

2020 ANNUAL REPORT



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

All the documents and materials discussed in this annual report may be viewed at the Company's head office.

Prague, 23 March 2021

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USED OUR GAS
**OUR GAS PROVIDES
SECURITY EVEN TODAY**



I. Introduction



Foreword from the Chairman of the Board of Directors

Dear friends,

Like the entire country, Pražská plynárenská, a.s. has had a very difficult year, full of changes and events that were difficult to predict in advance. This year was very specific and exceptional in all respects, and we had to face new and unknown problems and deal with unexpected situations which are unparalleled throughout history and which we have not encountered before.

I am very glad that, despite the above problems, the past year was a successful year for Pražská plynárenská, a.s. We managed to fulfil assigned tasks, achieved the planned economic results and maintained our position in the highly competitive energy market. In addition, we were able to find positives even under this difficult situation and managed to reveal new limits, possibilities, opportunities and find previously unrecognised reserves.

This is very important for a successful future, because it seems that this year will be no less challenging and we will be dealing with a number of other issues, tests, confrontations and challenges. However, if we are able to set clear goals, fulfil them, and if we put all our enthusiasm, efforts and ideas into it, then I believe Pražská plynárenská, a.s. will have a successful year again.

I would like to thank not only all employees for their commitment and dedication during these difficult times, but also our partners for their helpful cooperation, and especially our customers, who have been very loyal to our Company for a long time. We appreciate that very much.




Ing. Martin Pacovský, MBA
Chairman of the Board of Directors

II. Selected Company Data

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

The average CZK/EUR exchange rate for 2020 was CZK 26.444 per 1 EUR, and this value was used to convert all data in the tables (also data for previous years).

Basic Company Data

Business name: _____	Pražská plynárenská, a.s., ("PP, a.s." or the "Company")
Corporate Office: _____	Prague 1 – Nové Město, Národní 37, Postal Code 110 00
Company ID: _____	601 93 492
VAT No: _____	CZ60193492
Incorporation in the Commercial Register: _____	The Municipal Court in Prague, Section B, Insert 2337
Bank details: _____	ČSOB, a.s., Account Number: 916780043/0300
Telephone: _____	+420 267 171 111
Data box ID: _____	au7cgsv
Business Offices: _____	Jungmannova 31, Palác Adria, Prague 1 U Plynárny 500, Michle, Prague 4
Website: _____	www.ppas.cz
Facebook: _____	 prazskaplynarenskaas
YouTube: _____	 Pražská plynárenská a.s.
LinkedIn _____	 Pražská plynárenská a.s.

Company Profile

Pražská plynárenská, a.s., is a reliable supplier of natural gas and electricity for more than 425 thousand consumption points throughout the Czech Republic, and has long been one of the most important domestic energy companies.

In addition to attractive prices, the Company builds its competitiveness on customer service, provides a wide range of attractive additional services and products often unique in the market, strives to maintain successful tradition and the background of a strong company, and last but not least, maintains the ability to respond flexibly to changing customer requirements.

The Company has long been actively supporting the introduction of new ecological and efficient energy technologies and is one of the pioneers of the use of natural gas in the transport industry in the Czech Republic.

Importance of the Company and its contributions to the region

In addition to its business activities, Pražská plynárenská, a.s. has long been involved in beneficial activities and in the development of civil society, not only in its home region, but also in regions outside of Prague. The Company shares its success with the general public in the form of traditional and continuing support of various cultural, sports, and social projects.

Basic economic indicators (2016-2020)

		2016*	2017	2018	2019	2020	
Revenues	in thousands of CZK	12,158,535	12,506,588	12,491,073	14,789,061	15,124,716	
	in thousands of EUR	459,784	472,946	472,359	559,260	571,953	
Profit before tax	in thousands of CZK	1,337,553	1,436,643	795,576	832,856	1,049,013	
	in thousands of EUR	50,581	54,328	30,085	31,495	39,669	
Profit after tax	in thousands of CZK	1,155,047	1,226,959	633,955	720,978	908,484	
	in thousands of EUR	43,679	46,398	23,973	27,264	34,355	
Equity	in thousands of CZK	5,009,169	2,397,600	2,511,555	2,607,027	2,994,426	
	in thousands of EUR	189,426	90,667	94,976	98,587	113,236	
Registered capital	in thousands of CZK ₁	431,972	431,972	431,972	431,972	431,972	
	in thousands of EUR	16,335	16,335	16,335	16,335	16,335	
Natural gas	Sales ₂	in thousands of MWh	12,595.4	13,460.1	12,765.6	13,138.5	12,242.2
		in millions of m ₃	1,178.0	1,262.4	1,197.7	1,232.9	1,145.6
	Number of consumption points as of 31 December		384,608	374,121	369,190	361,535	361,453
Electric power	Sales	in thousands of MWh	371.5	642.3	610.8	1,287.9	1,633.1
	Number of consumption points as of 31 December		28,991	33,853	43,912	52,835	64,134

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

¹ Registered capital entered in the Commercial Register.

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

Securities issued as of 31 December 2020

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

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

On 15 June 2020, the Company repaid bonds with a fixed interest yield of 0.90%, which the Company issued on the regulated stock exchange market (Prague Stock Exchange). These included 80 bonds in the total nominal value of CZK 400,000,000.00.

The Company's LEI Code is 315700QBYOTLGRMOO11.

Ownership structure of Pražská plynárenská, a.s., as of 31 December 2020

For the entirety of 2020, Pražská plynárenská, a.s., was controlled directly by Pražská plynárenská Holding a.s. ("PPH a.s."), registered office U Plynárny 500/44, Michle, 140 00 Prague 4, Company ID: 264 42 272 and indirectly by the Capital City of Prague, registered office Mariánské náměstí 2, 110 01 Prague 1.

Capital Interests

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

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

Pražská plynárenská, a.s., holds 95% capital interests in the following subsidiary companies:

- MONTSERVIS PRAHA, a.s.

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

address: Prague 4, U Plynárny 500, Postal Code 145 08
Company ID: 274 03 505
www.ppdistribuce.cz

Pražská plynárenská Distribuce, a.s., Member of the Pražská plynárenská, a.s. Group, ("PPD, a.s."), was founded on 7 December 2005 as a subsidiary company of Pražská plynárenská, a.s. The impetus for establishing this company was the opening of the gas market in the Czech Republic as at 1 January 2007 as stipulated by law. Since the date above, PPD, a.s., independent legal entity, has operated based on the license issued the Energy Regulatory Office, the distribution network in Prague and its surroundings and offers services in the area of gas distribution - until then provided by Pražská plynárenská, a.s.

PPD, a.s., has a team of experienced gas experts with long-term practical experience with the operation and construction of both gas facilities as well as with the specific conditions existing in the regulated field.

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

address: U Plynárny 1450/2a, Michle, 140 00 Prague 4
Company ID: 471 16 471
www.ppsd.cz

Pražská plynárenská Servis distribuce, a.s., Member of the Pražská plynárenská, a.s. Group ('PPSD, a.s.'), was established in 2005 through a merger of two subsidiary companies of the Pražská plynárenská, a.s. Group: Praha–Paříž Rekonstrukce, a.s., and Opravy plynárenských zařízení s.r.o. The successor company was Praha–Paříž Rekonstrukce, a.s., which was subsequently renamed in 2006 to Pražská plynárenská Servis distribuce, a.s., Member of the Pražská plynárenská, a.s. Group As of 1 November 2014, the successor company PPSD, a.s., merged with a dissolved company called Měření dodávek plynu, a.s.

The main goal of PPSD, a.s., is to provide comprehensive services in the construction, servicing, repair, and maintenance of all gas facilities (pipelines, connections, control stations, measuring devices, etc.) including operation in the area of so-called gas consumption equipment and industrial pipelines (gas distribution systems in buildings from the main gas shut down valves all the way to gas appliances). The Company activities are not limited to gas facilities only, but it has long been active in other areas related to the construction of other supply and engineering projects (water supply and sewerage networks).

PPSD, a.s., provides gas emergency services for pipeline equipment, connections and regulating stations, consumption gas equipment, and gas pipelines for households. The Company also sells gas network related material, including the production and sale of boxes for the installation of main gas valves, gas meters, and regulating household equipment of various kinds, segmented elbows - all according to the particular customer needs. Under the extensive portfolio of services, the Company also focuses on other activities and provides mobile natural gas supply, commercial and field technical services, activities in the field of Smart Metering, out-of-court debt collections and professional technical consulting activities.

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

Address: U Plynárny 500/44, Michle, 140 00 Prague 4
Company ID: 274 36 551
www.ppsm.cz

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

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

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

Address: Prague 4, U Plynárny 500, Postal Code 140 00
Company ID: 630 72 599
www.prometheus-es.cz

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

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

Informační služby – energetika, a.s.

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

Informační služby – energetika, a.s., ("ISE, a.s.") was founded on 20 December 2000, originally as a limited liability company. It was established by the parent company PP, a.s., to rent hardware and software for automated data processing and to provide software, training, and consultancy activities in the areas of information technology, installation, and the maintenance and servicing of telecommunications equipment. Informační služby – energetika, s.r.o., was transformed into a joint stock company by a decision of the sole shareholder PP, a.s. The resolution of the Municipal Court in Prague on the change became legally effective on 3 January 2005.

The objective of ISE, a.s., is to offer users the most efficient operation of information systems while maintaining high standards of service and safety.

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

MONTSERVIS PRAHA, a.s.

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

MONTSERVIS PRAHA, a.s., ("MONT, a.s.") was founded on 9 October 1990. As of 24 June 2020, Pražská plynárenská, a.s., owns 95% of capital interest. In 2021 the company plans to purchase the remaining 5% share of the capital interest.

MONTSERVIS PRAHA, a.s., deals mainly with the reconstruction of block and house boiler rooms, construction of new gas heat sources and cogeneration units, including management and operation of energy facilities.

The goal of MONT, a.s., remains the same as in previous years and that is to strengthen the development in the field of production and distribution of thermal energy, construction of thermal energy sources and related energy services in close cooperation with members of the Pražská plynárenská, a.s. Group.

Information about Organisational Units Abroad

Pražská plynárenská, a.s., had no organisational units abroad as at 31 December 2020.

Information about the Company Bodies and Management

General Assembly

The General Assembly is the supreme body of the company.

Board of Directors

The Board of Directors of PP, a.s., has four members. It is the statutory body of the Company and is responsible for everyday operations and representation. The term in office of each member is five years according to the Company Articles. The company is fully represented in relation to third parties before the relevant courts and before other bodies by the Board of Directors as follows. At least two members of the Board of Directors jointly negotiate and sign on behalf of the company.

As of 31 December 2020 the structure of the Board of Directors was as follows:

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

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

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

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

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

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

Supervisory Board

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

The sole shareholder of the Company acting as the General Assembly accepted on 6 February 2020 the resignation of the member of the Supervisory Board, Mr. Matěj Turk, CFA, and the vacant position was taken over, effective since 7 February 2020 by

Ing. Jiří Pelák, Ph.D. On 13 November 2020, the sole shareholder of the Company, exercising the powers of the General Assembly, re-elected Mr. Petr Klepáček to the position of a member of the Company's Supervisory Board effective since 17 November 2020.

As of 31 December, 2020 the structure of the Supervisory Board was as follows:

Mgr. Reda Ifrah Chairman of the Supervisory Board,

Ivo Kramoliš, Member of the supervisory board

Petr Klepáček, Member of the Supervisory Board,

Mgr. Václav Kučera, Member of the Supervisory Board,

Mgr. Jindřich Lechovský, Member of the Supervisory Board,

Ing. Jiří Pelák, Ph.D., Member of the Supervisory Board,

Mgr. Miroslav Vránek, Member of the Supervisory Board,

Ing. Lukáš Wagenknecht, Member of the Supervisory Board,

Ing. Petra Zemanová, Member of the Supervisory Board.

Audit Committee

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

As of 31 December 2020 the structure of the Audit Committee was as follows:

Ing. Lenka Mrázová, FCCA, Chairwoman of the Audit Committee,

Ing. Pavlína Kouřilová, Member of the Audit Committee,

Ing. Marta Ptáčková, Member of the Audit Committee.

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

The information in this section applies to the individual financial statements provided, unless stated otherwise. The individual financial statements were processed according to the International Financial Reporting Standards (IFRS) in the form adopted by the EU.

The average CZK/EUR exchange rate for 2020 was CZK 26.444 per 1 EUR, and this value was used to convert all data in the tables (also data for previous years).

Energy Industry in 2020

Although last year was marked by the unfortunate COVID-19 pandemic, we have remained focused on the issue of environmental protection and on the future direction of the energy field. It was not only a question of the impact of the environment on human health, but also the issue of accelerating the already started processes. The transition to carbon-free energy and the use of new technologies required to achieve the set goals have been intensively addressed in particular at the European level.

Climate and environmental protection issues were then reflected at the national level. For example, in the plan to stop using coal by 2038 and in the beginning of preparations for the construction of the new unit at the Dukovany nuclear power plant. The transition to renewable sources was supported mainly by the construction of photovoltaic power plants used in family houses, mainly thanks to the New Green Savings grant programme. This programme, together with others, is an important accelerator process focusing on the replacement of heating appliances and implementation of other energy saving measures. Other electric car charging stations were built in the Czech Republic and the discussion on the use of hydrogen resurfaced.

Although the new Energy Act (NEZ) has been under preparation for a long time, its final form was not enforced even in 2020. It was not until the end of the year that the NEZ plan was approved, and in the first half of 2021 its legal wording should be submitted to the government for review. NEZ is an essential step in the management of modern energy and includes new trends and principles of the energy market.

Also in 2020, there was strong competition between individual energy traders. The most important and decisive factor when selecting a suitable supplier is not the price of the commodity, but increasingly the overall ability of the supplier to cover all the requirements and needs of customers. Modern trends are reflected more and more in the energy sector and in addition to friendly prices, the customer also expects flexibility and speed when solving various issues and needs. Customers expect comprehensive services and solutions for every issue related to the energy contract.

And as it turned out in 2020, the major benefit of the supplier is the ability to provide customers with sufficient online services and within the required scope and quality.

Information about Operations and Financial Position

Information on main lines of business

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

Office and in electric power under Licence No. 141015380 issued by the same office.

Sales information

Sales	2019	2020
in thousands of CZK	14,319,420	14,573,389
in thousands of EUR	541,500	551,104

Revenues were generated in the Czech Republic.

Breakdown of operating revenues by activity

Type of activity (in %)	2019	2020
Revenue from sale of gas*	74.0	66.8
Revenue from sale of electricity*	20.7	27.8
Other operating revenues and income	5.3	5.4

*Licensed activity

Capital investments

	Acquisition value in thousands of CZK	Acquisition value in thousands of EUR
Investment expenditures in tangible fixed assets	93.0	3.5
Investment expenditures in intangible fixed assets	31.6	1.2
Total	124.6	4.7

The investment expenditures above reflect cash flows, including prepayments on investments. Investment into tangible fixed assets mainly represent investments related to the Company's facilities in the Michle

complex, investments in information technology and in the area of construction and modernisation of CNG filling stations. In 2020, the investments in intangible fixed assets were focused on information systems. All investments were realised in the Czech Republic.

Pre-tax profit/loss

Profit/loss (in millions of CZK)	Actual situation 2020	Actual situation 2019	Comparison of facts 20/19
Operating economic result	1,077.0	903.4	173.6
Financial result	-28.0	-70.5	42.5
Total profit/loss	1,049.0	832.9	216.1

Profit/loss (in millions of EUR)	Actual situation 2020	Actual situation 2019	Comparison of facts 20/19
Operating economic result	40.7	34.2	6.5
Financial result	-1.0	-2.7	1.7
Total profit/loss	39.7	31.5	8.2

Revenues

Revenues (in millions of CZK)	Actual situation 2020	Actual situation 2019	Comparison of facts 20/19
Total operating revenues	14,959.0	14,690.7	268.3
- of which: natural gas sales*	9,993.0	10,873.7	-880.7
- of which: electricity sales*	4,165.6	3,032.9	1,132.7
Financial revenues	165.7	98.4	67.3
Total revenues	15,124.7	14,789.1	335.6

Revenues (in millions of EUR)	Actual situation 2020	Actual situation 2019	Comparison of facts 20/19
Total operating revenues	565.7	555.5	10.2
- of which: natural gas sales*	377.9	411.2	-33.3
- of which: electricity sales*	157.5	114.7	42.8
Financial revenues	6.3	3.7	2.6
Total revenues	572.0	559.2	12.8

* Licensed activity

Costs

Costs* (in millions of CZK)	Actual situation 2020	Actual situation 2019	Comparison of facts 20/19
Total operating costs	13,882.1	13,787.3	94.8
- of which: consumed gas costs**	6,153.3	7,152.5	-999.2
- of which: electric power purchase costs**	2,131.2	1,613.0	518.2
Financial costs	193.6	168.9	24.7
Total costs	14,075.7	13,956.2	119.5

Costs* (in millions of EUR)	Actual situation 2020	Actual situation 2019	Comparison of facts 20/19
Total operating costs	525.0	521.4	3.6
- of which: consumed gas costs**	232.7	270.5	-37.8
- of which: electric power purchase costs**	80.6	61.0	19.6
Financial costs	7.3	6.4	0.9
Total costs	532.3	527.8	4.5

* Excluding income tax on current operations.

**Licensed activities without distribution charge.

Financial Position

In 2020, Pražská plynárenská, a.s., continued to be a financially stable company. The Company paid all its dues to customers, suppliers, banks, state institutions, and employees in good time.

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

In June 2020, PP, a.s., has repaid three-year bonds in the total nominal value of CZK 400 million. In connection with the repayment of bonds, there was an increase in short-term financing frameworks, which are contractually secured until May 2023 and includes overdraft CZK and EUR credit lines, a line for concluding bank guarantees and a bill of exchange programme to use the necessary resources in the form of bills through auctions.

The Company has contractually secured financing of operations in the amount of CZK 3,528.1 million, which is provided by two banks, namely by Československá obchodní banka, a.s., and Česká spořitelna, a.s., including a short-term EUR loan to cover trading on the energy exchange, which is secured by Raiffeisenbank a.s.

In 2020, the current account credit lines were not utilised due to the favourable development of the Company cash

flow. The Company used bank guarantees and funds in the cash-pooling scheme to optimally cover cash flow requirements which are subject to the seasonal fluctuations related to the purchase and sale of energy.

As of 31 December 2020 the Company had not drawn any bank loans; on the contrary, it possessed short-term financial assets worth CZK 1,502.2 million (as of 31 December 2019 the amount was CZK 1,498.9 million).

Summary Description of the Real Estate Property Owned by PP, a.s.

As of 31 December 2020 the Company owned property (land, buildings, and other structures) worth a total amount of CZK 1,310.2 million. As for buildings it mainly includes real estate at Národní 37/38 in Prague 1 and buildings located in the facility of Pražská plynárenská, a.s., in Prague 4 – Michle. The residual value of the real estate owned by the Company is worth CZK 822.7 million.

During 2020, an extensive reconstruction of building No. 37 in the Michle facility was completed. This facility is primarily intended to handle customers of Pražská plynárenská, a.s. The opening of the new modern customer centre is scheduled for early 2021. A completely new and modern environment will await new customers.

Natural Gas Trading

Natural gas trading (in thousands of MWh)	2020
Purchased natural gas	12,175.1
Sales of natural gas – total	12,242.2
Sales of natural gas – licensed operations	12,197.6
Sales of CNG	44.6

The results of natural gas trade in 2020 were significantly affected by several factors. The key factor was the development of purchase prices, as they declined and reached a long-term low, especially during the second and third quarters. Another factor was the overall course of consumption by end customers. Both the warmer weather in the first quarter and the decline in economic activity were reflected here. The weakening of the Czech koruna down to values from the period of the central bank's foreign exchange interventions required a monetary hedging approach.

On the sales price side, market competition put pressure on them. Some, especially large customers, took advantage of the favourable development in the commodity prices and negotiated contracts for the supply of natural gas in advance compared to previous years, and at the same time opted for long-term fixation.

The situation was regularly monitored, analysed and predicted with the intention to meet the planned economic results. During the year, purchasing and sales strategies were promptly updated to reflect the current development.

Electric Power Sales

Electric power sales (in thousands of MWh)	2020
Electric power purchases	1,635.0
Sales of electricity	1,633.1

In 2020, sales of electricity were mainly impacted by the market price. Since April 2020, the sale price of electricity has been increased in response to the rising market price. Despite the fact that in 2020 there was a slight decrease in the market price in two short periods, in the long run, the price is still rising. The growth is mainly due to the rising price of emission allowances and the expected higher demand for electricity in the coming period.

The optimistic outlook for the start-up of the economy, and therefore an increase in the need for electricity supply, is based on vaccination against the COVID-19 virus, thanks to which the economy should gradually return to normal.

Offer of non-commodity products and services

Customer interest in non-commodity products in 2020 was affected by the spread of the COVID-19 pandemic. Fears of the spread of the disease postponed planned boiler replacements or the installation of photovoltaic power plants until the second half of the year and in some cases these activities were stopped altogether. Nevertheless, in 2020 there was a growing interest in non-commodity products, while the most demanded services were related to the installation of a new gas boilers or boiler servicing. Also during this year the interest in photovoltaic power plants, including the subsequent purchase of surpluses of electricity, increased.

Marketing and Customer Care

Customer care

The permanent goal of Pražská plynárenská, a.s., is to improve effective communication with customers in the long run and at the same time offer quality, affordable and desirable services and products that benefit customers and save them time and costs. In 2020, our efforts to increase customer satisfaction led to a further increase in the number of customers.

