

# ANNUAL REPORT FOR 2013

## PRAŽSKÁ PLYNÁRENSKÁ, a. s.



PRAŽSKÁ  
PLYNÁRENSKÁ  
a.s.



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

Prague, 25 April 2014

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

Dear ladies and gentlemen,

I am pleased to inform you that year 2013 was the next positive year for PP in its history. Primarily thanks to all the PP Group's employees we managed to exceed the planned profit significantly.

The economic state of the company was influenced mainly by long and strong winter in the first four months of the year. These unusual weather fluctuations caused additional gas demand from all customers but also a sharp rise in gas prices on the market. Our company was able to manage these circumstances without any special problems and demonstrated its capabilities, strengths and its deserved position on the market. Accumulated gas reserves from underground gas storage played an important role during this year.

The company has responded flexibly to dynamically changing environment by introducing new product. Customers signing a contract receive 11% discount if they agree to fixed term of three years. This new product noted a strong response among customers and has significantly contributed to stabilization of customer portfolio.

In conclusion I would like to thank our Group's customers, suppliers, business partners and employees on behalf of the Board of Directors for their contribution to the successful economic performance in 2013.



Ing. Pavel Janeček

Chairman of the Board of Directors

Everything is possible,  
even the impossible.

S. Zweig







## II. SELECTED DATA ON THE COMPANY

THE INFORMATION GIVEN IN THIS CHAPTER APPLIES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS, UNLESS STATED OTHERWISE.

### BASIC DATA ON THE COMPANY

**Business name:**

Pražská plynárenská, a. s.

**Registered office:**

Prague 1 – Nové Město, Národní 37

Postcode: 110 00

**Tel.:** +420 267 171 111

**Fax:** +420 267 171 030

**Company ID No.:** 601 93 492

**Tax ID No.:** CZ60193492

**Entry in the Business Register:**

Municipal Court in Prague, Section B, file 2337

**Bank details:**

ČSOB, a. s. – account No.: 916780043/0300

**Business offices:**

Jungmannova 31, Palác Adria, Prague 1

U Plynárny 500, building No. 37, Prague 4

Osvobož. pol. věžňů 379, Kladno

Slovanská alej 1993/28, Plzeň

Gočárova třída 133/71, Hradec Králové 2

Mírové náměstí 208/35, Ústí nad Labem

**Web pages:**

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

### COMPANY PROFILE

Pražská plynárenská, a. s. is one of the most important energy companies in the Czech Republic and it is a reliable supplier of energy to approximately 420,000 customers. It is a traditional and the largest natural gas supplier in the region of the capital city Prague and its surroundings, in regions outside then supplies natural gas and electric energy to a few tens of thousands of its customers. Its competitiveness is based on providing versatile services at a high quality, tradition, background of a strong and stable society, fair and open attitude, and last but not least, the ability to respond flexibly to the changing demands of its customers.

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

Pražská plynárenská, a. s. is a stable and prosperous energy company with a long tradition and experience. In addition to reliable energy supplies and delivery of a wide portfolio of quality products and services has long been active in promoting alternative uses of natural gas, in particular, the use of compressed natural gas (CNG) in transport. As the first company in the Czech republic, the Company operates public filling stations and the car rental of vehicles powered by compressed natural gas and is also working with other partners in this area.

In addition to its business operations, Pražská plynárenská, a. s. is long active in the development of civil society and actively supports charity, cultural, social and sports projects.

The joke is an inventor.  
And the common sense  
is an observer.

G. Ch. Lichtenberg





Slava



## BASIC ECONOMIC INDICATORS (2009 – 2013)

			2009	2010	2011	2012	2013
Company revenues	in CZK '000		12,285,251	11,962,339	9,623,710	9,335,952	8,942,537
	in EUR '000		472,983	460,551	370,513	359,435	344,288
Profit before tax	in CZK '000		735,953	351,203	688,568	722,292	699,223
	in EUR '000		28,334	13,521	26,510	27,808	26,920
Profit after tax	in CZK '000		632,904	341,247	659,657	672,963	642,248
	in EUR '000		24,367	13,138	25,397	25,909	24,727
Equity	in CZK '000		3,539,907	3,381,465	3,522,288	3,673,145	3,648,801
	in EUR '000		136,287	130,187	135,608	141,416	140,479
Registered capital	in CZK <sup>1</sup> '000		1,439,907	1,439,907	1,439,907	1,439,907	1,439,907
	in EUR '000		55,436	55,436	55,436	55,436	55,436
Non-consolidated earnings per share	in CZK		440	237	458	467	446
Consolidated earnings per share	in CZK		542	530	481 <sup>2</sup>	442	431
Dividend per 1 share	in CZK		330	340	342	440	-
Number of employees on record as at 31 December			288	351	328	322	310
Average full-time equivalent			268	326	342	317	309
Natural gas <sup>4</sup>	Sale <sup>3</sup>	in kWh million	12,352.0	12,854.8	8,720.5	7,354.2	6,620.1
		in m <sup>3</sup> million	1,172.2	1,214.8	825.1	696.9	624.2
	Number of points of sales as at 31 December		441,956	432,790	431,383	417,581	403,804
Electricity <sup>5</sup>	Sale	in kWh million	-	-	-	2.0	39.3
	Number of points of sales as at 31 December		-	-	-	1,276	15,357

The average CZK/EUR exchange rate for 2013 is CZK/EUR 25.974 and is used for conversion of all data in the table for previous years.

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

<sup>2</sup> In 2012 the Group Pražská plynárenská, a. s., changed the calculation of provisions to overdue receivables, so that overdue receivables will not be decreased by overpayments. According to the IAS 8 methodology, adjustment was made for the data of the same period of 2011, and this fact causes a change in the values reported in the consolidated statement of comprehensive income for the year 2011 and consolidated earning per share.

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

<sup>4</sup> During 2013 a total of 147 offtake points were in the VO, SO and MO categories on long-distance transferred to the subsidiary Pragoplyn, (145 offtake points from distribution zone of PPD and two outside the zone of PPD), of which 12 offtake points were VO, 129 offtake points were SO and 6 were MO of the long-distance. During 2012 a total of 404 offtake points from the VO and SO category were transferred to the subsidiary Pragoplyn, in 2011 149 offtake points were transferred.

<sup>5</sup> Sale of electricity began on 1 January 2012.

## SECURITIES ISSUED

The registered capital of CZK 1,439.9 million has not been changed since the Company was incorporated. An overview of all of the shares issued by the Company is given in the following table.

Type	ordinary shares	ordinary shares	ordinary shares
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 2013**

Pražská plynárenská, a. s. was controlled during all of 2013 by Pražská plynárenská Holding a. s. (registered office: Prague 4, U Plynárny 500, Postcode 140 00, Company ID No.: 26442272), likewise PPH a. s. PPH a. s. had a 50.2% share of the registered capital of PP No control agreement has been concluded between PP and PPH a. s.

**STRUCTURE OF MAJOR SHAREHOLDERS IN PRAŽSKÁ PLYNÁRENSKÁ, A. S., AS AT 31 DECEMBER 2013**

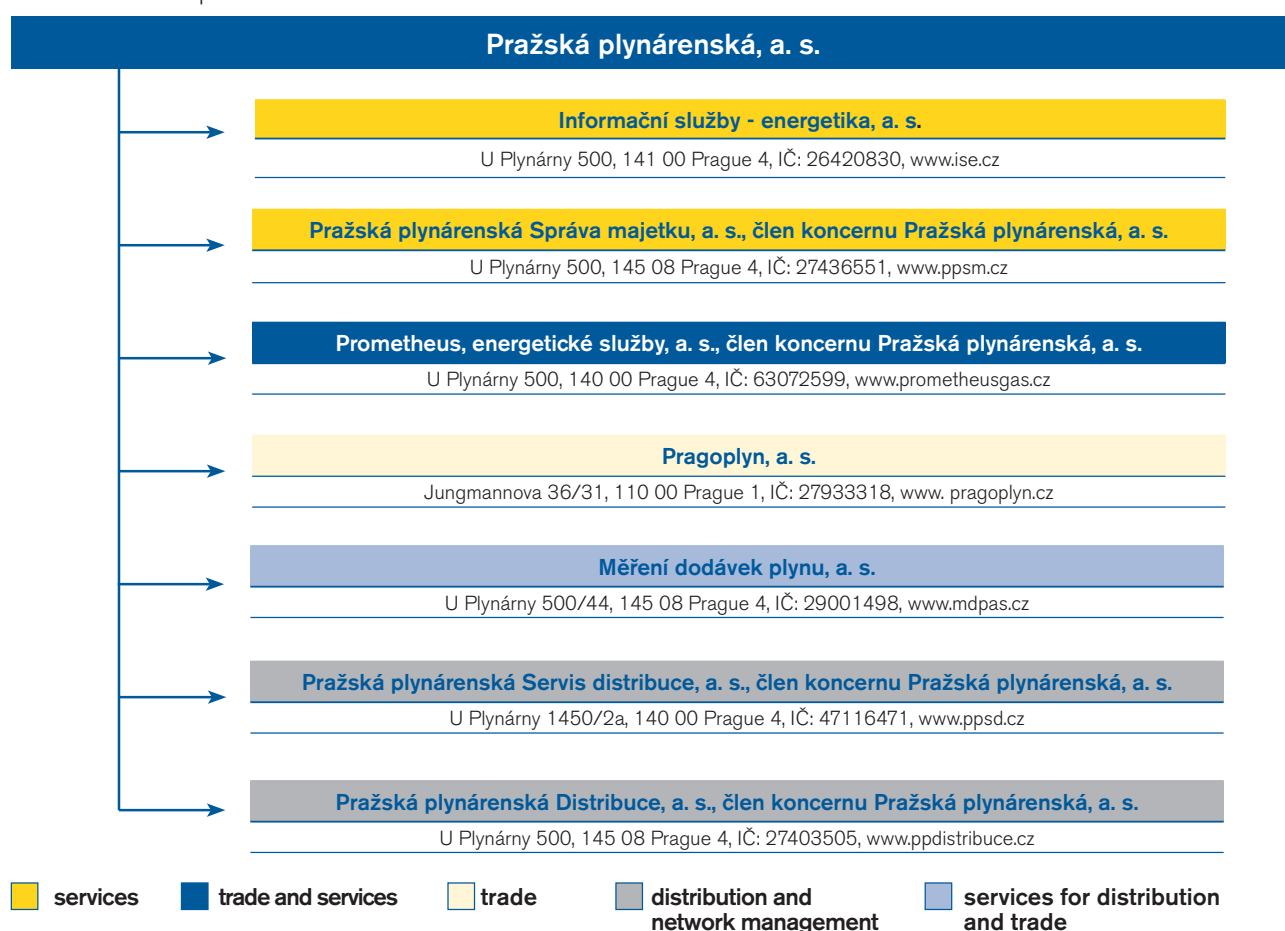
Shareholder	Address	Number of shares in PP	Share of registered capital (%)
Pražská plynárenská Holding, a. s.	U Plynárny 500, 140 00 Prague 4	722,797*	50.20
E. ON Czech Holding AG	Arnulfstrasse 203, 80634 Munich, Federal Republic of Germany	710,551**	49.35
Other legal entities and natural persons	-	6,559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

\* Of which 489,568 are registered shares.

\*\* Of which 1 is a registered share.

**OWNERSHIP INTERESTS**

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



In 2013, PP had no organisational unit abroad.

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



# DATA ON COMPANY BODIES AND MANAGEMENT

## GENERAL MEETING

The General Meeting is the supreme body of the Company. It consists of all shareholders present.

### Annual General Meeting held on 7 June 2013

The General Meeting approved the allocation of the net profit for 2012, amounting to CZK 672.96 million. In all, CZK 4.95 million was transferred to the social fund, CZK 28.0 million was paid as a tantième, CZK 633.56 million was paid as a dividend. Thus, each share of the Company had a value of CZK 440 before tax. The amount of CZK 6.45 million was transferred to the retained earnings from previous years. They also approved the report of the Board of Directors on the Company's business activities and its asset position in 2012 and the annual and consolidated financial statements.

## BOARD OF DIRECTORS

The PP's Board of Directors 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 and 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. Due to the fact that Dr. František Kotula office term ended, the Supervisory Board once again elected him to the Company's Board of Directors with effect from 3 January 2014. As at 31 December 2013, the Board of Directors consisted of the following members:

**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 Director

## SUPERVISORY BOARD

The Supervisory Board is the Company's control body and supervises how the Board of Directors exercises its authority; it elects and dismisses its members and supervises the Company's business activities. It has nine members and the term of office of individual Members of the Supervisory Board is five years under the Articles of Association. As at 31 December 2013, the Supervisory Board consisted of the following members:

**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

**Bc. Miroslav Vránek**, Member of the Supervisory Board

## TOP COMPANY MANAGEMENT

Personnel Director Ing. František Vašák, CSc., ended his employment with the company at his own request on 30 June 2013. As at 31 December 2013, the Company's management consisted of:

**Ing. Milan Fafejta**, Managing Director

**Ing. Josef Hais**, Commercial Director

**Ing. Jiří Hamšík**, Financial Director

Ing. Milan Fafejta, Ing. Josef Hais and Ing. Jiří Hamšík ended their employment with the company at their own request on 31 January 2014. From 1 February 2014 Board of Directors elected:

**Ing. Marta Ptáčková**, as a temporary Managing Director,

**Ing. Pavel Cajthaml**, as a temporary Commercial Director,

**Ing. Jaroslav Kohoutek**, as a temporary Financial Director.

## PROXIES

At least two Proxies always act and sign on behalf of the Company jointly.

Until 24 June 2013 the Proxies were following:

**Ing. Milan Fafejta**

**Ing. Josef Hais**

**Ing. Jiří Hamšík**

**Ing. František Vašák, CSc.**

With effect from 25 June 2013 the Board of Directors revoked proxies of Ing. Milan Fafejta and Ing. František Vašák, CSc.

As at 31 December 2013, the proxies were following:

**Ing. Josef Hais**

**Ing. Jiří Hamšík**

With effect from 9 January 2014 the Board of Directors revoked competencies of the remaining two proxies, Ing. Josef Hais and Ing. Jiří Hamšík in connection with the termination of their employment with the company.

## INFORMATION ON MEMBERS OF COMPANY BODIES AND MANAGEMENT IN 2013

(GIVEN IN ALPHABETICAL ORDER OF SURNAMES)

### **ECKART BAUM** Vice-Chairman of the Board of Directors (untill 27. 3. 2014)

Prior to start and during his studies at the University of Humberside 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 completing his studies, he worked since 1995 till December 1997 at the E.ON Energie AG head office in Munich, 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 its Vice-Chairman. In January 2005 he became a finance director (finance, accounting, taxes) in E.ON Česká republika, s. r. o. (České Budějovice). In September 2006 he became a Member of the PP's Board of Directors and in November 2006 he became its Vice-Chairman. In June 2007 he became the Chairman of the PPD's Supervisory Board of and in July 2007 became the Chairman of the PGP's Board of Directors. In November 2013, he became the Vice-Chairman of the PPH's Supervisory Board. On 27 March 2014 he resigned on positions of member of PP's Board of Directors, member of PPD's Supervisory Board, member of PGP's Board of Directors and member of PPH's Board of Directors.

### **MAGNUS ALEXANDER BRANDAU** Member of the Supervisory Board (untill 27. 3. 2014)

Since 1983 till 1985, Magnus Alexander Brandau studied political science at Bonn University and then till 1986 at the "Institut d'études politiques de Paris" in Paris. Since 1986 till 1991 he studied administration science at Constance University. Since 1991 till 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 till 2000, he worked as Head of the E.ON AG representative office in Berlin and since 2000 till 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). In December 2009 he became a Member of the Supervisory Board of PP and was elected to the Supervisory Board of PPH a. s. in February 2010. On 27 March 2014 he resigned on membership in PP's Supervisory Board and PPH's Supervisory Board.

### **ING. MILAN FAFEJTA** Member of the Board of Directors (untill 28. 3. 2014), Managing Director (until 31 January 2014) and Proxy (until 24 June 2013).

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 till 2002 he was the Chairman of the PP's Board of Directors, and has been a Member of the Board of Directors till March 2014. He was the managing director since December 1993 till January 2014 and also a PP's proxy since 2002 till June 2013. Since March 2001 till December 2012 he was a Member of the PPH's Board of Directors and in June 2007, he became a Member of the PPD's Supervisory Board and he has been its Vice-Chairman since June 2008. On 28 March 2014 he resigned on position of member of PP's Board of Directors. On 1 April 2014 he was recalled from PPD's Supervisory Board members.

**DIPL. -ING. MICHAEL FEHN** Chairman of the Supervisory Board (untill 27. 3. 2014)

Since 1980 till 1985, Michael Fehn 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 since 1995 till 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 to 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 April 2004 he became a Member of the PPH's Supervisory Board, since July 2007 he has been its Vice-Chairman, and since November 2012 he has been its Chairman. In June 2004, he was elected by the Annual General Meeting to the PP's Supervisory Board, and since May 2006 has been its Chairman. 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. and since November 2008 the Chairman of the Supervisory Board of E.ON Trend, s. r. o. Since 2011 till fall 2013, he was also a Member of the Supervisory Board of E.ON Slovensko, a. s. On 27 March 2014 he resigned on membership in PP's Supervisory Board and PPH's Supervisory Board.

**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 a 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 plynárna, 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 till September 2005, he managed the Distribution Department in PP; since December 2005 till January 2007 was a Member of the PPD' Supervisory Board. Since April until the end of 2006, he was a PROM's Statutory Director. Since April until November 2004, he was its Director. Since July 2007 till November 2010, he was a Member of the PGP's Supervisory Board and since May 2008 until November 2010, he was the Chairman of the PPSM's Supervisory Board. Since November 2010 to May 2013 a Member of the PGP's Board of Directors. Since October 2005 to January 2014, he was the Sales Director of PP's and since July 2006 to 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 till 1985, he worked at the Czech Ministry of Industry as senior specialist officer. Since 1985 till 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 till 1993, he worked in ADE-KO 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 Investment Company, 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 till 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 till 2003, he held the post of director of PROM and he was the Statutory Director since 2002 to 2005. Since 2004 till January 2014 he was the financial director

of PP and also its proxy. Since December 2005 till March 2007, he was a Member of the PPD's Supervisory Board. Since March 2006 till April 2008, he was the Chairman of the PPSM's Supervisory Board. Since April 2008, he was the Chairman of the ISE's Supervisory Board. On 7 April 2014 he was recalled from position of members of ISE's Supervisory Board.

### **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. He works as a councillor at Prague City Hall. He is a Prague 3 District councillor, where he has worked as a Member of the district's Executive Council for many years. He has got many years' experience of holding the posts of Chairman, Vice-Chairman, Member of Statutory Bodies of joint-stock companies and in carrying out shareholders' rights. He was a Member of the PP's Supervisory Board in years 2003 and 2004. Since 2004, he has been the Chairman of the PP's Board of Directors until October 2012 when he became the Vice-Chairman of the PP's Supervisory Board. Since July 2007, was the Chairman of the PGP's Supervisory Board. He is also a Member of the Statutory Bodies of a number of other companies.

### **DR. FRANTIŠEK KOTULA** Member of the Board of Directors (untill 27. 3. 2014)

He studied for four semesters at the Economics University in Prague. From 1969 to 1974, he studied economics at the J.W.Göthe 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 till 1979, he worked in the auditing company Treu-verkehr AG, then since 1979 till 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. Since 2004 until 2013 he was a Member of the Board of Directors of PHP and was its Vice-Chairman since June 2007. Since July 2007, he was a Member of the PGP's Supervisory Board. Since May 2008, he was a Member of the PPD's Supervisory Board. On 27 March 2014 he resigned on position of member of PP's Boards of Directors, member of PPD's Supervisory Board and member of PGP's Supervisory Board.

### **MARC MÜLLER, MBA** Member of the Supervisory Board (untill 27. 3. 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 Czech Republic, s.r.o. (formerly E.ON Czech Republic, a. s.), which he has led from the summer of 2011. Moreover, since 2011, he is a Proxy of the Company. From June 2011 to September 2012 he was also a Chairman of the Supervisory Board of LUMEN Energy a. s., he became a Member of the PP's Supervisory Board in September 2012. On 27 March 2014 he resigned on position of member of PP's Supervisory Board.

### **ING. MIROSLAV NOSÁL, CFA** Member of Board of Directors, Chairman of the Board of Directors (untill 7. 4. 2014)

Since 1983 till 1988 he studied in the Faculty of Electrical Engineering Czech Technical University in Prague, faculty - 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 till June 2012, he worked as a Chairman and CEO of District Heating Košice, a. s. Since June 2012 till December 2012, he was a Member of the PPH's Board of Directors, since July 2012 till April 2014 he was its Chairman.

Since October 2012, he has been a Member of the PP's Board of Directors, and since November of the same year, he became its Chairman. Since May 2013, he has been a member of the PGP's Supervisory Board, and since August of the same year, the Chairman of the PPH's Board of Directors.

### **LORENZ PRONNET** Member of the Supervisory Board (until 27. 3. 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 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 Budějovice, 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 to 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 its Vice-Chairman. In March 2005 he became the Chairman of the Supervisory Board of E.ON Distribuce, a. s. Since June 2006 to July 2010, he was a Member of the Supervisory Board of Teplárna (Heating Plant) České Budějovice. In October 2006, he was elected to the PP's Supervisory Board. Since April 2007, he was a Member of the PPH's Supervisory Board. In December 2006, he was co-opted to the Supervisory Board of Energetika (Energy Company) Malenovice, a. s. and Teplárna (Heating Plant) Otrokovice, a. s. He is the Statutory Director of E.ON Česká republika, s. r. o. and E.ON Czech Holding Verwaltungs GmbH. Since September 2010, he was a Member of the ISE's Supervisory Board. Since January 2011, he is also the Executive 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. On 27 March 2014 he resigned on positions of member of PP's Supervisory Board, member of PPH's Supervisory Board and ISE's Supervisory Board.

### **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 at the Czech Ministry of Finance as chief specialist officer. 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 works in PP as head of the finance policy department. She has been a Member of the PP's Supervisory Board since January 2007. From July 2007 to November 2010 and since May 2013 she has been a Member of the PGP's Board of Directors. Since February 2014 till 7 April 2014, she was acting as a temporary representation in the performance of the Managing Director.

### **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, including its legal predecessor companies. Since 1990, she has held the post of head of the legal department. She has been a Member of the PP's Supervisory Board since 1995.





**DR. -ING. MILAN URBAN** *Chairman of the Supervisory Board, Member of the Supervisory Board (until 27.3.2014)*

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 authorised architect in the Czech Republic and Great Britain. Since 1989, he worked in UK as a project architect and a land planner in companies John Simpson & Partners, DEGW – Urban Planning Group, Chapman Taylor Partners – European Planning Group (London), also he worked on the position of Deputy Director in Aukett Group Plc. The Company sent him to the Czech Republic, where he works since 2000. He was a founder and shareholder of the Prague project office HKR Architects, HKR Prague, s.r.o. (2006-2009), and of the Prague project office Kling Consult, s.r.o., - branch of the international company Kling Consult GmbH (2010-2011). In 2009, he worked in the UAE - Dubai, Abu Dhabi. 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 a Member of the City Prague Council for the period 2012 - 2014, Chairman of the Environment Committee, Vice Chairman of the Committee on City Regional Development and a Member of the Economic Policy Committee. He is also a Member of the Prague City Council for grants in the field of the environment and of the Council of the Prague City Commission for the coordination of activities in public areas in the PPR. Since 2012, he has been a Member of the Supervisory Board of the Prague Congress Centre, and a Member of the Supervisory Board of Rozvojové projekty Praha, a. s. In October 2012 he became a Member of the PP's Supervisory Board. On 27 March 2014 he was elected the Chairman of PP's Supervisory Board.

**ING. FRANTIŠEK VAŠÁK, CSC.** *Personnel Director (until 30 June 2013) and Proxy (until 24 June 2013)*

He studied Chemical Processes Automation and Management at the Chemical Technology University in Prague. Since 1976 till 1994, he worked as a researcher and later also as research secretary in the Chemical Processes Institute of the Czech Academy of Sciences. In 1980, he obtained the scientific degree of CSc. (Candidate of Sciences). Since 1982 to 1983, he was a researcher in the General and Inorganic Chemistry Institute in Moscow and, since 1989 till 1990 and in 1994, worked as a visiting professor in Canada at the University of British Columbia in Vancouver, where he was engaged in automation of equipment, data processing and design of management systems. After that he worked in turn in APP Systems, Listy and APP Systems (now NESS), where since 1995 to 1997 he held the post of director of the marketing division. Since 1997 till 1999, he worked as an IT sales and marketing consultant. Since 1999 till 2000, he was marketing director of PragoData. He joined PP in 2000, in the post of assistant to the director for development and information technology. Since 2001 to 2003, he held the position of executive director and Statutory Director of ISE. Since 2004, he has been the director for development and information technology / director for strategy and information technology / director for information technology in PP. Since April 2010 until June 2013 he was a Personnel Director and since 2004 to June 2013 he was also a PP's proxy. Since December 2005 till March 2007 he was a Member of the PPD's Supervisory Board. Since January 2005 till March 2006, he was the Chairman of the ISE's Board of Directors and then, until April 2008, he was the Chairman of its Supervisory Board. Since December 2011 to June 2013 he was a Member (since January 2012 Chairman) of the PPSM's Board of Directors.

**BC. MIROSLAV VRÁNEK** *Member of the Supervisory Board*

After completing 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, 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 and sales officer. He is currently working as head of the Commercial Director's Office. He has been a Member of the PP's Supervisory Board since January 2007. During his employment he obtained a bachelor degree in Social and Media Communication. He is currently studying a mater degree.



# DATA ON THE COMPANY'S ACTIVITIES AND FINANCIAL POSITION

## DATA ON THE MAIN AREAS OF ACTIVITY

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

### DATA ON EARNINGS

Year		2011	2012	2013
Earnings from sale of own products, services and goods	CZK '000	8,913,375	8,844,035	8,432,577
	EUR '000	343,165	340,496	324,655

The average CZK/EUR exchange rate for 2013 is 25.974 CZK/EUR.

Earnings were generated in the Czech Republic.

### Breakdown of operating revenue by type of activity

(in%)

Type of activity	2011	2012	2013
Earnings from sale of gas*	94.3	95.2	93.0
Earnings from sale of electricity	-	0.1	1.8
Other operating earnings and revenues	5.7	4.7	5.2

\*Licensed activities.

### DATA ON INVESTMENTS

All investments in 2013 were financed from the Company's own resources and were effected in the Czech Republic.

### Investments in 2013 (apart from financial investments)

	Acquisition cost	
	in CZK million	in EUR million
Technological constructions	3.2	0.1
Other investments	105.5	4.1
<b>Total</b>	<b>108.7</b>	<b>4.2</b>

The average CZK/EUR exchange rate for 2013 is 25.974 CZK/EUR.

