logopedická, Moskevská 29, Praha 10
 Základní škola praktická a Praktická škola Karla Herforta, fakultní škola Pedagogické fakulty UK, Josefská 4, Praha 1
 Základní škola pro žáky se specifickými poruchami chování, Na Zlíchově 19, Praha 5
 Základní škola speciální a Praktická škola, Rooseveltova 8, Praha 6
 Základní škola speciální, Starostrašnická 45, Praha 10
 Základní škola Tolerance, Mochovská 570, Praha 9
 Základní škola Vokovice, Vokovická 3, Praha 6
 Základní škola, Pod Radnicí 5, Praha 5
 Základní škola, Vachkova 941, Praha 10
 Základní umělecká škola Charlotty Masarykové, Půlkruhová 99/42, Praha 6
 Základní umělecká škola Ilji Hurníka, Slezská 21, Praha 2
 Základní umělecká škola Jana Hanuše, U Dělnického cvičiště 1/1100 B, Praha 6
 Základní umělecká škola Klementa Slavického, Zderazská 6, Praha 5 – Radotín
 Základní umělecká škola, Bajkalská 11, Praha 10
 Základní umělecká škola, Biskupská 12, Praha 1
 Základní umělecká škola, Dunická 3136, Praha 4
 Základní umělecká škola, K Brance 72, Praha 5 – Stodůlky
 Základní umělecká škola, Klapkova 25, Praha 8
 Základní umělecká škola, Lounských 4/129, Praha 4 – Nusle
 Základní umělecká škola, Na Popelce 18, Praha 5 – Košíře
 Základní umělecká škola, Nad Alejí 28/1879, Praha 6
 Základní umělecká škola, Olešská 2295, Praha 10
 Základní umělecká škola, Štítného 5, Praha 3
 Základní umělecká škola, U Půjčovny 4, Praha 1
 Základní umělecká škola, Učňovská 1, Praha 9
 Zdravotnická záchraná služba hl. m. Prahy – územní středisko záchrané služby, Korunní 98, Praha 10
 Zoologická zahrada hl. m. Prahy, U Trojského zámku 120/3, Praha 7 – Troja
 Želivská provozní, a. s., K Horkám 16/23, Praha 10

b) other contracts

Botanická zahrada hl. m. Prahy, Trojská 800/196, Praha 7 – Troja – promotion contract
Dům pro seniory Krč, Sulická 1085, Praha 4 – contract for the sale of compressed natural gas CNG
Dům dětí a mládeže Praha 3 – Ulita, Na Balkáně 2866/17a, Praha 3 – donation contract
Hlavní město Praha, Mariánské nám. 2, Praha 1 – lease of commercial space agreement on rent space, lease of commercial premises contract, promotion contract
Kolektory Praha, a. s., Pešlova 341, Praha 9 – agency contract – Benefit product
Městská knihovna v Praze, Mariánské nám. 98/1, Praha 1 – lease of commercial premises contract
Městská poliklinika Praha, Spálená 12, Praha 1 – contract for the sale of compressed natural gas CNG
Městský úřad Praha 1, Vodičkova 681/18, Praha 1 – contracts for the lease of premises used for business, the contract for the lease of parking spaces, a lease of commercial premises contract
Palata – Dům pro zrakově postižené, Na Hřebenkách 5, Praha 5 – contract for the sale of compressed natural gas CNG
Pražská energetika, a. s., Na Hroudě 1492/4, Praha 10 – EFET agreement (purchase / sale of natural gas), framework agreement for the transfer of unused tolerance, contract commercial sublease (shop), contract for the lease of premises used for business, contract on combined electricity supply services, lease of commercial space (parking)
Pražské služby, a. s., Pod Šancemi 444/1, Praha 9 – promotion contract, contract for the sale of compressed natural gas CNG
Střední průmyslová škola dopravní, a. s., Plzeňská 298/217a, Praha 5 – contract for practice
TRADE CENTRE PRAHA, a. s., Blanická 1008/28, Praha 2 – contracts for the lease of premises used for business, the contract for the lease of parking spaces, lease of commercial premises, contract for the provision of communication services, contract for security service and related activities.
Vyšší odborná škola stavební a Střední průmyslová škola stavební, Dušní 17, Praha 1 – donation contract, donation contract of discarded computer equipment with zero book value at the donation date