In order to successfully resolve customer requirements a customer portal, company website www.ppas.cz, Facebook profile, and a toll-free customer telephone line, were available. Customers could also personally visit sales offices, but these were closed for part of the year due to government regulations regarding the COVID-19 pandemic. This significantly increased the use of the toll-free customer line, customer portal and other digital channels. The Group's contact centre, together with the transferred capacity of sales offices, managed the entire situation successfully and even reached stable results in terms of key target indicators. All capacities were directed towards customer requests and business activities. The transfer of most employees over to the home office mode proved to be crucial, which allowed us to maintain internal capacities. In this mode, the operation of the contact centre is the same as in the standard mode. All control mechanisms are available here, including call recording. This situation has shown us that the chosen approach towards digitisation of customer care while moving customer care as much as possible online, is the right choice.

Improving customer service and the related development of the Group's technology contact centre, digitisation of processes and sharing capacities with the sales support department are issues the Company wants to focus on in

the future and which shall increase customer comfort. In the past year 2020, this approach has brought positive results such as the reduction of written request processing time or stable availability of the customer phone line.

In cooperation with partners, PP, a.s. customers were offered, in addition to the current benefits such the purchase of heaters or CNG vehicles, also the option to purchase non-commodity products where customers could purchase under advantageous conditions for example new brands and types of gas boilers or photovoltaic power plants. The range of offered services related to the operation of energy equipment was also expanded. For example, Service packages covering new gas boilers including already installed boilers were added.

Throughout 2020, the Company offered customers belonging to the Household category assistance service insurance policy which includes assistance in emergency situations (e.g. heating, electrical, or locksmithing work). Customers were able to get these services through Pražská plynárenská, a.s., together with certain products for a fixed period and with no charge. Assistance service insurance is also provided to housing cooperatives and property owners' associations. Further, in 2020 customers in the Household category were offered extended household insurance covering emergency situations, provided they met the given conditions.

The company helps customers to solve unexpected situations and accidents not only through the services offered by service partners, but also through financial participation in the form of replacement and repair of heating appliances.

Loyalty programme

Through the Company's loyalty programme called "Customer card of Pražská plynárenská", customers can use attractive discounts and benefits in various areas (e.g. travelling, sport, cultural activities, accommodation, etc.). More than 90 partners participate in this project.

The Company distributes customer cards for free. During the year the programme offers various competition friends for card holders with interesting prizes including foreign tours, spa stays, and more. However, this was negatively impacted in 2020 by the COVID-19 pandemic. Information about the current discounts and benefits is available on the company's website.

Clean Mobility

Use of natural gas in transport

The Company was one of the first to promote CNG and emphasise contribution of CNG to the reduction of greenhouse gas emissions. Thanks to the sale of CNG, development and support of the CNG filling station network in Prague and in the Central Bohemian Region including promotion and rental of CNG vehicles, PP, a.s. is currently perceived as a full and equal partner to conventional vehicles. Currently, PP, a.s., shall focus on the sale of BioCNG. Biomethane is an emission-free variant of CNG, which releases up to four-fifths less carbon dioxide when compared with gasoline and diesel and therefore meets the strictest limits on clean mobility and is a comparable alternative to electromobility while offering significantly lower input costs.

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

CNG Sales

Despite the COVID-19 pandemic in 2020, PP, a.s. managed to increase sales of CNG fuel through its filling stations by 14% when compared to 2019 (approximately 3 million kg of CNG sold).

PP, a.s. is also the supplier of natural gas for several dozen other CNG stations in the Czech Republic, owned by private companies.

CNG stations

Pražská plynárenská, a.s. already owns 10 filling stations.

CNG vehicles

In Pražská plynárenská, a.s., and in its subsidiary companies 184 CNG vehicles were operated at the end of 2020 including the CNG car rental. The joint project of the capital city of Prague, Pražské služby, a.s., and Pražská plynárenská, a.s., concerning the cooperation of CNG collection and cleaning vehicles is successful. PP, a.s., continues to expand cooperation in the use of CNG vehicles with other city companies and commercial entities.

Social Responsibility

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

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

Environment

In the field of the environment, Pražská plynárenská, a.s., strives for sustainable development, environmental protection and reduction of negative impacts of its activities on the environment, even though the company activities have very small negative impacts on the environment. The Company emphasises the need to comply with legislative obligations and commitments to improve the environment as defined in the Company's environmental protection policy, which includes continuous environmental education of all employees through e-learning. The main emphasis of EMS is on waste management and air protection.

This is achieved by following a consistent system of waste sorting. As for air protection the company strives to meet emission limits and performs regular inspection. In 2020, the boiler room in building No. 66 in the Michle facility was modernised as part of the energy optimisation project. Activities in the field of CNG are also important. These mainly include the construction and operation of CNG filling stations.

A number of internal audits were performed in the Company and no significant non-conformities were identified. PP, a.s., complied with legal and other requirements.

No incidents that could significantly impact the environment have been reported.

In 2020, new facts were discovered during the cleanup of the old ecological burden in the last location at the Michle facility belonging to Pražská plynárenská, a.s. Based on the results of a survey performed in the area of Naftalínka (naphthalene plant) at the end of 2019, the Ministry of Finance of the Czech Republic ordered a preparation of a risk analysis focused on the newly detected cyanide contamination, including the cyanide content in groundwater in the Michle facility of PP, a.s. The presented "Purposeful analysis of the risks of the presence of cyanides in the area of Pražská plynárenská, a.s., Michle", describes and evaluates the results of groundwater and surface water monitoring carried out from June to July 2020. In August 2020, the analysis was completed and, in addition to cyanide pollution, tar pollution was detected in the Cleaner II sumps in the Michle facility. At the end of 2020, it was agreed that the project documentation for the revival and cleanup of the Naftalínka site will be completed and the Ministry of Finance of the Czech Republic will order an additional survey of the tar sumps. The survey and the complete cleanup and revival documentation will be commissioned on the basis of a small-scale public contract.

Sponsoring activities and donations

In 2020, there were many possibilities to realise a number of events and projects. However, the support of Pražská plynárenská, a.s., was significantly affected or even prevented by measures related to the COVID-19 pandemic. Where possible, Pražská plynárenská, a.s., supported a wide range of diverse projects in the field of professional or recreational sports, arts, social or charitable activities. Long-term support of events for the general public are the preferred modes of support.

Code of ethics focusing on employees and customers

Employees of Pražská plynárenská, a.s., are aware of the good reputation and tradition of the company and strive to further improve this image by adhering to regulations of proper conduct. Employees respect not only each other but also business partners. They expressed their affiliation and approval of company ethics in the internal Code of Ethics. Pražská plynárenská, a.s. also accepted other commitments

which further contribute to the cultivation of the energy environment. This includes the Code of Trading Ethics (based on ERO draft) and the Market Declaration based on the activities of the Czech Confederation of Commerce and Tourism.

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

The Smečka Gallery

The Smečka Gallery has been on the Prague art scene for 15 years. In this period, almost 71 art shows and thematic exhibitions of major Czech artists have been held in the gallery. In 2020, the following exhibitions were held:

- Zdeněk Burian / Vlastní cestou (My own way)
Exhibition of a set of 100 works (drawings, gouaches, oils and artefacts)
- Dokopydanie / Slovak assemblage
Discovery exhibition for the professional and public of Slovak assemblage
- Ondrej Kohout / Fire!
The largest exhibition of Kohout's work to date with a sports theme

In addition to the regular vernissages of individual exhibitions, the gallery also offered interesting guided tours with the participation of the authors or curators and workshops for children and parents. The vernissages were attended by personalities from social, cultural, and public life and were accompanied by live musical presentations.

Many reports and spots have been broadcast from these vernissages both on TV and radio; articles and reviews have also been published in newspapers and other periodicals and videos were available on Facebook. Catalogues containing colour reproductions were published for each exhibition. Some exhibition projects were supplemented with recorded monographs about the authors or films for children and young adults and shown in TV.

To summarise the role of the gallery on the Prague scene, we can state that the number of visitors to the exhibitions in the gallery increases every year and that the exhibitions are very positively evaluated by art experts and the general public.

Throughout its existence, the Smečka Gallery has entered the consciousness not only of Prague residents but also of visitors from all over the country who repeatedly visit the gallery in pursuit of quality cultural experiences and pleasant moments as evidenced by positive reviews in the Chronicle of Exhibitions and also on social networks.

Gas Museum

Since 1999, Pražská plynárenská, a.s., has operated in the Michle facility, the only museum in the Czech Republic devoted to the gas industry. It is located in one of the historical technology buildings of the former Michle gas plant. It raises awareness focusing on the gas industry and is a popular destination of elementary and secondary schools, professionals, foreign visitors, and ordinary citizens, and indeed anyone who is interested in history in general and in the development of technology and energetics. It acquaints the visitors with the history and development of the Czech and global gas industry, from its beginnings to the present. The Museum is divided into a number of sections – from extraction and production of gas to its use for a wide variety of purposes. Originals and models of various gas industry and gas facilities, also historic gas appliances and historical documents – catalogues, publications, and photographs can be found here. One of the attractions the museum offers is the reconstructed model of the Michle gas plant from 1937 created in a scale of 1:100.

Cooperation with municipalities in the City of Prague continued successfully, also with the municipality

Informatics

2020 was heavily impacted by the COVID-19 pandemic, which affected a number of Company business and internal processes.

The Company's ability and readiness to respond to process changes, ensure functionality of these processes and adapt to difficult-to-predict changes were tested.

Thanks to online communication with customers (customer portal, website) and thanks to the uninterrupted operation of the customer centre, we were able to respond to customer needs and develop new products. As part of the Company's internal processes, problem-free corporate communication and settlement of demanding business, financial and logistics processes were enabled.

The customer contact centre has completed changes that were intended to further improve customer communication, efficiency and transparency while handling requests. Management of the portfolio of non-commodity products was implemented, which enabled us to provide comprehensive solutions for all activities related to customer management, including feedback. Other development projects in the area of

corporations, e.g. the Prague City Museum or the Prague City Gallery.

Traditional walks in Advent time and before Christmas with a lamplighter are very popular and everyone has been asking throughout the year whether and when this event will take place again.

In cooperation with the Czech Tourism Club, the Company organised several events in 2020 which presented interesting historical topics related to the gas industry in the capital city of Prague. These events also call for a healthy lifestyle and walks, which, despite the restrictions in force due to the COVID-19 pandemic, remain the most natural and accessible form of exercise.

For the first time our museum has become a part of the traditional event called "Prague Towers". Attendance exceeded our expectations and the event attracted many new visitors to the museum.

In 2020, the museum collections were enriched with many interesting historical documents and exhibits from the Czech Republic and abroad. Preparatory work on the new exhibition presenting gas meters has begun. It includes both unique historical gas meters from the unique collection of our museum, as well as modern remote meters.

A number of exhibits were professionally restored including the original function of selected historic appliances, which allowed us to demonstrate to our visitors the purposes for which gas was used in the past.

the customer contact centre are to strengthen functionalities of the lead management in the field of acquisitions, utilisation of wallboards and campaign management technologies.

Significant development changes supporting internal processes in 2020 include the centralisation of invoicing processes between subsidiaries and PP, a.s., energy optimisation at the Michle facility and implementation of the integrated information system to streamline trading processes, which link commodity purchasing processes and their allocations

As for additional technological development, we may also include the reimplementation of the SAP HANA platform in the data warehouse, which enables us to better deal with reporting requirements of users across the entire Company.

Due to the relatively large area handled by the Company, the processes of registration, development and asset management and maintenance were strengthened by the implementation of the facility management system.

Human Resources Management

HR work and the social field

As of 31 December 2020, Pražská plynárenská, a.s., employed a total of 345 people.

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

Interested employees also had the option to participate in the comprehensive programme called "A year full of energy", which consisted of 6 workshops promoting health and physical fitness of employees.

A development programme for "talented employees" was prepared and included 20 employees who were selected by the development centre. During the year, these employees completed full-time or online training focusing on communication skills, people handling skills, stress and self-management skills, etc.

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

Collective bargaining

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

Internal Audit, Compilation and Risk Management

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

Occupational health and safety and fire prevention

In 2020, full-time activities in the field of occupational health and safety and fire safety (training and inspections) were limited due to the government-issued COVID-19 measures. However, mandatory inspections and revisions of reserved technical equipment (pressure, lifting, electricity, gas equipment) were carried out in PP, a.s buildings and workplaces.

In 2020, no occupational injury, which could have resulted in an injury and work disability lasting longer than three calendar days, or which could have resulted in an employee's death, was recorded.

Work and activities based on the degree of risk factors remain in the 1st category.

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

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

Based on Section 4 item 1 letter c) of Act No. 309/2006 Coll., as amended, Pražská plynárenská, a.s., performs regular inspections and reviews of production and work equipment.

During the entire year of 2020, 28 inspections focusing on safety and health protection were carried out based on the agreement with the trade unions and as required by Section 108 item 5 of the Labour Code.

The Internal Audit Department acts in compliance with the tasks assigned to it by the Board of Directors of PP, a.s. In particular it investigates and processes individual internal audits, which it presents to the Company Management of PP, a.s., for approval and implementation of the ascertained remedial measures. Within the scope of this activity, the Company uses a comprehensive audit universe, which assesses the gravity of individual audit suggestions.

Compliance of the Company's actions with generally applicable rules took place in 2020 in accordance with the internal standard of the Compliance Programme. In addition to the traditional modification, which ensures that the Company activities comply with legal regulations, the programme contains rules for active compliance (for example employee training and issuance of internal regulations and methodologies), rules dealing with conflict of interest, and anti-corruption principles. The Compliance programme also includes the internal Code of Ethics. Employees may also use the anonymous Ethics line to file a complaint dealing with the cultivation of the company culture or to draw attention to possible illegal actions (whistleblowing).

Pražská plynárenská, a.s., maintains a comprehensive risk management system. It includes identification of risks at all levels, regular risk assessment and ensures timely responses from the Company targeting elimination of risks and exposure to risks. The Company is fully aware of the new challenges and threats arising from a globalised IT environment. The company manages IT / ICT security and related cyber and information security at the central level.

Risk management also includes insurance strategy, particularly property insurance and liability of the Company for damage caused to third parties.

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

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

Information required for disclosure by specific legislation

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

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

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

The average CZK/EUR exchange rate for 2020 was CZK 26.444/EUR 1, and this value is used to convert all data in the tables (also for the preceding years).

Information about Operations and Financial Position

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

- Pražská plynárenská Distribuce, a.s., Member of the Pražská plynárenská, a.s. Group, ("PPD, a.s."),
- Pražská plynárenská Servis distribuce, a.s., Member of the Pražská plynárenská, a.s. Group, ("PPSD, a.s."),
- Pražská plynárenská Správa majetku, a.s., Member of the Pražská plynárenská, a.s. Group, ("PPSM, a.s."),
- Prometheus, energetické služby, a.s., Member of the Pražská plynárenská, a.s. Group, ("Prometheus, a.s."),
- Informační služby – energetika, a.s. ("ISE, a.s."),
- MONTSERVIS PRAHA, a.s., ("MONT, a.s.").

The key business activities of the PP, a.s., Group are the sale and distribution of natural gas and sale of electricity.

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

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

Pre-tax Consolidated Profit/Loss

Consolidated profit/loss (in millions of CZK)	Actual situation 2020	Actual situation 2019	Comparison of facts 20/19
Operating economic result	1,444.1	1,299.2	144.9
Financial result	-56.5	-90.3	33.8
Total profit/loss	1,387.6	1,208.9	178.7

Consolidated profit/loss (in millions of EUR)	Actual situation 2020	Actual situation 2019	Comparison of facts 20/19
Operating economic result	54.6	49.1	5.5
Financial result	-2.1	-3.4	1.3
Total profit/loss	52.5	45.7	6.8

Consolidated revenues

Consolidated revenues (in millions of CZK)	Actual situation 2020	Actual situation 2019	Comparison of facts 20/19
Total operating revenues	15,281.7	14,951.9	329.8
of which: revenues from natural gas sales and distribution*	10,605.4	11,443.4	-838.0
- of which: electricity sales*	4,160.1	3,025.1	1,135.0
Financial revenues	164.0	98.3	65.7
Total revenues	15,445.7	15,050.2	395.5

Consolidated revenues (in millions of EUR)	Actual situation 2020	Actual situation 2019	Comparison of facts 20/19
Total operating revenues	577.9	565.4	12.5
of which: revenues from natural gas sales and distribution*	401.1	432.7	-31.6
- of which: electricity sales*	157.3	114.4	42.9
Financial revenues	6.2	3.7	2.5
Total revenues	584.1	569.1	15.0

* Licensed activity

Consolidated costs

Consolidated costs* (in millions of CZK)	Actual situation 2020	Actual situation 2019	Comparison of facts 20/19
Total operating costs	13,837.6	13,652.7	184.9
- of which: consumed gas costs**	6,412.6	7,389.1	-976.5
- of which: electric power purchase costs**	2,139.1	1,620.9	518.2
Financial costs	220.5	188.6	31.9
Total costs	14,058.1	13,841.3	216.8

Consolidated costs* (in millions of EUR)	Actual situation 2020	Actual situation 2019	Comparison of facts 20/19
Total operating costs	523.3	516.3	7.0
- of which: consumed gas costs**	242.5	279.4	-36.9
- of which: electric power purchase costs**	80.9	61.3	19.6
Financial costs	8.3	7.1	1.2
Total costs	531.6	523.4	8.2

* Excluding income tax on current operations.

**Licensed activities without distribution charge.

Financial Position

The Group covers its financial needs from its own sources and through borrowing from financing banks.

The available funds are centralised within the scope of cash-pooling, which allows for the optimisation and simplification of Group financial management. It mainly makes it possible to reduce the debt to the banks and save interest costs

In 2020, Pražská plynárenská, a.s. repaid bonds with a nominal value of CZK 400 mil. and at the same time increased the framework of short-term operating financing to CZK 3,528.1 mil.

In 2016 PPD, a.s., emitted bonds in the total nominal value of CZK 2,700 million with maturity of 7 years and a coupon with a fixed interest yield of 0.70% p.a.

Short-term sources of external financing as well as long-term sources of external financing in the form of issued bonds are financed by Československá obchodní banka, a.s., and Česká spořitelna, a.s.; a short-term euro overdraft account which is used for trading on the energy exchange is secured by Raiffeisenbank a.s.

Research and Development Activities

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

Corporate Social Responsibility

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

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

The Environment

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

As part of the applied environmental protection policy, all companies belonging to the Group regularly train employees in basic areas, namely in waste and chemical substance management, with which employees come into contact as part of their job duties.

In 2020, PPSD, a.s., which focuses on construction, service, repairs and maintenance of gas equipment, performed its activities in line with the integrated management system requirements. All objectives set in the Integrated Management System Programme (ISŘ) for 2020 were met, the certification body was successfully audited as non-compliance having possible significant impact on the integrated management system was not reported, and the company successfully defended its ISO 14001 certificate.

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

In 2020, state administration bodies issued no sanctions related to activities performed by companies belonging to the Group.

Code of ethics focusing on employees and customers

Employees of all companies belonging to the PP, a.s. Group are aware of their affiliation with the traditional and recognised brand Pražská plynárenská, a.s. Employees respect not only each other but also business partners and customers.

The Code of Conduct was codified by the Company in the internal Code of Ethics which applied to all companies of the PP, a.s. Group.

Individual companies of the PP, a.s. Group are aware of the crucial role of external legal regulations. To comply with the above, individual companies have signed up and joined the group's Compliance programme, which makes sure that traditional external legal regulations are complied with, but it also sets rules for conflicts of interest, harmful conduct of employees and other compliance activities.

Human Resources Management

HR work and the social field

As of 31 December 2020 the Group employed a total of 959 people.

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

Due to the COVID-19 pandemic, PCR tests were available in 2020 to workers active in the critical infrastructure of PP, a.s. Group with the intention to verify the presence of coronavirus.

Interested employees also had the option to participate in the comprehensive programme called "A year full of energy", which consisted of 6 workshops promoting health and physical fitness of employees.

In 2020, a development programme for "talented employees" was prepared and included 20 employees who were selected by the development centre. During the year, these employees completed full-time or online training focusing on communication skills, people handling skills, stress and self-management skills, etc.

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

Collective bargaining

The relevant labour law, wage, and other entitlements of employees of PP, a.s., were fulfilled in compliance with the Collective Agreement valid since 1 January 2019 until 31 January 2021.

In the area of labour law relations, employees were given work leave that was one week longer than the period stipulated under the Labour Code while using the plant catering services. Employees are also offered cafeteria-type benefits (according to the applicable Collective Agreement).

All employees of PP, a.s. Group are regularly trained in compliance issues while other educational activities are taking place as well. All employees of the Group actively contribute to the process of corporate cultivation through the use of the anonymous Ethics line. This environment is also used by whistleblowers.

Occupational health and safety and fire prevention

In 2020, activities in the field of occupational health and safety and fire safety (training and inspections) were limited due to the government-issued COVID-19 measures. However, mandatory inspections and revisions of reserved technical equipment (pressure, lifting, electricity, gas equipment) were carried out in PP, a.s buildings and workplaces.

In line with Act No. 262/2006 Coll., defining occupational safety and fire prevention, the Group underwent 64 OSH and FP audits. 10 occupational injuries were registered. The investigation, solution, adoption of measures against recurrence of injuries and subsequent compensation took place in accordance with the applicable legislative requirements.

Inspections by the state professional supervision authority (Regional Hygiene Station, Regional Labour Inspectorate, Fire and Rescue Service, UNIOS SIBP) did not take place in 2020.

Buildings, roads, premises and workplaces in the Michle and Národní třída facilities are regularly inspected in terms of compliance with fire prevention requirements. In 2020 no fires occurred in the PP, a.s. Group.