### INFORMATION ON RESEARCH POLICY AND THE DEVELOPMENT OF NEW PRODUCTS OR PROCEDURES IN THE CURRENT ACCOUNTING PERIOD, IF SIGNIFICANT

PP 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 HAD OR MAY HAVE SIGNIFICANT INFLUENCE ON THE COMPANY'S FINANCIAL POSITION

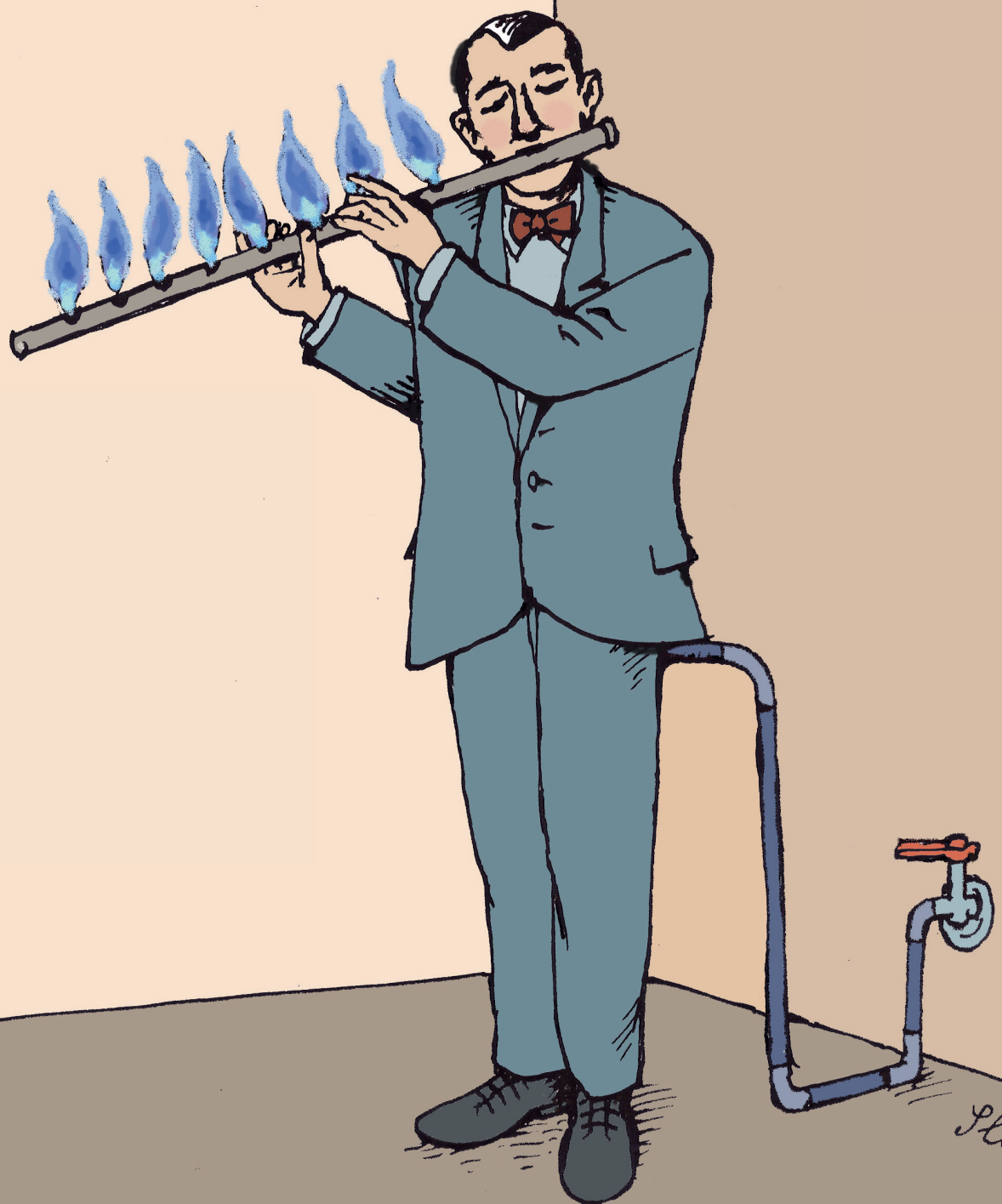
No court, administrative or arbitration proceedings were conducted against Pražská plynárenská, a. s. which would have a significant influence on the Company's financial performance or its assets.

The science is an explanation  
and poetry an elucidation.

Ivan Diviš







# III. REPORT OF THE BOARD OF DIRECTORS ON THE BUSINESS ACTIVITY OF THE COMPANY AND ITS ASSET POSITION

THE INFORMATION PRESENTED IN THIS CHAPTER APPLIES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS, UNLESS STATED OTHERWISE.

## THE POWER INDUSTRY IN 2013

Energy market in 2013 was influenced by many factors, from both external and domestic environment. This year was affected by the negative economic development and its impact on the household incomes and by the situation in the corporate sector with an impact on consumption and payment morality of customers. A number of activities were focused on the adoption of amendments in energy legislation, such as the obligations to hold security standard of gas supplies to protected customers and to prepare for an amendment to the Civil Code, placing new demands on business obligations between the customer and the supplier.

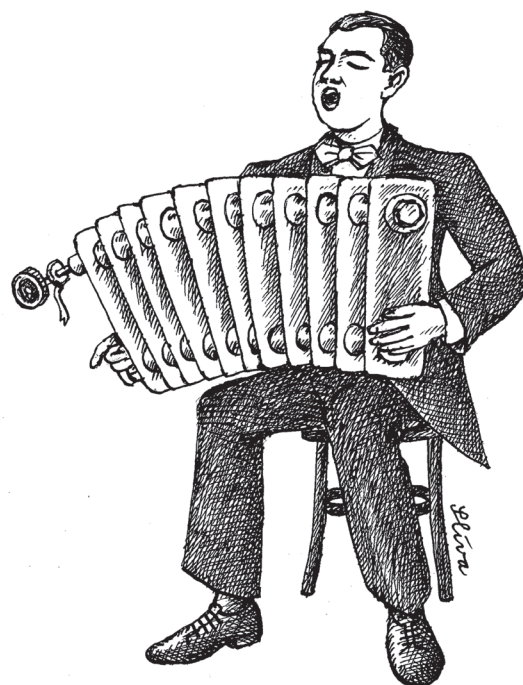
Throughout the year, there was an escalated competition for customers acquisition and for their retention. The existing sales channels were newly accomplished with energy auction supply for the segment of households. Energy auctions generated a broad discussion of the professional public about potential risks to their subscribers.

Market trends has developed toward a long-term customer retention through its contractual commitment for a fixed period of time with help of targeted products and offering new services. Trade policies of individual competitors in the market diversified away from existing tool which was in the form of area-wide price changes. The main trend has been offering product lines determined by other conditions. There was thus a further slowing in the rate of change of supplier by custo-

mers. Developments in commodity markets and an inability to fully reflect the purchase prices into sales prices, caused some suppliers a reduce in their economic profitability expressed as a decrease in realized margins, which particularly had a negative impact on new suppliers. The acquisition costs for new customers have grown and it caused inevitable market consolidation through several acquisitions. Despite the heavily hypercompetitive environment, we still managed to attract new participants.

Our company has responded to developments in the market situation by proactive approach. There was a gradual diversification of purchase contracts in order to minimize the cost of the commodity and its acquisition. In addition to acquisition activity there has been widening and deepening of retention activities for the purpose of customer retention. During the year, targeted products were implemented for meeting the business plan of the company.

The downward trend in electricity prices on the Prague Energy Exchange continued in 2013. At the beginning of the year, the price per MWh for 2013 was almost 44 EUR and at the end of the year it was around 36 EUR, which means about 18% lower. In November 2013 there was a sudden increase in electricity prices on the stock exchange due to the decision of the Czech National Bank to intervene in the foreign exchange market. So the price has risen in a single day from 36 to 37 EUR/MWh, and then declined again slightly.



On the electricity market are currently successful mainly companies that are customer-friendly, have an excellent customer service and do not prefer traditional door-to-door sale. During 2013 Pražská plynárenská, a. s., significantly increased the number of its electricity consumers and made it to the top ten most successful suppliers of the electricity from the view of acquisitions activity. Considering the fierce competition on the electricity market, it is a significant success. In 2013 year-on-year comparison of the increase in the number of SDP was PP more successful than some major alternative suppliers.

In 2013 there was a change in the behaviour of some dealers in setting the electricity prices for the next year. While in the past years, dealers notified prices for the following year at the end of November, the ČEZ, a. s., company announced new prices already in mid-September. Other dealers didn't want to be left behind and a number of them published their pricing strategies soon. Pražská plynárenská, a. s., published its price quotation for 2014 on 1 November 2013. Sales prices for 2014 were set at a competitive level, as a response to the offer of dominant competitors and reflect the overall development of the electricity market.

Due to the amendment to the Civil Code with effect from 1 January 2014, the majority of energy traders also changed their business conditions and wording of contracts and

appendixes to contracts to correspond with the provisions in the amendment. The amendment to the Civil Code regulates, besides other things relationships between suppliers and customers in the sense of strengthening the rights of the customers. The amendment shall in particular contribute to greater customer awareness and transparency of contracts and business conditions of dealers. Pražská plynárenská, a. s., joined a number of suppliers who adjusted their business conditions and other documents with a regard to the obligations under the Code of Ethics of dealers in the power industry. PP, voluntarily registered for the observance of the Code of Ethics as at August 2012.

The whole year 2013 was affected by the energy supply auctions for the households segment as discussed widely in media. The first in this direction was an auction, attended by the town Říčany. After that, there were several other similar auctions and then articles highlighting the pitfalls associated with auctions of energy supply began to appear in the media. This is mainly the non-transparency of the auctions, customers select their energy supplier on the basis of the lowest bid which involves some risk. Also auction organizers are not experts in the field and they aren't oriented in the service of energy supply. They take no responsibility for the conditions after the auction and are not able to assess the risks associated with processes occurring after the auction, although often outwardly presenting so.

## SIGNIFICANT EVENTS IN 2013

### JANUARY

#### JANUARY

- As at **1 January**, pricing decision of the Energy Regulatory Office No. 3/2012, dated 26 November 2012, about the prices of regulated services related to the supply of gas, came into effect.
- As at **1 January**, sales price of natural gas, pursuant to the price list PP 1/2013/ZP for all customer categories, came into effect.
- As at **1 January**, pricing decision of the Energy Regulatory Office No. 5/2012, dated 30 November 2012, fixing the prices of regulated services related to the supply of electricity, came into effect.
- As at **1 January**, pricing decision of the Energy Regulatory Office No. 6/2012, dated 30 November 2012, fixing the prices of regulated services related to the supply of electricity to customers of low voltage networks, came into effect.
- As at **1 January**, the electricity price list PP, 1/2013 for small-scale customers - households category and business category, came into effect.
- As at **1 January**, the electricity price list of the PP, product „Discount 3.6%“, of the current price of electricity for small-scale customers - households category and business category, came into effect.

### FEBRUARY

#### MARCH

- As at **1 March**, a new regional sales office of PP in Hradec Králové opened.

### MARCH

### APRIL

### MAY

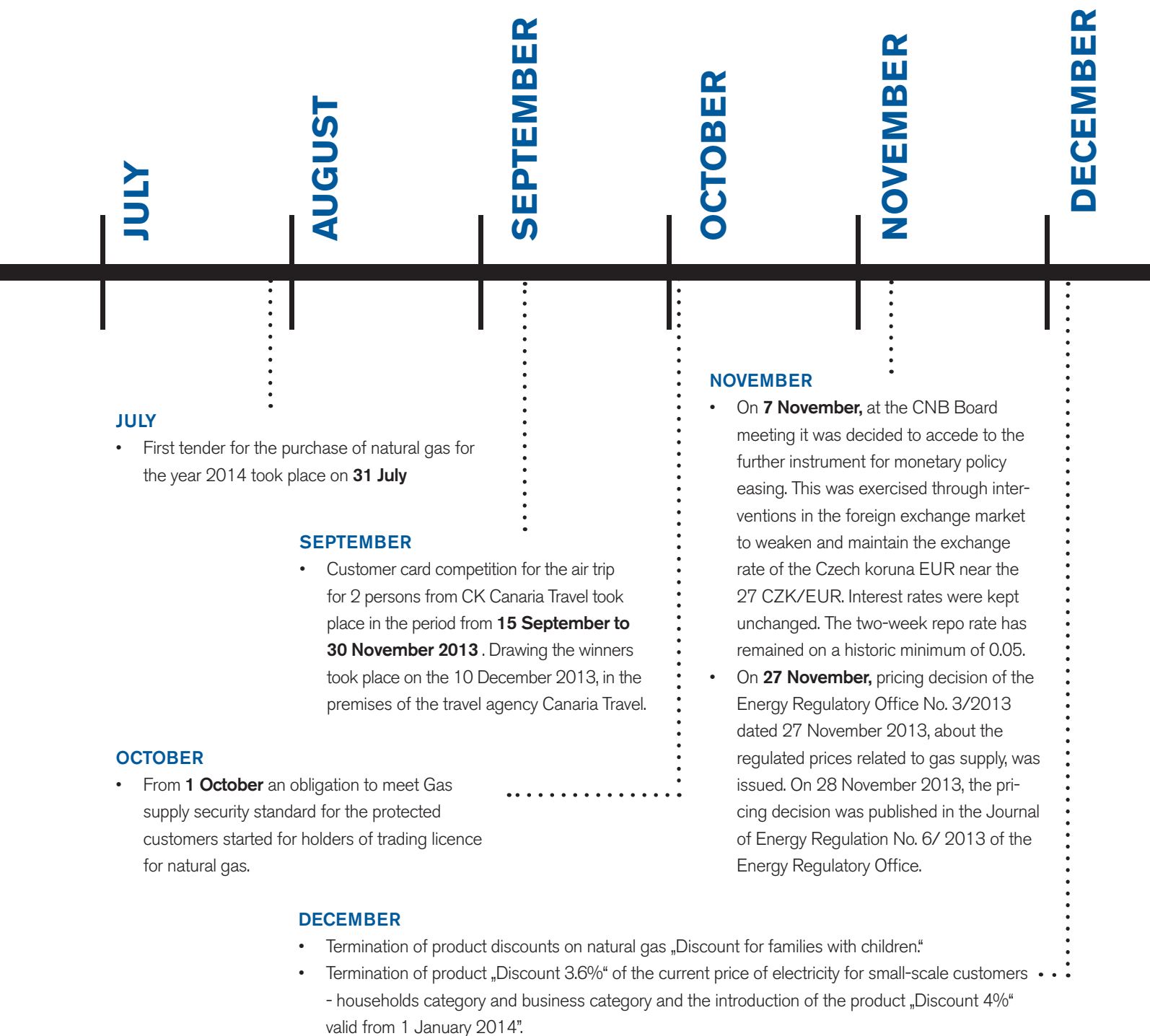
#### MAY

- As at **1 May**, gas prices for the product „Discount 11%“, related to the commodity component of the price of other services of gas supply, came into force.

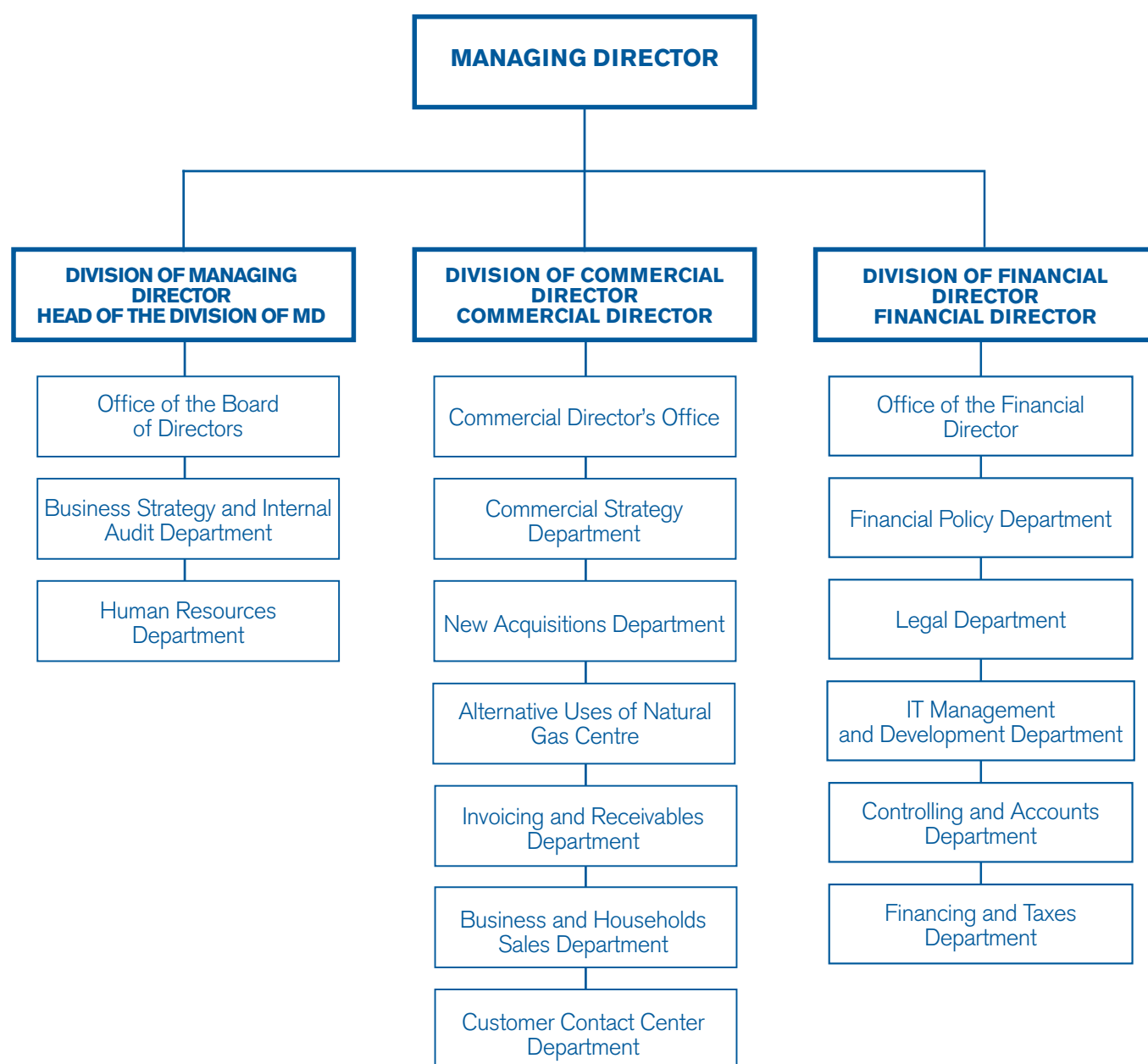
### JUNE

#### JUNE

- On **7 June** PP, held its Annual General Meeting.
- As at **13 June**, prices of natural gas and electricity of the product „Družstevník“, designated for housing associations, came into effect.
- As at **17 June**, ERO officially established price for the purchase of natural gas for covering balance equation and its own technological consumption of PPD.
- Pražská plynárenská, a. s., offered a discount on gas appliances and financial participation in the exchange for appliances (under condition of extending the contract) for its customers affected by the floods



## ORGANISATIONAL CHART OF PP AS AT 31 DECEMBER 2013



## FINANCIAL RESULTS BEFORE TAX

Profit/loss (CZK million)	Actual 2013	Actual 2012	Comparison Actual 13/12
P/L operating	324.9	307.5	17.4
P/L financial	374.3	414.8	(40.5)
<b>P/L total</b>	<b>699.2</b>	<b>722.3</b>	<b>(23.1)</b>

Profit/loss (EUR million)	Actual 2013	Actual 2012	Comparison Actual 13/12
P/L operating	12.5	11.8	0.7
P/L financial	14.4	16.0	(1.6)
<b>P/L total</b>	<b>26.9</b>	<b>27.8</b>	<b>(0.9)</b>

The average CZK/EUR exchange rate for 2013 is 25.974 CZK/EUR.

## REVENUES

Revenues (CZK million)	Actual 2013	Actual 2012	Comparison Actual 13/12
Total operating revenues	8,468.6	8,874.6	(406.0)
of which			
Earnings from gas*	7,876.4	8,452.3	(575.9)
Earnings from electricity	156.6	7.0	149.6
Financial revenues	473.9	461.4	12.5
<b>Total revenues</b>	<b>8,942.5</b>	<b>9,336.0</b>	<b>(393.5)</b>

Revenues (EUR million)	Actual 2013	Actual 2012	Comparison Actual 13/12
Total operating revenues	326.0	341.7	(15.7)
of which			
Earnings from gas*	303.2	325.4	(22.2)
Earnings from electricity	6.0	0.3	5.7
Financial revenues	18.2	17.8	0.4
<b>Total revenues</b>	<b>344.2</b>	<b>359.5</b>	<b>(15.3)</b>

The average exchange rate for 2013 is CZK/EUR 25.974.

\* Activity under licence

## COSTS

Costs* (CZK million)	Actual 2013	Actual 2012	Comparison Actual 13/12
Total operating costs	8,143.7	8,567.1	(423.4)
of which			
Purchase of gas for distribution**	5,557.7	6,138.6	(580.9)
Purchase of electricity	48.6	2.7	45.9
Financial costs	99.6	46.6	53.0
<b>Total costs</b>	<b>8,243.3</b>	<b>8,613.7</b>	<b>(370.4)</b>

Costs* (EUR million)	Actual 2013	Actual 2012	Comparison Actual 13/12
Total operating costs	313.5	329.8	(16.3)
of which			
Purchase of gas for distribution	214.0	236.3	(22.3)
Purchase of electricity	1.9	0.1	1.8
Financial costs	3.8	1.8	2.0
<b>Total costs</b>	<b>317.3</b>	<b>331.6</b>	<b>(14.3)</b>

The average exchange rate for 2012 is CZK/EUR 25.974.

\* Net of income tax on current activity.

\*\* Licenced activities



## FINANCIAL POSITION

In 2013, Pražská plynárenská, a. s., remains a financially stable company, which was reflected in its financial commitments (i.e. those commitments to suppliers, customers, employees and banking and state institutions) being paid within the prescribed time limits throughout 2013.

The Company ensures covering of its financial needs, from both its own resources and by drawing of bank loans and using the financial resources of the other PP Group companies grouped within the cash pooling scheme.

Since 2009, the Company's permanent financial needs have been covered by a long-term loan amounting to CZK 1.0 billion (due in 2016). Short-term loans are mainly used on daily basis to optimise the Company's cash flow, which is affected by the seasonal fluctuations associated with the purchase and sale of natural gas. The status of the bank credit as of 31 December 2013 was CZK 1,950.8 million, which means decrease by 159 million since 31 December 2012 (CZK 2,109.8 million). The average daily amount of all loans in 2013 (bank loans and cash pooling borrowings) was CZK 2,695.7 million. This value is comparable to the average daily amount of 2012 (CZK 2,714.4 million) and shows decrease by CZK 18.7 million. Low difference is mainly due to stable gas prices in years 2012 and 2013.

Financing through all the available funds of the PP Group companies, at an average daily amount of CZK 498.4 million, brought savings in interest costs of CZK 1.3 million.

In 2013, the Company cooperated with four banking institutions: Československá obchodní banka, a. s., Citibank Europe plc, Komerční banka, a. s., and Česká spořitelna, a. s.

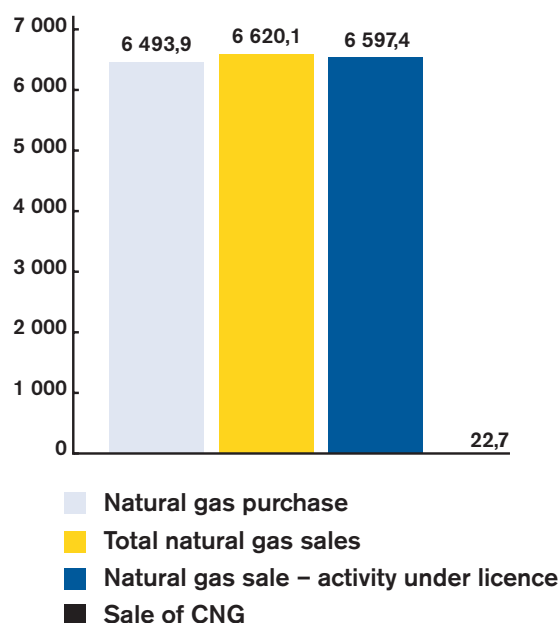
## SUMMARY OF REAL ESTATE OWNED BY PP

The Company records show real estate (plots, buildings, and other structures) at an acquisition price of CZK 1,090.9 million as of 31 December 2013. Of the buildings, it mainly concerns the real estate at the Národní 37 premises and the site in Prague 4 - Michle.

The amortised cost of real estate in the Company's ownership is CZK 760.5 million.

## GAS TRADING

Sale of natural gas 2013 (in mil. kWh)



The results of trading activities in area of natural gas sales were affected in 2013:

### a) positively

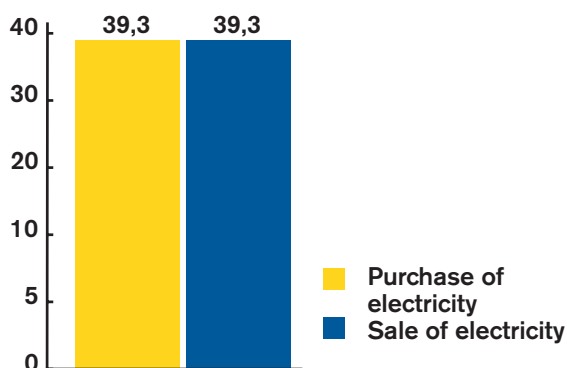
- by the supply management and by a significant diversification of the purchasing portfolio in the course away from traditional commodity purchase contracts to purchasing contracts under a fixed price and supply and to contracts linked to the spot and market price of natural gas,
- by the individual direct purchase (back to back) for wholesale customers, medium-sized customers and retail customers,
- by targeting of the price products to selected customer segments of household category, particularly by launching the product „Discount 11%“ and by the continuation of existing products, with the aim to offer customers beside the standard product also the possibility of choice of an alternative product,
- by an open stance policy towards customers of the small business category,
- by providing high-quality services and by the active customer-relationship management applied through both traditional and modern systems of customer care,

**b) negatively**

- by the hyper-competitive environment on the natural gas market, which means an environment in which a customer can choose from more than ten suppliers,
- by the rapid innovation in products and services offered by competing companies
- by the adverse developments on the commodity markets,
- by the adverse course of outdoor temperatures,
- by the CNB interventions at the foreign exchange market in order to weaken the Czech crown (at the end of the year).