2.2.1.2. Contracts concluded between PP, a. s., and E.ON Czech Holding AG or its controlled parties

E.ON Česká republika, s. r. o. – contract of sublease parking space, lease of commercial premises contract, amendment to lease of commercial premises contract for flat renting, registry services agreement, framework agreement - arrangement for subcontracts

E.ON Distribuce, a. s. – contract for the provision of electronic services, framework agreement for the distribution of electricity MOP, framework agreement for the distribution of electricity MOO, framework agreement for the distribution of electricity VO, contract for natural gas distribution

E.ON Energie, a. s. – framework contract for the supply of electricity, contract for processing of price analyses consumption diagrams, framework contract for the purchase and sale of natural gas

2.2.2. Contracts concluded between the party stated under point 1.2. and PP, a. s.

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

- a) Contract to provide services
- b) Agreement on the rental and sublease of non-residential space and equipment
- c) Agreement on covering the costs associated with operating a telephone line
- d) Contract for sublease space used for business
- e) Contract for cash-pooling in the group Pražská plynárenská, a. s.
- f) Order contract for the consideration payout for minority shareholders (the third party is Československá obchodní banka, a. s.)

2.2.3. Overview of conducts in favour or related entities controlled by person

a) Decision to decrease the share capital of Pražská plynárenská Distribuce, a. s., člen koncernu Pražská plynárenská, a. s., was taken on 5 August 2014 by PP, a. s., as the sole shareholder. It was triggered by the request of Pražská plynárenská Holding a. s. in relation to the Notice to reduce share capital and to propose for further steps in this matter dated 1 August 2014. In this request the controlling party requested from PP, a. s., (in connection with the share capital reduction of PP, a. s., itself) to optimize the business operations of the entire group Pražská plynárenská, a. s., and to make - without compromising its business - such actions which will allow maximization of profits of PP, a. s., and their subsequent disbursement in the form of dividends to the controlling entity in order to repay the acquisition loan.

b) Based on the guidance for business management which was granted by its sole shareholder Pražská plynárenská Holding a. s. on 8 December 2014, PP, a. s., as the sole shareholder of Pražská plynárenská Distribuce, a. s., člen koncernu Pražská plynárenská, a. s., issued a guidance for business management for Pražská plynárenská Distribuce, a. s., on 9 December 2014. Under this instruction, following the reduction of its share capital, Pražská plynárenská Distribuce, a. s., was required to terminate the tender for arranging bond issue and was required to continue in arranging the bond issue only with the consortium of banks that are currently providing the acquisition financing of Pražská plynárenská Holding a. s. This was done under the assumption that the resulting contracts will respect the requirements of the bond issue and related services offered in the indicative offer made by this consortium of banks.

All of the above actions were carried out following the decision taken at the General Meeting of PP, a. s.

All of other actions resulted from exercising shareholders' rights at the General Meetings of PP, a. s., or the sole shareholder of PP, a. s., decision in scope of its General Meeting, resp. related property does not exceed 10 % of the PP, a. s., equity.

2.3. Other legal measures

A Memorandum is concluded with the Capital City of Prague on cooperation and mutual support in prevocational education of young people in the fields of training completed with an apprentice certificate in the capital city of Prague. No detriment arose to the controlled party from these relationships.

2.4. Assessment of damage caused by the controlled entity

There was no damage caused to PP, a. s., company due to existence of controlling by controlled entity.

2.5. Assessment of Statutory Body

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

Pražská plynárenská Holding a. s. was the controlling person of PP, a. s., in 2014 and PPH a. s. controlled PP, a. s., directly. Until 26 March 2014 PP, a. s., was controlled by two shareholders of PPH a. s., which controlled PP, a. s., through PPH a. s. indirectly. These shareholders were the Capital City of Prague and German E.ON Czech Holding AG which is a member of international group acting in energy industry. E.ON Czech Holding AG also directly owned 49.35% shares of PP, a. s. From 27 March 2014 PPH a. s. was controlled by sole shareholder, the Capital City of Prague which controlled PP, a. s., through PPH a. s. indirectly. PP, a. s., is a part of group which covers entities engaged in activities related to energy trade and distribution. Relations with indirectly controlling entity the Capital City of Prague need to be considered significant due to the fact that Pražská plynárenská Distribuce, a. s., člen koncernu Pražská plynárenská, a. s., which is directly controlled by PP, a. s., is the main operator of natural gas distribution network in the area of the Capital City of Prague.