Internal Audit, Compilation and Risk Management

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

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

Compliance of the Company's actions with generally applicable rules took place in 2020 in accordance with the internal standard of the Compliance programme. In addition to the traditional regulation which ensures that the company activities comply with legal regulations, the programme contains rules for active compliance (for example employee training), rules of conflict of interest and anti-corruption principles.

The Compliance programme also includes the internal Code of Ethics. All employees of individual companies may actively contribute to the cultivation of the inner corporate culture and use the Ethics line for this purpose. This line is also used by employees if they suspect illegal activity or as a whistleblower's tool.

Individual companies of the PP, a.s. Group are aware of the challenges arising from the threats presented by a globalised IT environment.

The company manages IT / ICT security and related cyber and information security at the central level.

Financial risks

There is a credit risk for the Group as the consequence of business conducted with large customers, small customers and households. These business relations with large-scale customers are evaluated according to fulfilment of the contractual conditions. The primary indicator of riskiness is non-observance of the payment conditions and duration of payment delay.

The renewal of contractual relationships particularly in the case of traders with end customers is assessed according to historical experience and also on the basis of continuous personal meetings with these subjects. Cash collection from customers for natural gas sold is encouraged partly by the system of advance payments and partly by the claims collection process.

The goal of liquidity risk management is to keep a balance between financing operating activities and financial flexibility to meet trade payables and liabilities to creditors of the Group on time. Management of the Group minimises liquidity risk (i.e. the risk of lack of cash to pay liabilities) by continuous and ongoing management and planning of future cash flows. Based on this forecast, the Group ensures that a sufficient level of liquid cash is available to settle its liabilities. The availability of funding and the possibility of closing market positions are important for cautious management of liquidity risk.

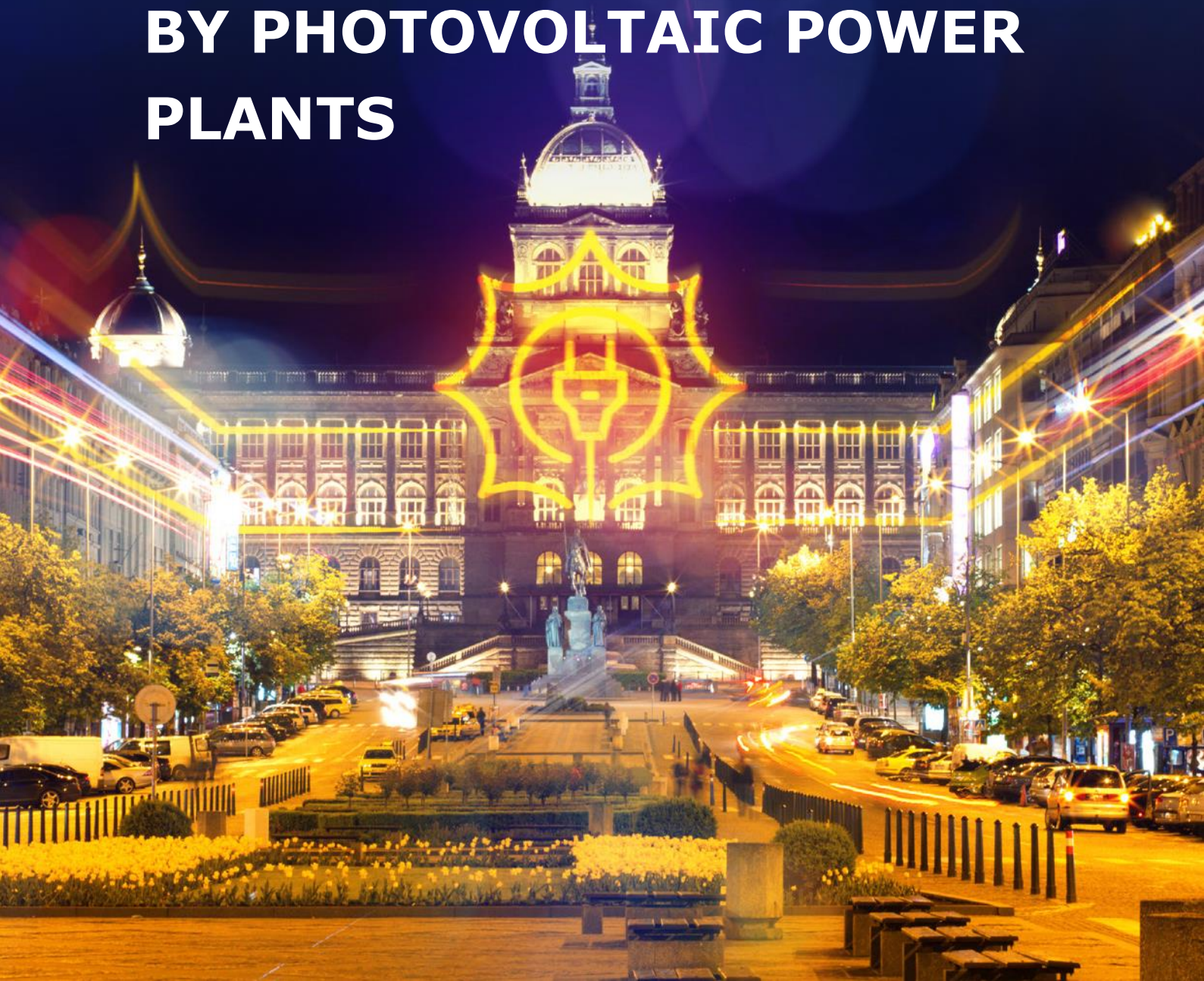
The goal of interest rate risk management is to eliminate risk emerging from interest rate fluctuations of interest-bearing financial liabilities and receivables using an appropriate structure.

Movements and developments in exchange rates represent a risk due to the fact that the Group purchases part of its gas in foreign currencies. The choice of currency for purchases made in forward purchases is fully dependent on the overall commercial conditions offered. The Group always hedges against the exchange rate risk resulting from these purchase contracts up to 100% of the purchased volume in the form of currency forwards at the bank for all transactions that have different purchase and selling currencies. The Group actively manages this risk through monitoring foreign exchange developments, and through the management of commodity purchases in foreign currency it hedges itself against long-term currency risk. Starting on 1 January 2019, the Company decided to apply a securing (hedging) accounting system in order to secure future cash flows from the purchase of commodities mentioned above.

Information about Organisational Units Abroad

As of 31 December 2020, no company belonging to the Group operated an organisational unit abroad.

**WE ILLUMINATED PRAGUE
50 YEARS BEFORE KŘÍŽÍK
AND TODAY WE SUPPLY
THE CITY WITH
ELECTRICITY PRODUCED
BY PHOTOVOLTAIC POWER
PLANTS**



V. Important Events at the Beginning of 2021

Pražská plynárenská, a.s., successfully defended its prestigious Czech Business Superbrands title in 2021.

The Supervisory Board of PP, a.s. at its meeting on 15 January 2021, removed Ing.

Pavel Janeček from his position as a member of the Board and the vacant position, with effect from 15 January, 2021, was taken by the elected member of the Board of Directors of PP, a.s., Ing. Martin Pacovský, MBA. Further, the Supervisory Board of PP, a.s., took note of the resignation of Ing. Milan Jádlovský from his position of the member of the Board of Directors, and at his request approved the date of termination of his position on 30 April 2021.

At the meeting of the Board of Directors of PP, a.s., held on 15 January 2021, Ing. Martin Pacovský, MBA, was elected the Chairman of the Board of PP, a.s. with effect starting on 15 January 2021. Further, with effect from 15 January 2021, the Board of Directors of PP, a.s. approved the competence of the Chairman of the Board of Directors of PP, a.s. in line with the meaning of Section 156, item 2 of the Civil Code, as follows: Ing. Martin Pacovský, MBA, is in charge of the Company's management department.

On 19 January 2021, a joint venture company called Teplo pro Kbely a.s., overseeing the city district of Prague 19 Kbely, was established. The joint venture company was established for the purpose of modernising the existing heat management in the Prague 19 district. As for Prometheus, energetické služby, a.s., the member of the Pražská plynárenská, a.s. Group, this is the first significant cooperation with municipalities. The entire project brings a number of synergy effects for the entire PP, a.s. Group, and Prometheus, energie služby, a.s., a member of the Pražská plynárenská, a.s. Group, will increase its annual heat supply by 15%. Ownership interest of Prometheus, energetické služby, a.s., a member of the Pražská plynárenská, a.s. Group, in Teplo pro Kbely a.s., is 75%.

On 3 February 2021, a new version of the PP, a.s. Customer Portal was launched.

On 11 February 2021, the sole shareholder of the Company acting as the General Assembly accepted the resignation of a member of the Supervisory Board of Pražská plynárenská, a.s., Mgr. Redy Ífrah. Starting on 12 February 2021, the vacant position was taken by Martin Šenkýř.

Until 31 March 2021, all consumption points in the distribution zone of PPD, a.s., are planned to be registered with the OTE market operator.

VI. Expected Group Development

The central issue of the coming year 2021 will be the management of the global COVID-19 pandemic. Thanks to the availability of vaccines and the progress made, it is realistic to expect a gradual improvement of the situation. It is therefore possible to assume a gradual growth of the economy and a revival of economic and social activities.

The energy sector will be affected by the impact of the current economic situation and by the transformation processes initiated inside the sector.

It will be a matter of further direction of the energy sector, fulfilment of international obligations, transition to ecological fuels, use of new technologies, and possibly, definition of new goals. It is necessary to include the continuing transition to the so-called carbon-free energy. This shall be achieved by strengthening global climate goals and by emphasising energy savings.

In relation to end customers, emphasis will be placed on information transparency and openness to customers, strengthening their rights and putting pressure on price competitiveness of supplied energies.

The Company will face the development of commodity prices on energy markets, competition, and legislative requirements. The expected development will bring new opportunities with regards to supply of energies, increased activity in the heating market, and the option to sell related services and provide energy solutions. The aim is to strengthen the position of PP, a.s., on the energy market.

In 2021, we anticipate the submission and subsequent approval of the legal wording of the new Energy Act. Changes in the Energy Act will also be reflected in related legislation, such as in the Act on Supported Energy Sources or the Decree on the Billing of Supplies and Related Services in Energy Sectors. The new Energy Act will significantly strengthen consumer rights and will introduce/adjust the new trends existing in modern energy sectors, such as flexibility, aggregation, energy communities, dynamic tariffs, etc. There will be many changes and it will require allocation of physical capacities and costs needed for the implementation new energy and other related regulations into the relevant IS including all processes within the PP, a.s. Group.

In 2021, Pražská plynárenská, a.s. expects increased customer interest in replacement or installation of new gas boilers. Further, the interest in servicing of already existing gas boilers will grow. This will be due to the expansion of the existing services and thanks to more intensive promotional approach.

There is a growing interest among customers in the use of energy from renewable sources.

Both households and business customers are becoming more interested in the environment, air quality and how they can help reduce their own carbon footprint. Expressing a positive attitude towards the protection of the environment by using energy from renewable sources is one of the ways customers follow more often. The interest in producing one's own electricity through photovoltaic power plants is increasing. This is not only due to the New Green Savings programme, which is becoming increasingly popular as it offers relatively simple conditions. Therefore, PP, a.s., in cooperation with its partners, will continue to offer these services and products, including installation of photovoltaic power plants, purchasing of surpluses of electricity produced from from RES, installation of heat pumps, etc.

The year 2020 showed how important the ability to communicate with customers online is. Therefore, Pražská plynárenská, a.s., will continue with the digitalisation of internal processes in 2021. The objective of PP, a.s., is to simplify and speed up the provision of services to customers while maintaining the highest possible standards of quality and customer comfort. In particular, by maximising the use of the Customer portal as the platform where customers may self-service their own needs, but also as the platform to purchase new products and services.

Pražská plynárenská, a.s. Group will cooperate intensively and continue to support new technologies that enable reduction in emissions in the gas industry, including clean mobility. This shall be achieved by introducing and using new technologies that utilise gases such as biomethane and hydrogen. In cooperation with the capital city of Prague, municipal companies and the academic sphere, PP, a.s. will propose options that optimise the use of gas and biomethane.

In 2021, PP, a.s. Group will continue to cooperate with municipalities in the area of development and modernisation of the existing heat management processes, based on the Teplo pro Kbely project.

As for the management and operation of distribution systems in Prague the main goal of PPD, a.s. remains the same and that is to provide reliable and safe operation of gas facilities. Emphasis will mainly be placed on the planned renewal of gas facilities, their regular maintenance and on operational implementation of necessary repairs.

The upcoming year is the first year of the 5th regulatory period. The final setting of the principles and parameters of price regulation for 2021–2025 gives PPD, a.s., a solid basis for responsible renewal, maintenance and repair of the distribution network.

The long and dynamic changes, which strive to achieve the transformation of the European and Czech energy sector, were negatively affected last year by the COVID-19 pandemic.

Many major changes with regards to Czech legislation were in-process, including the Energy Act and the Act on Supported Sources of Energy. As for the strategic decision-making process performed by energy companies, it is very important that the setting of this legislation is known as soon as possible, at the latest by the end of 2021. The crucial task is to confirm the important role of the gas industry in the process of transformation of energy towards a climate-friendly future, whether in central heat and power generation or in the local heating sector. The use of gases from renewable sources is an integral part of the future role of the gas industry.

The main goal of the European Union's energy policy is and will be the reduction of greenhouse gas emissions while following the goals and parameters set by the Green Deal programme. The role of the gas industry in this aspect and in terms of the transformation of energy towards a low-carbon future is a much-discussed topic. At the end of 2020, the Council of the European Union confirmed in its resolution the role of gas in terms of energy transformation with an outlook to 2050 as well as the right of member states to set their own energy mix.

The primary goal of PPSD, a.s., for 2021 is to offer and provide comprehensive, high-quality, and professional services within the framework PP, a.s. Group, in particular to provide safe and reliable operations of the distribution network for the most significant customer - PPD, a.s. Another and no less important goal is the growth and development of services for customers outside of the PP, a.s. Group, with maximum emphasis on the application of new technologies and professional qualifications of all human resources. This includes yet another goal in the form of more intensive and targeted presentation of the company before customers and the surrounding environment through new communication channels and communication technologies (social networks, etc.).

The main goals of Prometheus energetické služby, a.s., include intensive growth and development in the field of sale of heat energy and cogeneration of electricity and heat. The decisive factor for the fulfilment of this goal is the intensity of the growth of the portfolio of operated resources, the ratio of which mainly depends on the plan of investments and assumed acquisition activity. Great emphasis will be placed on the development of energy consultancy services and the implementation of new technologies – solar power generation, water heating, heat pumps, etc.

During 2021, ISE, a.s. plans to implement the first stage of Workforce management for PPSD, a.s., and PPD, a.s., and the third stage of the customer portal. The company is also preparing for the reconfiguration of the role and authorisation model for SAP systems. Further, the company will work on the improvement of data quality in core systems and will train key users to maintain sustainable quality in the long run. As for technical documentation management, the company is preparing to deploy (DMS) management system to manage and digitise documents.

In 2021, stable development of the financial situation in the Group is expected. The Group has contractually secured short-term sources of external financing, which are provided by Československá obchodní banka, a.s., and Česká spořitelna, a.s.). Long-term sources of external funding include the re-issuance of PPD, a.s., bonds mature in November 2016. It is expected that the drawing of external funds will be minimal due to the current financial position of the PP, a.s. Group.

**ALOIS JIRÁSEK HAS ALREADY
WALKED UNDER OUR STREET
LIGHTS; TODAY, CNG-
POWERED CARS ARE ALL
AROUND.**



VII. Financial Part

- **Individual Financial Statements for the Year Ended 31 December 2020**
compiled according to the International Financial Reporting Standards (IFRS) in the format accepted by the European Union
- **Notes on the Individual Financial Statements for the year ended 31 December 2020**
compiled according to the International Financial Reporting Standards (IFRS) in the format accepted by the European Union
- **Consolidated Financial Statements for the year ended 31 December 2020**
compiled according to the International Financial Reporting Standards (IFRS) in the format accepted by the European Union
- **Notes on the Consolidated Financial Statements for the year ended 31 December 2020**
compiled according to the International Financial Reporting Standards (IFRS) in the format accepted by the European Union

Individual Financial Statements

Statement of financial position as at 31 December 2020

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

(in thousands of CZK)	Note:	31/ 12/ 2020	31/ 12/ 2019
ASSETS			
Fixed assets			
Land, buildings, and equipment	7.1	788,343	758,359
Real estate investments	7.2	160,435	160,382
Intangible assets	7.3	104,493	102,576
Investments in subsidiaries	7.5	1,374,502	1,370,002
Assets originating from the right of use	7.4	28,835	37,646
Deferred tax receivable	7.19	0	12,521
Incremental costs of obtaining a contract	7.10	29,856	32,712
Contract assets	7.11	54,559	40,253
Other fixed assets		41	31
Fixed assets – total		2,541,064	2,514,482
Short-term assets			
Inventories	7.6	627,154	841,076
Trade and other receivables	7.7	2,209,463	2,283,972
Cash and cash equivalents	7.8	1,502,161	1,498,945
Other assets	7.9	21,616	43,983
Incremental costs of obtaining a contract	7.10	28,804	11,471
Contract assets	7.11	19,369	48,362
Paid income tax advance		0	2,031
Short-term assets – assets		4,408,567	4,729,840
TOTAL ASSETS		6,949,631	7,244,322
EQUITY AND LIABILITIES			
Equity			
Registered capital	7.12	431,972	431,972
Revaluation of securing derivatives	7.14	-24,591	-111,506
Retained earnings		1,678,561	1,565,583
Profit/loss after tax for the period		908,484	720,978
Equity – total		2,994,426	2,607,027
Long-term liabilities			
Trade liabilities and other long-term liabilities		188	322
Lease liabilities	7.4	26,919	33,080
Deferred tax liability	7.19	46,594	0
Provisions	7.21	15,000	127,469
Long-term liabilities – total		88,701	160,871
Short-term liabilities			
Trade payables and advances received	7.15	2,726,981	2,932,104
Bonds	7.17	0	401,477
Lease liabilities	7.4	4,407	4,893
Other liabilities	7.18	927,279	1,035,201
Due income tax		19,502	0
Other tax liabilities	7.20	86,367	102,749
Provisions	7.21	101,968	0
Short-term liabilities – total		3,866,504	4,476,424
TOTAL EQUITY AND LIABILITIES		6,949,631	7,244,322

Statement of comprehensive income for the year ended 31 December 2020

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

(in thousands of CZK)	Note:	2020	2019
Revenues from sales	7.22	14,573,389	14,319,420
Purchased gas, electricity, materials, and services connected with gas and electricity supplies	7.23	12,970,697	12,814,535
Other operating income	7.24	385,633	371,286
Personnel costs	7.25	328,063	330,842
Depreciation of fixed assets	7.26	94,900	83,999
Loss due to depreciation of financial assets	7.7	31,129	8,824
Other operating costs	7.27	457,268	549,128
Operating profit/loss		1,076,965	903,378
Financial costs	7.28	193,646	168,877
Financial revenues	7.29	165,694	98,355
Financial profit/loss		-27,952	-70,522
Profit before tax		1,049,013	832,856
Income tax	7.30	140,529	111,878
Profit after tax		908,484	720,978
Other total performance			
Items that may be reclassified and reported as profit or loss:			
Settlement of securing derivatives (change in fair value)	7.14	-30,359	-137,662
Deferred tax on securing derivatives	7.14	5,768	26,156
Other total performance		-24,591	-111,506
Total performance for the period		883,893	609,472

Statement of changes in equity for the year ended 31 December 2020

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

(in thousands of CZK)	Registered capital	Revaluati on of securing derivatives	Retained earnings	Total
Note	7.12	7.14		
Balance as of 1 January 2019	431,972	0	2,079,583	2,511,555
Profit/loss after tax for the period	0	0	720,978	720,978
Other comprehensive income	0	-111,506	0	-111,506
Total comprehensive income	0	-111,506	720,978	609,472
Transactions with owners of the Company:				
Dividends paid	0	0	-514,000	-514,000
Balance as of 31 December 2019	431,972	-111,506	2,286,561	2,607,027
Profit/loss after tax for the period	0	0	908,484	908,484
Other comprehensive income	0	-24,591	0	-24,591
Total comprehensive income	0	-24,591	908,484	883,893
Transactions with owners of the Company:				
Dividends paid	0	0	-608,000	-608,000
Other transactions		111,506		111,506
Balance as of 31 December 2020	431,972	-24,591	2,587,045	2,994,426

Cash flow statement for the year ended 31 December 2020

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

(in thousands of CZK)	Note:	2020	2019
Profit before tax		1,049,013	832,856
Adjustments to profit before tax		-40,602	-383,342
Depreciation of fixed assets	7.26	94,900	83,999
Write-offs of receivables		17,668	17,913
Change in the position of adjustments and reserves		2,031	-127,212
Profit from sales of fixed assets	7.24	-323	-2,569
Adjustments for other non-monetary operations (revaluation of currency contracts, supplementary VAT)		195,628	-11,899
Net interest		-4,178	-6,791
Revenues from dividends and profit shares	7.24	-346,328	-336,783
Net cash flows from operations before tax and changes in working capital		1,008,411	449,514
Change in working capital needs		-59,312	-68,459
Changes in the position of receivables from operations		-123,125	-247,956
Change in liabilities from operations		-150,109	128,723
Movement in inventories (gross)		213,922	50,774
Net cash flow from operations before tax		949,099	381,055
Interest paid		-7,589	-16,210
Interest received		10,698	23,603
Income tax on current activities and additional tax paid minus tax refunds		-80,269	-2,174
Net cash flow from operations		871,939	386,274
Expenses related to the acquisition of fixed tangible and intangible fixed assets		-124,592	-132,733
Expenses related to the acquisition of long-term financial assets	7.5	-4,500	-34,000
Revenues from sales of fixed assets		471	3,545
Shares of profit received (+)	7.24	346,328	336,783
Credit and loans to associates		-10	89
Net cash flow from investments		217,697	173,684
Revenue from long-term liabilities		0	33,080
Payment of long-term liabilities		-6,294	-309
Redemption of issued bonds	5.2	- 400,000	0
Change in the loan from the parent and subsidiary companies (cashpooling)*	7.18	-72,126	-56,636
Paid profit shares, including withholding tax paid	7.31	-608,000	-514,000
Net cash flows from financing activities		-1,086,420	-537,865
Balance of cash and cash equivalents at beginning of accounting period		1,498,945	1,476,852
Net change in cash and cash equivalents for the accounting period		3,216	22,093
Balance of cash and cash equivalents at end of accounting period		1,502,161	1,498,945

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

Notes on the Financial Statements

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

Pražská plynárenská, a.s., (hereinafter the "Company" or "PP,a.s.") was incorporated on 31 December 1993 and has its registered office at Prague 1 – Nové Město, Národní 37, Post Code 110 00, Czech Republic. The Company's ID number is 601 93 492. LEI of the Company is 315700QBYOTLGRMOO11.