## ELECTRICITY TRADING

Sale of electricity 2013 (in mil. kWh)



The results of new trading activities in the area of electricity sales were affected in 2013:

**a) positively**

- by active acquisition of new customers across the whole country,
- by the continuous decline in purchase prices,
- by setting lower prices in comparison with the main supplier in each distribution sector,
- by the product offer „Discount 3.6%“ with which PP, responded to developments on the electricity market and the competing companies offers,
- by offering high-quality services and products,

**b) negatively**

- by strong competition, mainly from alternative suppliers of electricity,
- by the November decision of the Czech National Bank Board to intervene at the foreign exchange market, which in turn adversely reflected in increase of the purchase price of electricity.

## MARKETING AND CUSTOMER CARE

### CUSTOMER CARE

Pražská plynárenská, a. s., has long term focus on building effective communication with its customers and to offer quality and affordable services and products.

For accessible communication with the Company and easy customer's requirements handling there are all-year-round available business offices and contact points in the peripheral locations of Prague mobile business offices, customer service line, customer portal and website [www.ppas.cz](http://www.ppas.cz). Customers can also use 104 Prague branches of the Czech Post (Česká pošta, s.p.) for dealing with the most common issues associated with the natural gas supply.

The company has been assisting its customers for unexpected events. In case of malfunction of gas appliances or related equipment, there has been all-year-round customer assistance service POMOC 24. Within this service under certain conditions the Company procured to its customers repair of gas appliances and other services free of charge or with Company's financial participation. There were also 30% discounts on the purchase of gas appliances from contractors of Pražská plynárenská, a. s., available for customers year-round.

The price products and the price advantages, that the Company actively offered to different customer groups throughout the year. These included for example discounts for seniors, for ZTP/P card holders, for families with children, 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.

Quite unique on the domestic energy market is an interest of more than 1% on overpayments from billing of natural gas consumption.

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 sign for at least one year. The Company was also offering a product „Discount

3.6%“ of the current electricity price for customer categories MOO and MOP for the period from 1 January 2013 to 31 December 2013. Customers could have chosen one of the listed products when concluding the contract.

## VEHICLES RUNNING ON COMPRESSED NATURAL GAS

The project for the use of natural gas for vehicle propulsion is one of the strategic projects of Pražská plynárenská, a. s., which occupies a leading position among gas companies in the Czech Republic in promoting natural gas in transport.

8 CNG (compressed natural gas) filling stations were in operation in the capital city of Prague at the end of 2013. Pražská plynárenská, a. s., owns and operates stations in its premises in Michle in Prague 4, at the SHELL petrol station in 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. The Řeporyjská CNG station in Prague 5 - Jinonice and the Rajska zahrada CNG station in Prague 3 are run by a private companies and Pražská plynárenská, a. s., supplies it with natural gas.

Sales of CNG in Prague increased by 44.9% in 2013 compared to 2012 and reached 2,173.4 thousand kg.

Sales of CNG at PP petrol stations increased by 17.9%, in 2013 compared to 2012, totalling 1,490.3 thousand kg.

Throughout 2013, PP had one of the lowest prices for CNG in the Czech Republic:

- until 30. 6. 2013: CZK 23.40 per kilogram including VAT (equivalent to CZK 16.38 per one litre of petrol),
- since 1. 7. 2013: CZK 24.50 per kilogram including VAT (equivalent to CZK 17.15 per one litre of petrol).

Pražská plynárenská, a. s., participates in the CNG CardCentrum single payment system used in the Czech Republic. As of 31 December 2013, there were a total 1,965 CNG loyalty cards in circulation. In 2013, a total of 355 CNG cards were issued to new customers. The increase in the number of cards issued is mainly due to the changeover of Česká pošta, s.p.'s cars to run on CNG.

132 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 15 CNG vehicles compared to 2012.

The joint project of the Capital City of Prague, Pražské služby, a. s. and Pražská plynárenská, a. s. concerning conversion of waste collection and cleaning vehicles to compressed natural gas continued successfully. In 2013, Pražské služby, a. s. brought 16 delivery cars into operation in addition to the existing 56 CNG vehicles. The purchase of a further 10 - 15 CNG vehicles is planned for 2014. Municipal vehicles run on CNG are mostly used in areas with the heaviest traffic, i.e. in city centres.

A whole range of other businesses and institutions have expressed interest in CNG vehicles. For instance the following have all included CNG vehicles into their vehicle fleets: Česká pošta, s. p., (202 CNG vehicles in Prague), Policie ČR, Městská policie Praha, Orinda, s. r. o., Mistr Plynař, ELIT, s. r. o., Express Taxi, AAA, s.r.o., Tesco Stores ČR, a. s., (company Hanzalík), DHL, s. r. o., TNT, s. r. o., Eltodo, a. s., Vemex, s. r. o., United Bakeries, a. s., (company Šafránek), Svoboda International Transport, s. r. o., APM Automotive, a. s., Ave, a. s., Komwag, s. r. o., Ipodec, s. r. o.

## CUSTOMER CARDS

Through the Loyalty program of the Company within the „Zákaznická karta Pražské plynárenské“ (The customer card of Pražská plynárenská) customers have been drawing discounts and benefits from different areas (for example travel, sport, culture, accommodation, etc.) with more than 90 partners involved in this project. Customer cards are available to customers free of charge. Throughout the year, Loyalty Card holders could participate in competitions for exotic package holidays, spa stays and other prizes.

Information regarding the ongoing discount offers and benefits are sent to customers via catalogues together with billing of natural gas. They are also available on the internet along with free internet applications for mobile phones.

## SPONSORSHIP ACTIVITIES AND DONATIONS

For a long time now, Pražská plynárenská, a. s. sponsorship activities have mainly focused on culture, sports, social areas and the environment. The most important projects include, for example, support for the festival of new circus Letní Letná, the traditional rowing races Pražské primátorky, summer and winter



athletics in the Letní a Zimní pražská tyčka, the Malostranská beseda cultural and social centre, special vehicles for the disabled, winter ice skating ring at Ovocný trh, the MENE TEKEL International Festival, the Prague Symphony Orchestra FOK, the Talich Philharmonia Prague, the theatre Divadlo v Řeznické, the theatre Bez Zábradlí, the Ladronkafest festival, the Grafika roku competition and the concert for firemen and rescuers „Povodně 2013 – Děkujeme“.

The Company supported a number of Foundations, such as the Nase dite foundation, the Český literární fond foundation, the Janele fund, the foundation for police officers and firefighters, the hospital Fakultní nemocnice Královské Vinohrady – Klinika popáleninové medicíny, 4th Department of Medicine - Department of Gastroenterology and Hepatology at First Faculty of Medicine - Charles University in Prague, Babybox for abandoned children STATIM.

In 2013, Prague's celebrations of Children's Day did not take place, therefore our Company organised its own event for children, "Dětský den Pražské plynárenské" on 1 June in the compound of waterpark Aquapalace Čestlice. This event was visited by many children from Prague and even from outside the city. All the children were accompanied by their parents. The event was used to promote Pražská plynárenská, a. s.

## SMEČKY GALLERY

In 2013, there were 5 thematic exhibitions held in Smečky Gallery:

- Jiří Slíva
- Joska Skalník / Dreams, situations and games
- Václav Sivko / Slightly open door
- Václav Boštík / Dividing the area
- Jiří Brdečka

These exhibitions raised exceptional interest among visitors and the media. For exhibitions of Václav Sivko and Jiří Brdečka monographs were published and ceremonial launch parties were held at Smečky Gallery.

Artworks from the collection of PP, were put on display at the individual exhibition in Austria, where the installation was seen by almost 50 thousand visitors. The Artworks were also lent to reputable galleries in London and Regensburg. Apart from exhibitions, the Smečky Gallery continued to host

very popular informal meetings with well-known artists and other personalities from social and cultural sphere entitled "Below Image(s)".

In 2013, 8 of them took place and the guests were:

- **Jakub Kohák (director, actor, publicist)**
- **Kateřina Englichová (harpist)**
- **Jiří Kolbaba (traveler)**
- **David Ondříček (producer and director)**
- **Jaromír Hanzlík (theater and movie actor)**
- **Lukáš Pavlásek (comic, actor, emcee)**
- **David Vávra (architect, actor, writer)**
- **Miroslava Knapková (Olympian champion in rowing)**

Furthermore, the representative areas of the Gallery were used for exhibition viewing with commentary and for concerts of classical music of the Talich Philharmonia Prague.

## COMPANY MAGAZINE

The "U Plynárny" magazine has come out monthly throughout the year. It is designed for current and future customers, business partners, representatives of the state administration and self-government, and of course employees of the Pražská plynárenská, a. s. Group. Particularly informed about current events in the Company, its services, products and activities. In order to increase the attractiveness of the magazine, it also contained lifestyle topics such as interviews with various celebrities, etc. The individual issues of the magazine are also available on the web pages [www.ppas.cz](http://www.ppas.cz).

## GAS MUSEUM

Since 1999, Pražská plynárenská, a. s. operates on the Michle site the only museum in the Czech Republic devoted to the gas industry. The Gas Museum receives frequent visits from elementary and secondary schools, specialists, foreigners and ordinary citizens who are interested in history generally or in the development of technology and the energy sector. The Gas Museum familiarises visitors with the history and development of the world and the Czech gas industry, from its beginnings to the present day. 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 and also historic gas appliances can be found here.

In 2013, a number of historical documents and exhibits were added to the collections. World's unique exhibition „Historical



Gas irons and mangles“ was on for whole year 2013.

## **GAS STREET LIGHTING**

The introduction of gas revolutionized public lighting in the cities. In Prague, gas lamps were lighted up in the years 1847-1985. Gas lighting began to return to Prague after 17 years in 2002. Prague City Council intends to replace the present electric public lighting with gas lighting in the historical parts of Prague often frequented by tourists. Renewal of historical gas lighting is also in accordance with the principles of preservation of historical monuments and clearly enriches Prague. Lighting from gas lamps gives Prague's historical streets an atmosphere of warmth and evocation of the romantic days of old.

In 2013, cooperation continued in the introduction of gas lighting in the historic centre of Prague with Prague City Council and Eltodo-Citelum, s. r. o., the operator of public lighting in Prague. A further stage in the restoration of gas lighting in the historic centre of Prague continued with Charles Bridge, the only gas-illuminated bridge in the world. Reconstruction of the historic four-armed candelabra began in Dražického square. Pražská plynárenská, a. s., played a significant role in this event. At the end of 2013 there were more than 650 gas lights operating in Prague.

## **COOPERATION WITH OTHER ENERGY COMPANIES**

Cooperation with PRE, a. s. proceeded in the joint Business Office in 2013, and cooperation continued with PVK, a. s. and PRE, a. s., associated with the joint Customer Line 840 555 333. Pražská plynárenská, a. s., cooperated with the ERO, in particular in preparing inputs for the amendment of the implementing gas legislation on the rules for 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 grouping of firms and specialists operating in the gas industry and related sectors.

## **INFORMATION TECHNOLOGY**

In 2013, 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 modernised in order to ensure their up-to-dateness, trouble-free operation and simultaneously ensure the Group's competitiveness in the market.

As main commercial activities were carried out projects with a focus on the computerization of processes (e-invoicing) and projects supporting proactive approach to clients (new websites, business portal development, e-mobility).

On the distribution side of the business there was a project implemented to ensure the financial resources efficiency in the field of capital construction and rehabilitation of networks.

In 2013, the projects' preparation for the key systems' upgrade was realised in area of natural gas trading. These projects will take place in 2014 and will help to further enhance the company's competitiveness. At the same time, the preparation of the project for the deployment of modern information systems into the distribution activity area was carried out.

# **HUMAN RESOURCES MANAGEMENT**

## **THE PERSONNEL AND SOCIAL FIELD**

At 31 December 2013, there were a total of 310 employees in PP, 68 men and 242 women.

In the social work field, 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. the metabolic analysis of the body, the back school or an ultrasound examination of the veins).

With an aim to improve employees's awareness on maternity or parental leave, a web portal for these employees was partly connected with the Company's intranet (it concerns e.g. offering of the theatrical productions, massages, etc.).

## **COLLECTIVE BARGAINING**

Labor, wages and other entitlements of PP employees were satisfied in compliance with the collective agreement in force for the period from 1 January 2013 to 31 January 2015. In the employment law field, employees took, for example, one week more of holidays than specified in the





Labour Code and took advantage of the catering facilities provided by the employer.

The company's collective agreement included the employer's undertaking to provide a minimum 3% year-on-year increase in average earnings in 2013 compared with 2012 and this planned increase was achieved.

Collective bargaining took place in mutual agreement – the Company's management was willing to meet the realistic requirements of employee representatives.

## **SAFETY AND HEALTH PROTECTION AT WORK, FIRE PROTECTION**

Concern for the safety and health of employees is a significant part of the labour relationship between the employers and the employees. In PP a. s., managing safety at work is an inseparable part of the company's management; in accord with all of the relevant legal standards and internal executive acts. PP ensures that workflow is carried out in a way in which all unwanted impacts of these activities on employees' health are removed or minimised. Thanks to the consistent application of technical, organisational and educational measures in accordance with BOZP and PO during the year 2013, there was no increase in the number of work accidents nor were there any issues in the BOZP and PO areas found out under supervision by safety at workplace committee.

Fire safety is ensured by thorough preventive measures and regular checks of all the workplaces and spaces at PP. Ensuring the safety and health protection at work along with fire protection is an integral and important part of the management of PP. Relevant legal standards and internal control acts of PP, ensure compliance of the labour relationships between the employers and the employees. Due to the consistent application of and compliance with internal control acts and through preventive measures and regular inspections of premises and workplaces in PP, potential adverse impacts of these activities on the health and safety of employees are eliminated or minimized.

## **THE SOCIAL ENVIRONMENT**

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

Expansion of activities in connection with the wider use of natural gas in a very wide range of areas and technical measures for the economy means that PP aids protection of the atmosphere in energy generation. Burning natural gas compared with other fossil fuels significantly reduces the strain on the atmosphere from emissions of greenhouse gases.

Legislation in the field of environment newly imposes on economic entities to report to the state or public administration the information about the impact of economic activities on the environment. Therefore „Integrated system of the compliance with reporting obligations (ISPOP)“ was introduced. It allows processing and reception of the selected reports (reporting obligations) from the area of the environment, in electronic form. PP, as well as other companies in the PP Group, is the reporter of the records or charges from the environmental area, that contains information about air pollution, and of the waste records. Their primary goal is to protect environment and improve its quality.

## **CLEARING UP OLD ENVIRONMENTAL LIABILITIES**

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

In 2013, 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**

PP 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.

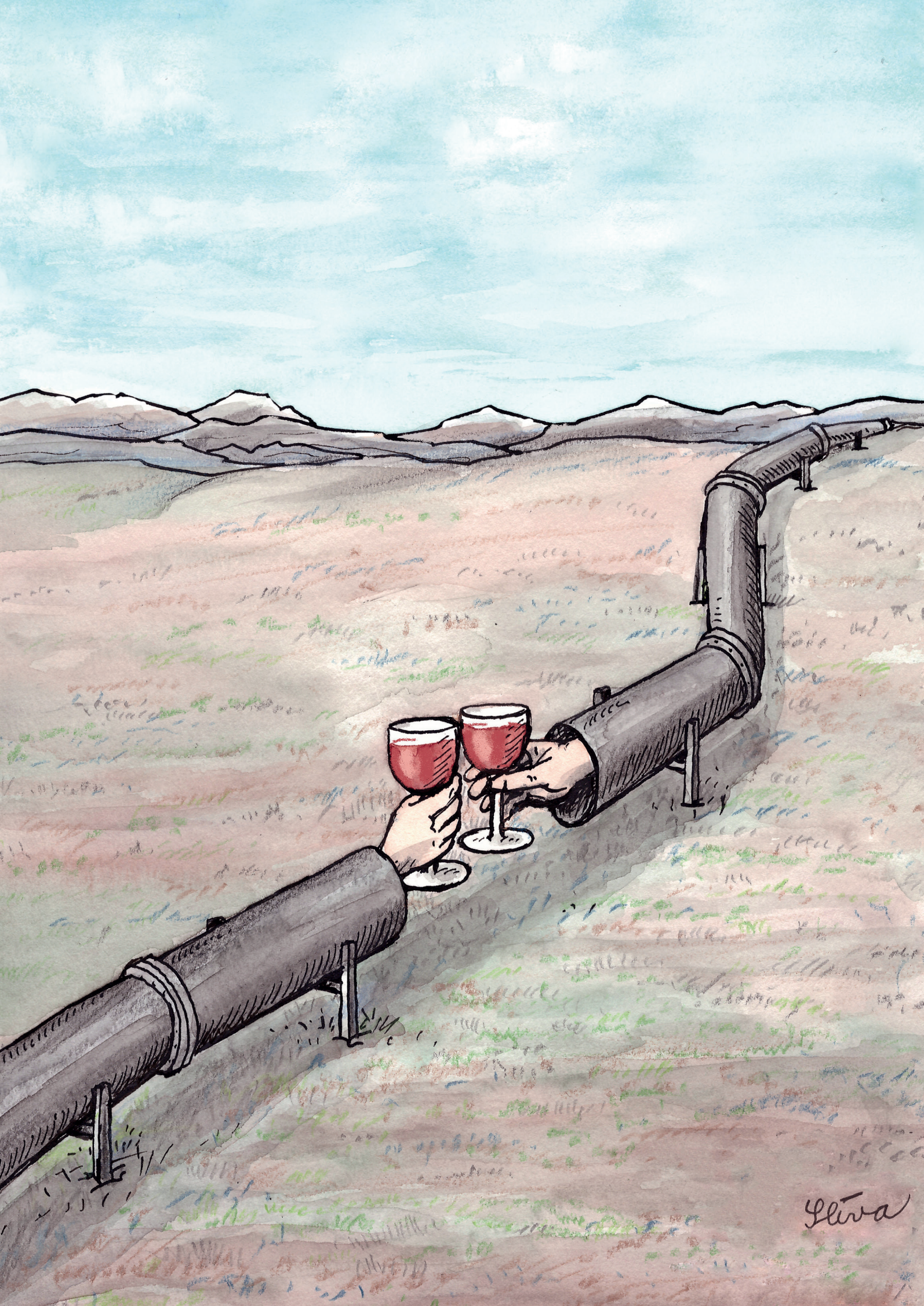
The truth is the only thing none  
ever wants to believe.

G. B. Shaw









Ilva



## IV. IMPORTANT EVENTS IN THE FIRST QUARTER OF 2014

### THE RESIGNATION OF THE PP'S MANAGEMENT

Ing. Fafejta Milan, the Managing Director, Ing. Josef Hais, the Commercial Director, and Ing. Jiří Hamšík, the Financial Director, ended their employment with the company at their own request on 31 January 2014.

From 1 February 2014 Board of Directors authorised:

Ing. Marta Ptáčková, temporary representation in the performance of the Managing Director,

Ing. Pavel Cajthaml, temporary representation in the performance of the Commercial Director,

Ing. Jaroslav Kohoutek, temporary representation in the performance of the Financial Director.

### BUSINESS ACTIVITY OF THE PP

In the first quarter of 2014, the following events took place:

- On 1 January, Price Decision No. 3/2013 of the Energy Regulatory Office on the prices of regulated services associated with gas supply, dated 27 November 2013, came into effect.
- On 1 January, the sales prices for natural gas, pursuant to the Pricelist PP 1/2014/ZP, came into force for all customer categories, for customers using product offerings „Discount 11%“, „Discount 6,5%“, „Discount for seniors and for ZTP/P card holders“, „Without the capacitive component of the price“, and in the year 2014 to new customers not offered product „Discount for families with small children“
- On 1 January, sales prices for electricity, pursuant to Pricelist PP 1/2014 for small-scale customers - households category and business category, came into force.
- On 1 January, ERO officially established prices for the natural gas purchase for covering balance equation and its own technological consumption of PPD, came into force.
- On 1 January, the offer of a product „Discount 4%“ from the actual price of electricity paid by small-scale customers - households category and business category, came into effect.
- On 1 January, Price Decision No. 5/2013 of the Energy Regulatory Office of 27 November 2013, fixing the prices of regulated services associated with the supply of electricity, came into effect.
- On 1 January, Price Decision No. 6/2013 of the Energy Regulatory Office published on 27 November 2013, fixing the prices of regulated services associated with the supply of electricity to customers of the low-voltage network, came into effect.



## THE CHANGE IN SHAREHOLDERS STRUCTURE AND COMPANY'S BODIES

On 27 March 2014 710 550 ordinary bearer shares of the Company were sold by E.ON Czech Holding AG to PPH. PPH gained 99.55% of Company's share capital.

In connection with PP's sale the following changes in composition of Company's bodies occurred.

During the meeting of the Supervisory Board held on 27 March 2014, Dipl. Ing. Michael Fehn, Mr. Magnus Alexander Brandau, Mr. Marc Müller, MBA and Mr. Lorenz Pronnet resigned on their memberships in the Supervisory Board. New members of the Supervisory Board became MUDr. Ivetta Borská, Ing. Pavel Richter and Mr. Jiří Vávra. Dr. -Ing. Milan Urban was elected new chairman of Supervisory Board.

On following meeting of the Supervisory Board held also on 27 March 2014, the Supervisory Board discussed the resignation of the Board of Directors members Mr. Eckart Baum, Dr. František Kotula and Ing. Milan Fafejta. New members of PP's Board of Directors were elected Ing. Milan Jádlovský, Ing. Pavel Janeček as at 27 March 2014 and Ing. Alois Těšitel with effect since 29 March 2014.

During the meeting of PP's Board of Directors held on 1 April 2014, Ing. Milan Jádlovský was elected vice chairman of Board of Directors. During the meeting of PP's Board of Directors held on 7 April 2014, the Board of Directors appealed from chairman of Board of Directors Ing. Miroslav Nosál, CFA. New chairman of Board of Directors was elected Ing. Pavel Janeček. The Board of Directors also appointed new directors of PP, Ing. Petr Zmátlík, FCCA was appointed CEO, Ing. Miroslav Nosál became financial director and Ing. Alois Těšitel became sales director.

As at date of preparation the report on business activity in 2013 the composition of the Board of Directors was as following:

- Ing. Pavel Janeček, chairman of the Board of Directors
- Ing. Milan Jádlovský, vice chairman of the Board of Directors
- Ing. Miroslav Nosál, CFA, member of Board of Directors
- Ing. Alois Těšitel, member of Board of Directors

As at date of preparation the report on business activity in 2013 the composition of the Supervisory Board was as following:

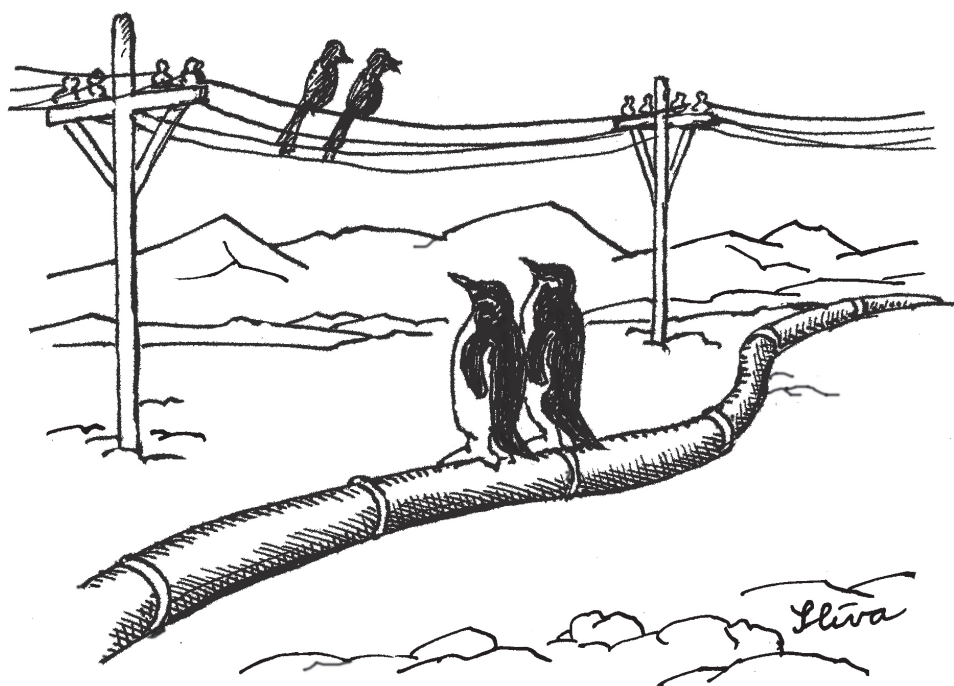
- Dr. -Ing. Milan Urban, chairman of the Supervisory Board
- Pavel Hurda, vice chairman of the Supervisory Board
- MUDr. Ivetta Borská, member of Supervisory Board
- Ing. Marta Ptáčková, member of Supervisory Board
- Ing. Pavel Richter, member of Supervisory Board
- JUDr. Lubomíra Stojkovičová, member of Supervisory Board
- Jiří Vávra, member of Supervisory Board
- Bc. Miroslav Vránek, member of Supervisory Board

As at date of preparation the report on business activity in 2013 the composition of the Company's management was as following:

- Ing. Petr Zmátlík, FCCA, CEO
- Ing. Miroslav Nosál, CFA, financial director
- Ing. Alois Těšitel, sales director



## V. ANTICIPATED DEVELOPMENT OF THE COMPANY



The main goal of the business policy in the year 2014 will be building and developing a long-term relationship with our customers, based on the satisfaction of their desires, needs and expectations. The main effect of this relationship for the customer will be cooperation with reliable and safe energy supplier, able to provide it's customers with added value in the form of a wide range of customer-oriented services and products. The PP's goal will be the widest possible satisfaction of individual customer requirements, while managing the efficiency of the process.

The financial situation in 2014 is expected to be similar to that of 2013. In the first quarter of 2014 there is expected to be a gradual increase in credit (due to the seasonal characteristic of gas usage) but from April to November 2014 the amount of loans (from banks and from subsidiaries in

the form of cash pooling borrowings) will fall back. As at 31 December 2014, the expected value of loan capital is CZK 2,434.8 million. This level represents an increase of only CZK 35.2 million compared to state of the loan as at 31 December 2013. According to the projected development of cash flow for 2014, the average rate of credit will be CZK 2,704.4 million, which is only CZK 8.7 million higher than in 2013.