2.6. Other facts

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

In 2014, co-operation continued between PP, a. s., and Pražská energetika, a. s., as part of the “Together for Prague” project under the auspices of Prague City Council. Specifically, this cooperation concerned the joint business office, the call centre line and joint meter readings.

2.6.2. Other relationships with E.ON.

The services arising from contracts referred to in section 2.2.1.2 were provided under the usual market prices. No detriment arose to the controlled party from these relationships.

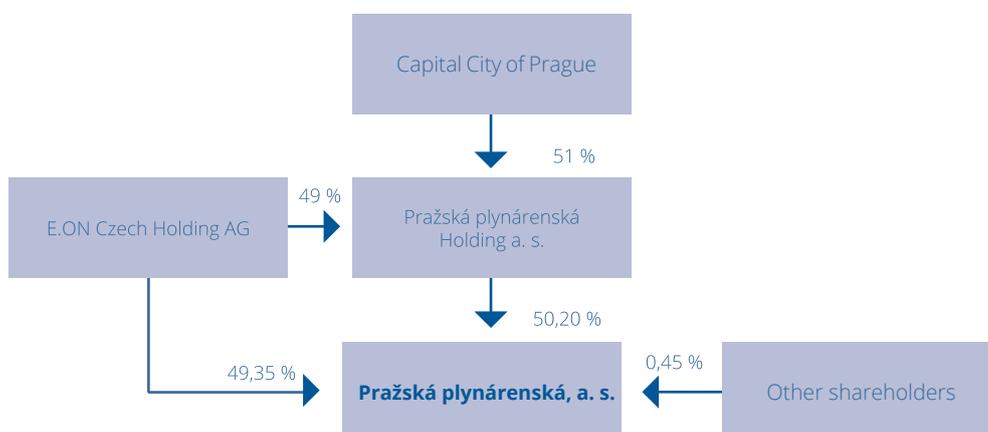
2.6.3. Members of PP, a. s., bodies

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

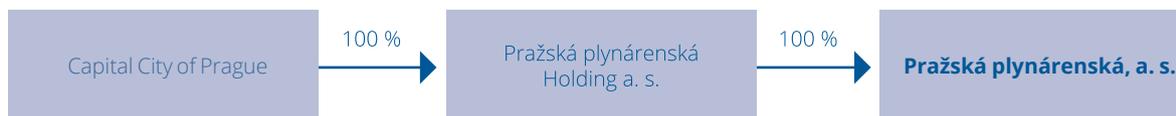
3. Abbreviations

a. s.	Joint-stock company
AG	Aktiengesellschaft (german abbreviation for joint-stock company)
CNG	Compressed natural gas
Coll.	Collection of Laws of the Czech Republic
hl. m. Praha	Hlavní mesto Praha (Capital City of Prague)
ID no.	Identification (ID) number
MOO	Small-scale electricity generation households
MOP	Small-scale electricity generation entrepreneurs
PP, a. s.	Pražská plynárenská, a. s.
PPH a. s.	Pražská plynárenská Holding a. s.
s. r. o.	limited liability company
SRN	Spolková republika Německo
VO	Velkoodběr

4. Graph showing the relation of PP, a. s., and related parties as at 1 January 2014



Graph showing the relation of PP, a. s., and related parties as at 31 December 2014



Prague, 19 February 2015

Ing. Pavel Janeček
Chairman of the Board of Directors

Ing. Milan Jadlovský
Vice-chairman of the Board of Directors

The statement of the Supervisory Board on the report on relations between the controlling and controlled parties and relations among the controlled entity and other entities controlled by the same party (related parties).

The Supervisory board states that the report on relations for year 2014 is prepared by PP's Board of Directors of in accordance with Act No. 90/2012 Coll. (Law of Business Corporations) taking into account §504 of Act No. 89/2012 Coll., the Civil Code, relating to trade secrets. The Supervisory board is not aware that any member of the board influenced decisions of the Board of Directors or the Supervisory Board for benefit of controlling party or entity controlled by the same controlling party.

Prague, 6 March 2015

Dr.-Ing. Milan Urban
Chairman of the Supervisory Board
Pražská plynárenská, a. s.



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