The Company's main subject of business is gas and electricity trading.

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

1.1. Major shareholders of the Company

The sole shareholder controlling the Company as of 31 December 2020 and as of 31 December 2019, is Pražská plynárenská Holding a.s. ("PPH a.s." or the "controlling company"), is controlled by the Capital City of Prague, which is the ultimate parent company.

1.2. Assessment of the impact of COVID-19 pandemic

At the beginning of 2020, the existence of the new coronavirus causing COVID-19 spread on global level, was confirmed. Although pandemics and, in particular, restrictive measures taken by the government with the intention to reduce health impacts, disrupted the economic activities of many businesses, the Company's business in the year ended 31 December 2020 was mainly affected by measures introduced internally with the aim of reducing the risk of spreading the disease.

However, the Company was not significantly affected by the general measures, nor was there any reduction in activities.

2. Rules for compilation of the financial statements

Declaration of compliance

These financial statements (hereinafter also referred to as "Financial statements") have been prepared in accordance with International Financial Reporting Standards (IFRS) in the wording adopted by the European Union (EU).

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

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

In the compilation of the financial statements, the Company used the standards and interpretations that should mandatorily be applied to the period beginning on 1 January 2020.

Notes to the Consolidated Financial Statements

In addition to these separate financial statements, the Company also prepares and publishes consolidated financial statements of the parent company - Pražská plynárenská, a.s., and its subsidiaries in accordance with IFRS as at 31 December. A subsidiary is an enterprise controlled by the parent company in a business combination.

Valuation method

The financial statements were prepared on the basis of historical prices defined in chapters 4.7.2., 4.10.1., 4.12. and 4.13. In valuing the Company's assets and liabilities while maintaining the Company's going concern, the management has considered the effects of the pandemic of the new coronavirus causing COVID-19 and regarded this impact as insignificant.

Reporting and functional currency

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

Accounting period

The accounting period for compilation of these financial statements is the period from 1 January 2020 to 31 December 2020. The Company's current accounting period is a calendar year ending 31 December.

Comparative period

For the purpose of demonstrating the financial position, the comparative period chosen was the balance as of 31 December 2019; and to demonstrate profit/loss, changes in equity capital, and overview of cash flows, results from the period starting on 1 January 2019 and ending on 31 December 2018 were used.

Use of estimates and value judgements

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

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

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

- Chapter 4.19.1. - Unbilled natural gas supplies
- Chapter 4.19.2. Unbilled electric power supplies

3. Adoption of new or revised accounting standards and interpretations

Standards and interpretations in effect during the current period

In the current period, the following amendments to the existing standards issued by the International Accounting Standards Board (IASB) and adopted by the European Union are effective:

Effective as of 1 January 2020

- Amendments to IFRS 3 - Definition of an enterprise
- Amendments to IFRS 9, IAS 39 and IFRS 7 - Reform of reference interest rates - phase 1
- Amendments to IAS 1 and IAS 8 - Definitions of the term "significant"
- Revised conceptual framework for financial reporting

Effective as of 1 June 2020

- Amendments to IFRS 16 - Rent reliefs related to the COVID-19 pandemic

Newly issued standards, amendments to standards and their interpretations approved by the EU do not have a significant impact on the Company's financial statements.

New standards, interpretations and amendments to the existing standards issued by IASB but not yet adopted by the European Union:

Newly issued standards, amendments to standards and their interpretations approved by the EU, which are not yet effective and have not been applied by the Company, do not have a significant impact on the Company's financial statements.

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

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

4.1. Intangible assets

4.1.1. Valuation of intangible assets

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

4.1.2. Amortisation

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

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

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

4.2. Land, buildings, and equipment

4.2.1. Recognition and valuation

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

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

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

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

Subsequent expenditures are included in the net book value the given asset or are recognised as separate assets, if it is likely that the Company will get financial benefit gain in respect to this item, and if the price of the item can be measured reliably.

4.2.2. Depreciation

Plant and equipment are depreciated applying the straight-line method over their estimated useful lives.

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

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

Land owned by the Company is not depreciated. The effect of any change in the estimated useful life or depreciation method is applied prospectively.

4.2.3. Retirement

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

4.2.4. Impairment

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

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

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

4.3. Real estate investments

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

Depreciation charges for the accounting period are recognised in the statement of comprehensive income for this period.

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

Real estate investments are depreciated using the straight-line method based on their estimated useful lives.

Real estate investments are leased to tenants with lease fees which are payable monthly or quarterly. Lease payments in certain contracts include the option to increase the fee by inflation, but there are no other variable lease payments that depend on the index or rate.

4.4. Assets originating from the right of use and lease liabilities

4.4.1. Assets originating from the right of use

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

The Company applies an exemption from recognition for leases that define a lease for 12 months or less as of the effective date of the lease and do not include the option to purchase the underlying asset as well as lease contracts where the underlying asset has a low value. Lease payments for these assets are reported as Other operating expenses.

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

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

4.4.2. Lease liabilities

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

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

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

Lease payments are discounted using the implicit interest rate.

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

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

4.5. Investments into subsidiaries

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

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

4.6. Inventories

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

The price of natural gas compressed into underground gas storage is determined on the basis of supplier invoices received for the given month.

4.7. Financial assets

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

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

4.7.1. Financial liabilities at incurred cost

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

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

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

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

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

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

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

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

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

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

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

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

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

The Company considers potential failure as a situation in which it will not be able to collect all the outstanding amounts according to the initially negotiated conditions. The Company considers as serious indicators of failure significant financial difficulties of debtors and the probability that the debtor will enter bankruptcy proceeding or financial restructuring.

Application of the simplified approach using the impairment matrix

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

When determining the size of the adjusting entries by simplified procedure, the Company takes the following steps.

- 1) The Company first divides its individual trade receivables into groups with characteristics similar to credit risk.
- 2) In the second step, the Company sets a ratio of historical loss for each group with a similar credit risk. Due to the current pandemic for the year ending 2020, the Company expected the most current loss rate (i.e.% of outstanding receivables due in 2020).
- 3) At the next step, the Company determines the expected losses for each group of receivables, which is further divided into partial categories according to the number of days that they are overdue.
- 4) Subsequently, the Company will enumerate the adjusting entries on the basis of the current gross volume of trade receivables multiplied by the ratio of the expected losses.
- 5) Due to the COVID-19 pandemic, the Company also took into account a risk surcharge, which is based on an estimate of the future development of outstanding receivables, where the Company took into account (in addition to other issues), the amount of outstanding advance payments in individual group of receivables.

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

The impairment loss is reported in the profit or loss. Unrecoverable trade receivables are depreciated contra the adjustment entries.

The Company depreciates receivables after taking all legal steps associated with the collection efforts. Subsequently, the paid amounts for receivables already written off are reported in the profit or loss.

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

4.7.2. Financial assets at fair value reported in profit or loss

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

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

The Company determines whether hedging is effective at the beginning of the hedging instrument application by using the critical parameters method and at least at the financial statements date and at a balance sheet date using the dollar-offset method, which compares cumulative changes in the fair value of the hedging instrument and cumulative changes in the fair value of a hypothetical derivative representing the hedged item.

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

The potential sources of inefficiencies of security are:

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

4.8. Cash and cash equivalents

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

4.9. Equity

4.9.1. Registered capital

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

4.10. Financial liabilities

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

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

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

4.10.1. Financial liabilities posted at fair value to the profit or loss

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

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

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

4.9.2. Profit funds

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

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

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

4.10.2. Other financial liabilities

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

4.10.3. Trade payables

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

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

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

4.11. Unbilled supplies and advances received

The Company compensates the value of unbilled supplies and advances received. The resulting value, per individual customer, nears the actual receivable form and the actual liability with regards to customers.

Receivables payable by customers are classified as financial assets, which will be settled in cash. Liabilities towards customers are non-financial liabilities (advances received), which will be settled by supplying gas, electricity, or other non-cash supply.

4.12. Bank loans

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

4.12.1. Lending costs

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

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

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

4.13. Bonds

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

Transaction expenditure (e.g. legal services and other financial costs related to the acquisition of bonds) are accrued over their entire duration, and thus become part of the accrued value of the bonds.

4.14. Provisions

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

Provisions not drawn in the following year are recognised as at the balance sheet date at their discounted value in case the impact of the discount as at the balance sheet date is significant.

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.

Market interest rates are used for discounting.

4.15. Revenues from contracts with customers

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

Some one-off discounts and bonuses do not fulfil the definition of an independent liability to be fulfilled, but represent pre-payment for future services. These one-off discounts and bonuses lead to the reporting of contractual assets, which are subsequently amortised for the residual contract term. If discounts and bonuses for the service are provided during the contract term in a non-uniform way, and the monthly service is provided to the customer uniformly, the total revenues from the services are reported on a uniform basis.

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 an accrual basis.

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

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

It is typical in the domestic market to conclude combined services agreements with customers where the total price is billed to the customer, both for the commodity and the distribution services, which the trader has purchased at the given distribution company. Distribution service price is a part of the price for combined services provided to customers. The Company concluded that in case of distribution services the Company acts as a responsible entity (and not as a representative) and reports revenues from services in full, including the part representing distribution services.

4.15.1. Incremental costs of obtaining a contract

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

4.15.2. Revenues from sales and distribution of natural gas

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

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

The price for other supply services for households and low volume customers is usually fixed for the period based on the Company's business decision.

The price for middle-volume customers and high-volume customers is fixed for a period of a month or longer, or they may use any of the offered products.

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

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

Revenues from MO and DOM categories consist of the actually billed revenues and revenues from so called "unbilled gas" (see Chapter 4.19.1). The amount of unbilled gas is calculated from the total amount of purchased gas in the particular year based on past behaviour of individual customers and is valued in relation to the valid price list of the Company, or to individually set prices and products.

4.15.3. Revenues from sales of electricity

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

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

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

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

Revenues from MOO and MOP categories consist of the actually billed revenues and revenues from the so called "unbilled electricity" (see Chapter 4.19. 2). The amount of unbilled electricity is calculated from the total amount of purchased electricity in the particular year based on past behaviour of individual customers and is valued in relation to the valid price list of the Company, or to individually set prices and products.

4.16. Foreign currency conversions

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

4.17. Employee Benefits

4.17.1. Contributions to the state pension scheme

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

4.17.2. Additional pension and life insurance

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

4.18. Taxes

Income tax comprises current and deferred tax.

4.18.1. Current tax

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

4.15.4. Revenues from sales of goods

These revenues are reported on the date of the release of the goods from the warehouse and are reported minus discounts and VAT. Prices and payment terms are based on individual contracts.

4.15.5. Revenues from miscellaneous services

Sales are reported on the date of the release of the goods from the warehouse and are reported minus discounts and VAT. Prices and payment terms are based on individual contracts.

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

4.17.3. Other benefits

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

4.17.4. Termination benefits

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

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

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

4.18.2. Deferred tax

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

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

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

4.19.1. Unbilled gas supplies

The Company Management considers the determination of unbilled gas supplies and the distribution fees to low-volume customers and households ('MODOM') to be the most significant areas subject to the use of estimates. As of 31 December 2020 the value of unbilled gas and distribution fee to low-volume customers and households represented CZK 2,800,740 thousand (as of 31 December 2019 the amount was CZK 2,762,483 thousand).

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

Unbilled gas supplies to large-volume (VO) and to medium-volume consumers (SO) are also reported in the accounting estimates. These estimates do not carry any risk because they are created on the basis of actual gas meter readings.

Sensitivity analysis:

The percentage ratio of losses to the distributed amount used for calculation of the unbilled gas in 2020 is 2.11%. The median ratio of the balance difference to the distributed amount for the last 6 years is equal to 2.32%.

The deferred tax and liability are determined using the tax rate expected to be valid in the period in which the tax asset is realised or the tax liability is settled, according to tax law valid 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 the current tax asset and the current tax liability and when the deferred tax asset and liability relates to income tax collected by the same tax authority.

If the ratio of losses to the total amount of gas distributed in 2020 was equal to the long-term average, therefore it was less (greater) by 0.20 percentage points (while all other variables would remain unchanged) and pre-tax profit as of 31 December 2020 would be CZK 8.3 million CZK higher (lower) due to higher (lower) revenues in the unbilled gas supplies.

4.19.2. Unbilled electric power supplies

Similarly as natural gas, the Company management considers the determination of the amount of unbilled electricity and the distribution fee for the categories of low-volume (MOP) and households (MOO) to be an important area of application of estimates. As of 31 December 2020 the value of unbilled energy and distribution fee to low-volume customers and households represented CZK 705,139 thousand (as of 31 December 2019 the amount was CZK 528,621 thousand).

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

Sensitivity analysis:

The sensitivity analysis of the unbilled electricity segment shows a change in the amount of this item providing that the nomination deviation related to the acquisition of the commodity is included in the input balance. Usually, the amount of this deviation is in the range of 3-5% of the number of technical units sold. In case of the Company, the amount of the purchase deviation for 2020 would be around the category of MOO and MOP in the amount of around 19,300 MWh. The fixed price for the valuation of the deviation is set at CZK 1,600 per MWh, which in the case of the Company would impact the generation of unbilled electricity in the total amount of \pm CZK 30.8 million.

5. Financial Risk Management

5.1. Credit Risk

The selection of counterparties for transactions with the financial resources of the Company is limited to very creditworthy institutions and is regulated according to the procedures and directives stipulated in the investment strategy approved by the Company's General Assembly. The Company performs only financial transactions whose originator or underwriter has a high rating in terms of credit investments issued by competent and independent global rating agencies and for whom it is also possible to continuously monitor the credit quality indicators through the financial market. Cooperating banks enjoy long-term ratings - A1, issued by Moody's.

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

Credit risk in the case of trading and other receivables, as well as other financial assets, is also limited thanks to risk management tools and the debt collection process. The concentration of credit risks is perceived by the Company in connection with the subsidiary company Pražská plynárenská Distribuce, a.s., which is a member of the Pražská plynárenská, a.s., Group. This is because principles and operating advances linked with the purchase of distribution services were provided.

Trade and other receivables

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

Impairment losses are reported in such a manner as to cover both individually significant exposure to credit risk and portfolio loss in the case of assets for which impairment is not assessed individually.

Objective proof of receivables portfolio impairment includes the past experience of the Company with collection of payments, changes in the internal and external assessments of customers, the Company's current position, and insights into the economy during the expected service life of the receivables.

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

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

The Company creates an adjusting entry that represents the estimate of the expected credit loss to the trade receivables, unbilled gas deliveries to other receivables, and contractual assets. Due to the COVID-19 pandemic, the Company also took into account a risk surcharge, which is based on an estimate of the future development of outstanding receivables.

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

Type of receivable (in thousands of CZK)	31 December 2020	31 December 2019
Trade receivables from third parties	545,835	626,549
Trade receivables from subsidiaries	333,211	333,016
Trade receivables from other affiliates	31	462
Financial trade receivables	879,077	960,027
Allowances for trade receivables (Adjustments to trade receivables)	-217,656	-208,456
Net trade receivables – financial	661,421	751,571
Unbilled supplies (minus advance payments)	1,463,523	1,481,061
Adjusting entries for unbilled deliveries	-14,679	-11,149
Total trade and other receivables – financial	2,110,265	2,221,483
Total trade and other receivables – non-financial	99,198	62,489
Total trade and other receivables – short-term	2,209,463	2,283,972

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

31 December 2020:

Adjusting entries for receivables (in thousands of CZK)	Expected interest risk impairment			
	Level 1	Level 2	Level 3	Total
Cat. MO	21,050	696	57,981	79,727
Cat. DOM	18,626	932	77,035	96,593
Cat. VO	7,636	17	23,985	31,638
Cat. Other	6,309	553	17,515	24,377
Total	53,621	2,198	176,516	232,335

31 December 2019:

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

Cash and cash equivalents and other financial assets

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

The Company performs only financial transactions whose originator or underwriter has a high rating in terms of credit investments issued by competent and independent global rating agencies and for whom it is also possible to continuously monitor the credit quality indicators through the financial market.

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

Long-term rating by Moody's (in thousands of CZK)	Bank rating	31 December 2020	31 December 2019
Cash on hand	not assigned	1,793	1,513
Money in bank accounts	A1	1,237,918	797,432
Short - term investments - bills of exchange ČSOB Leasing (as of 31/ 12/ 2020 amounted to EUR 10 million)	A1	262,450	700,000
Total exposure of cash, cash equivalents, and other financial assets		1,502,161	1,498,945

5.2. Liquidity risk

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

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

The Company Management minimises liquidity risk (i.e. the risk of a lack of cash to pay liabilities) by continuous, ongoing management and planning of its future cash flows.

The main tool for planning of cash flows is the preparation of a midterm plan, which is prepared annually for a 3-year period. The cash flow plan for the following year is subsequently divided into individual days and kept up to date. Based on this detailed forecast, the Company ensures that a sufficient level of liquid cash is available to settle its liabilities. The availability of funding and the possibility of closing market positions are important for cautious management of liquidity risk.

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

The Company's current short-term external funding structure was established in May 2019 in connection with refinancing of external sources and is contractually secured until May 2023. In July 2020, there were changes in the volumes of credit frames in connection with the repayment of PP, a.s. bonds. Short term financing also includes overdraft credit lines in CZK and EUR, an exchange programme for drawing the necessary resources in the form bills of exchange through auctions and a line for negotiation of bank guarantees. These external financial resources are provided by a consortium of two banks, i.e. Československá obchodní banka, a.s., and Česká spořitelna, a.s.

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

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

The company has agreed on a short-term overdraft credit line in EUR maintained at Raiffeisenbank a.s. This line is to be used for trading on the energy exchange.

Short-term funding structure as at 31 December 2020:

(in thousands of CZK)	Limit	from	to	Interest rate
Overdraft credit lines in CZK	900,000	1/ 7/ 2020	21/ 5/ 2023	floating
Guarantee line	900,000	1/ 7/ 2020	21/ 5/ 2023	fixed
Exchange programme	1,400,000	22/ 5/ 2019	22/ 5/ 2023	floating
Overdraft credit lines in EUR (12 mil.	314,940	1/ 7/ 2020	21/ 5/ 2023	floating
Overdraft credit lines in EUR (0.5 mil.	13,123	25/ 5/ 2020	31/ 5/ 2021	floating
Total	3,528,063			

In 2020, no overdraft lines were drawn. As of 31 December 2018, only funds from subsidiaries and the parent company PPH a.s. were drawn in the amount of CZK 772,759 thousand, which represent liabilities from cash-pooling. Average credit interest rate between the Company, subsidiaries and the parent company in 2020 was 0.46% p.a., the average debit interest rate between the Company, subsidiaries and the parent company in 2020 was 0.69% p.a.

On 15 June 2020, PP, a.s., bonds 0.90 / 2020, ISIN CZ0003516809 were repaid in full. Following the repayment of bonds, there were changes in the volume of short-term credit lines. The limits for the overdraft line in CZK and the guarantee line were increased, and the limit of the overdraft line in EUR was reduced.

Short-term funding structure as at 31 December 2019:

(in thousands of CZK)	Limit	from	to	Interest rate
Overdraft credit lines in CZK	600,000	21/ 5/ 2019	21/ 5/ 2023	floating
Guarantee line	700,000	21/ 5/ 2019	21/ 5/ 2023	fixed
Exchange programme	1,400,000	22/ 5/ 2019	22/ 5/ 2023	floating
Overdraft credit lines in EUR	508,200	21/ 5/ 2019	21/ 5/ 2023	floating
PPAS Bond 0.90/2020 ISIN CZ0003516809	400,000	15/ 6/ 2017	15/ 6/ 2020	fixed
Total	3,608,200			

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

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

On 15 June 2017, the Company has emitted 80 bonds in total nominal value of CZK 400 million with a maturity of 3 years and a coupon with a fixed interest yield of 0.90% p.a. The bonds were accepted for trading on the regulated stock market (Prague Stock Exchange – Burza cenných papírů Praha, a.s.). The issue rate of these bonds was 99.548% and the emission yield was CZK 398,192 thousand. CZK. The issued bonds were purchased by Česká spořitelna, a.s., and Československá obchodní banka, a.s. No pre-emptive right of purchase or right of exchange attach to the bonds. The bonds may be freely negotiable and their transferability is unlimited. The issuer may redeem the bonds at any time on the market or otherwise at any price.