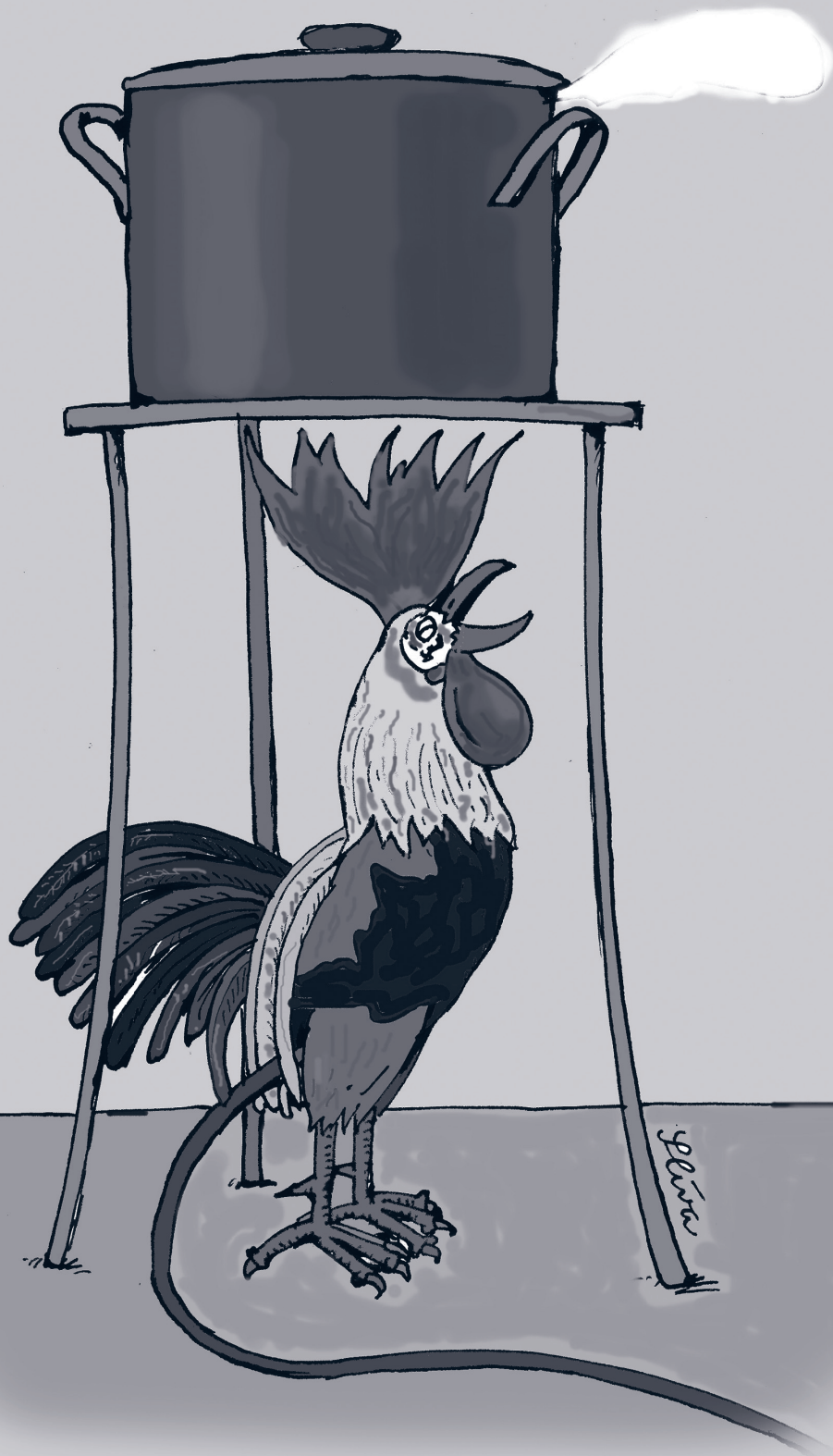
The Company's financial needs in 2014 are still covered by a long-term loan of CZK 1.0 billion arranged with Československá obchodní banka, a. s., and short-term credit lines arranged for a total of CZK 3.2 billion with Československá obchodní banka, a. s., Citibank Europe plc, Komerční banka, a. s. and Česká spořitelna, a. s.

All of us are just result of what  
we were thinking about.

Buddha







## VI. FINANCIAL SECTION

### **UNCONSOLIDATED FINANCIAL STATEMENTS**

Auditor's Report on the Unconsolidated Financial Statements Unconsolidated Financial Statements of Pražská plynárenská, a. s., prepared in accordance with the Czech accounting regulations at 31 December 2013

Notes to the Unconsolidated Financial Statements of Pražská plynárenská, a. s., prepared in accordance with the Czech accounting regulations at 31 December 2013

### **CONSOLIDATED FINANCIAL STATEMENTS**

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 at 31 December 2013, in the wording adopted by the EU

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 at 31 December 2013 in the wording adopted by the EU



English translation

## **Independent auditor's report**

### **to the shareholders 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 2013, 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 2013 and its financial performance for the year then ended in accordance with Czech accounting legislation.

14 February 2014

  
PricewaterhouseCoopers Audit, s.r.o.  
represented by

Reinhard Langenhövel  
Partner

  
Pavel Kulhavý  
Statutory Auditor, Licence No. 1538

#### Translation note

This version of our report is a translation from the original, which was prepared in the Czech language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the Czech version of our report takes precedence over this translation.

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## UNCONSOLIDATED FINANCIAL STATEMENTS

### (IN THOUSAND CZECH CROWNS)

at 31 December 2013

(in CZK '000)

BALANCE SHEET							
Ref. a		ASSETS b		31.12.2013			31.12.2012
				Gross 1	Provision 2	Net 3	Net 4
		TOTAL ASSETS	13,539,718	(1,490,219)	12,049,499	11,957,660	
B.		Fixed assets	5,802,910	(1,209,322)	4,593,588	4,668,782	
B.	I.	Intangible fixed assets	647,119	(523,878)	123,241	165,716	
	1.	Software	543,167	(463,627)	79,540	96,824	
	2.	Royalties	9,848	(3,773)	6,075	1,833	
	3.	Other intangible fixed assets	65,059	(56,478)	8,581	11,339	
	4.	Intangible fixed assets in the course of construction	29,045	-	29,045	55,720	
B.	II.	Tangible fixed assets	1,610,427	(685,444)	924,983	947,902	
B.	II.	1. Land	76,890	-	76,890	84,468	
	2.	Constructions	1,014,047	(330,403)	683,644	704,078	
	3.	Equipment	450,129	(351,976)	98,153	102,936	
	4.	Other tangible fixed assets	37,511	(3,065)	34,446	34,677	
	5.	Tangible fixed assets in the course of construction	21,676	-	21,676	16,061	
	6.	Advances paid for tangible fixed assets	10,174	-	10,174	5,682	
B.	III.	Long-term investments	3,545,364	-	3,545,364	3,555,164	
B.	III.	1. Investments in subsidiaries	3,545,362	-	3,545,362	3,545,362	
	2.	Other long-term investments in securities	2	-	2	2	
	3.	Other financial investments	-	-	-	9,800	
C.		Current assets	7,710,743	(280,897)	7,429,846	7,274,636	
C.	I.	Inventories	793,706	-	793,706	930,473	
C.	I.	1. Raw materials	793,237	-	793,237	929,838	
	2.	Goods for resale	169	-	169	335	
	3.	Advances paid for inventory	300	-	300	300	
C.	II.	Long-term receivables	20,332	-	20,332	28,471	
C.	II.	1. Trade receivables	5,100	-	5,100	7,140	
	2.	Other receivables	3,380	-	3,380	10,606	
	3.	Deferred tax asset	11,852	-	11,852	10,725	
C.	III.	Short-term receivables	6,890,957	(280,897)	6,610,060	6,308,460	
C.	III.	1. Trade receivables	830,429	(280,897)	549,532	585,970	
	2.	Taxes - receivables from the state	44	-	44	53,499	
	3.	Short-term advances paid	1,567,524	-	1,567,524	1,295,930	
	4.	Estimated receivables	3,941,890	-	3,941,890	3,914,093	
	5.	Other receivables	551,070	-	551,070	458,968	
C.	IV.	Financial assets	5,748	-	5,748	7,232	
C.	IV.	1. Cash in hand	1,601	-	1,601	1,332	
	2.	Cash at bank	4,147	-	4,147	5,900	
D.	I.	Prepayments and accrued income	26,065	-	26,065	14,242	
D.	I.	1. Prepaid expenses	26,065	-	26,065	12,723	
	2.	Accrued income	-	-	-	1,519	

Ref. a	LIABILITIES AND EQUITY b		31. 12. 2013 5	31. 12. 2012 6
	<b>TOTAL LIABILITIES AND EQUITY</b>		<b>12,049,499</b>	<b>11,957,660</b>
<b>A.</b>	<b>Equity</b>		<b>3,648,801</b>	<b>3,673,145</b>
<b>A. I.</b>	<b>Share capital</b>		<b>1,439,907</b>	<b>1,439,907</b>
A. I.	1.	Share capital	1,439,907	1,439,907
<b>A. II.</b>	<b>Capital contributions</b>		<b>85,176</b>	<b>85,125</b>
	1.	Other capital contributions	85,176	85,125
<b>A. III.</b>	<b>Reserve fund and other reserves</b>		<b>457,112</b>	<b>457,246</b>
A. III.	1.	Legal reserve fund	451,823	451,823
	2.	Statutory and other reserves	5,289	5,423
<b>A. IV.</b>	<b>Retained earnings / Accumulated losses</b>		<b>1,024,358</b>	<b>1,017,904</b>
A. IV.	1.	Retained earnings	1,024,358	1,017,904
<b>A. V.</b>	<b>Profit / (loss) for the current period</b>		<b>642,248</b>	<b>672,963</b>
<b>B.</b>	<b>Liabilities</b>		<b>8,400,637</b>	<b>8,284,504</b>
<b>B. I.</b>	<b>Provisions</b>		<b>55,498</b>	<b>32,797</b>
	1.	Income tax provision	10,351	21,087
	2.	Other provisions	45,147	11,710
<b>B. II.</b>	<b>Long-term liabilities</b>		<b>205</b>	<b>2,118</b>
	1.	Long-term advances received	205	2,118
<b>B. III.</b>	<b>Short-term liabilities</b>		<b>6,394,166</b>	<b>6,139,782</b>
B. III.	1.	Trade payables	14,261	16,709
	2.	Liabilities - subsidiaries / controlling parties	448,866	332,143
	3.	Liabilities to shareholders and co-ventures	1,892	1,685
	4.	Liabilities to employees	9,908	10,164
	5.	Liabilities for social security and health insurance	6,115	5,935
	6.	Taxes and state subsidies payable	31,847	3,644
	7.	Short-term advances received	4,258,590	3,989,697
	8.	Estimated payables	1,577,179	1,779,288
	9.	Other payables	45,508	517
<b>B. IV.</b>	<b>Bank loans &amp; overdrafts</b>		<b>1,950,768</b>	<b>2,109,807</b>
B. IV.	1.	Long-term bank loans	1,000,000	1,000,000
	2.	Short-term bank loans and overdrafts	950,768	1,109,807
<b>C. I.</b>	<b>Accruals and deferred income</b>		<b>61</b>	<b>11</b>
C. I.	1.	Accrued expenses	61	-
	2.	Deferred income	-	11

## INCOME STATEMENT

### IN THOUSAND CZECH CROWNS

Ref. a		DESCRIPTION b	Accounting period	
			2013	2012
			1	2
	I.	Sales of goods	2,177	2,543
A.		Cost of goods sold	1,494	1,865
	+	Gross profit	683	678
	II.	Sales of production	8,430,400	8,841,492
	II. 1.	Sales of own products and services	8,430,400	8,841,492
B.		Cost of sales	7,640,891	8,100,468
B.	1.	Raw materials and consumables used	5,541,648	6,078,389
	2.	Services	2,099,243	2,022,079
	+	<b>Added value</b>	<b>790,192</b>	<b>741,702</b>
C.		Staff costs	240,701	244,702
C.	1.	Wages and salaries	166,329	171,595
	2.	Emoluments of board members	8,736	8,784
	3.	Social security and health insurance costs	56,977	56,069
	4.	Other social costs	8,659	8,254
D.		Taxes and charges	7,223	7,947
E.		Depreciation and amortisation expense	131,804	141,016
	III.	Sales of fixed assets and raw materials	5,701	6,987
	III. 1.	Sales of fixed assets	5,701	6,987
F.		Net book value of fixed assets and raw materials sold	3,705	6,490
F.	1.	Net book value of fixed assets sold	3,705	6,490
G.		Changes in operating provisions and complex prepaid expenses	76,952	9,676
	IV.	Other operating income	30,369	23,542
H.		Other operating expenses	40,913	54,894
	*	<b>Operating result</b>	<b>324,964</b>	<b>307,506</b>
	VII.	Income from long-term investments	455,674	456,313
	VII. 1.	Income from investments in subsidiaries and associates	455,674	456,313
	IX.	Gain on revaluation of securities and derivatives	13,620	-
L.		Loss on revaluation of securities and derivatives	46,295	-
X.		Interest income	2,677	3,929
N.		Interest expense	43,016	40,308
XI.		Other financial income	1,919	1,146
O.		Other financial expenses	10,320	6,294
	*	<b>Financial result</b>	<b>374,259</b>	<b>414,786</b>
Q.		Tax on profit or loss on ordinary activities	56,975	49,329
Q.	1.	- current	58,102	48,138
	2.	- deferred	(1,127)	1,191
	**	<b>Profit or loss on ordinary activities after taxation</b>	<b>642,248</b>	<b>672,963</b>
	***	<b>Net profit / (loss) for the financial period</b>	<b>642,248</b>	<b>672,963</b>
	****	<b>Net profit / (loss) before taxation</b>	<b>699,223</b>	<b>722,292</b>

# NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS

## 1. GENERAL INFORMATION

### INTRODUCTORY INFORMATION ABOUT THE COMPANY

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

**Legal form:** joint stock company

**Company incorporation date:** 31 December 1993

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

**Company ID No.:** 601 93 492

**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 2013 and as at 31 December 2012 was the following:**

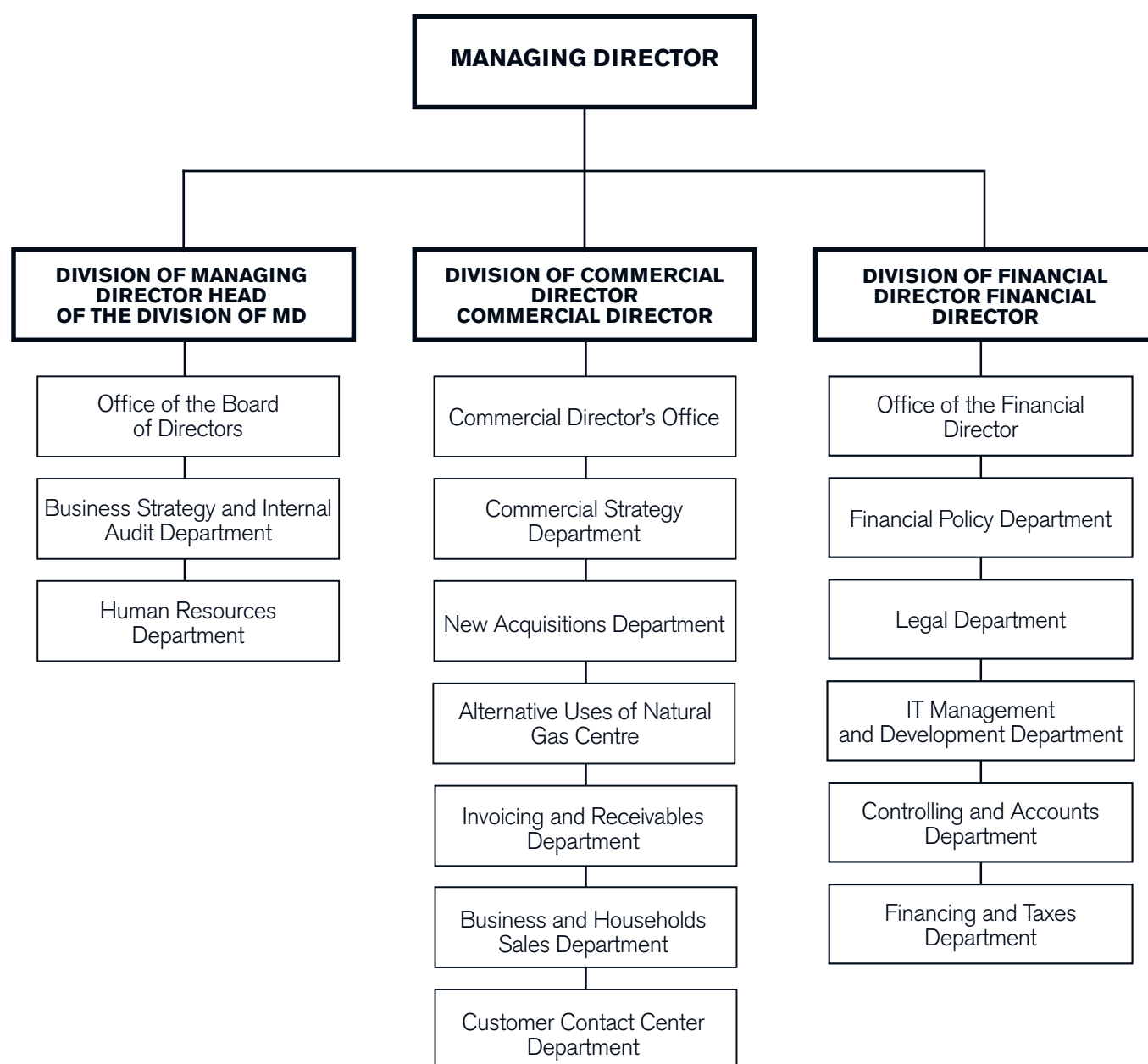
	POSITION
Ing. Miroslav Nosál, CFA	Chairman of the Board of Directors
Eckart Baum	Vice-Chairman of the Board of Directors
Ing. Milan Fafejta	Member of the Board of Directors
Dr. František Kotula	Member of the Board of Directors

**Composition of the Supervisory Board as at 31 December 2013 and as at 31 December 2012 was the following:**

	POSITION
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
Dr. -Ing. Milan Urban	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
Bc. Miroslav Vránek	Member of the Supervisory Board



# THE COMPANY'S ORGANIZATIONAL STRUCTURE



## 2. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Czech accounting principles, under the historical cost convention, except as disclosed below.

### a) Intangible fixed assets

Intangible assets with useful life longer than one year with an acquisition cost exceeding CZK 5,000 per item are regarded as intangible fixed assets.

Intangible fixed assets acquired are initially recorded at an acquisition cost which includes all costs related to its acquisition.

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

Asset category	Depreciation rate
Software	25%
Royalties	25%
Establishment costs	20%
Other intangible fixed assets	25%
Intangible fixed assets with an acquisition cost CZK 5,000 up to CZK 60,000	50%

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

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

Tangible fixed assets with an acquisition cost exceeding CZK 40,000 are depreciated applying the linear method on the basis of their estimated useful lives, as follows:

Asset category	Depreciation rate
Buildings (apart from regulating station buildings)	2.0%
Pipelines, pipeline branch connections	2.5%
Regulating stations - technology	10.0%
Computer 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.

Costs of repair and maintenance 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 controlled entities / subsidiaries represent ownership interests in the companies controlled or managed by the Company (hereinafter also as "subsidiary").

Investments in subsidiaries are stated at cost less provision for impairment.

**d) Inventories**

Purchased inventories are stated at cost less provision for impairment. Cost includes all costs associated 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 analysis of turnover and individual evaluation of inventories.

**e) Receivables**

Receivables are disclosed at nominal value less a provision for doubtful receivables. The provision for doubtful receivables is created based on the analysis of ageing of receivables. The Company doesn't create any provisions for receivables from related parties.

**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.

Cash-pooling is used within the Company's Group.

**g) Translation of foreign currency**

Foreign currency transactions are translated and accounted for using the foreign exchange rate valid on 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 monetary assets and liabilities are recognized in the income statement.

Advances paid for purchases of fixed assets or inventories are regarded by the Company as receivables denominated in a foreign currency and so these items are translated using the foreign exchange rate published by the Czech National Bank 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 on the balance sheet at cost and subsequently are re-measured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate. All derivatives are presented in other receivables or in other payables when their fair value is positive or negative, respectively.

Embedded derivatives are separated and recognized in the financial statements individually.

Changes in the fair value of derivatives held for trading are included in the net profit or loss from the financial operations.



#### **j) Provisions**

The Company recognises 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 regular future operating expenditures or for expenditures directly related to future revenue transactions.

The Company recognises 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 are recognised upon the delivery of products and customer acceptance and are stated net of discounts and Value Added Tax.

Sales are recognised 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 liberalised market, which was fully liberalised 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.

Gas supply and distribution to high-volume ("VO"), middle-volume categories ("SO") and low-volume categories ("MO") connected to long distance gas pipe lines are billed on a monthly basis based on measured consumption. Gas supplies to low-volume 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 connecting 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, optionally in individual price adjusted by discounts.

##### *Electricity*

Revenue from the sale of electricity on the liberalised market is measured based on the commodity value 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 the customer in the required quantity and at the required time.

Electricity supply and distribution middle-volume categories - households ("MOO") and middle-volume categories - entrepreneurs ("MOP") are billed based on measured consumption of each connecting 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 connecting 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 connecting 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, optionally in individual price adjusted by discounts.



**l) Lease**

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

**m) Employee benefits**

The Company recognises a provision for untaken holiday and employee bonuses.

To fund the national pension insurance the Company pays regular contributions to the state budget. The Company pays regular contributions to the state to fund the national pension plan. The Company also contributes to its employees' capital life insurance or private pension insurance.

**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 assets are recognised if it is probable that sufficient future taxable profit will be available against which the assets can be utilised.

**o) Related parties**

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

- parties, of which the Company is a subsidiary or an associate, directly or indirectly, and other subsidiaries of these parties; and/or
- members of the Company or parent company statutory and supervisory bodies and management and parties close to such members, including entities in which they have a controlling or significant influence; and/or
- subsidiaries.

Material transactions and outstanding balances with related parties are disclosed in the note 3o "Transactions with related parties".

**p) Subsequent events**

The effects of events, which occurred between the balance sheet date and the date of preparing the financial statements, are recognised in the financial statements in the case that these events provide further evidence of conditions that existed 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 in accounting policies**

Embedded derivative instruments were revaluated based on the decision of the accounting unit in the accounting period of 2013 and change in the real value of embedded derivative was recognized in the profit for the year 2013.

There were no further changes in the valuation and depreciation methods or in accounting policies.

### 3. ADDITIONAL DATA FOR THE BALANCE SHEET AND THE INCOME STATEMENT

#### a) Intangible fixed assets

2013

(in CZK '000)

ACQUISITION COST	1 January 2013	Additions	Disposals	31 December 2012
Software	533,097	50,298	40,228	543,167
Royalties, licenses	4,348	5,500	-	9,848
Other intangible assets	63,409	1,650	-	65,059
Intangible fixed assets in the course of construction	55,720	30,773	57,448	29,045
<b>Total</b>	<b>656,574</b>	<b>88,221</b>	<b>97,676</b>	<b>647,119</b>

ACCUMULATED AMORTISATION	1 January 2013	Additions	Disposals	31 December 2012
Software	436,273	67,582	40,228	463,627
Royalties, licence	2,515	1,258	-	3,773
Other intangible fixed assets	52,070	4,408	-	56,478
<b>Total</b>	<b>490,858</b>	<b>73,248</b>	<b>40,228</b>	<b>523,878</b>

<b>Net book value</b>	<b>165,716</b>			<b>123,241</b>
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2012

(in CZK '000)

ACQUISITION COST	1 January 2013	Additions	Disposals	31 December 2012
Software	450,269	82,828	-	533,097
Royalties, licenses	4,348	100	100	<b>4,348</b>
Other intangible assets	56,136	7,273	-	63,409
Intangible fixed assets in the course of construction	73,932	71,989	90,201	55,720
<b>Total</b>	<b>584,685</b>	<b>162,190</b>	<b>90,301</b>	<b>656,574</b>

ACCUMULATED AMORTISATION	1 January 2013	Additions	Disposals	31 December 2012
Software	365,503	70,770	-	436,273
Royalties, licence	1,819	796	100	2,515
Other intangible fixed assets	48,585	3,485	-	52,070
<b>Total</b>	<b>415,907</b>	<b>75,051</b>	<b>100</b>	<b>490,858</b>

<b>Net book value</b>	<b>168,778</b>			<b>165,716</b>
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In 2013 and 2012 the Company did not acquire any intangible assets with an acquisition cost of less than CZK 5,000 which would be directly expensed and recorded as an operating expense.

**b) Tangible fixed assets****2013**

(in CZK '000)

<b>ACQUISITION COST</b>	<b>1 January 2013</b>	<b>Additions</b>	<b>Disposals</b>	<b>31 December 2013</b>
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	-	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
<b>Total</b>	<b>1,609,104</b>	<b>91,347</b>	<b>90,024</b>	<b>1,610,427</b>
<b>ACCUMULATED DEPRECIATION</b>	<b>1 January 2013</b>	<b>Additions</b>	<b>Disposals</b>	<b>31 December 2013</b>
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	-	3,065
<b>Total</b>	<b>660,655</b>	<b>58,555</b>	<b>34,290</b>	<b>684,920</b>
<b>PROVISIONS</b>	<b>1 January 2013</b>	<b>Additions</b>	<b>Disposals</b>	<b>31 December 2013</b>
Buildings and constructions	547	-	23	524
<b>Total</b>	<b>547</b>	<b>-</b>	<b>23</b>	<b>524</b>
<b>Net book value</b>	<b>947,902</b>			<b>924,983</b>

**2012**

(in CZK '000)

<b>ACQUISITION COST</b>	<b>1 January 2012</b>	<b>Additions</b>	<b>Disposals</b>	<b>31 December 2012</b>
Land	80,249	4,803	584	84,468
Buildings and constructions	962,719	51,364	-	1,014,083
Separate movable items	425,177	31,356	5,174	451,359
Other tangible assets	35,754	1,793	96	37,451
Tangible fixed assets in the course of construction	35,333	70,044	89,316	16,061
Advances paid for tangible fixed assets	8,488	44,917	47,723	5,682
<b>Total</b>	<b>1,547,720</b>	<b>204,277</b>	<b>142,893</b>	<b>1,609,104</b>
<b>ACCUMULATED DEPRECIATION</b>	<b>1 January 2012</b>	<b>Additions</b>	<b>Disposals</b>	<b>31 December 2012</b>
Buildings and constructions	289,128	20,330	-	309,458
Separate movable items	308,029	45,320	4,926	348,423
Other tangible assets	2,557	295	78	2,774
<b>Total</b>	<b>599,714</b>	<b>65,945</b>	<b>5,004</b>	<b>660,655</b>
<b>PROVISIONS</b>	<b>1 January 2012</b>	<b>Additions</b>	<b>Disposals</b>	<b>31 December 2012</b>
Buildings and constructions	570	-	23	547
<b>Total</b>	<b>570</b>	<b>-</b>	<b>23</b>	<b>547</b>
<b>Net book value</b>	<b>947,436</b>			<b>947,902</b>

The value of tangible assets with an acquisition cost of less than CZK 10,000 acquired by the Company and directly expensed amounted to CZK 2,582,000 in 2013 (2012: CZK 1,405,000).