Bonds:

Bond title	Nominal value of the issue (in thousands of CZK)	Issue rate (%)	Date of maturity	Coupon rate p.a. (%)	Coupon maturity	Book value as of 31/12/2020 (in thousands of CZK)	Book value as of 31/12/2019 (in thousands of CZK)
PPAS Bond 0.90/2020 ISIN CZ0003516809	400,000	99.548	15/ 06/ 2020	0.90	annua l	0	401,477

The book value of the bonds has the following structure:

(in thousands of CZK)	Book value as of 31/12/2020	Book value as of 31/12/2019
PPAS Bond 0.90/2020 ISIN CZ0003516809	0	401,477

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

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

An integral part of Company funding is the utilisation of financial resources of the PP, a.s. Group, and the PPH a.s., companies aggregated in cash pooling. Using these free resources means that short-term loans from the banks are not drawn.

In connection with the conditions under the loan agreements and bond issuance conditions concluded in 2017 and 2020, financial indicators are monitored at the consolidated PP, a.s. Group data level.

In the event of their non-fulfilment, the banks may request premature loan repayment and bond redemption. These indicators were fulfilled as of 31 December 2020 and as of 31 December 2019.

Impact of the cost interest related to the bonds on the profit or loss in 2020 is: CZK 1,915 thousand (2019: CZK 4,203 thousand).

The liquidity position is supported by the system of advance payments, whereas the high-volume and middle-volume categories pay advances several times during the month, the low-category and households pay advances monthly or quarterly.

A part of the bonds issuing process on the regulated stock market was the issuance of the Bond prospectus. The prospectus was approved by the Czech National Bank on 9 July 2017.

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

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

The setting of the advances takes into account the past consumption for all categories (an algorithm based on three-year historical consumption is used), as well as the seasonal character of the gas consumption, and the gas price

The following tables show liabilities grouped by residual period to contractual maturity as at 31 December 2020 and as at 31 December 2019. The amount of the liabilities shown in the tables is equivalent to the non-discounted cash flows, including interest - where relevant. The interest is based on the loan amount as at 31 December 2020 and on the interest rates valid on the financial market as of 31 December 2020.

31 December 2020:

(in thousands of CZK)	0-3 months	3-6 months	6-12 months	1-3 years	3-5 years	Total
Derivatives (currency forwards and commodity futures)	2,328,818	889,674	287,117	34,371	0	3,539,980
Trade and other liabilities	2,730,411	27	88	59	0	2,730,585
Loans from the subsidiaries and the parent company PPH a.s. - cash pooling	772,761	0	0	0	0	772,761
Total	5,831,990	889,701	287,205	34,430	0	7,043,326

31 December 2019:

(in thousands of CZK)	0-3 months	3-6 months	6-12 months	1-3 years	3-5 years	Total
Derivatives (currency forwards and commodity futures)	5,151,723	428,024	451,365	174,076	0	6,205,187
Bonds	0	403,600	0	0	0	403,600
Trade and other liabilities	2,556,706	27	54	272	0	2,557,059
Loans from the subsidiaries and the parent company PPH a.s. - cash pooling	844,917	0	0	0	0	844,917
Total	8,553,346	831,651	451,419	174,348	0	10,010,763

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

Guarantees concluded

The Company has secured its financial liabilities with Československá obchodní banka, a.s., as of 31 December 2020:

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

The Company has secured its financial liabilities with Československá obchodní banka, a.s., as of 31 December 2019:

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

These closed grantees are not included in the balance sheet.

5.3. Market risk

5.3.1. Interest rate risk

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

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

The Company Management monitors interest rate risk on the basis of regular reporting, which includes information about the current interbank interest rates (mainly PRIBOR) and assessment of actual interest expenses. The Company Management is provided with short-term forecasts of these interest rates. In 2020 and 2019, the Company did not draw short-term bank loans, but used funds from subsidiaries and PPH a.s. under the cash-pooling scheme.

Sensitivity analysis:

If the interest rate had increased/decreased by 100 basic points while all other variables held constant as of 1 January 2020, the profit before tax as of 31 December 2020 would have been CZK 8,397 thousand lower/higher as a result of the increased/decreased interest expense (for 2019: CZK 8,379 thousand).

5.3.2. Exchange rate risk

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

Movements in exchange rates represent a risk due to the fact that the Company purchases virtually all its natural gas and electricity with foreign currencies. The choice of currency for purchases made in forward purchases is fully dependent on the overall commercial conditions offered.

In the case of these purchase contracts, hedging against the exchange rate risk resulting from these purchase contracts is exercised up to 100% of the purchased volume in the form of currency forwards at the bank. All spot purchase transactions are made in EUR, while a certain portion of these purchases are sold in EUR, or the purchase is made to the portfolio of customers at the listed price using the exchange rate in force on the purchase date. The Company actively manages currency risk through quarterly closing of open foreign currency positions, by setting a stop-loss limit and by managing the purchase of natural gas and electricity in foreign currency, thus maintaining full hedging of long-term currency risk.

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

Sensitivity analysis:

If the CZK/EUR exchange rate as of 31 December 2020 had weakened (increased) / strengthened (dropped) by 0.5 CZK/EUR with all other variables held constant as of 31 December 2020, the profit before tax as of 31 December 2020 as a result of revaluation of forward purchases realised as of 31 December 2020, would have been CZK 146 thousand higher/lower (as of 31 December 2019: CZK 8,397 thousand).

If the CZK/EUR exchange rate as of 31 December 2020 had weakened (increased) / strengthened (dropped) by 0.5 CZK/EUR while all other variables held constant, the profit before tax as at 31 December 2020 as a result of revaluation of liabilities in EUR would have been CZK 1,760 thousand lower/higher (as of 31 December 2019: CZK 1,456 thousand).

If the CZK/EUR exchange rate had weakened (increased) / strengthened (dropped) by 0.5 CZK/EUR, while all other variables held constant as of 31 December 2020, the profit before tax as of 31 December 2020 as a result of revaluation of liabilities in EUR would have been CZK 1,641 thousand higher/lower (as of 31 December 2019: CZK 1,713 thousand).

(in thousands of CZK)	2020	2019	2020	2019
	increase of 0.5 CZK/EUR		decrease of 0.5 CZK/EUR	
Forward purchases in EUR	146	8,397	-146	-8,397
Liabilities in EUR	-1,760	-1,456	1,760	1,456
Receivables in EUR	1,641	1,713	-1,641	-1,713
Impact on profit before tax	27	8,654	-27	-8,654

If the CZK/EUR exchange rate as of 31 December 2020 had weakened (increased) / strengthened (dropped) by 0.5 CZK/EUR with all other variables held constant as of 31 December 2020, the other total profit as of 31 December 2020 as a result of revaluation of secured forward purchases realised as of 31 December 2020 would have been CZK 65,417 thousand higher/lower (as of 31 December 2019: CZK 110,119 thousand).

(in thousands of CZK)	2020	2019	2020	2019
	increase of 0.5 CZK/EUR		decrease of 0.5 CZK/EUR	
Secured forward purchases in EUR	65,417	110,119	-65,417	-110,119
Impact of total profit / loss result	65,417	110,119	-65,417	-110,119

5.3.3. Derivative financial tools

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

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

Secured cash flows:

31 December 2020:

(in thousands of CZK)	0-3 months	3-6 months	6-12 months	1-3 years	3-5 years	Total
Cash flow hedging future liabilities	2,313,870	882,099	272,156	0	0	3,468,125

31 December 2019:

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

Derivatives securing cash flows:

31 December 2020:

(in thousands of CZK)	Nominal value	Fair value Positive	Fair value Negative	Secured period	Average secured rate
Currency forwards	3,468,125	0	30,272	0-1 year	26,508

31 December 2019:

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

5.4. Fair value estimate

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

The fair value of a currency derivative relative to the nominal value of a trade results from the difference between the agreed forward rate and the expected rate at the maturity of the trade. This currency difference is discounted to the date on which the fair value is determined. The resulting valuation of the net present value is sent by the bank with which the derivative transaction was agreed.

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

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

5.5. Offsetting financial receivables and financial liabilities

31 December 2020:

(in thousands of CZK)	Gross amount in the statement of financial position	Gross amount of the offsetting in the statement of financial position	Net amount after compensation in the statement of financial position	The amount which is subject of the framework netting agreement and similar arrangements in the statement of financial position	Total net exposure
Trade and other receivables	2,209,463	0	2,209,463	37,155	2,172,308
Trade and other financial liabilities	1,239,324	0	1,239,324	37,155	1,202,169

31 December 2019:

(in thousands of CZK)	Gross amount in the statement of financial position	Gross amount of the offsetting in the statement of financial position	Net amount after compensation in the statement of financial position	The amount which is subject of the framework netting agreement and similar arrangements in the statement of financial position	Total net exposure
Trade and other receivables	2,222,935	0	2,222,935	76,927	2,146,008
Trade and other financial liabilities	1,288,587	0	1,288,587	76,927	1,211,660

5.6. Net profit and losses from financial instruments

(in thousands of CZK)	2020	2019
Trade receivables (particularly depreciation of receivables and creation of provisions)	-25,154	-11,381
Cash and cash equivalents (especially profits from the appreciation of funds)	39,468	7,591
Other financial assets	0	2,870
Bonds (particularly cost interest)	-2,074	-4,580
Financial derivatives (especially losses from derivative transactions)	-33,123	-80,878
Bank loans (especially losses from bank fees and liability commissions)	-1,345	-1,265
Other financial liabilities (especially currency exchange gains / losses)	-40,677	7,124
Net gains (+) / losses (-) reported in the profit / loss statement	-62,905	-80,519
Financial derivatives in other comprehensive income (settlement)	-30,359	-137,662
Net gains (+) / losses (-) reported in other total income	-30,359	-137,662
Total net gains (+) / losses (-)	-93,264	-218,181

6. Capital Management

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

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

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

The goal of the Company is to achieve such business results to be able to fulfil financial indicators agreed with banks. In case of their non-fulfilment, the banks may request premature loan repayment. These indicators were fulfilled as of 31 December 2020 and as of 31 December 2019.

7. Notes on the financial statements

7.1. Land, buildings, and equipment

Property, plant, and equipment (in thousands of CZK)	Land	Buildings and other constructions	Movables and sets of movables	Vehicles (means of transport)	Computer equipment and other hardware	Other tangible fixed assets	Incomplete Tangible fixed assets	Advance payments for fixed tangible assets	Total
Acquisition value									
Balance as of 1/ 1/ 2019	76,890	806,697	270,455	33,566	132,657	40,139	43,981	50	1,404,435
Purchases	0	0	0	0	0	0	83,086	74	83,160
Transfers	0	6,435	15,988	1,393	18,409	230	-42,455	-74	-74
Decreases	-304	-158	-4,007	-6,911	-15,215	0	0	0	-26,595
Balance as at 31/ 12/ 2019	76,586	812,974	282,436	28,048	135,851	40,369	84,612	50	1,460,926
Purchases	0	0	0	0	0	0	80,265	333	80,598
Transfers	0	123,974	17,536	505	14,362	51	-156,428	-383	-383
Decreases	0	0	-8,919	-1,305	-4,476	0	0	0	-14,700
Balance as at 31/ 12/ 2020	76,586	936,948	291,053	27,248	145,737	40,420	8,449	0	1,526,441
Accumulated depreciation, adjustments, impairment, recharging									
Balance as of 1/ 1/ 2019	0	315,943	231,386	17,981	108,675	4,578	0	0	678,563
Depreciation	304	17,319	11,985	6,557	13,153	345	0	0	49,663
Adjustments	0	-23	-31	0	0	0	0	0	-54
Accumulated depreciation for disposals	-304	-158	-4,002	-5,940	-15,201	0	0	0	-25,605
Balance as at 31/ 12/ 2019	0	333,081	239,338	18,598	106,627	4,923	0	0	702,567
Depreciation	0	18,235	11,153	4,877	15,496	345	0	0	50,106
Adjustments	0	-23	0	0	0	0	0	0	-23
Accumulated depreciation for disposals	0	0	-8,919	-1,157	-4,476	0	0	0	-14,552
Balance as at 31/ 12/ 2020	0	351,293	241,572	22,318	117,647	5,268	0	0	738,098
Net book value 2019	76,586	479,893	43,098	9,450	29,224	35,446	84,612	50	758,359
Net book value 2020	76,586	585,655	49,481	4,930	28,090	35,152	8,449	0	788,343

The value of the balance of unfinished fixed assets as of 31 December 2020 consisted mainly of projects in the area of IT and construction of CNG stations. As of 31 December 2019, this mainly included investments in buildings which are related to the implementation of significant reconstruction and modernisation projects performed by the Company in Michle.

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

(i) up to CZK 3,200 mil. and EUR 12 mil. secured debts of Pražská plynárenská, a.s., from operating financing, which may arise on the basis of the Operating Loan Agreement dated 24 May 2016, as amended and the Bill of Exchange Programme Agreement dated 24 May 2016 as amended, and

(ii) up to CZK 2,700 mil. secured debts of the subsidiary Pražská plynárenská Distribuce, a.s., a member of the Pražská plynárenská, a.s. Group, arising in connection with the issue of PPD bonds 0.70% / 2023, ISIN CZ0003515348 issued by the mentioned subsidiary on the basis of the issuance conditions dated 16 November 2016 and maturing in 2023.

7.2. Real estate investments

Acquisition value (in thousands of CZK) Real estate investments

Balance as of 1/ 1/ 2019	289,030
Increases*	1,694
Balance as of 31/ 12/ 2019	290,724
Increases*	5,986
Balance as of 31/ 12/ 2020	296,710

Accumulated depreciation, depreciation, impairment

Balance as of 1/ 1/ 2019	124,560
Depreciation	5,782
Balance as of 31/ 12/ 2019	130,342
Depreciation	5,933
Balance as of 31/ 12/ 2020	136,275
Net book value 2019	160,382
Net book value 2020	160,435

* Increases represent the technical improvements of buildings.

Some properties located in the Michle facility, where the Company's operating and administrative buildings are located, include a part that is held for rent or capital appreciation and another part that is held for the production or supply of goods or services, or for administrative and office purposes. The company has set a criterion and reports the property as an investment property if more than 70% of the floor area is leased.

- The buildings are leased within the Group (i.e. to other subsidiaries);
- the facility in Michle represents an enclosed space intended only for the company of Pražská plynárenská, a.s. Group.

Rent from investment in real estate amounted to CZK 19,056 thousand. as of 31 December 2020 and CZK 18,256 thousand as of 31 December 2019.

Rent is reported in Other operating income.

The Company has chosen to use the cost model for the subsequent valuation of investment property in accordance with IAS 16. Fair value valuation was not implemented for the following reasons:

Direct operating costs (including repairs and maintenance) incurred from investment property amounted to CZK 17,677 thousand as of 31 December 2020 and CZK 14,158 thousand as of 31 December 2019. These costs are reported in Other operating expenses.

7.3. Intangible assets

Intangible assets (in thousands of CZK)	Software	Assessable rights	Intangible fixed assets under construction	Total
Acquisition value				
Balance as of 1/ 1/ 2019	741,088	11,631	33,864	786,583
Purchases	0	0	52,057	52,057
Transfers	54,606	2,140	-56,746	0
Decreases	-2,372	0	0	-2,372
Balance as of 31/ 12/ 2019	793,322	13,771	29,175	836,268
Purchases	0	0	33,920	33,920
Transfers	47,392	204	-47,596	0
Decreases	-4,309	0	0	-4,309
Balance as of 31/ 12/ 2020	836,405	13,975	15,499	865,879

Intangible assets (in thousands of CZK)	Software	Assessable rights	Intangible fixed assets under construction	Total
Accumulated depreciation, depreciation, impairment				
Balance as of 1/ 1/ 2019	701,236	11,408	0	712,644
Depreciation	22,981	439	0	23,420
Accumulated depreciation for disposals	-2,372	0	0	-2,372
Balance as of 31/ 12/ 2019	721,845	11,847	0	733,692
Depreciation	31,353	650	0	32,003
Accumulated depreciation for disposals	-4,309	0	0	-4,309
Balance as of 31/ 12/ 2020	748,889	12,497	0	761,386
Net book value 2019	71,477	1,924	29,175	102,576
Net book value 2020	87,516	1,478	15,499	104,493

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

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

7.4. Asset originating from the right of use and lease liabilities

(in thousands of CZK) Nonresidential spaces	
Acquisition value	
Balance as of 1/ 1/ 2020	42,781
Decreases	-1,953
Balance as of 31/ 12/ 2020	40,828
Accumulated depreciation, depreciation, impairment	
Balance as of 1/ 1/ 2020	5,135
Depreciation	6,858
Balance as of 31/ 12/ 2020	11,993
Net book value 1/ 1/ 2020	37,646
Net book value 31/ 12/ 2020	28,835
(in thousands of CZK) Non-residential spaces	
Acquisition value	
Balance as of 1/ 1/ 2019	42,781
Balance as of 31/ 12/ 2019	42,781
Accumulated depreciation, depreciation, impairment	
Balance as of 1/ 1/ 2019	0
Depreciation	5,135
Balance as of 31/ 12/ 2019	5,135
Net book value 1/ 1/ 2019	42,781
Net book value 31/ 12/ 2019	37,646

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

As of 31 December 2020 the Company reported lease liabilities as follows:

(in thousands of CZK)	0-3 months	3-6 months	6-12 months	1-3 years	3-5 years	5 years or more	Total
Long-term lease liabilities	0	0	0	12,500	7,081	7,338	26,919
Short-term lease liabilities	1,094	1,099	2,213	0	0	0	4,407
Total	1,094	1,099	2,213	12,500	7,081	7,338	31,326

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

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

The total cash flow related to lease liabilities in 2020 amounted to CZK 5,538 thousand ; in 2019 it amounted to CZK 6,236 thousand .

Short-term lease expenses included in Other operating expenses and leasing of low-value assets which are not reclassified as lease liabilities are reported in Chapter 7.27.

Interest cost from lease liabilities included in the 2020 and 2019 financial expenses are reported in Chapter 7.28.

7.5. Investments into subsidiaries

The Company held shares in the following subsidiary companies as at 31 December 2020 and 31 December 2019:

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

Pražská plynárenská Servis distribuce, a.s.,
Member of the PP, a.s. Group
Registered office: U Plynárny 1450/2a, Prague 4, Postal Code 140 00

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

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

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

MONTSERVIS PRAHA, a.s.
Registered office: Prachatická 209, Prague 9, Postal Code 199 00

Balance as of 31 December 2020	Numbers of shares (in units)	Book value of the share (in thousands of CZK)	Held share (%)	Voting right share	Business site
Pražská plynárenská Distribuce, a.s., Member of the Pražská plynárenská, a.s. Group	5,207	1,178,348	100	100	Czech Republic
Pražská plynárenská Servis distribuce, a.s., Member of the Pražská plynárenská, a.s. Group	202,106	30,458	100	100	Czech Republic
Pražská plynárenská Správa majetku, a.s., Member of the Pražská plynárenská, a.s. Group	10	2,200	100	100	Czech Republic
Prometheus, energetické služby, a.s., Member of the Pražská plynárenská, a.s. Group	128	124,896	100	100	Czech Republic
Informační služby – energetika, a.s.	20	100	100	100	Czech Republic
MONTSERVIS PRAHA, a.s.	228	38,500	95	95	Czech Republic
Book value		1,374,502			

Balance as of 31 December 2019	Numbers of shares (in units)	Book value of the share (in thousands of CZK)	Held share (%)	Voting right share	Business site
Pražská plynárenská Distribuce, a.s., Member of the Pražská plynárenská, a.s. Group	5,207	1,178,348	100	100	Czech Republic
Pražská plynárenská Servis distribuce, a.s., Member of the Pražská plynárenská, a.s. Group	202,106	30,458	100	100	Czech Republic
Pražská plynárenská Správa majetku, a.s., Member of the Pražská plynárenská, a.s. Group	10	2,200	100	100	Czech Republic
Prometheus, energetické služby, a.s., Member of the Pražská plynárenská, a.s. Group	128	124,896	100	100	Czech Republic
Informační služby – energetika, a.s.	20	100	100	100	Czech Republic
MONTSERVIS PRAHA, a.s.	216	34,000	90	90	Czech Republic
Book value		1,370,002			

As of 24 June 2020, Pražská plynárenská, a.s. paid CZK 0.5 mil. for the transfer of a 5% share in MONTSERVIS PRAHA, a.s., which increased the ownership stake in this company to 95%.

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

7.6. Inventories

Inventories represent mainly gas stored in the gas storage. This gas was extracted in 2020 and recognised as consumption in the amount of CZK 571,520 thousand (in

2019: CZK 534,176 thousand). No surpluses and/or shortfalls in inventories were found during stock-taking in 2020.

7.7. Short-term and other receivables

Type of receivable (in thousands of CZK)	31 December 2020	31 December 2019
Trade receivables from third parties	545,835	626,549
Trade receivables from subsidiaries	333,211	333,016
Trade receivables from other affiliates	31	462
Financial trade receivables	879,077	960,027
Adjusting entries for trade receivables	-217,656	-208,456
Net trade receivables – financial	661,421	751,571
Unbilled supplies (minus advance payments)	1,463,523	1,481,061
Adjusting entries for unbilled deliveries	-14,679	-11,149
Total trade and other receivables – financial	2,110,265	2,221,483
Total trade and other receivables – non-financial	99,198	62,489
Total trade and other receivables – short-term	2,209,463	2,283,972

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

In 2020 the offset amount of advances with estimated payables was CZK 1,412,667 thousand (2019: CZK 1,264,745 thousand).

Outstanding trade receivables have not been secured. Receivables from related parties are defined in detail in Chapter 7.32.

Changes in adjusting entries for trade receivables may be analysed as follows:

Adjusting entries for receivables (in thousands of CZK)	31 December 2020	31 December 2019
Initial balance as of 1 January	219,605	230,158
Creation of an allowance for receivables	31,304	8,871
Use of the allowance	18,574	19,424
Final balance as of 31 December	232,335	219,605

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

31 December 2020:

Adjusting entries for receivables (in thousands of CZK)	Expected interest risk impairment			
	Level 1	Level 2	Level 3	Total
Cat. MO	21,050	696	57,981	79,727
Cat. DOM	18,626	932	77,035	96,593
Cat. VO	7,636	17	23,985	31,638
Cat. Other	6,309	553	17,515	24,377
Total	53,621	2,198	176,516	232,335

31. December 2019:

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

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

Loss due to depreciation of financial assets (in thousands of CZK)	31 December 2020	31 December 2019
Change in adjustment entry – to existing receivables	12,555	-10,600
Loss due to receivables written-off	18,574	19,424
Loss due to depreciation of financial assets	31,129	8,824

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

7.8. Cash and cash equivalents

As of 18 December 2020, the Company acquired corporate bills of ČSOB Leasing in euro currency. This concerned 5 bills of exchange of total worth EUR 10,000 thousand due on 4 January 2021. The yield to maturity was 0.00% p.a. This financial operation optimised the Company's cash-flow positions in bank accounts in relation to the obligatory payments of banks to the resolution fund according to the applicable legislation valid since 31 December 2020 while providing the necessary euro funding for the purchase of commodities in early 2021.

The Company acquired corporate bills of ČSOB Leasing as of 18 December 2019. This concerned 7 bills of exchange of total worth CZK 700,000 thousand due on 2 January 2020. The yield to maturity was 0.50% p.a.

The structure of cash and cash equivalents is shown below:

Cash and cash equivalents (in thousands of CZK)	31 December 2020	31 December 2019
Cash on hand	1,793	1,513
Money in bank accounts	1,237,918	797,432
Short-term investments – bills	262,450	700,000
Total	1,502,161	1,498,945

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

7.9. Other assets

Other assets (in thousands of CZK)	31 December 2020	31 December 2019
Receivables from revaluation of commodity derivatives to fair value	0	19,169
Liabilities from revaluation of trade derivatives at fair value	6	0
Prepaid expenses	21,610	24,814
Other assets - total	21,616	43,983

7.10. Incremental costs of obtaining a contract

Incremental costs (in thousands of CZK)	31 December 2020	31 December 2019
Commission paid to traders - long-term part	29,856	32,712
Commission paid to traders - short-term part	28,804	11,471
Incremental costs - total	58,660	44,183

The incremental costs to obtain a contract represent the commissions of sales representatives.

7.11. Contract assets

Contract assets (in thousands of CZK)	31 December 2020	31 December 2019
Bonuses to customers - long-term part	54,559	40,253
Bonuses to customers - short-term part	19,369	48,362
Contract assets – total	73,928	88,615

Contract assets represent bonuses to customers for negotiating a contract or amendments.

7.12. Registered capital

Form of shares	2020		2019	
	Number of pieces	Nominal value (CZK)	Number of pieces	Nominal value (CZK)
Bearer shares	950,338	300	950,338	300
Registered shares	489,569	300	489,569	300
Total	1,439,907		1,439,907	
Total share capital		431,972,100		431,972,100

Bearer shares are issued in book-registered form.

The registered shares are issued in book-registered form, their transferability is limited and the general meeting of the shareholders must give the owner its consent for their transfer, following discussion at the Board of Directors and the Supervisory Board. All shares have equal rights. All the shares are fully paid-up. The company shareholder has both rights and obligations.

The basic duty of the shareholder is the obligation to make a deposit. The rights of shareholders include:

- Right to a share of the profit,
- The right to vote,
- The right to request and receive an explanation at the general assembly on matters relating to the Company or persons controlled by it or to exercise shareholder rights,

- The right to present proposals and counter-proposals on matters included on the agenda of the General Assembly,
- The rights of qualified shareholders to ask the Board of Directors to convene a General Assembly and the Supervisory Board to review the performance of the Board of Directors,
- The right to bring an lawsuit action against a member of the Board of Directors or the Supervisory Board, the right to seek repayment of the issue price against shareholders who defaulted on repayment,
- The right to require the compulsory transfer of securities,
- The right to receive a share of the liquidation balance.

7.13. Profit funds

The Company is fully governed by the new Corporations Act and utilised the option not to create a reserve fund. Usage of funds created from profit is in accordance with the Company's Articles of Incorporation. Reserve funds may be transferred to retained earnings or it may be used to offset losses.

On 30 June 2020 the parent company PPH a.s., as the sole shareholder of the Company acting in the power of the General Assembly, approved the Company's financial statements for 2019 (compiled in line with Czech standards) and decided about the allocation of the profit earned in 2019 in the amount of CZK 720,978 thousand and to pay share in profit to the shareholders in the amount of CZK 608,000 thousand .

The Company proposed distribution of the profit for 2020 by the date of issue of these financial statements.

7.14. Cash flow secure fund

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

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

(in thousands of CZK)	31 December 2020	31 December 2019
Balance as of the beginning of the year	-111,506	0
Change in fair value of securing derivatives	107,303	-137,662
Related deferred income tax	-20,388	26,156
Balance as of the end of year	-24,591	-111,506

Reclassification as a complete result for the monitored period (in thousands of CZK)	2020	2019
Profit after tax	908,484	720,978
Fair value of non-matured securing derivatives	-30,272	-83,912
Fair value of matured continuous securing derivatives	-87	-53,750
Effective component of the fair value of securing derivatives	-30,359	-137,662
Deferred tax receivable from securing derivatives (19%)	5,768	26,156
Total performance for the period	883,893	609,472

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

Trade payables, advances, principals received – current (in thousands of CZK)	31 December 2020	31 December 2019
Trade liabilities payable to third parties	1,207,239	1,242,272
Trade liabilities payable to subsidiaries	31,949	46,129
Trade liabilities payable to other related parties	136	186
Operating advances and principals received (non-financial liabilities)	1,487,657	1,643,517
Trade payables, advances received and principals - total	2,726,981	2,932,104

Total trade payables and advances received – short-term (based on maturity) (in thousands of CZK)	Trade payables	Short-term advances received and principals	Contingent liability accounts (Estimated payables)	Total
Balance as of 31/ 12/ 2019	87,823	1,643,517	1,200,764	2,932,104
– of which: due in less than 6 months	87,769	1,643,517	1,200,764	2,932,050
– of which: due from 6 months to 1 year	54	0	0	54
Balance as of 31/ 12/ 2020	26,674	1,487,657	1,212,650	2,726,981
– of which: due in less than 6 months	26,586	1,487,657	1,212,650	2,726,893
– of which: due from 6 months to 1 year	88	0	0	88
Total as of 31/ 12/ 2019	87,823	1,643,517	1,200,764	2,932,104
Total as of 31/ 12/ 2020	26,674	1,487,657	1,212,650	2,726,981

Liabilities to related parties are defined in detail in Chapter 7.32.

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

As of 31 December 2020 funds from the parent company PPH a.s. were drawn in the amount of CZK 62,477 thousand (as of 31 December 2019: CZK 59,926 thousand) and funds drawn from subsidiaries represented CZK 710,282 thousand (as of 31 December 2019: CZK 784,958 thousand), which represent liabilities from cash-pooling. Funds provided by subsidiaries and the parent company PPH a.s. under cash-pooling carried in 2020 an interest rate as follows:

between 01–05/2020: O/N PRIBOR –0.60% p.a., between 06–10/2020: O/N PRIBOR –0.20% p.a., between 11–12/2020: O/N PRIBOR + -0.15% p.a. In 2019 they carried a credit interest rate: between 01–04/2019: fixed rate +0.05% p.a., in 05/2019: fixed rate 0.75% p.a., between 06–07/2019:

fixed rate 1.30% p.a., between 08–12/2019: O/N PRIBOR –0.60% p.a. As for financial instruments drawn under cash-pooling in 2020, the debit interest rate was as follows: between 01–12 / 2020: O/N PRIBOR + +0.25% p.a. In 2019 the carried debit interest rate was: between 01–05/2019: O/N PRIBOR +0.50% p.a., between 06–12/2019: O/N PRIBOR + +0.25% p.a.

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

7.15.1. Financial derivatives for trading

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

(in thousands of CZK)	31 December 2020			31 December 2019		
	Fair value - positive	Fair value - negative	Nominal value	Fair value - positive	Fair value - negative	Nominal value
Currency forwards	6	0	7,638	0	9,208	437,252
Commodity futures	0	17,479	64,217	19,169	0	67,383

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

Losses from the settlement of trade derivatives reported in profit / loss for 2020, amount to CZK 33,023 thousand of which the costs arising from the settlement of trade derivatives amount to CZK 34,575 thousand and revenues arising from the settlement of trade derivatives amount to

CZK 1,551 thousand , see Chapter 7.28. and 7.29.

In 2019, losses from the settlement of trade derivatives reported in the comprehensive profit / loss statement were CZK 80,871 thousand of which the costs arising from the settlement of trade derivatives amount to CZK 117,347 thousand and revenues arising from the settlement of trade derivatives amount to CZK 36,476 thousand , see Chapter 7.28. and 7.29.

7.16. Unbilled supplies and advances received

as of 31 December 2020 (in thousands of CZK)	Cat. DOM	Cat. MO	Cat. VO/SO	Other	Total
Unbilled supplies	1,704,180	1,096,561	550,671	892,237	4,243,648
Advance payments received	-1,894,798	-1,406,496	-347,467	-607,690	-4,256,450
Clearing of Accounts	1,573,366	610,646	347,467	248,647	2,780,125
Unbilled supplies – after netting	130,814	485,914	203,205	643,590	1,463,523
Advances received – after netting	-321,432	-795,849	0	-359,043	-1,476,325

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

7.17. Bank loans and bonds

The details of bank loans and bonds issued are given in Chapter 5.2

In connection with the conditions under the loan agreements and bond issuance conditions concluded in 2017 and 2020, financial indicators are monitored at the consolidated PP, a.s. Group data level. In case of their non-fulfilment, the banks

may request premature repayment. These indicators were fulfilled as of 31 December 2020 and 31 December 2019.

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

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

(in thousands of CZK)	31 December 2019	Cash flows	Non-cash flows – Revaluation of liabilities using the effective interest rate method	31 December 2020
PP Bonds	401,477	-403,600	2,123	0
Loan from subsidiaries and the parent company – cash-pooling (see item 5.2)	844,884	-75,680	3,555	772,759
Total	1,246,361	-479,280	5,678	772,759

(in thousands of CZK)	31 December 2018	Cash flows	Non-cash flows – Revaluation of liabilities using the effective interest rate method	31 December 2019
PP Bonds	400,526	-3,600	4,551	401,477
Loan from subsidiaries and the parent company – cash-pooling (see item 5.2)	901,520	-69,090	12,454	844,884
Total	1,302,046	-72,690	17,005	1,246,361

7.18. Other liabilities

Other liabilities (in thousands of CZK)	31 December 2020	31 December 2019
Loans from related companies (cash-pooling)	772,759	844,884
Liabilities from revaluation of currency derivatives at fair value	0	9,208
Liabilities from revaluation of commodity derivatives to fair value	17,479	0
Liabilities from revaluation of securing derivatives to fair value	30,272	83,912
Other financial liabilities	1,735	1,735
Total financial liabilities	822,245	939,739
Payables towards employees	87,041	82,144
Payables towards social insurance institutions	7,914	7,365
Other liabilities – non-financial	10,079	5,953
Non-financial liabilities - total	105,034	95,462
Other liabilities - total	927,279	1,035,201

Liabilities payable to employees also include liabilities related to wages and unpaid future liabilities payable to the members of the statutory bodies of the Company according to contracts describing performance of executive functions (Chapter 4.17.4) in the amount of CZK 30,019 thousand (2019: CZK 30,462 thousand).

7.19. Deferred tax receivables and liabilities

Compensation of deferred tax assets and liabilities was as follows:

Deferred tax liability (+) and deferred tax receivable (-) (in thousands of CZK)	31 December 2020	31 December 2019
Deferred tax asset to be recovered after more than 12 months	3,391	42,851
Deferred tax asset to be recovered within 12 months	36,342	48,424
Deferred tax liability payable after more than 12 months	-77,174	-67,386
Deferred tax liability payable within 12 months	-9,153	-11,368
Net deferred tax payable (-) / tax receivable (+)	-46,594	12,521

Deferred tax was calculated at 19% (the rate for 2019 and subsequent years was used).

Deferred tax liability (+) and deferred tax receivable (-) (in thousands of CZK)	31 December 2020	31 December 2019
The item represents deferred tax from the following titles		
Difference in the residual prices of fixed assets	-57,677	-50,119
Tax non-deductible part of allowances for receivables	17,043	9,275
Other provisions and temporary differences	-541	39,385
Obligations towards employees and board members	13,532	12,994
Incremental costs of obtaining a contract	-25,192	-25,232
Lease liabilities	473	62
Change in fair value of hedging derivative	5,768	26,156
Total	-46,594	12,521

Deferred tax liability (-) and deferred tax receivable (+) CZK)	Difference in the residual prices of fixed assets	Tax non-deductible part of allowances for receivables	Obligations towards employees and board members	Provisions and securing derivatives	Total
1 January 2019	-48,097	8,724	11,858	2,405	-25,110
profit (+) / loss (-)	-2,022	551	1,136	11,810	11,475
Other comprehensive income	0	0	0	26,156	26,156
31 December 2019	-50,119	9,275	12,994	40,371	12,521
profit (+) / loss (-)	-7,558	7,768	538	-39,475	-38,727
Other total performance	0	0	0	-20,388	-20,388
31 December 2020	-57,677	17,043	13,532	-19,492	-46,594

7.20. Other tax liabilities

Other tax liabilities in 2020 consist of personal income tax in the amount of CZK 2,981 thousand (2019: CZK 2,720 thousand), VAT in the amount of CZK 77,014 thousand (2019: CZK 93,541 thousand and other taxes and charges in the amount of CZK 6,372 thousand (2019: CZK 6,488 thousand).

7.21. Provisions

Provisions (in thousands of CZK)	Long-term/Short-term
Book value	
Balance as of 1/ 1/ 2019	244,027
Creation of provisions	96,149
Reversals of provisions	-2,883
Use of provisions	-209,824
Balance as of 31/ 12/ 2019	127,469
Creation of provisions	0
Reversals of provisions	-10,501
Use of provisions	0
Balance as of 31/ 12/ 2020	116,968
Net book value 2019	127,469
Net book value 2020	116,968

Provisions as at 31 December 2020 mainly include a provision for late interest in the amount of CZK 102 mil. (CZK 112 million as of 31 December 2019) and repair of environmental impact in the amount of CZK 15 mil. (CZK 15 million as of 31 December 2019). The provision for late interest was released in full in January 2021.

The provision for the repair of environmental impact was recorded on the basis of an analysis of the risks of residual pollution in the PP, a.s. facility, which included the valuation of corrective measures in the area of the former naphthalene plant. This is primarily a liability of the state towards PP, a.s., on the basis of a contract where the repair of most environmental burdens has already been carried out at the expense of the state.

At present, the state (MoF CR) is financing a survey of the affected locality and the event is included in the long-term plan of the MoF CR. The exact date of the repair work is not yet known. Further, the share of costs that will be covered by state funds and how much will be paid by the Company is not known.

7.22. Revenues from sales

Sales (in thousands of CZK)	2020	2019
Sale of natural gas	7,326,264	8,266,922
Sale of gas distribution	2,663,948	2,603,066
Sales of CNG	59,087	50,194
Sale of flexibility	2,798	3,675
Sale of electricity	2,137,560	1,623,972
Sale of electricity distribution	2,028,085	1,408,940
Other services	308,000	312,361
- of which, revenues from catering	12,373	16,386
- of which: revenues from other services (mainly SLA services)	295,627	295,975
Sale of goods and products (services)	584	866
Revenues from contracts with customers	14,526,326	14,269,996
Revenues from property leases	47,063	49,424
Total	14,573,389	14,319,420

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

Purchased gas, electricity, materials and services connected with gas and electricity supplies (in thousands of CZK)	2020	2019
Costs of gas purchases	6,178,989	7,175,684
- of which: gas reservoir costs	119,196	178,552
Gas distribution fee	2,668,681	2,598,529
Costs of electricity purchases	2,136,007	1,617,576
Electricity distribution fee	1,970,310	1,390,415
Purchasing expenses - total	12,953,987	12,782,204
Derivative transactions expense - secured	16,710	32,331
Total	12,970,697	12,814,535

7.24. Other operating income

Other operating income (in thousands of CZK)	2020	2019
Profit from sales of fixed assets	323	2,569
Income from write-off of receivables	912	1,510
Income from write-off of lapsed liabilities	6,799	6,572
Court fee compensations	4,393	5,764
Benefits from insurance (indemnity)	536	463
Shares of the profit	346,328	336,783
Other	26,342	17,625
Total	385,633	371,286

7.25. Personnel costs

Personnel costs (in thousands of CZK)	2020	2019
Employees	280,528	270,072
Members of statutory bodies	47,506	60,419
Future benefits to members of statutory bodies provided under contract defining their executive performance (Chapter 4.17.4)	29	351
Total	328,063	330,842

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

During 2020 and 2019 no loans or credit lines were provided to members of the Board of Directors, members of the Supervisory Board or to other management members. Company cars, computer and telecommunication equipment are available for use by the board members and other management.

In 2020, the personnel costs of members of statutory bodies include also dividends paid to members of statutory bodies in the amount of CZK 9,900 thousand (2019: CZK 21,100 thousand). In 2019, payments paid under contracts defining executive performance (see Chapter 4.17.4.) in the amount of CZK 1,358 thousand were also included here.

Contributions to the state pension scheme (on the basis of defined contributions) in 2020 amounted to CZK 41,796 thousand per employee (2019: CZK 41,752 thousand and CZK 2,476 thousand for members of statutory bodies (2019: CZK 3,191 thousand)).

7.26. Depreciation of fixed assets

Depreciation of fixed assets (in thousands of CZK)	2020	2019
Depreciation of buildings and other structures	18,235	17,319
Depreciation of real estate investments	5,933	5,782
Depreciation of movables and sets of movables	11,153	11,985
Depreciation of vehicles	4,877	6,557
Depreciation of IT equipment and other hardware	15,496	13,153
Depreciation of tangible fixed assets	345	345
Depreciation of intangible assets	32,003	23,420
Depreciation of assets originating from the right of use	6,858	5,134
Net book value of discarded land	0	304
Total	94,900	83,999

7.27. Other operating costs

Other operating cost (in thousands of CZK)	2020	2019
Consumption of materials and energy	21,766	22,646
Costs of goods	375	700
Lease fees	2,149	1,076
Services	402,885	417,864
- of which: repair and maintenance costs for other assets	834	1,102
- of which: claims collection costs	14,015	16,806
- of which: promotion, advertising and marketing costs	80,074	79,524
- of which: IT systems management and maintenance costs	139,080	133,115
- of which: business representatives' commissions	33,766	43,352
- of which: consulting costs	16,404	19,668
- of which: building operational costs	42,698	40,923
- of which: catering costs	11,362	11,406
- of which: costs of other services	64,652	71,969
Taxes, fees and other fees	30,093	106,840
Total	457,268	549,128

Information on fees paid to the auditing company is disclosed in the Annex to the consolidated financial statements of Pražská plynárenská Holding, a.s., as of 31 December 2020.

7.28. Financial costs

Financial costs (in thousands of CZK)	2020	2019
Interest expense	5,903	16,813
Lease liabilities - interest paid	616	714
Cost paid to settle trade derivatives	34,575	117,347
Bank charges	5,935	6,541
Other financial costs (mainly exchange losses)	146,617	27,462
Total	193,646	168,877

7.29. Financial revenues

Financial revenues (in thousands of CZK)	2020	2019
Interest income	10,698	23,603
Income from contractual fines and default interest	4,635	5,101
Cost paid to settle trade derivatives	1,551	36,476
Other financial revenues (mainly exchange gains)	148,810	33,175
Total	165,694	98,355

7.30. Income tax

Income tax expense recognised in the comprehensive statement includes:

(in thousands of CZK)	2020	2019
Income tax – current	103,721	111,431
Income tax – previous years adjustment	-1,919	-11,028
Income tax – deferred	38,727	11,475
Income tax - paid	140,529	111,878

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

(in thousands of CZK)	2020	2019
Profit before tax	1,049,013	832,856
Income tax at the statutory rate of 19%	199,312	158,243
Non-taxable income	-66,001	-64,125
Tax non-deductible expenses	17,697	29,662
Gifts	-502	-485
Other	-9,977	-11,417
Income tax - paid	140,529	111,878

7.31. Dividends paid

On 27 July 2020 a dividend in the amount of CZK 608,000 thousand CZK 422 per share) was paid, and in 2019: CZK 514,000 thousand (CZK 357 per share).

7.32. Related party transactions and balances

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

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

Subsidiary companies

Revenues (in thousands of CZK)	2020	2019
Revenues from sale and distribution of gas and electricity	179,596	192,447
Revenues from sale of services	336,458	337,559
Revenues from the sale of fixed assets	112	2,027
Revenues from the sale of goods and material	184	184
Shares of the profit	346,328	336,783
Other revenue	2,326	6,125
Total revenues	865,004	875,125

Costs (in thousands of CZK)	2020	2019
Consumption of materials and energy	16,401	17,919
Gas distribution fee	1,480,218	1,467,415
Purchase of other services	237,560	232,943
Other costs	3,636	11,919
Total costs	1,737,815	1,730,196

Controlling entity

Revenues (in thousands of CZK)	2020	2019
Revenues from sale of services	875	877
Total revenues	875	877

Costs (in thousands of CZK)	2020	2019
Other costs	292	828
Total costs	292	828

Other related parties

Revenues (in thousands of CZK)	2020	2019
Revenues from sale of services	169	118
Total revenues	169	118

Costs (in thousands of CZK)	2020	2019
Consumption of material and energy (excluding gas, electricity, heat, CNG)	438	592
Purchase of other services	9,784	9,756
Total costs	10,222	10,348

During 2020 and 2019 no transactions with the ultimate parent company (Capital City of Prague) were executed.