## Investments in controlled entities/subsidiaries

As at 31 December 2013:

(in CZK '000)

Domestic	Number of shares	Nominal value of shares	Carrying value	% of capital	Net profit	Equity	2012 dividend income
Pražská plynárenská Distribuce, a. s., člen koncernu Pražská plynárenská, a. s.	5,207	5,207,000	3,377,708	100	343,487	6,391,764	409,702
Pražská plynárenská Servis distribuce, a. s., člen koncernu Pražská plynárenská, a. s.	202,106	15,080	25,458	100	22,995	90,728	6,200
Pražská plynárenská Správa majetku, a. s., člen koncernu Pražská plynárenská, a. s.	10	2,000	2,200	100	2,275	7,287	2,484
Prometheus, energetické služby, a. s., člen koncernu Pražská plynárenská, a. s.	128	128,000	124,896	100	3,213	132,200	3,109
Pragoplyn, a. s.	10	10,000	10,000	100	24,715	173,956	20,000
Informační služby - energetika, a. s.	20	2,000	100	100	9,556	15,701	8,775
Měření dodávek plynu, a. s.	5	5,000	5,000	100	5,918	17,520	5,404
<b>Net book value</b>			<b>3,545,362</b>				

As at 31 December 2012:

(in CZK '000)

Domestic	Number of shares	Nominal value of shares	Carrying value	% of capital	Net profit	Equity	2012 dividend income
Pražská plynárenská Distribuce, a. s., člen koncernu Pražská plynárenská, a. s.	5,207	5,207,000	3,377,708	100	251,911	6,463,509	338,059
Pražská plynárenská Servis distribuce, a. s., člen koncernu Pražská plynárenská, a. s.	202,106	15,080	25,458	100	15,546	75,745	5,700
Pražská plynárenská Správa majetku, a. s., člen koncernu Pražská plynárenská, a. s.	10	2,000	2,200	100	3,356	8,031	600
Prometheus, energetické služby, a. s., člen koncernu Pražská plynárenská, a. s.	128	128,000	124,896	100	3,486	132,313	2,227
Pragoplyn, a. s.	10	10,000	10,000	100	27,340	173,021	100,000
Informační služby - energetika, a. s.	20	2,000	100	100	9,505	15,590	6,304
Měření dodávek plynu, a. s.	5	5,000	5,000	100	6,378	17,572	3,423
<b>Net book value</b>			<b>3,545,362</b>				

**c) Investments in controlled entities / subsidiaries (continued)**

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,

Pragoplyn, a. s.

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

Informační služby - energetika, a. s.

Registered office: U Plynárny 500, Prague 4, Postcode 141 00

Měření dodávek plynu, a. s.

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

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

**d) Inventories**

The most significant item in line Raw materials is gas stored in the gas storage as at 31 December 2013 in the amount of CZK 793,237,000 (as at 31 December 2012: CZK 929,838,000).

The Company had no slow moving inventories as at 31 December 2013 and as at 31 December 2012 and thus no provisions for inventories were created.

**e) Receivables**

(in CZK '000)

		31 December 2013	31 December 2012
Trade receivables	- not due	544,268	530,888
	- overdue	286,161	292,440
Anticipated assets		3,941,890	3,914,093
Short-term advances paid		1,567,524	1,295,930
Other receivables		551,114	512,467
<b>Total short-term receivables</b>		<b>6,890,957</b>	<b>6,545,818</b>
Provisions for doubtful receivables		(280,897)	(237,358)
<b>Net value of long-term receivables</b>		<b>6,610,060</b>	<b>6,308,460</b>
Long-term receivables		20,332	28,471
<b>Net value of total receivables</b>		<b>6,630,392</b>	<b>6,336,931</b>

None of the outstanding trade receivables are secured, and none of them is to be settled within a period longer than 5 years. Short-term advances paid mainly consist of the money provided in respect of subsequent purchases of natural gas and gas distribution. Other long-term receivables as at 31 December 2013 represent a receivable from the company Pražská plynárenská Servis distribuce, a. s., člen koncernu Pražská plynárenská, a. s., in respect of a sale of assets, which amounted to CZK 3,380,000 as at 31 December 2013 (as at 31 December 2012: CZK 10,606,000).

Anticipated assets include an estimate for unbilled gas and gas distribution of CZK 3,822,312,000 as at 31 December 2013 (as at 31 December 2012: CZK 3,881,622,000).

Receivables and liabilities related to Value Added Tax on advances paid and received are offset and disclosed net as Other Receivables in the amount of CZK 516,440,000 as at 31 December 2013 (as at 31 December 2012: CZK 439,635,000).

Changes in provisions for doubtful receivables:

(in CZK '000)

	2013	2012
<b>Opening balance as at 1 January</b>	237,358	210,583
Charge for the year	90,319	87,666
Written back during the year	46,780	60,891
<b>Closing balance as at 31 December</b>	<b>280,897</b>	<b>237,358</b>

#### f) Equity

Overview of changes in equity

(in CZK '000)

Changes /remaining balances	Share capital	Other capital funds	Statutory reserve fund	Other profit based funds	Retained earnings	Profit for the period	Total equity
<b>Balances as at 1 January 2012</b>	<b>1,439,907</b>	<b>84,960</b>	<b>451,823</b>	<b>5,546</b>	<b>880,395</b>	<b>659,657</b>	<b>3,522,288</b>
Allocations of profit for financial period 2010	-	-	-	4,700	-	(4,700)	-
Dividends	-	-	-	-	-	(492,448)	(492,448)
Directors' fees	-	-	-	-	-	(25,000)	(25,000)
Other changes	-	165	-	(4,823)	137,509	(137,509)	(4,658)
Profit for financial period 2011	-	-	-	-	-	672,963	672,963
<b>Balances as at 31 December 2012</b>	<b>1,439,907</b>	<b>85,125</b>	<b>451,823</b>	<b>5,423</b>	<b>1,017,904</b>	<b>672,963</b>	<b>3,673,145</b>
Allocations of profit for financial period 2011	-	-	-	4,950	6,454	(11,404)	-
Dividends	-	-	-	-	-	(633,559)	(633,559)
Directors' fees	-	-	-	-	-	(28,000)	(28,000)
Other changes	-	51	-	(5,084)	-	-	(5,033)
Profit for financial period 2012	-	-	-	-	-	642,248	642,248
<b>Balances as at 31 December 2013</b>	<b>1,439,907</b>	<b>85,176</b>	<b>451,823</b>	<b>5,289</b>	<b>1,024,358</b>	<b>642,248</b>	<b>3,648,801</b>

#### g) Major Company shareholders

Shareholder's name	Share (%)	
	31 December 2013	31 December 2012
Pražská plynárenská Holding a. s.	50.20	50.20
E.ON Czech Holding AG	49.35	49.35
Other	0.45	0.45
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

The Company's share capital was CZK 1,439,907,000 as at 31 December 2013 and as at 31 December 2012, 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 Annual General Meeting must give the owner its consent for their transfer, following discussion at the Board of Directors and the Supervisory Board.

The statutory reserve fund is created from the Company's profit in accordance with the law and it may not be distributed to shareholders; it may only be used to offset losses.

On 7 June 2013, the General Meeting authorised the Company's financial statements for 2012 and decided on profit distribution of CZK 672,963,000.

On 31 December 2013, the contract on the transfer of share was signed, according to which Pražská Plynárenská Holding a. s., (hereinafter only as "PPH") bought 49.35% of shares from E.ON. Czech Holding AG. The contract has been recently reviewed by Office for the Protection of Competition, after approval PPH will be 100% owner of the Company.

#### h) Provisions

(in CZK '000)

	Income tax provision	Other provisions	Total provisions
<b>Balances as at 1 January 2012</b>	<b>38,932</b>	<b>28,785</b>	<b>67,717</b>
Charge for the year	55,292	-	55,292
Utilisation	(38,932)	(17,075)	(56,007)
<b>Balances at 31 December 2012</b>	<b>55,292</b>	<b>11,710</b>	<b>67,002</b>
Charge for the year	56,932	45,147	102,079
Utilisation	(55,292)	(11,710)	(67,002)
<b>Balances as at 31 December 2013</b>	<b>56,932</b>	<b>45,147</b>	<b>102,079</b>

The provision for income tax is offset against the advances paid in the financial statements and is disclosed in the net amount. Other provisions include a provision for untaken holiday and employee bonuses.

#### i) Liabilities

(in CZK '000)

	31 December 2013	31 December 2012
Trade payables		
- current	13,863	15,279
- overdue	398	1,430
Short-term advances received	4,258,590	3,989,697
Liabilities - cash-pooling	448,866	332,143
Other liabilities	95,270	21,945
Anticipated liabilities	1,577,179	1,779,288
<b>Total short-term liabilities</b>	<b>6,394,166</b>	<b>6,139,782</b>
Long-term advances received	205	2,118
<b>Total long-term liabilities</b>	<b>205</b>	<b>2,118</b>
<b>Total short-term and long-term liabilities</b>	<b>6,394,371</b>	<b>6,141,900</b>

These liabilities were not secured by any of the Company's assets and none of them are due to be settled within a period longer than 5 years. The Company has no overdue liabilities related to social or health insurance or any other overdue liabilities to the Tax Authority or other state institutions.

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

Anticipated liability accounts include an estimate for unbilled purchased gas and gas distribution of CZK 1,456,694,000 as at 31 December 2013 (as at 31 December 2012: CZK 1,702,501,000).

## j) Bank loans and overdrafts

(in CZK '000)

	31 December 2013	31 December 2012
Bank overdrafts	650,768	1,109,807
Short-term bank loans	300,000	-
Long-term bank loans with maturity from 1 to 5 years	1,000,000	1,000,000
<b>Total bank loans and overdrafts</b>	<b>1,950,768</b>	<b>2,109,807</b>
<b>Short-term loans – cash-pooling</b>	<b>448,866</b>	<b>332,143</b>

In the financial period 2013 and 2012 the Company secured the use of four short-term credit lines with the following banks: Československá obchodní banka, a. s., Citibank Europe plc, organizační složka, Komerční banka, a. s. and Česká spořitelna, a. s. Credit lines are drawn in the form of overdraft or loan tranche with interest rate PRIBOR + bank margin (% pa). The drawdown of short-term bank loans can cover fluctuations in Company cash flows, which are due to the seasonal nature of gas sales. The interest rate for the long-term bank loan was set as 1M Pribor + bank margins. No security was pledged against this loan. The whole amount of the loan is to be repaid on 31 May 2016. The average cash-pooling interest rate was 0.22% p.a. in 2013 (2012: 0.65% 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 2013			31. December 2012		
	Real value		Nominal value	Real value		Nominal value
	Positive	Negative		Positive	Negative	
Currency forward	9,454	1,208	419,336	-	-	-
Embedded derivative	-	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)

	31 December 2013	31 December 2012
Current tax expense (2012: 19%, 2011: 19%)	56,932	55,292
Deferred tax expense	(1,127)	1,191
Previous period tax expense adjusted in respect of the tax return filed	1,170	(7,154)
<b>Total income tax expense</b>	<b>56,975</b>	<b>49,329</b>

Deferred tax was calculated using a tax rate of 19% (tax rate for 2012 and the following years).

The deferred tax asset can be analysed as follows:

(in CZK '000)

	31 December 2013	31 December 2012
Accelerated tax depreciation of fixed assets	(30,332)	(24,192)
Provisions and allowances	42,272	35,063
Other	(88)	(146)
<b>Net deferred tax asset</b>	<b>11,852</b>	<b>10,725</b>

**m) Revenue analysis**

Operating revenues were generated as follows:

(in CZK '000)

	2013	2012
Revenues related to natural gas trade	7,903,703	8,475,886
Revenues related to electricity	156,679	6,931
Revenues from provision of services	370,018	358,675
Revenues from resale of goods	2,177	2,543
Revenues from sale of assets	5,701	6,987
Other revenues	30,369	23,542
<b>TOTAL</b>	<b>8,468,647</b>	<b>8,874,564</b>

In 2013 and in 2012 all revenues were generated in the Czech Republic.

**n) Personal costs and employees**

(in CZK '000)

	2013		2012	
	Number	Personal costs	Number	Personal costs
Employees	289	176,397	296	182,759
<b>Company management</b>	<b>20</b>	<b>51,480</b>	<b>21</b>	<b>50,623</b>
TOTAL EMPLOYEES	309	227,877	317	233,382
<b>Company bodies</b>	<b>13</b>	<b>12,824</b>	<b>13</b>	<b>11,320</b>
<b>TOTAL</b>		<b>240,701</b>		<b>244,702</b>

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

Other transactions with the Company's management are described in the note "Transactions with related parties".

**o) Transactions with related parties**

This note describes significant transactions with related parties, apart from the transactions with the Capital City of Prague and its affiliated companies. The transactions with the Capital City of Prague and its affiliated companies were concluded under standard market conditions and are not included in the below table.

(in CZK '000)

	2013	2012
Sale of natural gas	453,512	425,979
Sale of electricity	93	-
Provision of services incl. lease of assets	347,341	338,217
Resale of goods and raw materials	231	172
Sale of assets	3,070	5,896
Dividend yield	455,674	456,313
Interest revenues	1,146	2,122
Other revenues	116	1,228
Purchase of services	1,569,940	1,521,793
Purchase of Raw materials and gas	3,323,824	3,072,672
Interest costs	1,289	4,873
<b>Other costs</b>	<b>556</b>	<b>169</b>
<b>Total costs</b>	<b>4,895,609</b>	<b>4,599,507</b>
<b>Purchase of fixed assets</b>	<b>55,125</b>	<b>132,673</b>

The Company reported the following balances with related parties:

(in CZK '000)

	31 December 2013	31 December 2012
Trade receivables	234,403	245,235
Short-term advances paid	1,202,287	1,184,183
Long-term receivables	3,380	10,606
Anticipated assets	42,934	49,576
<b>Total receivables</b>	<b>1,483,004</b>	<b>1,489,600</b>
Trade payables	335	4,717
Short-term advances received	41,149	41,073
Long-term advances received	50	55
Loans received – cash - pooling	448,866	332,143
Anticipated liabilities	1,172,038	1,037,579
<b>Total liabilities</b>	<b>1,662,438</b>	<b>1,415,567</b>

The Company's managers and members of the Board of Directors are provided with company cars. Board member compensation is included in the personal costs.

#### p) Auditor's fees

Information on the auditors' fees is disclosed in the notes to the consolidated financial statements of Pražská plynárenská Holding a. s. as at 31 December 2013.

## 4. OTHER SIGNIFICANT FACTS

#### 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 2013, was CZK 4,676,000 (2012: CZK 5,895,000).

The future liabilities arising from contracts for lease of gas storage as of 31 December 2013 amounted to CZK 534,969,000 (2012: CZK 541,088,000).

The total amount of future liabilities arising from contracts which do not relate to gas was as at 31 December 2013 CZK 219,341,000 (2012: CZK 541,088,000).

In the financial year 2013, the Company cancelled a guarantor's declaration from 3 March 2010, based on which the Company was liable for all the monetary liabilities of the company Měření dodávek plynu, a. s. to the creditor, Citibank Europe plc, organizational unit, as at 31 December 2012. This commitment arose from the contract for loan products concluded on 3 March 2010 and from the treasury general agreement concluded on 3 March 2010. This liability was not disclosed in the balance sheet.

The Company secured its financial liabilities arising from its gas market operations with Komerční banka, a. s. in favour of the company OTE, a. s., as at 31 December 2013, up to the amount of CZK 360,000,000 (as at 31 December 2012: CZK 360,000,000).

As at 31 December 2012 following amounts were secured: in favour of SMP Net, s.r.o. up to the amount of CZK 2,150,000, in favour of JMP Net, s.r.o. up to the amount CZK 2,800,000, in favour of VČP Net, s.r.o. up to the amount CZK 1,800,000 and in favour of RWE GasNet, s.r.o. up to the amount CZK 6,250,000, while the volume of financial liabilities are zero as at 31 December 2013. Those liabilities were not disclosed in the balance sheet.



## 5. CONTINGENT LIABILITIES

The Company management is not aware of any contingent liabilities of the Company as at 31 December 2013.

## 6. SUBSEQUENT EVENTS

There were no events after the balance sheet date which would have a significant impact on the financial statements as at 31 December 2013.

In Prague as at 14 February 2014



Ing. Miroslav Nosál, CFA  
Chairman of the Board of Directors



Dr. František Kotula,  
Member of the Board of Directors



English translation

## **Independent auditor's report**

### **to the shareholders of Pražská plynárenská, a.s.**

We have audited the accompanying consolidated financial statements of Pražská plynárenská, a.s., identification number 601 93 492, with registered office at Národní 37, Praha 1 ("the Company") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2013, the consolidated statements of 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 Group'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 Group'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 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 Group as at 31 December 2013, 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.

14 March 2014

  
PricewaterhouseCoopers Audit, s.r.o.  
represented by

  
Reinhard Langenhövel  
Partner

Translation note

  
Pavel Kulhavý  
Statutory Auditor, Licence No. 1538

This version of our report is a translation from the original, which was prepared in the Czech language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the Czech version of our report takes precedence over this translation.

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# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2013

Prepared in accordance with IFRs as adopted by the EU

(in CZK '000)

ASSETS			
Non-current assets			
	note.	31. 12. 2013	31. 12. 2012
Land property, plant and equipment	6.1	5,600,868	5,436,786
Intangible assets	6.2	106,259	145,904
Financial borrowings provided		0	9,802
Other non-current assets		6,799	9,148
<b>Total non-current assets</b>		<b>5,713,926</b>	<b>5,601,640</b>
Current assets			
Inventories	6.3	811,139	952,313
Trade receivables	6.4	6,775,507	6,907,238
Tax receivables		30	29
Cash and cash equivalents		327,605	145,694
Other assets		28,570	17,228
Income tax	6.11	0	57,387
<b>Total current assets</b>		<b>7,942,851</b>	<b>8,079,889</b>
<b>TOTAL ASSETS</b>		<b>13,656,777</b>	<b>13,681,529</b>
EQUITY AND LIABILITIES			
Equity			
Share capital	6.5	1,439,907	1,439,907
Statutory reserve funds	6.6	675,120	661,863
Retained earnings		2,394,452	2,420,480
<b>Total equity</b>		<b>4,509,479</b>	<b>4,522,250</b>
Non-current liabilities			
Trade liabilities and other non-current liabilities	6.7	4,647	11,886
Bank loans	6.10	1,000,000	1,000,000
Deferred tax liability	6.8	370,017	323,203
<b>Total non-current liabilities</b>		<b>1,374,664</b>	<b>1,335,089</b>
Current liabilities			
Trade liabilities and advances received	6.9	6,378,355	6,609,661
Bank loans	6.10	950,759	1,109,807
Other liabilities	6.9	114,773	67,431
Income tax	6.11	54,297	0
Other tax liabilities	6.11	8,263	8,498
Provisions	6.12	266,187	28,793
<b>Total current liabilities</b>		<b>7,772,634</b>	<b>7,824,190</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>13,656,777</b>	<b>13,681,529</b>

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDING AT 31 DECEMBER 2013

Prepared in accordance with IFRS as adopted by the EU

(in CZK '000)

	note	2013	2012
Revenues	6.13	16,858,918	17,011,499
Purchased gas, materials and services related to gas supplies	6.14	13,815,990	14,450,201
Other operating income	6.15	173,264	52,755
Personnel costs	6.16	675,535	613,493
Amortization and depreciation of non-current assets	6.17	370,764	364,586
Other operating costs	6.18	1,267,173	809,007
<b>Operating profit</b>		<b>902,720</b>	<b>826,967</b>
Financial costs	6.19	138,867	195,701
Financial income	6.19	78,791	134,431
<b>Financial loss</b>		<b>-60,076</b>	<b>-61,270</b>
Profit before tax		842,644	765,697
Income tax	6.20	221,856	129,843
<b>Profit after tax</b>		<b>620,788</b>	<b>635,854</b>
Other comprehensive income		0	0
<b>Total comprehensive income</b>		<b>620,788</b>	<b>635,854</b>
<b>Earnings per share (CZK)</b>		<b>431.13</b>	<b>441.59</b>

# CONSOLIDATED STATEMENT OF CASHFLOWS

FOR THE YEAR ENDING AT 31.12. 2013

Prepared in accordance with IFRS as adopted by the EU

(in CZK '000)

	2013	2012
<b>Profit before tax</b>	<b>842,644</b>	<b>765,697</b>
<b>Adjustments of profit before tax</b>	<b>625,433</b>	<b>470,559</b>
Amortization and depreciation of non-current assets and write-off of receivables	288,687	399,333
Change in provisions and reserves	273,708	13,832
Profit from sale of non-current assets	-4,460	-5,565
Net interest	41,479	36,894
Other non-cash movements (revaluation of derivatives)	26,019	26,065
<b>Net cash flows from operating activities before tax and working capital changes</b>	<b>1,468,077</b>	<b>1,236,256</b>
<b>Change in working capital needs</b>	<b>98,862</b>	<b>310,318</b>
Change in receivables from operations	168,316	-835,571
Change in liabilities from operations	-208,656	1,550,151
Movements in inventories (brutto)	139,202	-404,262
<b>Net cash flows from operating activities before tax</b>	<b>1,566,939</b>	<b>1,546,574</b>
Interest paid	-43,175	-38,844
Interest received	1,856	2,175
Income tax on current activities and additional tax paid minus tax refunds	-63,376	-198,729
<b>Net cash flows from operating activities</b>	<b>1,462,244</b>	<b>1,311,176</b>
Acquisition cost of non-current assets	-507,306	-552,782
Proceeds from sale of non-current assets	26,819	25,915
<b>Net cash flows from investing activities</b>	<b>-480,487</b>	<b>-526,867</b>
<b>Change in liabilities from financing activities</b>	<b>-166,287</b>	<b>-198,044</b>
Change in long-term liabilities	-7,238	-5,363
Received loans	820,510	847,332
Loans repayment	-979,559	-1,040,014
Dividends paid	-633,559	-492,448
<b>Net cash flows from financing activities</b>	<b>-799,846</b>	<b>-690,492</b>
<b>Cash and cash equivalents balance at the beginning of the accounting period</b>	<b>145,694</b>	<b>51,877</b>
<b>Net movement in cash and cash equivalents for the accounting period</b>	<b>181,911</b>	<b>93,817</b>
<b>Balance of cash and cash equivalents at the end of the accounting period</b>	<b>327,605</b>	<b>145,694</b>

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDING AT 31 DECEMBER 2013  
Prepared in accordance with IFRS as adopted by the EU

(in CZK '000)

	Share capital	Statutory reserve funds	Retained earnings	Total
Note	6.5	6.6		
<b>Balance as at 1 January 2012</b>	<b>1,439,907</b>	<b>632,035</b>	<b>2,306,902</b>	<b>4,378,844</b>
Dividends paid			-492,448	-492,448
Contribution to statutory reserve funds		29,828	-29,828	0
Total comprehensive income for the year			635,854	635,854
<b>Balance as at 31 December 2012</b>	<b>1,439,907</b>	<b>661,863</b>	<b>2,420,480</b>	<b>4,522,250</b>
Dividends paid			-633,559	-633,559
Contribution to statutory reserve funds		13,257	-13,257	0
Total comprehensive income for the year			620,788	620,788
<b>Balance as at 31 December 2013</b>	<b>1,439,907</b>	<b>675,120</b>	<b>2,394,452</b>	<b>4,509,479</b>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. BASIC INFORMATION

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

Pražská plynárenská, a. s. (hereinafter referred to only as “the Company”) was incorporated on 31 December 1993 and has its registered office at the address Prague 1 - Nové Město, Národní 37, Postcode 110 00, the Czech Republic. The Company's ID number is 601 93 492.

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

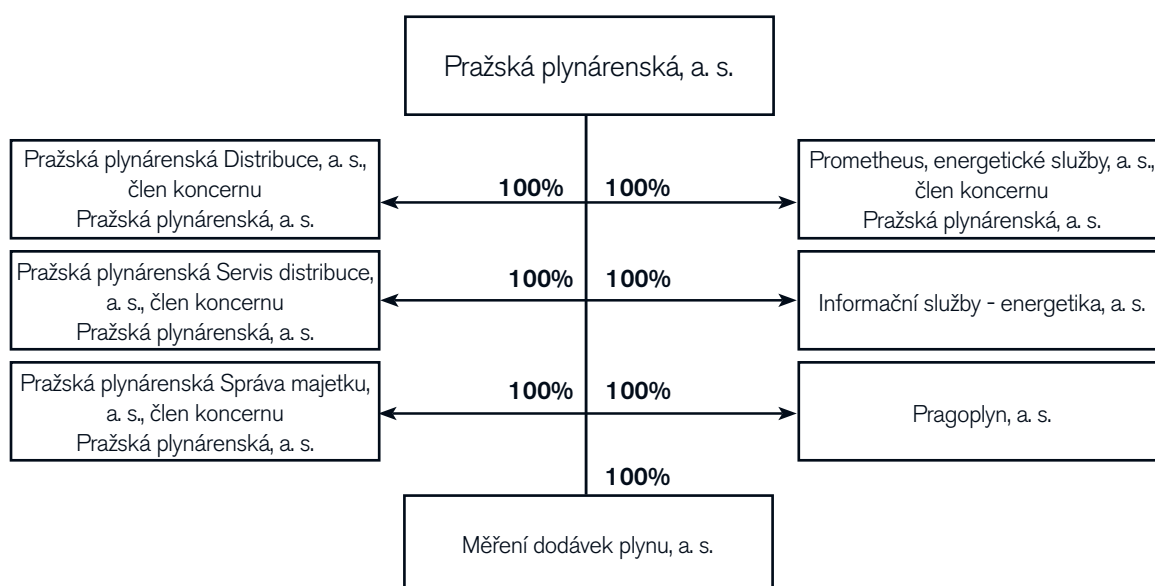
The Group Pražská plynárenská, a. s., (hereinafter referred to only as “the Group”) consists of the parent company and all its subsidiaries.

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.

### Organizational structure of the Group as at 31 December 2013 and 31 December 2012





### 1.3. Major shareholders of the Company

Major shareholders and joint controlling parties of the Company are Pražská plynárenská Holding a. s. (controlled by the capital city of Prague) and E.ON Czech Holding AG (member of the E.ON AG Group).

Shareholder's name	Share (%)	
	As at 31 December 2013	As at 31 December 2012
Pražská plynárenská Holding a. s.	50.20	50.20
E.ON Czech Holding AG *	49.35	49.35
Other shareholders	0.45	0.45
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

\* Pražská plynárenská, a. s. approved provision of information for shareholders for consolidation purposes

Both group's shareholders act in agreement

According to the contract signed on 31 December 2013 about the Company's sale, Pražská Plynárenská Holding a. s., (hereinafter only as "PPH") bought 49,35% of the Company's shares from E.ON Czech Holding AG. The contract has been recently reviewed by Office for the Protection of Competition, after approval PPH became 100% owner of the Company.

## 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 2013

In 2013, the Group applied for the first time the following new, revised or amended standards:

- IFRS 13, Fair value measurement (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013).
- Amendment to IAS 1, Financial statement presentation (issued in June 2011 and effective for annual periods beginning on or after 1 July 2012) governing the presentation of items included in the total comprehensive income.
- Amendment to IAS 19, Employee benefits (issued in June 2011 and effective for annual periods beginning on or after 1 January 2013).
- Amendment to IFRS 7: Financial instruments: Disclosures on offsetting financial assets and financial liabilities (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013).

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2013 but are not relevant for the Group's operations:

- IFRIC 20, Stripping costs in the production phase of a surface mine (issued in October 2011 and effective for annual periods beginning on or after 1 January 2013).

Improvements to International Financial Reporting Standards 2009 – 2011 issued in May 2012 and effective since 1 January 2013. The improvements consist of a mixture of substantive changes and clarifications in following standards and interpretations:

- IAS 1, Presentation of Financial Statements – specify requirements for comparatives;
- IAS 16, Property, Plant and Equipment – classification of devices for maintenance;
- IAS 32, Financial Instruments: Presentation – tax effect of equity distributions;
- IAS 34, Interim Financial Reporting – information about operating segments including assets and liabilities.

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 2014, subject to endorsement by the European Union as indicated below:

- IFRS 10 Consolidated Financial Statements (issued in May 2011, effective for annual periods beginning on or after 1 January 2014). This standard will have no impact on the Group financial statements;
- IFRS 12 Disclosure of Interests in Other Entities (issued in May 2011, effective for annual periods beginning 1 January 2014 or later;);
- IAS 27 Separate Financial Statements (issued in May 2011, effective for annual periods beginning 1 January 2014 or later). This standard will have no impact on the financial statements of the Group;
- IAS 28 Investments in Associates and Joint Ventures (issued in May 2011, effective for annual periods beginning on or after 1 January 2014). This standard will have no impact on the financial statement of the Group;
- Amendments to IFRS 10, 11 and 12 – parts amending transition to IFRS (issued in July 2012 and effective for annual periods beginning on or after 1 January 2014). The Group does not expect a material impact of this standard on the financial statements of the Group;
- IFRS 11 Joint Arrangements (issued in May 2011, effective for accounting periods beginning 1 January 2014 or later). This standard will have no impact on the Group financial statements;
- Amendment to IAS 32, Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (issued in December 2011, effective for annual periods beginning on or after 1 January 2014). This amendment is not expected to have any material impact on the financial statements of the Group;
- IFRS 9, Financial Instruments (issued in November 2009 and October 2010 and effective for annual periods beginning on or after 1 January 2015). New standard IFRS 9 should replace parts of IAS 39 which relate to classification and measurement of financial assets and also it changes some disclosure requirements according to IFRS 7. IFRS 9 classifies all financial assets which are currently in the scope of IAS 39 into two categories – assets measured subsequently at net book value and assets measured subsequently at fair value cost. Most of the requirements related to classification and measurement of financial assets were transferred from IAS 39 to IFRS 9 without any changes. Main change will be in the new obligation of accounting unit to disclose credit risk impact of its financial assets valued at fair price. Requirements for hedged accounting were adjusted to develop a better connection with the risk management. Standard enables accounting units to decide between application of IFRS 9 or IAS 9 on all hedged relationships although the current standard does not concern the macro-hedging booking. This standard will have no impact on the financial statements of the Group;
- Amendments to IFRS 10, 12 and 27, Investments Entities (issued in October 2012, effective for annual periods beginning on or after 1 January 2014, amendment not yet approved by EU). Those amendments are not expected to have any material impact on the financial statements of the Group;
- IFRIC 21 - Levies (issued in May 2013 and effective for annual periods beginning 1 January 2014). 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 consolidated financial statements. The Group does not expect a material impact of this standard on the financial statements of the Group;
- Amendment to IAS 36 - governing recoverable amount disclosures for non-financial assets (issued on 29 May 2013 and effective for annual periods beginning 1 January 2014; earlier application is not permitted if IFRS 13 is applied for the same accounting and comparative period). This amendment is not expected to have any material impact on the financial statements of the Group;
- Amendments to IAS 39 - Derivatives and Continuation of Hedge Accounting (issued in June 2013 and effective for annual periods beginning 1 January 2014). The Group does not expect a material impact of this standard on the financial statements of the Group;

- Amendment to IAS 19 – Defined benefit plans: Employee contributions (issued in November 2013 and effective for annual periods beginning 1 July 2014). The Group does not expect a material impact of this standard on the financial statements of the Group;
- Amendments to IFRS 9 – Financial instruments (issued in October 2010 and effective for annual period beginning 1 January 2015).
- IFRS 14, Regulatory Deferral Accounts rate-categorized presentation (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016). IFRS 14 provides an exemption for first-time adopters of IFRS to continue to apply the accounting policies used for regulatory deferral account balances under the basis of accounting used immediately before adopting IFRS. The Group does not expect a material impact of this standard on the financial statements of the Group;
- Improvements to 2012 International Financial Reporting Standards issued in December 2013 and effective on or after 1 July 2014:
  - 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 3, Business Combinations
  - IFRS 13, Fair Value Measurement
  - IAS 40, Investment Property

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

### **2.3. Expected new standards**

New upcoming standard Revenues from contracts with customers - The Group analyzes the upcoming standard and its expected impact on reporting.

## **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 in the wording adopted by the European Union applicable in 2013.

### **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, over which Pražská plynárenská, a. s. has control, i.e. controls the subsidiary's financial and operating policies with the aim of gaining profit from its activities.

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.

#### 3.5.3. Goodwill

Goodwill represents the excess of acquisition costs of the acquired subsidiary as at acquisition date above the fair value of the Group's shares. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and stated at acquisition costs after deduction of accumulated impairment losses. Impairment losses on goodwill are not retrospectively cancelled. Gain or loss on sale of the entity includes the carrying amount of goodwill related to the entity sold.

For the purpose of impairment testing goodwill is allocated to cash-generating unit

### 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 financi-

al 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:

Category	Depreciation rate in %
Buildings (except of regulating station buildings)	2.0
Regulating station buildings	3.3
Pipelines, pipeline branch connections	2.5
Regulating stations – technology	10.0
Gas meters	10.0
Computer equipment	25.0
Passenger cars	25.0

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.

Net realizable value is the estimated selling price less applicable selling costs.

Cost is determined using the weighted average cost method.

### 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 2013 and 2012, 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 statement of comprehensive income. 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 statement of comprehensive income.

### 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 statement of comprehensive income 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 according to law and may not be distributed to shareholders, but may be used to offset losses.

### 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 statement of comprehensive income at the reporting date.

Financial derivatives are the only type in real value recognized in Group's Financial statement of comprehensive income.

#### 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. Bank loans

Bank loans and other short-term financial borrowings are recognized initially at fair value that is calculated as real value of the fulfilment received less transaction costs incurred. Interest bearing bank loans and other short-term financial borrowings are subsequently recognized at defined value 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 the statement of comprehensive income 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.

#### 3.13.1. 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.

### 3.14. 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.

### 3.15. 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.

#### 3.15.1. 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 permanent 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 permanent 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 price 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.

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 3.20.1 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 Company.

### **3.15.2. 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 traders on delivery market. 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 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.

### **3.15.3. Revenues from sale goods**

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

### **3.15.4. 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.

The most significant part of other revenues are revenues from the sale of material, which are billed at the moment of taking out of stock.

### 3.16. 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 statement of comprehensive income on a straight-line basis over the period of the lease. Contingent rentals from operating leases are recognized in the consolidated statement of comprehensive income in the period in which they occurred.

### 3.17. 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 statement of comprehensive income in the period in which they occurred.

### 3.18. Employee benefits

#### 3.18.1. 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.

#### 3.18.2. 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.

#### 3.18.3. Other obligations

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

### 3.19. Taxes

The tax expense comprises current and deferred income tax.

#### 3.19.1. 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.

### **3.19.2. 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. 20. 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.

#### **3.20.1. Unbilled gas supplies**

In the opinion of Group management, the most significant area subject to the use of estimates is the determination of unbilled gas supplies and the distribution fees to low-volume customers and households ("MODOM"). This estimate is determined using the balancing method, as the difference between total gas purchases and sales of gas per month invoiced to 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 disclosed within the accounting estimates created based on measurements during the month, historical experience and weather forecasts. Based on the historical data, the estimates do not differ by more than 0.82% of total Group's revenues from distribution and sale of natural gas.

#### **3.20.2. Estimate of useful life**

Net book value and useful life of gas transportation and treatment equipment is always reviewed at the end of the accounting period and adjusted as necessary. The Group uses its own internal technical experts to assess this useful life. There was not any significant adjustment resulting from this assessment in the year 2013.

## **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 2013 and 2012, 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:

**Year 2013**

(CZK'000)

Ageing of all trade receivables without impairment loss	DOM	MO	VO	Other	Total
Not yet due	152,759	110,597	335,987	66,726	666,069
due within 1 month	4,186	3,128	24,438	4,886	36,638
1 - 3 months	3,413	1,879	7,144	7,132	19,568
3 - 6 months	3,935	1,983	549	1,162	7,629
6 - 12 months	8,619	7,891	1,486	6,500	24,496
over 12 months	104,135	113,121	32,041	4,153	253,450
<b>Total trade receivable</b>	<b>277,047</b>	<b>238,599</b>	<b>401,645</b>	<b>90,559</b>	<b>1,007,850</b>
out of that under court collection process	73,592	111,330	23,210	3,550	211,682

(CZK'000)

Expected percentage of settlement for trade receivable not yet due	DOM	MO	VO	Other	Total
Not yet due in CZK '000	152,759	110,597	335,987	66,726	666,069
expected settlement rate in %	51	47	88	42	

**Year 2012**

(CZK'000)

Ageing of all trade receivables without impairment loss	DOM	MO	VO	Other	Total
Not yet due	93,257	97,490	360,085	49,009	599,841
due 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
<b>Total trade receivable</b>	<b>227,160</b>	<b>222,945</b>	<b>413,652</b>	<b>71,887</b>	<b>935,644</b>
out of that under court collection process	50,724	82,419	31,315	3,409	167,867

(CZK'000)

Expected percentage of settlement for trade receivable not yet due	DOM	MO	VO	Other	Total
Not yet due CZK '000	93,257	97,490	360,085	49,009	599,841
expected settlement rate in%	39	42	44	46	

Based on historical data 68% of receivables are paid before the maturity and 23% of receivables are paid after due date. The remaining 9% 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.

In the consolidated financial statements the unbilled natural gas supplies for MODOM cannot be offset with received advances due to the method of unbilled gas calculation. The unbilled gas covered by advance payments received does not represent any risk for the Group.

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

**Year 2013**

(CZK'000)

	DOM	MO	VO	Others	Totals
Unbilled gas supplies	3,163,921	908,897	773,840	281,564	5,128,222
Received advances for gas	-2,865,498	-1,660,855	-452,549	-227,115	-5,206,017
<b>Unbilled deliveries netto</b>	<b>298,423</b>	<b>-751,958</b>	<b>321,291</b>	<b>54,449</b>	<b>-77,795</b>

**Year 2012**

(CZK'000)

	DOM	MO	VO	Others	Totals
Unbilled gas supplies	3,095,435	945,446	841,044	93,579	4,975,504
Received advances for gas	-2,595,870	-1,595,456	-523,435	-99,841	-4,814,602
<b>Unbilled deliveries netto</b>	<b>499,565</b>	<b>-650,010</b>	<b>317,609</b>	<b>-6,262</b>	<b>160,902</b>

Category Other includes mostly services related to the sale of electricity and deliveries of services.

Unbilled deliveries, which are not covered by the advances received, have the same credit risk as trade receivables.

The Group performs financial transactions by banks with the following external rating: A2 to Baa1

(according to Moody's rating agency)

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.

**Year 2013**

(CZK'000)

	Not impaired financial assets not yet due	Not impaired financial assets overdue	Impaired financial assets	Total
Trade receivables	666,069	36,638	305,143	1,007,850
Unbilled deliveries	5,128,222	0	0	5,128,222
Cash and cash equivalents	327,605	0	0	327,605
Other assets	28,570	0	0	28,570
<b>Total</b>	<b>6,150,466</b>	<b>36,638</b>	<b>305,143</b>	<b>6,492,247</b>

## Year 2012

(CZK'000)

	Not impaired financial assets not yet due	Not impaired financial assets overdue	Impaired financial assets	Total
Trade receivables	599,841	54,948	280,855	935,644
Unbilled deliveries	4,975,504	0	0	4,975,504
Cash and cash equivalents	145,694	0	0	145,694
Other assets	17,228	0	0	17,228
<b>Total</b>	<b>5,738,267</b>	<b>54,948</b>	<b>280,855</b>	<b>6,074,070</b>

**Maximal exposure to credit risk**

The maximum exposure to credit risk for business activities equals to book value of above mentioned fixed assets decreased by impairment loss.

**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 mid-term 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 in the amount of CZK 1 billion with maturity in 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 resulting from the sale and purchase of natural gas. 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 2013:

short-term loans

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 loans

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 6.10).



Summary of the short-term and the long-term bank loans as at 31 December 2012:

short-term loans

Bank	limit	from	to	interest rate
ČSOB	CZK 800 mio.	30 June 2011	28 June 2012	floating
Citibank	CZK 1 000 mio.	17 December 2010	31 December 2012	floating
Komerční banka	CZK 500 mio.	2 March 2011	30 November 2012	floating
Komerční banka	CZK 1 300 mio.	19 December 2011	30 November 2012	floating
Česká spořitelna	CZK 1 000 mio.	26 August 2011	31 August 2012	floating

long-term loans

Bank	limit	from	to	interest rate
ČSOB	CZK 1 000 mio.	15 October 2009	31 May 2016	floating

The Group used credit in the amount of CZK 2,109,807,000 as at 31 December 2012 (see Note 6.10).

Advances paid by customers support the high level of liquidity. Wholesale customers ("VO") and middle-volume costumers ("MO") pay advances several times a month; retail customers and households ("DOM") pay advances on monthly or quarterly basis. Prescription of advance payments is based on the customer's previous consumption, seasonality and the gas price. The following table discloses liabilities as at 31 December 2013 and as at 31 December 2012 split based on the remaining maturity date. The amount of liabilities disclosed in the table below represents non-discounted cash flows including interest rates, if applicable.

The amount of interest rate payments is based on planned value of loans and anticipated development of interest rates on financial markets in particular years. The basis for anticipated interest rates is 1M PRIBOR increased by margin of bank and expected development on financial markets.

#### Year 2013

(CZK'000)

	less than 1 year	1 - 3 years	3 - 5 years
Bank loans	1,004,428	1,051,710	0
Derivatives	433,899	723,628	0
Trade and other liabilities	1,174,231	4,647	0
<b>Total</b>	<b>2,612,558</b>	<b>1,779,985</b>	<b>0</b>

#### Year 2012

(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 and other liabilities	1,796,744	11,886	0
<b>Total</b>	<b>3,146,708</b>	<b>67,808</b>	<b>1,012,019</b>

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 arising from its activities at Citibank Europe plc, branch in favour of OTE, a. s. as at 31 December 2013 up to the amount of CZK 2,000,000 (as at 31 December 2012: CZK 21,000,000), in favour of RWE Supply Trading CZ, a. s., as at 31 December 2013 up to the amount of CZK 350,000,000 (as at 31 December 2012: CZK 352,000,000), in favour of RWE GasNet, s.r.o., up to the amount of CZK 104,000,000 (as at 31 December 2012: CZK 45,000,000). With effect since 1 November 2013 SMP Net, s.r.o., JMP Net, s.r.o., and VČP Net, s.r.o., have merged

to RWE GasNet, s.r.o., therefore the amount of guaranties in favour of merged entities is zero (as at 31 December 2012: in favour of SMP Net, s.r.o., up to the amount of CZK 22,000,000, in favour of JMP Net, s.r.o., up to the amount of CZK 17,000,000 and in favour of VČP Net, s.r.o., up to the amount of CZK 20,000,000). Guarantees in favour of NET4GAS, s.r.o., as at December 2013, were also zero (as at 31 December 2012 up to the amount of CZK 1,500,000).

Further the Group has guarantees arising from its activities at Komerční banka, a. s. in favour of OTE, a. s. as at 31 December 2013 up to the amount of CZK 360,000,000 (as at 31 December 2012: CZK 160,000,000), in favour of RWE Supply Trading CZ, a. s., as at 31 December 2013 up to the amount of CZK 100,000,000 (as at 31 December 2012: CZK 57,000,000) and in favour of MND, a. s., as at 31 December 2013 up to the amount of CZK 15,000,000 (as at 31 December 2012: CZK 0). As at 31 December 2012 the guarantee in favour of SMP Net, s.r.o. was up to the amount of CZK 2,150,000, in favour of JMP Net, s.r.o. up to the amount of CZK 2,800,000, in favour of VČP Net, s.r.o. up to the amount of CZK 1,800,000 and in favour of RWE GasNet, s.r.o. up to the amount of CZK 6,250,000, while the guarantee as at 31 December 2013 is zero by all those entities

### **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 2013 and 2012 have floating interest rates derived from the relevant interbank rate PRIBOR.

#### **Sensitivity analysis**

If the interest rate had decreased by 20 basic points with all other variables held constant as at 1 January 2013, profit for the year before tax as at 31 December 2013 would have been CZK 2,567,000 lower as a result of the increased interest expense (as at 31 December 2012: CZK 4,676,000).

#### **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.

Foreign exchange rate development causes risks for the Group regard to purchases of certain natural gas volume in foreign currencies. The Group actively decreases currency risk by foreign exchange rate monitoring and management of gas purchases in foreign currencies. The Group is using forward contracts as a part of currency risk management.

Currency risk has minimal impact on the Group.

### **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

Financial assets and liabilities are mutually offset and their net amount is presented in Statement of financial position, when there is a legally enforceable right to offset the recognized amounts and intend to settle the asset and associated liability on a net basis.

Most of the settlements are realized between trade receivables and liabilities from the sale of and purchase of natural gas. These trade receivables are not part of any collateral or guarantee.

The following table shows netted trade receivables and payables as at 31 December 2013: (CZK'000)

	Brutto amount of financial assets and liabilities, which might be offset	Brutto amount of offset financial receivables and liabilities	Net amount of offset assets and liabilities, which might be offset	Amount of financial assets and liabilities, which might not be offset	Total net amount
Financial assets - total	367,923	138,726	229,197	5,608,875	5,838,072
Financial liabilities - total	519,559	138,726	380,833	793,398	1,174,231

The following table shows netted trade receivables and payables as at 31 December 2012: (CZK'000)

	Brutto amount of financial assets and liabilities, which might be offset	Brutto amount of offset financial receivables and liabilities	Net amount of offset assets and liabilities, which might be offset	Amount of financial assets and liabilities, which might not be offset	Total net amount
Financial assets - total	410,020	230,218	179,802	5,481,572	5,661,374
Financial liabilities - total	900,270	230,218	670,052	1,126,692	1,796,744

## 5. CAPITAL RISK MANAGEMENT

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

The goal of capital risk management is maintain such proportion of equity and liabilities to secure repayment of all financial liabilities by permanent Group's value increase for shareholders.

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

(CZK'000)

	2013	2012
Equity	4,509,479	4,522,250
Debt-to-equity ratio	33%	33%
Long term bank loans	1,000,000	1,000,000
Short term bank loans	950,759	1,109,807
Cash and cash equivalents	327,605	145,694
Net debt	1,623,154	1,964,113
Total capital	13,656,777	13,681,529
Net debt to total capital ratio	12%	13%
<b>Equity and liabilities total</b>	<b>13,656,777</b>	<b>13,681,529</b>

The Group's objective is to meet all conditions arising from covenants to short and long term loans (see Note 6.10.).

The debt ratio as at 31 December 2013 is 2.0 (as at 31 December 2012: 2.3). Interest coverage ratio is 21,0 as at 31 December 2013 (as at 31 December 2012: 21,0).

## 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 6.1. Land property, plant and equipment

(CZK'000)

Land property, plant and equipment Acquisition cost	Land	Constructi- ons	Separate movable items	Other tangible non-current assets	Non-current assets under course of construction	Advances for tangible non-current assets	Total
<b>Balance as at 1. 1. 2012</b>	<b>115,895</b>	<b>7,869,718</b>	<b>1,727,145</b>	<b>123,579</b>	<b>131,111</b>	<b>26,336</b>	<b>9,993,784</b>
Purchases	0	0	0	0	500,767	19,448	520,215
Transfers	6,273	425,726	108,016	12,378	-552,393	0	0
Retirements	-657	-23,782	-76,445	-1,737	0	-26,336	-128,957
<b>Balance as at 31. 12. 2012</b>	<b>121,511</b>	<b>8,271,662</b>	<b>1,758,716</b>	<b>134,220</b>	<b>79,485</b>	<b>19,448</b>	<b>10,385,042</b>
Purchases	0	0	0	0	507,420	8,448	515,868
Transfers	4,796	345,121	116,662	7,394	-473,973	0	0
Retirements	-8,207	-25,357	-88,690	0	0	-19,448	-141,702
<b>Balance as at 31. 12. 2013</b>	<b>118,100</b>	<b>8,591,426</b>	<b>1,786,688</b>	<b>141,614</b>	<b>112,932</b>	<b>8,448</b>	<b>10,759,208</b>
<b>Accumulated amortisation, depreciation, provisions, recharging</b>							
<b>Balance as at 1. 1. 2012</b>	<b>0</b>	<b>3,287,798</b>	<b>1,431,615</b>	<b>27,054</b>	<b>0</b>	<b>0</b>	<b>4,746,467</b>
Depreciation	0	178,160	110,379	6,638	0	0	295,177
Impairment loss	0	546	1,059	0	0	0	1,605
Accumulated amortisation for disposals	0	-19,276	-75,525	-192	0	0	-94,993
<b>Balance as at 31. 12. 2012</b>	<b>0</b>	<b>3,447,228</b>	<b>1,467,528</b>	<b>33,500</b>	<b>0</b>	<b>0</b>	<b>4,948,256</b>
Depreciation	0	215,617	81,970	7,054	0	0	304,641
Impairment loss	0	523	628	0	0	0	1,151
Accumulated amortisation for disposals	0	-46,357	-49,351	0	0	0	-95,708
<b>Balance as at 31.12. 2013</b>	<b>0</b>	<b>3,617,011</b>	<b>1,500,775</b>	<b>40,554</b>	<b>0</b>	<b>0</b>	<b>5,158,340</b>
<b>Amortised cost 2012</b>	<b>121,511</b>	<b>4,824,434</b>	<b>291,188</b>	<b>100,720</b>	<b>79,485</b>	<b>19,448</b>	<b>5,436,786</b>
<b>Amortised cost 2013</b>	<b>118,100</b>	<b>4,974,415</b>	<b>285,913</b>	<b>101,060</b>	<b>112,932</b>	<b>8,448</b>	<b>5,600,868</b>

(CZK'000)

Separate movable items - net book value	2013	2012
Passanger cars	35,578	38,205
Computer equipment	37,165	31,529
Gas meters	56,809	53,837
Regulating stations-technology	76,882	78,251
Other	79,479	89,366
<b>Total</b>	<b>285,913</b>	<b>291,188</b>

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.

On the basis of a fixed assets impairment test, indications that net book values of any boiler rooms was not higher than the net realizable value. Based on this test, the value of boiler rooms was not decreased as at 31 December 2013 and 31 December 2012.

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

## 6.2. Intangible assets

(CZK'000)

Intangible assets Acquisition cost	Goodwill	Software	Valuable assets	Intangible non-current assets under course of construction	Advances for intangible assets	Total
<b>Balance as at 1 January 2012</b>	<b>171</b>	<b>450,111</b>	<b>0</b>	<b>68,137</b>	<b>0</b>	<b>518,419</b>
Purchases	0	0	0	63,269	0	63,269
Transfers	0	77,089	0	-77,089	0	0
Retirements	0	-172	0	0	0	-172
<b>Balance as at 31 December 2012</b>	<b>171</b>	<b>527,028</b>	<b>0</b>	<b>54,317</b>	<b>0</b>	<b>581,516</b>
Purchases	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
<b>Balance as at 31 December 2013</b>	<b>171</b>	<b>536,265</b>	<b>5,500</b>	<b>25,828</b>	<b>0</b>	<b>567,764</b>
<b>Accumulated amortisation, depreciation, provisions</b>						
<b>Balance as at 1 January 2012</b>	<b>0</b>	<b>366,375</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>366,375</b>
Depreciation	0	69,409	0	0	0	69,409
Accumulated amortisation for disposals	0	-172	0	0	0	-172
<b>Balance as at 31 December 2012</b>	<b>0</b>	<b>435,612</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>435,612</b>
Depreciation	0	65,664	458	0	0	66,122
Accumulated amortisation for disposals	0	-40,229	0	0	0	-40,229
<b>Balance as at 31 December 2013</b>	<b>0</b>	<b>461,047</b>	<b>458</b>	<b>0</b>	<b>0</b>	<b>461,505</b>
<b>Amortised cost 2012</b>	<b>171</b>	<b>91,416</b>	<b>0</b>	<b>54,317</b>	<b>0</b>	<b>145,904</b>
<b>Amortised cost 2013</b>	<b>171</b>	<b>75,218</b>	<b>5,042</b>	<b>25,828</b>	<b>0</b>	<b>106,259</b>

No impairment of goodwill was identified in 2013 and 2012.

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

(CZK'000)

Inventories valued at acquisition cost	Materials	Production in progress	Products	Goods	Advances paid for inventories	Total
Impairment loss at at 31 December 2012	-914	0	0	0	0	-914
Impairment loss at at 31 December 2013	-868	0	0	0	0	-868
<b>Amortised cost 2012</b>	<b>949,553</b>	<b>0</b>	<b>377</b>	<b>366</b>	<b>2,017</b>	<b>952,313</b>
<b>Amortised cost 2013</b>	<b>810,559</b>	<b>0</b>	<b>268</b>	<b>312</b>	<b>0</b>	<b>811,139</b>

Materials represent mainly gas stored in the gas storage.

No surpluses and/or shortfalls in inventories were found during stock-taking in 2013.

**6.4. Trade and other receivables**

(CZK'000)

<b>Trade and other receivables</b>	<b>31 December 2013</b>	<b>31 December 2012</b>
Trade receivables from third parties	1,007,037	934,969
Trade receivables from related parties	813	675
Total trade receivables	1,007,850	935,644
Impairment loss of trade receivables	-298,000	-249,774
Net carrying value of trade receivables	709,850	685,870
Unbilled deliveries	5,128,222	4,975,504
Total financial trade and other receivables	5,838,072	5,661,374
Operating short-term advances paid	78,420	446,721
Other receivables – non-financial	859,015	799,143
<b>Total non-financial trade and other receivables</b>	<b>937,435</b>	<b>1,245,864</b>
<b>Total trade and other receivables</b>	<b>6,775,507</b>	<b>6,907,238</b>

As at 31 December 2013, receivables and payables in respect of value added tax from advance payments received and made are offset and disclosed in net value as other receivables in the amount of CZK 778,423,000 (as at 31 December 2012: CZK 547,899,000)

Short-term operating advances provided to individual suppliers for natural gas and electricity purchases and purchases of distribution services were offset with anticipated payables created in connection with these suppliers. In 2013 the offset amount of advances with anticipated payables was CZK 1,109,987 (as at 31 December 2012: CZK 634,618,000).