The Group reported the following balances with related parties:

Subsidiary companies

Receivables and liabilities (in thousands of CZK)	31 December 2020	31 December 2019
Trade receivables	333,211	333,016
Short-term advances paid*	202,768	189,833
Estimated receivables	25,337	25,852
Other accounts receivable	2,451	10,497
Total receivables	563,767	559,198
Trade payables	31,949	47,850
Short-term advances received*	11,135	23,753
Estimated payables	7,640	1,222
Financial resources from subsidiaries	710,282	784,958
Other liabilities	5,867	955
Total accounts payable	766,873	858,738

*balances presented with VAT.

Controlling entity (PPH a.s.)

Receivables and liabilities (in thousands of CZK)	31 December 2020	31 December 2019
Contingent asset accounts	22	0
Total receivables	22	0
Trade payables	0	2
Short-term advances received*	24	0
Financial resources from PPH a.s.	62,477	59,926
Other liabilities	5	75
Total accounts payable	62,506	60,003

Other related parties

Receivables and liabilities (in thousands of CZK)	31 December 2020	31 December 2019
Trade receivables	31	462
Short-term advances paid*	962	299
Total receivables	993	761
Trade payables	136	184
Total accounts payable	136	184

*balances presented with VAT.

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

Dividends paid to shareholders in 2020 and 2019 are disclosed in Chapter 7.31.

Transactions with key management are disclosed in Chapter 7.25 and 7.18.

Other related parties represent companies and affiliates controlled by the ultimate parent company (Capital City of Prague).

7.33. Regulatory framework

As at 1 January 2007, the Company in line with the requirements of the European Directives on the liberalisation of the gas market and amendment of the Energy Act unbundled part of its operations and transferred the part of the enterprise related to the distribution of natural gas to its subsidiary company.

This resulted in the legal separation of the distribution network operator from the vertically integrated gas company and in the establishment of the subsidiary company Pražská plynárenská

Distribuce, a.s., Member of the Pražská plynárenská, a.s. Group, which has become the distribution network operator. Under the granted licences, the Company trades in natural gas and electricity.

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

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

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

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

7.34. Contractual and other future commitments

The expenditure for the acquisition of tangible and intangible assets contracted as of 31 December 2020, which have not yet been incurred, amounts to CZK 6,996 thousand (2019: CZK 54,339 thousand).

Subsidiaries (in thousands of CZK)	2020	2019
Up to 1 year	2,074	1,915
Total	2,074	1,915

Other companies (in thousands of CZK)	2020	2019
Up to 1 year	4,922	52,424
Total	4,922	52,424

The sum of future minimum lease payments within non-cancellable operating leases, mainly due to the lease of capacity in the gas storage facility, which were not reclassified as lease liabilities (excluding applicable VAT) as at 31 December 2020 amounted to CZK 336,910 thousand. (as of 31 December 2019: CZK 443,304 thousand).

(in thousands of CZK)	2020	2019
Up to 1 year	96,043	114,473
1-3 years	158,392	179,635
3-5 years	80,468	132,940
Above 5 years	2,007	16,256
Total	336,910	443,304

8. Other facts

8.1. Contingent liabilities

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

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

The Company management is not aware of any important potential Company liabilities as of 31 December 2020 apart from those mentioned in Chapter 7.21.

8.2. Events after date of the financial statements

The Supervisory Board of PP, a.s. at its meeting on 15 January 2021, removed Ing.

Pavel Janeček from his position as a member of the Board and the vacant position, with effect from 15 January 2021, was taken by the elected member of the Board of Directors of PP, a.s., Ing Martin Pacovský, MBA

Further, the Supervisory Board of PP, a.s., took note of the resignation of Ing. Milan Jadlovský from his position as a member of the Board of Directors, and at his request approved the date of termination of his position on 30 April 2021.

At its meeting on 11 February 2021, the Board of Directors of PPH a.s., within the competence of the General Assembly of PP, a.s., accepted the resignation of the member of the Supervisory Board of PP, a.s., Mgr. Redy Ifrah. Starting on 12 February 2021, the vacant position was be taken by Martin Šenkýř.

8.3. Authorisation of the financial statements

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

Prague, 23 March 2021

Ing. Martin Pacovský, MBA

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

Ing. Milan Cízl

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

Consolidated Financial Statements

Consolidated statement of financial position as at 31 December 2020

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

(in thousands of CZK)	Note:	31/ 12/ 2020	31/ 12/ 2019
ASSETS			
Fixed assets			
Land, buildings, and equipment	7.1	7,894,468	7,473,302
Intangible assets	7.2	149,190	141,199
Assets originating from the right of use	7.4	39,959	49,444
Incremental costs of obtaining a contract	7.9	29,856	32,712
Contract assets	7.10	54,559	40,253
Other fixed assets		6,009	4,018
Fixed assets – total		8,174,041	7,740,928
Short-term assets			
Inventories	7.5	658,504	878,894
Trade and other receivables	7.6	1,929,398	2,032,411
Cash and cash equivalents	7.7	1,505,674	1,502,284
Other assets	7.8	22,766	45,696
Incremental costs of obtaining a contract	7.9	28,804	11,471
Contract assets	7.10	19,369	48,362
Paid income tax advance		0	19,933
Short-term assets – assets		4,164,515	4,539,051
TOTAL ASSETS		12,338,556	12,279,979
EQUITY AND LIABILITIES			
Equity			
Registered capital	7.11	431,972	431,972
Profit funds	7.12	238,960	238,960
Revaluation of hedging derivatives	7.13	-24,591	-111,506
Retained earnings		4,794,542	4,234,649
Equity		5,440,883	4,794,075
Non-controlled shares		-348	460
Equity – total		5,440,535	4,794,535
Long-term liabilities			
Trade liabilities and other long-term liabilities	7.14	1,892	6,216
Bonds	7.17	2,677,914	2,669,355
Lease liabilities	7.4	38,061	44,688
Deferred tax liability	7.19	575,550	535,747
Provisions	7.21	33,574	144,872
Long-term liabilities – total		3,326,991	3,400,878
Short-term liabilities			
Trade payables, advances, principals received – short term	7.15	3,015,354	3,200,257
Bonds	7.17	0	401,477
Lease liabilities	7.4	4,873	5,336
Other liabilities	7.18	327,882	362,282
Due income tax		24,617	0
Other tax liabilities	7.20	96,336	113,864
Provisions	7.21	101,968	1,350
Short-term liabilities – total		3,571,030	4,084,566
EQUITY AND LIABILITIES - TOTAL		12,338,556	12,279,979

Consolidated statement of comprehensive income for the year ended 31 December 2020

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

(in thousands of CZK)	Note:	2020	2019
Revenues from sales	7.22	15,219,779	14,902,283
Purchased gas, electricity, materials, and services connected with gas and electricity supplies	7.23	11,723,418	11,559,107
Other operating income	7.24	61,871	49,594
Personnel costs	7.25	752,093	771,911
Depreciation of fixed assets	7.26	437,545	390,807
Loss due to depreciation of financial assets	7.6	30,834	9,725
Other operating costs	7.27	893,678	921,134
Operating profit/loss		1,444,082	1,299,193
Financial costs	7.28	220,520	188,559
Financial revenues	7.29	164,064	98,308
Financial profit/loss		-56,456	-90,251
Profit before tax		1,387,626	1,208,942
Income tax	7.30	220,977	307,431
Profit after tax		1,166,649	901,511
Other total performance			
Items that may be reclassified and reported as profit or loss:			
Settlement of securing derivatives (change in fair value)	7.13	-30,359	-137,662
Deferred tax on securing derivatives	7.13	5,768	26,156
Other comprehensive income		-24,591	-111,506
Total performance for the period		1,142,058	790,005

Consolidated statement of changes in equity for the year ended 31 December 2020

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

(in thousands of CZK)	Register ed capital	Profit funds	Revaluati on of securing derivatives	Retained earnings	Non- controlled shares	Total
Note	7.11	7.12	7.13			
Balance as of 1 January 2019	431,972	238,960	0	3,847,041	0	4,517,973
Profit/loss after tax for the period	0	0	0	901,608	-97	901,511
Other comprehensive income	0	0	-111,506	0		-111,506
Total comprehensive income	0	0	-111,506	901,608	-97	790,005
Non-controlled share in the acquisition of subsidiary					557	557
Transactions with owners of the Company:						
Dividends paid	0	0	0	-514,000		-514,000
Balance as of 31 December 2019	431,972	238,960	-111,506	4,234,649	460	4,794,535
Profit/loss after tax for the period	0	0	0	1,167,178	-529	1,166,649
Other comprehensive income	0	0	-24,591	0		-24,591
Total comprehensive income	0	0	-24,591	1,167,178	-529	1,142,058
Non-controlled share in the acquisition of subsidiary					-279	-279
Transactions with owners of the Company:						
Dividends paid	0	0	0	-608,000		-608,000
Other transactions			111,506	715		112,221
Balance as of 31 December 2020	431,972	238,960	-24,591	4,794,542	-348	5,440,535

Consolidated statement of cash flows for the year ended 31 December 2020

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

(in thousands of CZK)	Note:	2020	2019
Profit before tax		1,387,626	1,208,942
Adjustments to profit before tax		467,486	262,175
Depreciation of fixed assets	7.26	437,545	390,807
Write-offs of receivables		20,190	20,067
Change in the position of adjustments and reserves		-972	-151,849
Profit from sales of fixed assets	7.24	-3,223	-2,761
Net interest		23,160	17,810
Other non-cash movements (revaluation of derivatives)		-9,214	-11,899
Net cash flows from operations before tax and changes in working capital		1,855,112	1,471,117
Change in working capital needs		200,779	21,234
Changes in the position of receivables from operations		102,131	-137,082
Change in liabilities from operations		-123,327	114,798
Movement in inventories (gross)		221,975	43,518
Net cash flow from operations before tax		2,055,891	1,492,351
Interest paid		-23,763	-25,445
Interest received	7.29	8,140	17,570
Income tax on current activities and additional tax paid minus tax refunds		-157,012	-130,114
Net cash flow from operations		1,883,256	1,354,362
Acquisition cost of fixed assets		-868,379	-874,848
Revenues from sales of fixed assets		4,923	7,489
Credit and loans to associates		-10	89
Net cash flow from investments		-863,466	-867,270
Revenue from long-term liabilities		0	42,588
Payment of long-term liabilities		-10,951	-309
Redemption of issued bonds	5.2	-400,000	0
Change in the position of the loan from the parent company PPH a.s.*	7.18	2,551	8,433
Dividends paid	7.31	-608,000	-514,000
Net cash flows from financing activities		-1,016,400	-463,288
Balance of cash and cash equivalents at beginning of accounting period		1,502,284	1,478,480
Net change in cash and cash equivalents for the accounting period		3,390	23,804
Balance of cash and cash equivalents at end of accounting period		1,505,674	1,502,284

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

Notes to the Consolidated Financial Statements

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

Pražská plynárenská, a.s., (hereinafter the "Company" or "PP, a.s.") was incorporated on 31 December 1993 and has its registered office at Prague 1 – Nové Město, Národní 37, Post Code 110 00, Czech Republic.

Company ID number is 601 93 492. LEI of the Company is 315700QBYOTLGRMOO11.

1.1. Definition of the group and its business activities

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

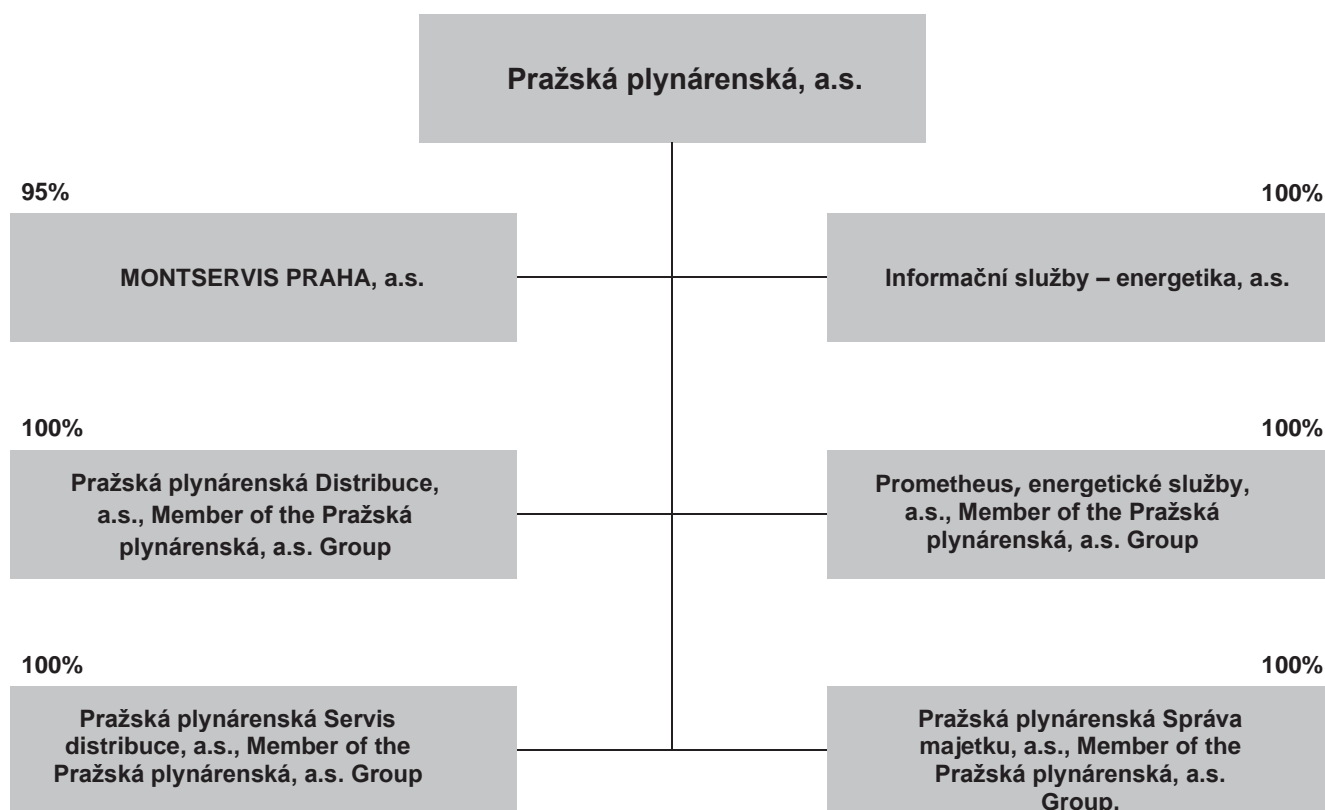
The Group's core business activity is the sale/distribution of natural gas and the sale of electricity.

Other Group business activities are:

- Provision of services related to information technologies and the purchase and sale of hardware and software;
- Provision of services in the field of research into the cause of natural gas losses, measuring and metrology in the gas industry;
- Service, maintenance, repairs and construction of gas facilities;
- Rendering services relating to management and maintenance of movable and immovable property;
- Generation and distribution of energy;
- Administration and management of energy facilities and management of swimming pools and facilities.

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

Organisational structure of the Group as of 31 December 2020:



As of 24 June 2020, Pražská plynárenská, a.s. paid CZK 0.5 mil. for the transfer of a 5% share in MONTSERVIS PRAHA, a.s., which increased the ownership stake in this company to 95%.

1.2. Structure of the Company's Board of Directors as of 31 December 2020

Structure of the Board of Directors:

Ing. Pavel Janeček, Chairman of the Board of Directors
Ing. Milan Jadlovník, Vice-Chairman of the Board of Directors
Ing. Milan Cízl, Member of the Board of Directors
Ing. Vladimír Vavřích, MBA, Member of the Board of Directors

Structure of the Supervisory Board:

Mgr. Reda Ifrah, Chairman of the Supervisory Board,
Ivo Kramoliš, Vice-Chairman of the Supervisory Board
Petr Klepáček, Member of the Supervisory Board,
Mgr. Václav Kučera, Member of the Supervisory Board,
Mgr. Jindřich Lechovský, Member of the Supervisory Board,
Ing. Jiří Pelák, Ph.D., Member of the Supervisory Board,
Mgr. Miroslav Vránek, Member of the Supervisory Board
Ing. Lukáš Wagenknecht, Member of the Supervisory Board,
Ing. Petra Zemanová, Member of the Supervisory Board

Composition of the Audit Committee:

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

1.3. Major shareholders of the Company

The sole shareholder controlling the Company as of 31 December 2020 and 31 December 2019, is Pražská plynárenská Holding a.s. ("PPH a.s. " or the "controlling entity"), is controlled by the Capital City of Prague, which is the ultimate parent company.

1.4. Assessment of the impact of COVID-19 pandemic

At the beginning of 2020, the existence of a new coronavirus causing COVID-19 to spread on global level, was confirmed.

Although the pandemic and, in particular, restrictive measures taken by the government with the intention to reduce health impacts, disrupted the economic activities of many businesses, the Company's business in the year ended 31 December 2020 was mainly affected by measures introduced internally with the aim of reducing the risk of spreading the disease. However, the Company was not significantly affected by the general measures, nor was there any reduction in activities.

2. Rules for compilation of the consolidated financial statements

Declaration of conformity

The consolidated financial statements were processed according to the International Financial Reporting Standards (IFRS) in the form adopted by the EU.

Basis of preparation of consolidated financial statements

The consolidated financial statements were prepared on the basis of historical acquisition prices except for cases defined in chapters 4.7.2., 4.10.1., 4.12. and 4.13. The consolidated financial statements have been prepared on a going concern basis.

In valuing the Company's assets and liabilities while maintaining the Company's going concern, the management has considered the effects of the pandemic of the new coronavirus causing COVID-19 and regarded this impact as insignificant.

Functional and presentation currency of the consolidated financial statements

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

The currency of the financial statements of each company in the Group and the reporting currency of the consolidated financial statements is Czech koruna (CZK). Figures in the consolidated financial statements, unless stated otherwise, are presented in thousands of CZK).

Use of estimates and value judgements

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

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

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

- Chapter 4.19.1. - Unbilled natural gas supplies
- Chapter 4.19.2. Unbilled electric power supplies

3. Adoption of new or revised accounting standards and interpretations

Standards and interpretations in effect during the current period

In the current period, the following amendments to the existing standards issued by the International Accounting Standards Board (IASB) and adopted by the European Union are effective:

Effective as of 1 January 2020

- Amendments to IFRS 3 - Definition of an enterprise
- Amendments to IFRS 9, IAS 39 and IFRS 7 - Reform of reference interest rates - phase 1
- Amendments to IAS 1 and IAS 8 - Definitions of the term "significant"
- Revised conceptual framework for financial reporting

Effective as of 1 June 2020

- Amendments to IFRS 16 - Rent reliefs related to the COVID-19 pandemic

Newly issued standards, amendments to standards and their interpretations approved by the EU do not have a significant impact on the Company's financial statements.

New standards, interpretations and amendments to the existing standards issued by IASB but not yet adopted by the European Union:

Newly issued standards, amendments to standards and their interpretations approved by the EU, which are not yet effective and have not been applied by the Company, do not have a significant impact on the Company's financial statements.

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

4.1. Consolidation principles

4.1.1. Subsidiary companies

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

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

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

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

All group transactions within the Group, balances, revenues, and costs are eliminated during consolidation.

4.1.2. Company combinations

Company business combinations are accounted for using the purchase method on the acquisition date, which is the date on which the Company obtains control.

In the case of an acquisition of a business, the Company assesses whether the acquired financial assets and assumed financial liabilities are classified and defined in the manner that corresponds to their contractual, economic and other relevant conditions at the date of purchase.

Non-controlled interests in subsidiaries exist only in MONTSERVIS PRAHA, a.s., as it is 95% owned by the Company.

4.1.3. Goodwill

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

After initial recognition, goodwill is reported at the acquisition cost less accumulated losses in value. The reported goodwill is tested for possible impairment - loss in value.

This test is performed at least once a year or more frequently if there are indicators of possible devaluation of goodwill.

At the acquisition date, goodwill is allocated to those cash-generating units where it is expected that these units will benefit from the synergies arising from the acquisition. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows largely independent of the cash inflows from other assets.

4.2. Intangible assets

4.2.1. Valuation of intangible assets

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

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

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

4.3. Land, buildings, and equipment

4.3.1. Recognition and valuation

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

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

The costs related to acquisition include direct costs incurred in the delivery and putting the assets into working condition, costs associated with dismantling, removal and demolition of existing buildings and equipment and costs incurred to return the affected area back to its original condition.

Impairment of goodwill is established by determining the recoverable amount of the cash-generating units to which goodwill has been allocated. If the recoverable amount of the cash-generating unit is less than its book value, the loss in value is reported.

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

4.2.2. Amortisation

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

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

Subsequent expenditures are included in net book value of the asset or are reported as a separate asset, if it is likely that the Group might achieve a future financial gain with respect to the given item and if the price of the item can be measured reliably.

4.3.2. Depreciation

Plant and equipment are depreciated applying the straight-line method over their estimated useful lives.

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

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

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

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

Land owned by the Group is not depreciated.

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

4.3.3. 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 recognised in the net amount in the consolidated statement of comprehensive income.

4.4. Assets originating from the right of use and lease liabilities

4.4.1. Assets originating from the right of use

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

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

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

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

The Company applies an exemption from recognition for leases that define a lease for 12 months or less as of the effective date of the lease and do not include the option to purchase the underlying asset as well as lease contracts where the underlying asset has a low value. Lease payments for these assets are reported as Other operating expenses.