Trade receivables outstanding have not been secured. Receivables from related parties are analysed in Note 6.22.

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

(CZK'000)

<b>Overdue receivables</b>	<b>31 December 2013</b>	<b>31 December 2012</b>
Up to 30 days	36,638	54,948
<b>Total</b>	<b>36,638</b>	<b>54,948</b>

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

(CZK'000)

<b>Overdue receivables</b>	<b>31 December 2013</b>	<b>31 December 2012</b>
Up to 6 months	27,197	51,345
6 to 12 months	24,496	59,190
Over 1 year	253,450	170,320
<b>Total</b>	<b>305,143</b>	<b>280,855</b>

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

(CZK'000)

<b>Impairment loss of trade and other receivables</b>	<b>31 December 2013</b>	<b>31 December 2012</b>
Balance as at 1 January	249,774	238,852
Recognition of impairment loss of receivables	69,807	50,977
Use of provision	21,581	40,055
<b>Balance as at 31 December</b>	<b>298,000</b>	<b>249,774</b>

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

(CZK'000)

Trade and other receivables	31 December 2013	31 December 2012
Change in allowance - for existing trade receivable	48,226	10,922
Writte off of trade receivables	17,923	34,659
<b>Total net loss from trade receivable</b>	<b>66,149</b>	<b>45,581</b>

The Group has no non-current receivables.

#### 6.5. Share capital

(CZK'000)

Form of shares	2013		2012	
	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
<b>Total</b>	<b>1,439,907</b>		<b>1,439,907</b>	

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.

In 2013, there were no changes in registered capital.

#### 6.6. Statutory reserve funds

The statutory reserve funds comprise resource that the Group is required to retain according to the Commercial Code till 2013. Use of the statutory reserve funds is limited by the legislation and the Statutes of the Company and its subsidiaries and is not available for distribution to the shareholders, but may only be used to offset losses.

#### 6.7. Other liabilities – non-current

(CZK'000)

Other liabilities	Non-current advances received	Other non-current liabilities	Total
<b>Balance as at 31 December 2012</b>	<b>2,108</b>	<b>9,778</b>	<b>11,886</b>
of which: due in less than 5 years	2,108	9,778	11,886
of which: due after 5 years	0	0	0
<b>Balance as at 31 December 2013</b>	<b>200</b>	<b>4,447</b>	<b>4,647</b>
of which: due in less than 5 years	200	4,447	4,647
of which: due after 5 years	0	0	0
<b>Total as at 31 December 2012</b>	<b>2,108</b>	<b>9,778</b>	<b>11,886</b>
<b>Total as at 31 December 2013</b>	<b>200</b>	<b>4,447</b>	<b>4,647</b>



**6.8. Deferred tax liability**

Compensation of deferred tax assets and liabilities:

(CZK'000)

Deferred tax liability and assets	31 December 2013	31 December 2012
Deferred tax asset to be recovered after more than 12 months	-384	-478
Deferred tax asset to be recovered within 12 months	-66,286	-38,391
Deferred tax liability payable after more than 12 months	436,687	362,072
Deferred tax liability payable within 12 months	0	0
<b>Net deferred tax liability</b>	<b>370,017</b>	<b>323,203</b>

The deferred tax was calculated using the tax rate 19% (tax rate for 2012 and following years).

(CZK'000)

Deferred tax liability and deferred tax receivable	31 December 2013	31 December 2012
Deferred tax liability in respect of net book value of non-current assets	436,687	362,072
Tax non-deductible part of impairment loss of receivables	-34,798	-33,065
Tax non-deductible impairment loss of materials	-165	-174
Other differences	-31,707	-5,630
<b>Total</b>	<b>370,017</b>	<b>323,203</b>

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

(CZK'000)

	31 December 2013	31 December 2012
Trade liabilities to third parties	1,095,789	1,776,512
Trade liabilities to related parties	76,550	18,547
<b>Trade liabilities total</b>	<b>1,172,339</b>	<b>1,795,059</b>
Other liabilities - financial	1,892	1,685
<b>Total financial liabilities</b>	<b>1,174,231</b>	<b>1,796,744</b>
Liabilities to employees	46,807	44,296
Liabilities for social insurance	17,088	15,411
Advances received- current	5,206,017	4,814,602
Other liabilities - non-financial	48,985	6,039
<b>Non-financial liabilities total</b>	<b>5,318,897</b>	<b>4,880,348</b>
<b>Total trade and other liabilities</b>	<b>6,493,128</b>	<b>6,677,092</b>

(CZK'000)

Trade liabilities - current Carrying amount	Trade liabilities	Current advances received	Anticipated liabilities	Total
Balance as at 31 December 2012	307,413	4,814,602	1,487,646	6,609,661
Balance as at 31 December 2013	347,893	5,206,017	824,445	6,378,355

(CZK'000)

Trade liabilities - current Maturity	Trade liabilities	Current advances received	Anticipated liabilities	Total
<b>Balance as at 31 December 2012</b>	<b>307,413</b>	<b>4,814,602</b>	<b>1,487,646</b>	<b>6,609,661</b>
of which: due within 6 months	307,413	4,814,602	1,487,646	6,609,661
of which: due more than 6 months but within 1 year	0	0	0	0
<b>Balance as at 31 December 2013</b>	<b>347,893</b>	<b>5,206,017</b>	<b>824,445</b>	<b>6,378,355</b>
of which: due within 6 months	347,893	5,206,017	824,445	6,378,355
of which: due more than 6 months but within 1 year	0	0	0	0
<b>Total at 31 December 2012</b>	<b>307,413</b>	<b>4,814,602</b>	<b>1,487,646</b>	<b>6,609,661</b>
<b>Total at 31 December 2013</b>	<b>347,893</b>	<b>5,206,017</b>	<b>824,445</b>	<b>6,378,355</b>

Liabilities to related parties are disclosed in Note 6.22.

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

**6.9.1. Derivatives**

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)

Financial derivatives	31 December 2013			31 December 2012		
	Fair value		Nominal value	Fair value		Nominal value
	Positive	Negative		Positive	Negative	
Currency forward	12,099	1,208	457,527	5,076	0	195,593
Embedded forward	0	45,000	700,000	0	0	0

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.

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 2013 in the amount of CZK 26,019,000 (2012: CZK 26,065,000) (Note 6.19).

**6.10. Bank loans and overdrafts**

(CZK'000)

Bank loans in	2013			2012		
	Principal		Due date	Principal		Due date
	Principal	Interest		Principal	Interest	
ČSOB – long-term	1,000,000	floating	31 May 2016	1,000,000	floating	31 May 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 2013. The average interest rate for the year 2013 was 3.51% (in 2012: 2.50%).

The Group used 6 lines of credit to compensate a lack of cash flow caused by seasonal fluctuations during 2013. 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 0.51% in 2013 (in 2012: 0.97%).

The book value and fair value of long- and short-term bank loans is as follows: (CZK'000)

	Book value		Fair value	
	2013	2012	2013	2012
Bank loans - shortterm	1,000,000	1,000,000	1,000,000	1,000,000
Bank loans - longterm	950,759	1,109,807	950,759	1,109,807

**6.11. Tax receivables and liabilities**

(CZK'000)

<b>Tax liabilities Carrying amount</b>	<b>Income tax</b>	<b>Other tax liabilities</b>	<b>Total</b>
Balance as at 31 December 2012	0	8,498	8,498
Balance as at 31 December 2013	54,297	8,263	62,560

Other tax liabilities in year 2013 consists of CZK 6,416,000 in respect of personal income tax (2012: CZK 5,741,000), CZK 1,847,000 in respect of other taxes and charges (2012: CZK 2,757,000).

(CZK'000)

	<b>31 December 2013</b>	<b>31 December 2012</b>
Estimated current income tax	174,363	126,303
Income tax advance payment	-120,066	-183,690
<b>Net income tax liability (+) / receivable (-) for corporate income tax</b>	<b>54,297</b>	<b>-57,387</b>

**6.12. Provisions**

(CZK'000)

<b>Provisions Carrying amount</b>	<b>Other provisions</b>
<b>Balance as at 1 January 2012</b>	<b>60,891</b>
Creation of provisions	28,793
Release of provisions	-60,891
<b>Balance as at 31 December 2012</b>	<b>28,793</b>
Creation of provisions	266,187
Release of provisions	-28,793
<b>Balance as at 31 December 2013</b>	<b>266,187</b>
<b>Amortised cost 2012</b>	<b>28,793</b>
<b>Amortised cost 2013</b>	<b>266,187</b>

Provisions recognized as at 31 December 2013 contain provision for property reimbursement related to extraordinary event of damage in Divadelni Street, Prague, in amount of CZK 200,000,000.

**6.13. Revenues**

(CZK'000)

<b>Revenues</b>	<b>2013</b>	<b>2012</b>
Sale and distribution of natural gas	16,360,406	16,744,950
- large customers*	8,894,727	9,543,245
- small customers	3,008,495	2,861,042
- households	4,457,183	4,340,663
Sale of heat and CNG	111,258	112,147
Unused tolerance	552	5,204
Sale of electricity	259,738	23,016
Other services	115,345	114,969
- out of that repair and maintenance	14,297	18,212
- out of that IT services	11,239	17,549
- out of that rent	22,394	22,598
- out of that pipelines construction	21,368	17,645
- out of that other services	46,047	38,965
Sale of goods and products	11,619	11,213
<b>Total</b>	<b>16,858,918</b>	<b>17,011,499</b>

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

**6.14. Purchased gas, materials and services connected with gas supplies**

(CZK'000)

<b>Purchased gas, materials and services connected with gas supplies</b>	<b>2013</b>	<b>2012</b>
Costs of gas purchases	13,256,383	13,939,450
- out of that operating leasing (see Note 6.24)	124,984	122,146
Distribution fee	559,607	510,751
<b>Total</b>	<b>13,815,990</b>	<b>14,450,201</b>

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

**6.15. Other operating income**

(CZK'000)

<b>Other operating income</b>	<b>2013</b>	<b>2012</b>
Income from sale of non-current assets	3,589	3,555
Income from sale of materials	23,230	22,360
Income from contractual fines and default interest	9,970	1,928
Income from write off of receivables	3,658	5,396
Income from write off of lapsed liabilities	5,370	7,367
Court fee compensations	6,273	5,757
Gifts received and investment contributions	51	165
Other	121,123	6,227
<b>Total</b>	<b>173,264</b>	<b>52,755</b>

Other operating income 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.

**6.16. Personnel costs**

(CZK'000)

<b>Personnel costs</b>	<b>Number</b>	<b>Total personnel costs</b>
Employees	751	435,531
Group's management	55	117,806
Group's bodies	58	60,156
<b>Total 2012</b>	<b>864</b>	<b>613,493</b>
Employees	753	489,001
Group's management	53	120,445
Group's bodies	58	66,089
<b>Total 2013</b>	<b>864</b>	<b>675,535</b>
<b>Total 2012</b>	<b>864</b>	<b>613,493</b>
<b>Total 2013</b>	<b>864</b>	<b>675,535</b>

In the years 2013 and 2012 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.

The contribution to state pension and other social funds amounted to CZK 92,209,000 as at 31 December 2012 (as at 31 December 2012: CZK 87,031,000).

**6.17. Amortization and depreciation of non-current assets**

(CZK'000)

<b>Amortisation and depreciation of non-current assets</b>	<b>2013</b>	<b>2012</b>
Depreciation of pipelines and gas equipment	221,272	204,265
Depreciation of buildings and constructions (apart from the buildings of regulating stations and pipelines)	26,304	25,373
Depreciation of motor vehicles	15,510	14,835
Amortisation of intangible assets	66,122	69,409
Depreciation of computer equipment	14,226	22,852
Other depreciation	27,330	27,852
<b>Total</b>	<b>370,764</b>	<b>364,586</b>

**6.18. Other operating costs**

(CZK'000)

<b>Other operating costs</b>	<b>2013</b>	<b>2012</b>
Materials and energy consumption	87,207	87,445
Cost of electricity	111,212	11,438
Costs of goods	7,482	6,827
Services	602,382	607,878
out of that repair and maintenance of non-current assets	218,967	145,063
out of that collection of debts	30,139	47,768
out of that advertisement	47,575	96,163
out of that operating lease payments (Note 6.23.)	61,949	61,086
out of that maintenance of IT systems	53,088	58,446
out of that other services	190,664	199,352
Distribution fee electricity	130,903	10,500
Taxes and charges	10,110	9,426
Provisions and write off of receivables	69,306	43,196
Net book value of assets and materials sold	22,359	20,350
Other operating costs	226,213	11,947
<b>Total</b>	<b>1,267,173</b>	<b>809,007</b>

Other service costs consist mainly of gas consumption reading, postage and consulting services.

Other operating costs contain costs related to provision created in respect to potential property reimbursement (see Note 6.12.).

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 2012.

**6.19. Financial income and expenses**

(CZK'000)

<b>Financial incomes and expenses</b>	<b>2013</b>	<b>2012</b>
Interest income	1,696	1,950
Interest expense	-43,175	-38,844
Derivatives transactions income	27,136	75,415
Derivatives transactions expense	-53,155	-101,479
Other financial income	49,960	57,066
Other financial expense	-42,537	-55,378
<b>Net financial income/costs</b>	<b>-60,076</b>	<b>-61,270</b>

Other financial income and expenses represent mainly foreign exchange differences.

**6.20. Income tax**

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

(CZK'000)

<b>Income tax</b>	<b>2013</b>	<b>2012</b>
Income tax - current	175,042	115,366
Income tax - deferred	46,814	14,477
<b>Total</b>	<b>221,856</b>	<b>129,843</b>

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

(CZK'000)

	<b>2013</b>	<b>2012</b>
Net profit before taxation	842,644	765,697
Theoretical income tax rate according to law 19%	160,102	145,482
Non-taxable income	-4,474	-127
Tax non-deductible expense	11,078	10,939
Donations	-483	-1,542
Other	55,633	-24,909
<b>Total income tax</b>	<b>221,856</b>	<b>129,843</b>

**6.21. Dividends paid**

(CZK'000)

<b>Dividend recipient</b>	<b>2013</b>	<b>2012</b>
Pražská plynárenská Holding, a. s.	318,031	247,197
E.ON Czech Holding AG	312,642	243,008
The owners with non-controlling interests	2,886	2,243
<b>Dividends total</b>	<b>633,559</b>	<b>492,448</b>

Dividends amounted in 2013 to CZK 633,559,000 (CZK 440 per share), in year 2012 dividends amounted CZK 492,448,000 (CZK 342 per share).

## 6.22. Related party transactions and balances

All related party transactions and balances occurred only with the entities controlled by major shareholders of the Group.

The Group was involved in the following transactions with related parties

Revenues	2013	2012
Revenues from sale and distribution of natural gas	48,424	184,250
Revenues from service provision	49,209	8,955
Other revenues / income	2	0
<b>Total revenues</b>	<b>97,635</b>	<b>193,205</b>

(CZK'000)

Costs related to purchase of natural gas and distribution	2013	2012
Costs related to purchase of natural gas and distribution	183,506	98,535
Cost of services	82,526	33,249
Material purchase	11	2
Other expenses	49	204
<b>Total costs</b>	<b>266,092</b>	<b>131,990</b>

The following related party balances were outstanding:

(CZK'000)

Receivables and payables	31 December 2013	31 December 2012
Trade receivables	813	675
Short-term advance payments made	30,629	3,320
Anticipated receivables	11,520	15,175
<b>Total receivables</b>	<b>42,962</b>	<b>19,170</b>
Trade payables	331	47
Short-term advances payment received	10,057	590
Long-term advance payments received	50	50
Anticipated liabilities	75,737	18,500
Other liabilities	6,901	6,111
<b>Total liabilities</b>	<b>93,076</b>	<b>25,298</b>

Transactions made with the Group's management are disclosed in Note 6.16.

Dividends paid to shareholders in 2013 and 2012 are disclosed in Note 6.21.

Another Group's related party is the key management. The amount of benefits for the key management is governed by the applicable collective agreement for 2013. 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 Labor Code, is calculated based on the years of employment in the Group Pražská plynárenská, a. s. The same calculation of severance payment is applied, when the termination of employment is done by mutual agreement for reasons mentioned in paragraph above. The amount of severance payment may reach the maximum of six times of the average salary over the legal redundancy payment.

## 6.23. 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 2013 was the fourth year of so-called 3rd Regulatory period which is effective until 2010-2014.

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 2013 in "Pricing Decision of Energy Regulatory Office No. 7/2012 from 27 November 2012".

In the Authority's competence is also to protect the legitimate interests of licensees whose activity is regulated (Act No. 458/200 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.

#### 6.24. Commitments

Capital expenditures contracted as at 31 December 2013 but not yet incurred are CZK 439,042,000 (2012: CZK 433,943,000). These expenditures will be incurred within next 5 years.

Operating leasing expenditures charged to the consolidated statement of comprehensive income are recognized in row Services in Notes 6.14. and 6.18. 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 amounted as on 31 December 2013 to CZK 565,054,000 (as on 31 December 2012: CZK 575,908,000).

(CZK'000)

	2013	2012
No later than 1 year	176,466	151,757
Later than 1 year and no later than 3 years	183,194	167,238
Later than 3 year and no later than 5 years	126,421	120,925
Later than 5 years	78,973	135,988
<b>Total</b>	<b>565,054</b>	<b>575,908</b>

## 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 on record 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 2013 apart of potential liabilities mentioned in Note 6.12.

### 7.2. 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 2013.

### 7.3. Financial statements authorization

These consolidated financial statements have been approved and signed with the authorization of the Board of Directors, and no party now has the right to make any change in these consolidated financial statements.

These consolidated financial statements will be subsequently approved by the General Meeting.

Prague, 14 March 2014



Ing Miroslav Nosál, CFA  
Chairman of the Board of Directors

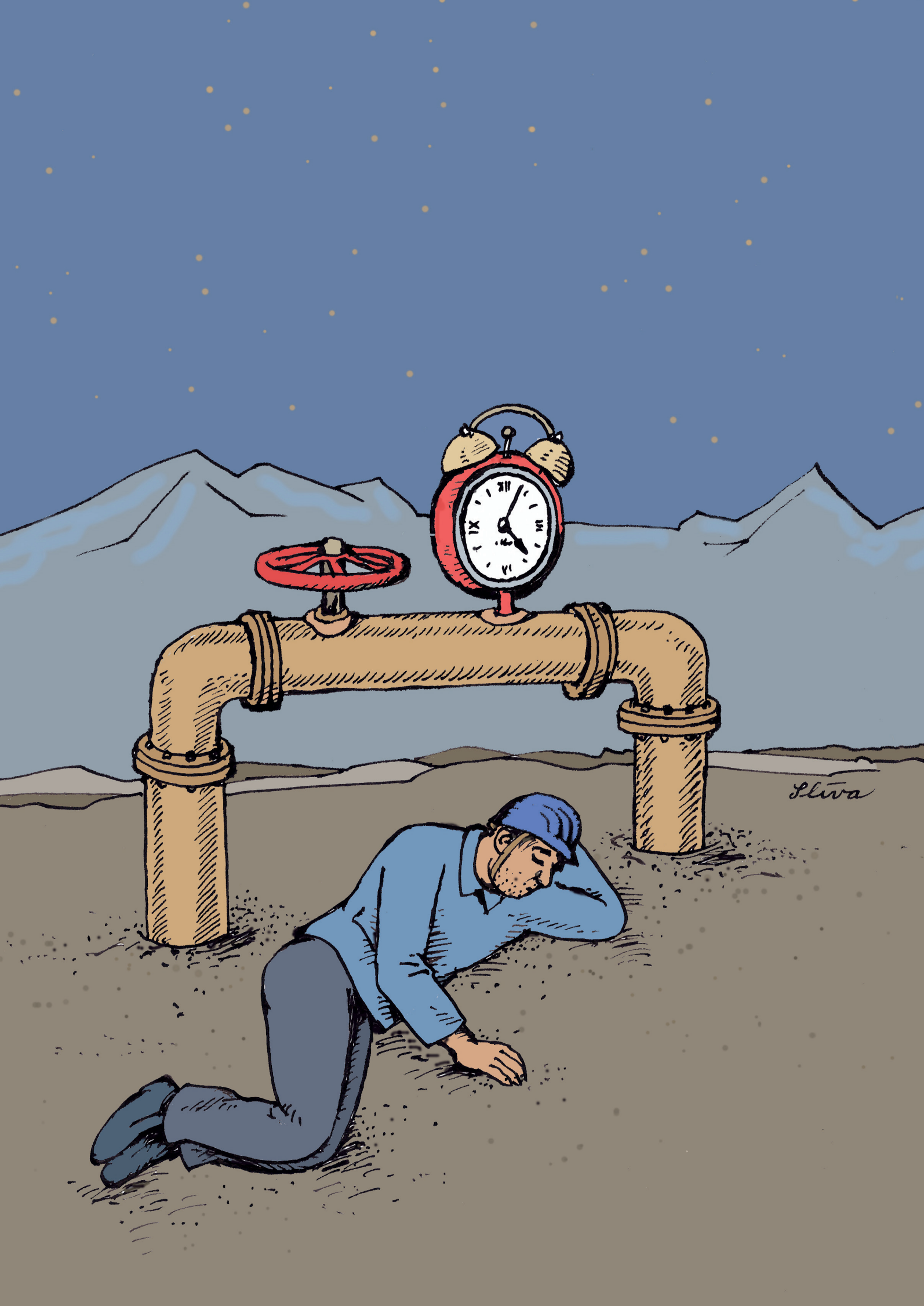


Eckart Baum,  
Vice-Chairman of the Board of Directors

Rest is the spice of work.

Plutarchos







English translation

## **Independent auditor's report**

### **to the shareholders of Pražská plynárenská, a.s.**

We have audited the accompanying consolidated financial statements of Pražská plynárenská, a.s., identification number 601 93 492, with registered office at Národní 37, Praha 1 ("the Company") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2013, the consolidated statements of 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 Group'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 Group'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 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 Group as at 31 December 2013, 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.

14 March 2014

  
PricewaterhouseCoopers Audit, s.r.o.

represented by

Reinhard Langenhövel  
Partner

  
Pavel Kulhavý  
Statutory Auditor, Licence No. 1538

#### Translation note

This version of our report is a translation from the original, which was prepared in the Czech language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the Czech version of our report takes precedence over this translation.

PricewaterhouseCoopers Audit, s.r.o., Hvězdova 1734/2c, 140 00 Prague 4, Czech Republic T: +420 251 151 111, F: +420 251 156 111, [www.pwc.com/cz](http://www.pwc.com/cz)

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.



Shareholders of Pražská plynárenská, a.s.  
Independent auditor's report

### Report on review of the Report on Relations (continued)

#### 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.

25 April 2014

  
PricewaterhouseCoopers Audit, s.r.o.  
represented by

  
Reinhard Langenhövel  
Partner



Pavel Kulhavý  
Statutory Auditor, Licence No. 1538

#### Translation note

This version of our report is a translation from the original, which was prepared in the Czech language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the Czech version of our report takes precedence over this translation



# VIII. SUPERVISORY BOARD REPORT

## REPORT OF THE SUPERVISORY BOARD ON SUPERVISORY ACTIVITIES IN 2013

In 2013, the activities of the Supervisory Board were based on the relevant provisions of the Commercial Code and the Company's Articles of Association and focused on inspecting the performance of the Board and the Company's business activities.

In 2013 no personnel changes occurred in the composition of the Supervisory Board.

In connection with PP share's sale from E.ON Czech Holding AG to PPH, PPH gained 99,55% capital share and the following personnel changes in the compositions of the Board of Directors and the Supervisory Board in 2014 took place.

During the meeting of the Supervisory Board held on 27 March 2014, Dipl. Ing. Michael Fehn, Mr. Magnus Alexander Brandau, Mr. Marc Müller, MBA and Mr. Lorenz Pronnet resigned on their memberships in the Supervisory Board. New members of the Supervisory Board became MUDr. Iveta Borská, Ing. Pavel Richter and Mr. Jiří Vávra. Dr. -Ing. Milan Urban was elected new chairman of Supervisory Board.

On following meeting of the Supervisory Board held also on 27 March 2014, the Supervisory Board discussed the resignation of the Board of Director's members Mr. Eckart Baum, Dr. František Kotula and Ing. Milan Fafejta. New members of PP's Board of Directors were elected Ing. Milan Jadlovský, Ing. Pavel Janeček as at 27 March 2014 and Ing. Alois Těšitel with effect since 29 March 2014.

During the meeting of PP's Board of Directors held on 1 April 2014, Ing. Milan Jadlovský was elected vice chairman of Board of Directors.

During the meeting of PP's Board of Directors held on 7 April 2014, the Board of Directors appealed from chairman of Board of Directors Ing. Miroslav Nosál, CFA. New chairman of Board of Directors was elected Ing. Pavel Janeček. The Board of Directors also appointed new directors of PP, Ing. Petr Zmátlík, FCCA was appointed CEO, Ing. Miroslav Nosál became financial director and Ing. Alois Těšitel became sales director.

In the past year, the Supervisory Board's control activities focused mainly on ongoing monitoring of the development and implementation of the Company's business plan, the state of overdue receivables, the implementation of the investment plan and the development of the Company's wage and social policy in compliance with the Articles of Association.



During its inspections, the Supervisory Board found no deficiencies in the work of the Board of Directors, or any other activity that would be contrary to the interests of shareholders and would lead ultimately to the devaluation of shares of PP. The Supervisory Board noted no conflicts of interests, violation of the principles of ethical conduct or failure to comply with applicable laws and regulations among individual members of the Board of Directors. The Supervisory Board positively evaluates its cooperation with the Board of Directors, including the participation of representatives of the Board of Directors at meetings of the Supervisory Board. All Supervisory Board requirements and recommendations for the Board of Directors were respected and executed within the specified time.

According to Article 24, par. 3(b) of the Company's Articles of Association the Supervisory Board reviewed the annual financial statements as of 31 December 2013 and the consolidated financial statements as of 31 December 2013, both certified by the auditing firm PricewaterhouseCoopers Audit, s.r.o, it acquainted itself with the auditor's statement and reviewed the Board's proposal for distribution of profit in 2013. After reviewing the annual accounts and the consolidated accounts, the Supervisory Board did not find any faults, neither were there any comments on the part of the members of the Supervisory Board.

The Supervisory Board reviewed the report on relations between related parties and noted that the report was prepared in accordance with the relevant statutory legislation in force since 1.1.2014. The Supervisory Board is not aware that any member bodies influenced the decision of the Board or the Supervisory Board for the benefit of the controlling entity or entities controlled by the same controlling entity. The Supervisory Board further discussed the report of the Board of Directors on the Company's business and state of its assets.

The Supervisory Board recommends that the financial statements and consolidated financial statements for the year 2013 of PP be approved by the General Meeting. The Supervisory Board further recommends that the report of the Board of Directors on the Company's business activities and the state of its assets in 2013 be approved and a decision on the distribution of profits according to the draft submitted by the Company's Board of Directors be made.

Based on the aforementioned facts, the Supervisory Board expresses its gratitude to the members of the Board of Directors and employees for their work in the year 2013.

Prague, 24 April 2014

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

# IX. INFORMATION ABOUT THE PERSONS RESPONSIBLE FOR THE ANNUAL REPORT AND AUDIT OF FINANCIAL STATEMENTS

## **Ing. Pavel Janeček**

Chairman of PP's Board of Directors

and

## **Ing. Milan Jadlovský**

Vice Chairman of PP's Board of Directors

**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.**



Ing. Pavel Janeček  
Chairman of PP's Board of Directors  
Pražská plynárenská, a. s.



Ing. Milan Jadlovský  
Vice Chairman of PP's Board of Directors  
Pražská plynárenská, a. s.

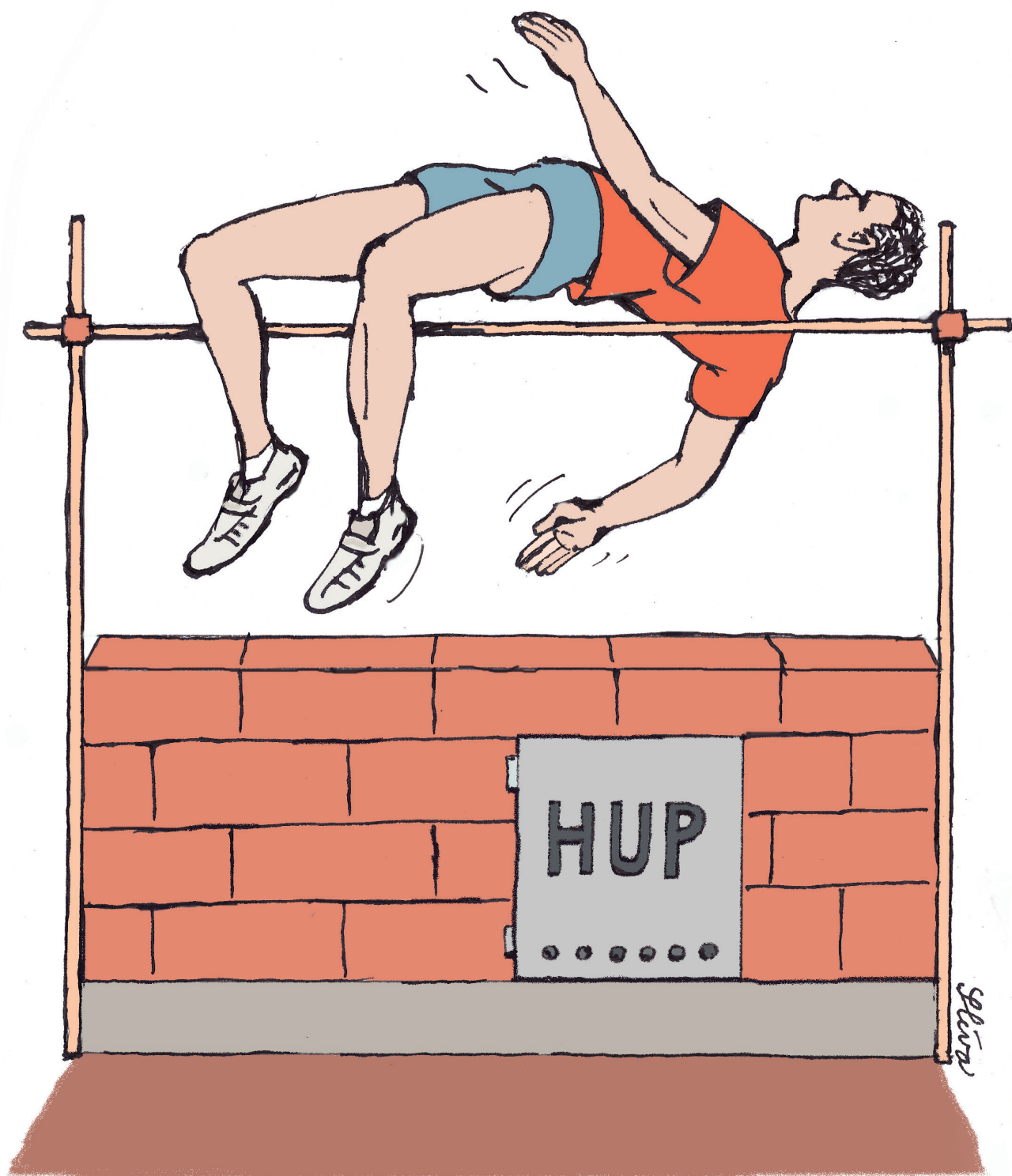
The Company's financial statements for 2013 were audited by PricewaterhouseCoopers Audit, s. r. o., with its registered office at Hvězdova 1734/2c, Nusle, 140 00 Prague 4, Company ID No.: 407 65 521, registered in the Business Register maintained by the Municipal Court in Prague, section C, file 3637 and on the list of auditing companies at the Chamber of Auditors of the Czech Republic under Licence No. 021.

The Company's consolidated financial statements for 2013 were audited by PricewaterhouseCoopers Audit, s. r. o., with its registered office at Hvězdova 1734/2c, Nusle, 140 00 Prague 4, Company ID No.: 40765521, registered in the Business Register maintained by the Municipal Court in Prague, section C, file 3637 and on the list of auditing companies at the Chamber of Auditors of the Czech Republic under Licence No. 021.

A man likes laughing.  
At someone's else expense.

S. J. Lec





# X. ABBREVIATIONS

a. s.	Joint-stock company
AG	Aktiengesellschaft (german abbreviation for a joint stock company)
BP	Bytový podnik, 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
CNB	Czech National Bank
ČPP	Český plynárenský podnik (Czech Gas Company)
CR	Czech Republic
ČSOB	Československá obchodní banka, a. s.
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)
IAS/IFRS	International Accounting standards / International Financial Reporting Standards
ID No.	Identification (ID) number
IFRIC	International Financial Reporting Interpretations Committee
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
Mil.	Milion
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
o. z.	Branch unit
OKD	Ostravsko-karvinské doly (Ostrava-Karviná Mining Company)
p.a.	Per annum
P/L	Profit/loss
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.
PPR	Prague conservation area
PPSM	Pražská plynárenská Správa majetku, a. s., člen koncernu Pražská plynárenská, a. s.
PRE	Pražská energetika, a. s. (Prague Energy Company)
PRIBOR	Prague InterBank Offered Rate
PVK	Pražské vodovody a kanalizace, a. s. (The Prague Water and Sewage Utility Company)
s. p.	State enterprise
s. r. o.	Limited liability company
SIN	Identification number under which a share was kept in the Securities Centre
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
SDP	Supply and delivery point
Ths.	Thousands
UK	United Kingdom
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
ZTP/P	Persons particularly seriously handicapped with guide



# XI. 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 2013

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

This report has been prepared by the Board of Directors of the controlled party pursuant to the provisions of Act No. 90/2012 Coll.,  
Act on commercial companies and cooperatives (Act on Corporations), hereinafter referred to as the „Act on Corporations“, for the  
year 2013 (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 given in the  
Chapter 4. As the graph shows, the controlling party (Pražská plynárenská Holding a. s., hereinafter referred to as the „PPH“) is  
controlled by another party, the Capital City of Prague, which has a 51% interest in the registered capital of the controlling party.

It transpires from the Articles of Incorporation of PPH that the General Meeting elects and dismisses members of the  
Board of Directors and the Supervisory Board by a unanimous vote of all the shareholders (which, at 31 December 2013, were  
the Capital City of Prague and E.ON Czech Holding AG). The shareholders act in agreement, in accordance with the provisions of  
the Section 78 of the Act on Corporations and are also the controlling party in relation to PPH.

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

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

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

## 1. BASIC TERMS

### PARTIES CONTROLLING THE INDIRECTLY CONTROLLED PARTY

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



## 1.2. PARTY CONTROLLING THE DIRECTLY CONTROLLED PARTY

The controlling party in 2013 was PPH with its registered office at U Plynárny 500, 140 00 Prague 4, Company ID No. 264 42 272. In 2013, the interest of the party controlling the directly controlled party was a 50.20% share in the registered capital of the controlled party.

## 1.3. CONTROLLED PARTY

This is PP with its registered office at Národní 37, 110 00, Prague 1 - Nové Město, Company ID N

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

Under this heading, only parties which had a relationship with the controlled party in 2013 under Section 82, para. 2 of the Act on Corporations are listed.

The organisations and companies, in which Prague City had a major share in 2013 and with whom PP entered into a contractual relationship in 2013, 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 IN THE GROUP

PP is the parent company in the Concern of Prazska plynarenska, 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 2013

### 2.2.1. CONTRACTS CONCLUDED BETWEEN THE PARTIES STATED UNDER POINT 1.1 AND PP

#### 2.2.1.1. CONTRACTS CONCLUDED BETWEEN PP AND THE CAPITAL CITY OF PRAGUE OR PARTIES CONTROLLED BY IT

##### a) contracts concluded for gas offtake

Akademické gymnázium Štěpánská, Štěpánská 22, Praha 1

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

Centrum sociálních služeb Praha, Chelčického 39, Praha 3

Botanická zahrada hl. m. Prahy, Nádvorní 134, Praha 7 – Troja

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

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 pro seniory Háje, K Milíčovu 734, Praha 4

Domov pro seniory Slunečnice, Na Hranicích 674/18, Praha 8

Domov mládeže a školní jídelna, Neklanova 32, Praha 2

Domov mládeže a školní jídelna, Studentská 10, Praha 6 - Dejvice



Domov mládeže a školní jídelna, Pobřežní 6, Praha 8  
Domov mládeže a školní jídelna, Lovosická 42, Praha 9  
Dopravní podnik hl. m. Prahy, akciová společnost, Sokolovská 217/42, Praha 9  
Dětský domov a Školní jídelna, Národních hrdinů 1, Praha 9 - Dolní Počernice  
Dětský domov a Školní jídelna, Smržovská 77, Praha 9 – Klánovice  
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, Rohová 7, Praha 6 – Suchbátka  
Galerie hlavního města Prahy, Staroměstské náměstí 605/13, Praha 1  
Gymnázium Arabská, Arabská 14, Praha 6  
Gymnázium Botičská, Botičská 1, Praha 2  
Gymnázium Budějovická, Budějovická 680, Praha 4  
Gymnázium Elišky Krásnohorské, Ohradní 55, Praha 4 – Michle  
Gymnázium a Hudební škola hlavního města Prahy, Komenského náměstí 400/9, Praha 3  
Gymnázium Jana Keplera, Parlářova 2, Praha 6  
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 Milady Horákové, Na Planině 1393/13, Praha 4  
Gymnázium Jana Nerudy, škola hlavního města Prahy, Hellichova 3, Praha 1  
Gymnázium Na Vítězné Pláni, Na Vítězné Pláni 1160, Praha 4  
Gymnázium Nad Kavalírkou, Nad Kavalírkou 1, Praha 5  
Gymnázium Omská, Omská 1300 Praha 10 – Vršovice  
Gymnázium Opatov, Konstantinova 1500, Praha 4  
Gymnázium Přípotoční, Přípotoční 1337, Praha 10  
Gymnázium, Střední odborná škola, Základní škola a Mateřská škola pro sluchově postižené, Ječná 27, Praha 2  
Gymnázium U Libeňského zámku, U Libeňského zámku 1, Praha 8  
Gymnázium Voděradská, Voděradská 2/900, Praha 10 – Strašnice  
Hlavní město Praha, Mariánské nám. 2, Praha 1  
Hotelová škola Radlická, Radlická 115, Praha 5 – Jinonice  
Hudební divadlo Karlín, Křižíkova 283/10, Praha 8  
Hvězdárna a planetárium hl. m. Prahy (Štefánikova hvězdárna, Planetárium Praha, Hvězdárna Ďáblice), Petřín 205, Praha 1  
Jedličkův ústav a Mateřská škola a Základní škola a Střední škola, V Pevnosti 4, Praha 2  
Karlínské gymnázium, Pernerova 25, Praha 8  
Kolektory Praha, Pešlova 341, Praha 9 – Vysočany  
Kongresové centrum Praha, a. s., 5. května 65, Praha 4  
Konzervatoř a Vyšší odborná škola Jaroslava Ježka, Roškotova 4/1692, Praha 4 - Braník  
Lesy hl. m. Prahy, Prácheňská 1885, Praha 10  
Malostranské gymnázium, Josefská 7, Praha 1  
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), Lazarská 11/6, Praha 2



Městská knihovna v Praze, Mariánské nám. 98/1, 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  
Odborné učiliště Vyšehrad, Vratislavova 6, Praha 2  
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 informační služba, Arbesovo nám. 70/4, Praha 5  
Pražská konzervatoř, Na Rejdišti 1, Praha 1  
Pražská strojírna, a. s., Mladoboleslavská 133, Praha 9 - Vínor  
Speciálně pedagogické centrum Vertikála – detašované pracoviště Základní školy speciální a Praktické školy Rooseveltova, Pod Marjánkou 2/1900, Praha 6  
Speciálně pedagogické centrum při Střední škole, Základní škole a Mateřské škole Chotouňská, Chotouňská 476, Praha 10  
Speciálně pedagogické centrum při MŠ Deylova, Deylova 3/233, Praha 5  
Speciálně pedagogické centrum při ZŠ speciální Starostrašnická, Starostrašnická 45, Praha 10  
Středisko praktického vyučování, Seydlerova 2451, Praha 5 - Nové Butovice  
Střední průmyslová škola dopravní, a. s., Plzeňská 298/217a, Praha 5  
Správa pražských hřbitovů, Vinohradská 294/212, Praha 10 – Strašnice  
Správa služeb hlavního města Prahy, Kunderatka 19, Praha 8 – Libeň  
Střední odborná škola civilního letectví, K Letišti 278, Praha 6 – Ruzyně  
Střední odborná škola stavební a zahradnická Učňovská, Učňovská 1, Praha 9  
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, Pod Klapicí 11/15, Praha 5 - Radotín  
Střední odborné učiliště gastronomie, U Krbu 521/45, Praha 10  
Střední odborné učiliště gastronomie a podnikání, Za Černým mostem 3/362, Praha 9  
Střední odborné učiliště kadeřnické Karlínské náměstí, Karlínské náměstí 8/225, Praha 8 – Karlín  
Střední odborné učiliště služeb Novovysočanská, Novovysočanská 5, Praha 9  
Střední škola technická Zelený pruh, Zelený pruh 1294, Praha 4  
Střední průmyslová škola Na Třebešíně, Na Třebešíně 2299, Praha 10  
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 sdělovací techniky Panská, Panská 856/3, Praha 1  
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 - Waldorfské lyceum, Křejského 1501, Praha 4 – Opatov



Střední škola Náhorní, U Měšťanských škol 525/1, Praha 8  
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 – Záběhlice  
Střední škola umělecká a řemeslná, Nový Zlíchov 1, Praha 5  
Střední škola, základní škola a mateřská škola Chotouňská, Chotouňská 476, Praha 10  
Symfonický orchestr hlavního města Prahy FOK, Náměstí Republiky 660/5, Praha 1  
Školní jídelna, Štefánikova 11/235, Praha 5 – Smíchov  
TCP – Vinohrady, a. s., Blanická 1008/28, Praha 2, uzavřeno na TRADE CENTRE PRAHA, a. s., Blanická 1008/28, Praha 2  
Technická správa komunikací, Řásnovka 770/8, Praha 1 - Staré Město  
TRADE CENTRE PRAHA, a. s., Blanická 1008/28, Praha 2  
Úprava vody Želivka, a. s., K Horkám 16/23, Praha 10  
Vyšší odborná škola a Střední průmyslová škola dopravní, Masná 18, Praha 1  
Vyšší odborná škola a Střední průmyslová škola elektrotechnická Františka Křížka, Na Příkopě 16, Praha 1  
Vyšší odborná škola a Střední škola slaboproudé elektrotechniky, Novovysočanská 48/280, Praha 9 – Vysočany  
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 a Střední umělecká škola Václava Hollara, Hollarovo náměstí 2, Praha 3  
Vyšší odborná škola uměleckoprůmyslová a Střední uměleckoprůmyslová škola, Žižkovo náměstí 1, Praha 3  
Vyšší odborná škola zdravotnická a Střední zdravotnická škola, Alšovo nábřeží 6, Praha 1  
Vyšší odborná škola zdravotnická a Střední zdravotnická škola, 5. května 51, Praha 4  
Zoologická zahrada hl. m. Prahy, U trojského zámku 120/3, Praha 7 – Troja  
Základní škola, Vachkova 941, Praha 10  
Základní umělecká škola Ilji Hurníka, Slezská 21, Praha 2  
Základní umělecká škola Klementa Slavického, Zderazská 6, Praha 5 – Radotín  
Základní umělecká škola, Biskupská 12, Praha 1  
Základní umělecká škola, U Půjčovny 4, Praha 1  
Základní umělecká škola, Bajkalská 11, Praha 10  
Základní umělecká škola, Olešská 2295, Praha 10  
Základní umělecká škola, Štítného 5, Praha 3  
Základní umělecká škola, Lounských 4/129, Praha 4 – Nusle  
Základní umělecká škola, Dunická 3136, Praha 4  
Základní umělecká škola, Na Popelce 18, Praha 5 – Košíře  
Základní umělecká škola, K Brance 72, Praha 5 – Stodůlky  
Základní umělecká škola, Nad Alejí 28/1879, Praha 6  
Základní umělecká škola, Klapkova 25, Praha 8  
Základní umělecká škola, Učňovská 1, Praha 9  
Základní škola Tolerance, Mochovská 570, Praha 9  
Základní škola Vokovice, Vokovická 3, Praha 6  
Základní škola a Mateřská škola, Za Invalidovnou 3, Praha 8  
Základní škola a střední škola waldorfská, Křejpského 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 učení, U Boroviček 1, Praha 6 - Řepy  
Základní škola speciální a Praktická škola, Rooseveltova 8, Praha 6  
Základní škola speciální, Starostrašnická 45, Praha 10  
Základní škola, Pod Radnicí 5, Praha 5  
Zoologická zahrada hl. m. Prahy, U trojského zámku 120/3, Praha 7 – Troja

**b) other contracts**

Dopravní podnik hl. m. Prahy, akciová společnost, Sokolovská 217/42, Praha 9  
– letter of intent for easement establishment and lease of property  
Hlavní město Praha, Mariánské nám. 2, Praha 1- purchase agreement on land, contract on borrowing of Mr. Kratina's works, rental agreement for premises, rental agreement for parking space  
Magistrát hlavního města Prahy, Mariánské nám. 2, Praha 1 –the New Year's firework's contract  
Městská knihovna v Praze, Mariánské nám. 98/1, Praha 1 – rental agreement for premises  
Městský úřad Praha 1, Vodičkova 681/18, Praha 1 – rental agreement of Galerie ve Smečkách  
Obchodní akademie Kubelíkova, Kubelíkova 37, Praha 3 – agreement on providing practical trainings for students  
Pražská energetika, a. s., Na Hroudě 1492/4, Praha 10 – borrowing agreement for Joska Skalník's works  
Pražská informační služba, Arbesovo nám. 70/4, Praha 5 – contract on advertising campaign for Galerie Smečky  
Pražské služby, a. s., Pod Šancemi 444/1, Praha 9 – contract for promotion works  
Symfonický orchestr hlavního města Prahy FOK, Náměstí Republiky 660/5, Praha 1 – contract for promotion works  
TRADE CENTRE PRAHA, a. s., Blanická 1008/28, Praha 2 – rental agreement for parking space,  
contract for communication services  
Vysoká škola chemicko – technologická v Praze, Technická 5, Praha 6 – Dejvice –consultancy and advisory services' agreement

**2.2.1.2. CONTRACTS CONCLUDED BETWEEN PP AND E.ON CZECH HOLDING AG**

No agreement concluded with the company E.ON Czech Holding AG.

**2.2.2. CONTRACTS CONCLUDED BETWEEN THE PARTIES STATED UNDER POINT 1.2. AND PP**

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

- a) Appendix to contract to provide services
- b) Appendix to the agreement on the rental of non-residential space
- c) Appendix to the agreement on covering the costs associated with operating a telephone line

**2.2.3. OVERVIEW OF CONDUCTS IN FAVOUR OF RELATED ENTITIES CONTROLLED BY PERSON**

Company PPH a. s., asked PP a. s., to prepare valuation of its equity. The results of this valuation provided for PPH a. s., the information on the value of its shareholder's capital in PP a. s., company. The costs for valuation PP a. s., were paid by PPH a. s.,. The contract and the price contract were concluded under standard market conditions and were not affected by any relationship of controlling entity and contractor.

All other measures of controlling parties resulting from application of shareholder rights at General Meetings of PP. These measures did not resulted in any damage.

All other meetings in accordance with with § 82, paragraph 2, point. d) of the Act on Corporations resulted from the application of shareholder rights at General Meetings of PP a. s., as these negotiations incurred no damage to controlled entity.





### 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 company due to existence of controlling by controlled entity.

### 2.5. ASSESMENT OF STATUTORY BODY

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

PPH was the controlling person of PP in 2013 and PPH controlled PP directly. PPH was controlled by two shareholders, which controlled PP indirectly. These shareholders were capital city of Prague and German E.ON Czech Holding AG which is a member of international concern in energy industry. E.ON Czech Holding also directly owned 49,35% shares of PP.

PP is a part of concern which covers entities engaged in activities related to energy trade and distribution. Relations with indirectly controlling entity 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 is the main operator of natural gas distribution network in the area of capital city of Prague.

In 2013 E.ON Group made certain steps to respond to its intention to terminate its participation in concern of PP. These actions do not affect the business of PP and they are a part of the development of trade relations.

### 2.6. OTHER FACTS

#### 2.6.1. COOPERATION BETWEEN PP AND PRAŽSKÁ ENERGETIKA A. S.

In 2013, co-operation continued between PP 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

There are concluded following contracts with E.ON Czech Republic and E.ON Distribution: contract for providing electronic services, a framework agreement on the distribution of electricity MOP, framework agreement on distribution of electricity MOO, annual contract for natural gas distribution. With E.ON Energy there is concluded framework agreement on emergency supply of natural gas. The E.ON Czech Republic and PP concluded contract for rent parking space, lease office space, amendment to contract for rental of commercial premises, rental of apartment and register office services.

The services arising from contracts referred to in section 2.1.1.2 were provided under the usual market prices. No detriment arose to the controlled party from these relationships.

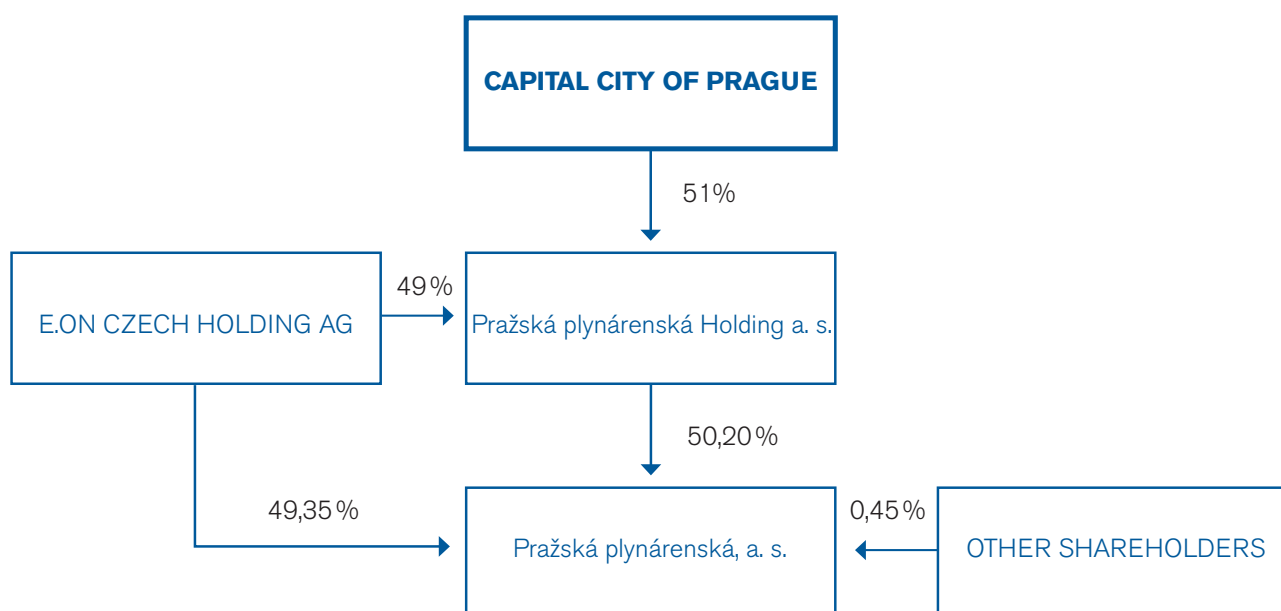
#### 2.6.3. MEMBERS OF PP'S BODIES

The Board of Directors of PP 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.

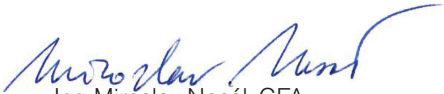
### 3. ABBREVIATIONS


<b>a. s.</b>	Joint-stock company
<b>CNG</b>	Compressed natural gas
<b>hl. m. Praha</b>	Hlavní město Praha (Capital City of Prague)
<b>IČ</b>	Company identification number
<b>PP</b>	Pražská plynárenská, a. s. (Prague Gas Company)
<b>PPH</b>	Pražská plynárenská Holding a. s.
<b>PRE, a. s.</b>	Pražská energetika, a. s. (Prague Energy Company)
<b>s.r.o.</b>	limited liability company
<b>Sb.</b>	collection of laws
<b>SRN</b>	Federal Republic of Germany

### 4. GRAPH SHOWING THE RELATIONSHIP OF PP AND RELATED PARTIES AT 31 DECEMBER 2013



Prague, 3 March 2014

  
Ing Miroslav Nosál, CFA  
Chairman of the Board of Directors

  
Eckart Baum,  
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 2013 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, 25 April 2014



Dr. -Ing. Milan Urban

Dr. -Ing. Milan Urban

Chairman of the Supervisory Board

Pražská plynárenská, a. s.

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



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PLYNÁRENSKÁ  
a. s.