4.4.2. Lease liabilities

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

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

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

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

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

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

4.5. Impairment in the value of non-financial assets

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

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

4.6. Inventories

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

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

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

4.7. Financial assets

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

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

4.7.1. Financial liabilities at incurred cost

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

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

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

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

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

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

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

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

Application of the simplified approach using the impairment matrix

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

When determining the amount of adjusting entries by simplified procedure, the Group takes the following steps:

- 1) The Group first divides its individual trade receivables into groups with characteristics similar to credit risk.
- 2) In the second step, the Group sets a ratio of historical loss for each group with a similar credit risk. Due to the current pandemic for the year ending 2020, the Group expected the most current loss rate (i.e. % of outstanding receivables due in 2020).

- 3) At the next step, the Group determines the expected losses for each group of receivables, which is further divided into partial categories according to the number of days that they are overdue.
- 4) Subsequently, the Group will enumerate the adjusting entries on the basis of the current gross volume of trade receivables multiplied by the ratio of the expected losses.
- 5) Due to the COVID-19 pandemic, the Group also took into account a risk surcharge, which is based on an estimate of the future development of outstanding receivables, where the Group took into account (in addition to other issues), the amount of outstanding advance payments.

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

The impairment loss is reported in the profit or loss. Unrecoverable trade receivables are depreciated contra the adjustment entries.

The Group depreciates receivables after taking all legal steps associated with collection efforts. Subsequently, the paid amounts for receivables already written off are reported in the profit or loss.

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

4.7.2. Financial assets at fair value reported in profit or loss

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

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

The Group determines whether hedging is effective at the beginning of the hedging instrument application by using the critical parameters method and at least at the financial statements date and at a balance sheet date using the dollar-offset method, which compares cumulative changes in the fair value of the hedging instrument and cumulative changes in the fair value of a hypothetical derivative representing the hedged item.

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

The potential sources of inefficiencies of security are:

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

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

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

4.8. Cash and cash equivalents

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

4.9. Equity

4.9.1. Registered capital

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

4.9.2. Profit funds

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

4.10. Financial liabilities

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

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

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

4.10.1. Financial liabilities posted at fair value to the profit or loss

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

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

4.10.2. Other financial liabilities

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

4.10.3. Trade payables

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

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

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

4.11. Unbilled supplies and advances received

The Group compensates the value of unbilled supplies and advances received. The resulting value, per individual customer, nears the actual receivable from or payable to customers.

Receivables from customers are classified as financial assets, which will be settled in cash. Liabilities towards customers are non-financial liabilities (advances received), which will be settled by supplying gas, electricity, or other non-cash supply.

4.12. Bank loans

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

4.12.1. Lending costs

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

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

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

4.13. Bonds

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

Transaction expenditure (e.g. legal services and other financial costs related to the acquisition of bonds) are accrued over their entire duration, and thus become part of the accrued value of the bonds.

4.14. Provisions

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

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

4.15. Revenues from contracts with customers

The Group reports revenue when the obligation to perform by transfer of the promised goods or services to the customer, who gets control over this asset, is fulfilled, which means after supply of services and goods and their acceptance by the customer.

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

Some one-off discounts and bonuses do not fulfil the definition of an independent liability to be fulfilled, but represent pre-payment for future services. These one-off discounts and bonuses lead to the reporting of contractual assets, which are subsequently amortised for the residual contract term. If discounts and bonuses for the service are provided during the contract term in a non-uniform way, and the monthly service is provided to the customer uniformly, the total revenues from the services are reported on a uniform basis.

In this case, the constant monthly revenues will also be reported in compliance with the IFRS 15. The discount may be provided at the beginning or during the contract term. The discounts and bonuses may be provided gradually, which means that the size of the discount changes during the minimum term of the contract. The discounts and bonuses are reported during the contract term on a linear basis through the contractual asset, which is created in the period of lower payments and subsequently amortised over the residual contract term. When posting contractual assets within the framework of the model of expected loss according to the IFRS 9, the customer's credit risk is considered.

It is typical in the domestic market to conclude combined services agreements with customers where the total price is billed to the customer, both for the commodity and the distribution services, which the trader has purchased at the given distribution company. Distribution service price is a part of the price for combined services provided to customers. The Group concluded that in case of distribution services the Group acts as a responsible entity (and not as a representative) and reports revenues from services in full, including the part representing distribution services.

4.15.1. Incremental costs of obtaining a contract

Sales agent commissions and other costs are treated as incremental costs to obtain a contract with the customer and are reported as an asset. These costs are amortised over the estimated customer retention period and amortisation is reported under Other operating expenses.

4.15.2. Revenues from sales and distribution of natural gas

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

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

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

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

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

Revenues from MO and DOM categories consist of actually billed revenues and revenues from so called "unbilled gas" (see Notes 4.18.1 and 5.1).

The amount of unbilled gas is calculated from the total amount of purchased gas in the particular year based on past behaviour of individual customers and is valued in relation to the valid price list published by the Group, or based on individually set prices and products.

4.15.3. Revenues from sales of electricity

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

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

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

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

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

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

4.15.4. Revenues from sales of goods

These revenues are reported on the date of the release of the goods from the warehouse and are reported minus discounts and VAT. Prices and payment terms are based on individual contracts.

4.15.5. Revenues from miscellaneous services

Sales are reported on the date of the release of the goods from the warehouse and are reported minus discounts and VAT. Prices and payment terms are based on individual contracts.

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

4.16. Foreign currency conversions

Transactions in a foreign currency other than the functional currency of the Group are converted using the exchange rates announced by the Czech National Bank (Česká národní banka - ČNB) as at the transaction date.

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

4.17. Employee Benefits

4.17.1. 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.

4.17.2. Additional pension and life insurance

In accordance with the valid Collective Agreement, the Group makes monthly contributions to pension and life insurance schemes for its employees, which are paid to an independent entity under a defined contribution scheme. These contributions are recognised in profit/loss as incurred.

4.17.3. Other benefits

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

4.17.4. Termination benefits

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

4.18. Taxes

Income tax comprises current and deferred tax.

4.18.1. Current tax

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

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

4.18.2. Deferred tax

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

The deferred tax asset and liability are determined using the tax rate expected to be valid in the period in which the tax asset is realised or the tax liability is settled, according to tax law enacted as at the end of the reporting period. Offsetting the deferred tax asset and liability is allowed when there is a legally enforceable right to offset the current tax asset and the current tax liability and when the deferred tax asset and liability relates to income tax collected by the same tax authority.

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

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

4.19.1. Unbilled gas supplies

The Group management considers the determination of unbilled gas supplies and the distribution fees to low-volume customers and households ("MODOM") to be the most significant area subject to the use of estimates. As of 31 December 2020 the value of unbilled gas and distribution fees to low-volume customers and households represented CZK 2,966,443 thousand (as of 31 December 2019 the amount was CZK 2,919,745 thousand).

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

Unbilled gas supplies to large-volume (VO) and to medium-volume consumers (SO) are also reported in the accounting estimates. These estimates do not carry any risk because they are created on the basis of actual gas meter readings.

Sensitivity analysis:

The percentage ratio of losses to the distributed amount used for calculation of the unbilled gas in 2020 is 2.11%. The median ratio of the balance difference to the distributed amount for the last 6 years is equal to 2.32%. If in 2020 the ratio of losses to the total amount of gas distributed was equal to the long-term average, i.e. it would be less (greater) by 0.20 percentage points (while all other variables would remain unchanged), the pre-tax profit as of 31 December 2020 would be CZK 17,701 thousand higher (lower) due to higher (lower) revenues in the unbilled gas supplies.

4.19.2. Unbilled electric power supplies

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

As of 31 December 2020 the value of unbilled energy and distribution fee to low-volume customers and households represented CZK 705,034 thousand (as of 31 December 2019 the amount was CZK 526,291 thousand).

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

5. Financial Risk Management

5.1. Credit Risk

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

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

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

Trade and other receivables

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

Sensitivity analysis:

The sensitivity analysis of the unbilled electricity segment shows a change in the amount of this item provided that the nomination deviation related to the acquisition of the commodity is included in the input balance. Usually, the amount of this deviation is in the range of 3-5% of the number of technical units sold. In the case of Pražská plynárenská, a.s., the amount of the purchase deviation for 2020 would be around the category of MOO and MOP in the amount of around 19,300 MWh. The fixed price for the valuation of the deviation is set at CZK 1,600 per MWh, which in the case of Pražská plynárenská, a.s., would have an impact on the generation of unbilled electricity in the total amount of ± CZK 30,880 thousand.

Impairment losses are reported in such a manner as to cover both individually significant exposure to credit risk and portfolio loss in the case of assets for which impairment is not assessed individually. Objective proof of the impairment of value in the receivable portfolio includes the past experience of the Group with collection of payments, changes in the internal and external assessments of customers, the Group's current position, and insights into the economy during the expected service life of the receivables.

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

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

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

The Group creates an adjusting entry that represents the estimate of expected credit loss to the trade receivables, to other receivables and contractual assets. Due to the COVID-19 pandemic, the Company also took into account a risk surcharge, which is based on an estimate of the future development of outstanding receivables.

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

Type of receivable (in thousands of CZK)	31 December 2020	31 December 2019
Trade receivables from third parties	628,423	719,029
Trade receivables from related parties	1,145	3,845
Financial trade receivables	629,568	722,874
Adjusting entries for trade receivables	-223,923	-215,473
Net trade receivables – financial	405,645	507,401
Unbilled deliveries	1,494,932	1,508,346
Adjusting entries for unbilled deliveries	-14,679	-11,149
Total trade and other receivables – financial	1,885,898	2,004,598
Short-term operational advances made	38,446	19,689
Other receivables – refinancing	24,525	28,259
Allowances for other receivables and advances paid	-19,471	-20,135
Total trade and other receivables – non-financial	43,500	27,813
Total trade and other receivables – short-term	1,929,398	2,032,411

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

31 December 2020:

Adjusting entries for receivables (in thousands of CZK)	Expected interest risk impairment			
	Level 1	Level 2	Level 3	Total
Cat. MO	21,050	697	57,980	79,727
Cat. DOM	18,626	932	77,035	96,593
Cat. VO	7,636	17	23,985	31,638
Cat. Other	6,309	803	23,532	30,644
Total	53,621	2,449	182,532	238,602

31 December 2019:

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

Cash and cash equivalents and other financial assets

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

The Group performs only financial transactions whose originator or underwriter has a secure creditworthy assessment by the competent autonomous global rating agencies on the investment scale (Moody's Aaa-Baa, Standard & Poor's and Fitch AAA-BBB), while it is also possible to continuously monitor the credit quality indicators through the financial market.

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

Cash and cash equivalents (in thousands of CZK)	Bank rating	31 December 2020	31 December 2019
Cash on hand	not assigned	3,054	3,000
Money in bank accounts	A1	1,240,170	799,284
Short - term investments - bills of exchange ČSOB Leasing (as of 31/ 12/ 2020 amounted to EUR 10 million)	A1	262,450	700,000
Total exposure of cash, cash equivalents, and other financial assets		1,505,674	1,502,284

5.2. Liquidity risk

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

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

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

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

The Group's current short-term external funding structure was established in May 2019 in connection with refinancing of external sources and is contractually secured until May 2023. In July 2020, there were changes in the volumes of credit frames in connection with the repayment of the Company bonds.

Short-term funding structure as at 31 December 2020:

(in thousands of CZK)	Limit	from	to	Interest rate
Overdraft credit lines in CZK	900,000	1/ 7/ 2020	21/ 5/ 2023	floating
Guarantee line	900,000	1/ 7/ 2020	21/ 5/ 2023	fixed
Exchange programme	1,400,000	22/ 5/ 2019	22/ 5/ 2023	floating
Overdraft credit lines in EUR (12 mil.)	314,940	1/ 7/ 2020	21/ 5/ 2023	floating
Overdraft credit lines in EUR (0.5 mil.)	13,123	25/ 5/ 2020	31/ 5/ 2021	floating
Total	3,528,063			

Short term financing also includes overdraft credit lines in CZK and EUR, an exchange programme for drawing the necessary resources in the form bills of exchange through auctions and a line for negotiation of bank guarantees. These external financial resources are provided by a consortium of two banks, i.e. Československá obchodní banka, a.s., and Česká spořitelna, a.s.

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

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

The Group has agreed on a short-term overdraft credit line in EUR maintained at Raiffeisenbank a.s. This line is to be used for trading on the energy exchange.

In 2020, no overdraft lines were drawn. As of 31 December 2020 only funds from the parent company PPH a.s. were drawn in the amount of CZK 62,477 thousand, which represent liabilities from cash-pooling. The average interest rate for cash-pooling between the Group and the parent company PPH a.s. for 2020 was 0.24% p.a.

On 15 June 2020, PP, a.s., bonds 0.90/2020, ISIN CZ0003516809 were repaid in full. Following the repayment of bonds, there were changes in the volume of short-term credit lines.

Short-term funding structure as at 31 December 2019:

(in thousands of CZK)	Limit	from	to	Interest rate
Overdraft credit lines in CZK	600,000	21/ 5/ 2019	21/ 5/ 2023	floating
Guarantee line	700,000	21/ 5/ 2019	21/ 5/ 2023	fixed
Exchange programme	1,400,000	22/ 5/ 2019	22/ 5/ 2023	floating
Overdraft credit lines in EUR	508,200	21/ 5/ 2019	21/ 5/ 2023	floating
PPAS Bond 0.90/2020 ISIN CZ0003516809	400,000	15/ 6/ 2017	15/ 6/ 2020	fixed
Total	3,608,200			

In 2019 no overdraft credit lines were drawn. As of 31 December 2019 only funds from the parent company PPH a.s. were drawn in the amount of CZK 59,926 thousand, which represent liabilities from cash-pooling.

The average interest rate for cash-pooling between the Group and PPH a.s. for 2019 was 1.45% p.a.

The structure of long-term financing as at 31 December 2020 and 31 December 2019:

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

Due to the favourable development on the financial markets, bonds with a floating interest rate in the amount of CZK 2.5 billion were refinanced on 14 November 2016. These bonds were issued in May 2015 by PPD, a.s., in the amount of CZK 2.7 billion with a fixed interest rate and maturity in 2023. The issue rate of these bonds was CZK 97.842% and the emission yield was CZK 2,641,734 thousand. The issued bonds were purchased by Česká spořitelna, a.s., and Československá obchodní banka, a.s. No rights are attached to the bonds (including pre-emptive right of purchase or right of exchange). The bonds are not negotiable. The bonds can be transferred without the prior consent of the issuer only to a person who is a professional customer pursuant to Section 2a(1), of the Capital Market Undertakings Act. A right of lien of Pražská plynárenská, a.s. to the benefit of bonds holders covers the PPD bonds.

In 15 June 2017, the PP, a.s., Group has emitted 80 bonds in total nominal value of CZK 400 million with a maturity of 3 years and a coupon with a fixed interest yield of 0.90% p.a. The bonds were accepted for trading on the regulated stock market (Prague Stock Exchange – Burza cenných papírů Praha, a.s.). The issue rate of these bonds was 99.548% and the emission yield was CZK 398,192 thousand. The issued bonds were purchased by Česká spořitelna, a.s., and Československá obchodní banka, a.s. No pre-emptive right of purchase or right of exchange is attached to the bonds.

The bonds may be freely negotiable and their transferability is unlimited. The issuer may redeem the bonds at any time on the market or otherwise at any price. A part of the process of bonds issuing on the regulated stock market was the issuance of the Bond prospectus. The prospectus was approved by the Czech National Bank on 9 July 2017.

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

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

Bonds issued by the Group:

Bond title	Nominal value of the share (in thousands of CZK)	Issue rate (%)	Date of maturity	Coupon rate p.a. (%)	Coupon maturity	Book value as of 31/12/2020 (in thousands of CZK)	Book value as of 31/12/2019 (in thousands of CZK)
PPAS Bond 0.90/2020 ISIN CZ0003516809	400,000	99.548	15/ 6/ 2020	0.90	annual	0	401,477
PPD Bond 0.70%/2023 ISIN CZ0003515348	2,700,000	97.842	14/ 11/ 2023	0.70	annual	2,677,914	2,669,355

The book value of the bonds has the following structure:

(in thousands of CZK)	Book value as of 2020	Book value as of 2019
PPAS Bond 0.90/2020 ISIN CZ0003516809	0	401,477
PPD Bond 0.70%/2023 ISIN CZ0003515348	2,677,914	2,669,355

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

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

An integral part of the Group funding is the utilisation of the financial resources of all companies belonging to the Group and PPH, a.s. aggregated in the cash-pooling scheme. Using these free resources means that short-term loans from the banks are not drawn. In connection with the conditions under the loan agreements and bond issuance conditions concluded in 2016, 2017 and 2020, financial indicators are monitored at the level of consolidated data of the Group. In the event of their non-fulfilment, the banks may request premature loan repayment and bond redemption. These indicators were fulfilled as of 31 December 2020 and as of 31 December 2019.

31 December 2020:

(in thousands of CZK)	0-3 months	3-6 months	6-12 months	1-3 years	3-5 years	Total
Derivatives (currency forwards and commodity futures)	2,328,818	889,674	287,117	34,371	0	3,539,980
Bonds	0	0	18,900	2,737,800	0	2,756,700
Trade and other liabilities	1,305,254	134	295	1,804	38	1,307,525
Loan from the parent company PPH a.s. - cash pooling	62,477	0	0	0	0	62,477
Total	3,696,549	889,808	306,312	2,773,975	38	7,666,682

31. December 2019:

(in thousands of CZK)	0-3 months	3-6 months	6-12 months	1-3 years	3-5 years	Total
Derivatives (currency forwards and commodity futures)	5,151,723	428,024	451,365	174,076	0	6,205,187
Bonds	0	403,600	18,900	37,800	2,718,900	3,179,200
Trade and other liabilities	1,350,357	27	287	6,091	76	1,356,838
Loan from the parent company PPH a.s. - cash pooling	59,928	0	0	0	0	59,928
Total	6,562,008	831,651	470,552	217,967	2,718,976	10,801,154

Impact of the cost interest related to the bonds on the profit or loss as at 31 December 2020: CZK 29,138 thousand (as of 31 December 2019: CZK 31,426 thousand).

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

The following tables show liabilities grouped by residual period to contractual maturity as at 31 December 2020 and as at 31 December 2019. The size of the liabilities shown in the tables is equivalent to the non-discounted cash flows, including interest, where relevant. The interest is based on the loan amount as at 31 December 2020 and on the interest rates valid on the financial market as of 31 December 2020.

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

Guarantees concluded

The Group has secured its financial liabilities with Československá obchodní banka, a.s., as of 31 December 2020:

- on behalf of TRADE CENTRE PRAHA a.s., and up to CZK 500 thousand CZK (under the Agreement on Combined Supplies of Natural Gas dated 30/ 7/ 2019)
- on behalf of TRADE CENTRE PRAHA a.s., up to CZK 500 thousand (under the agreement on combined supplies of electricity, part 1 dated 2/ 8/ 2019)
- on behalf of TRADE CENTRE PRAHA a.s., up to CZK 500 thousand (under the agreement on combined supplies of electricity, part 2 dated 2/ 8/ 2019)
- on behalf of Čepro a.s., up to CZK 1,000 thousand (under the agreement on gas supply dated 8/ 11/ 2019)
- on behalf of Čepro a.s., up to CZK 1,000 thousand (under the Agreement on combined supplies of electricity dated 21/ 11/ 2019 and under the Agreement on Supplies of electricity from low-voltage networks of 21/ 11/ 2019)
- on behalf of OTE, a. s., up to CZK 150,000 thousand (under the Deviation settlement agreement No. AP 006/09 dated 11/ 12/ 2009)
- on behalf of OTE, a. s., up to CZK 35,000 thousand (under the Deviation settlement agreement No. A3602A3602/14 dated 4/ 12/ 2014 and the Agreement on access to the organised short-term electricity market No. B3602 /14 dated 4/ 12/ 2014)
- on behalf of RWE Supply Trading GmbH, in the amount of EUR 15,000 thousand (CZK 381,150 thousand) due to being present and active on the gas market (according to the EFET Agreement dated 3/ 6/ 2014)
- on behalf of Ředitelství silnic a dálnic ČR, up to the amount of CZK 32 thousand (according to the Agreement No. 4200033782 on subsequent payment conditions with deferred maturity, dated 29/ 11/ 2019);
- on behalf of M – SILNICE, a.s., up to CZK 1,537 thousand (according to the Contract for Work, project No. 925119003 and concluded on 19/ 12/ 2019).

The Group has secured its financial liabilities with Česká spořitelna, a.s., as at 31 December 2020:

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

The Group has secured its financial liabilities with Československá obchodní banka, a.s., as of 31 December 2019:

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

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

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

These guarantees are not included in the consolidated statement of the financial position.

5.3. Market risk

5.3.1. Interest rate risk

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

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

The Group Management monitors interest rate risk on the basis of regular reporting, which includes information about the current interbank interest rates (mainly PRIBOR) and assessment of actual interest expenses. The Group Management is provided with a short term forecast of these interest rates. In 2020 and 2019, the Group did not draw short-term bank loans, but used funds from the cash-pooling scheme.

Sensitivity analysis:

If the interest rate had increased/decreased by 100 basic points while all other variables held constant as of 1 January 2020, the profit before tax as of 31 December 2020 would have been CZK 1,179 thousand lower/higher as a result of the increased/decreased interest expense (as of 31 December 2019: CZK 562 thousand).

5.3.2. Exchange rate risk

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

Movements in exchange rates represent a risk due to the fact that the Group purchases virtually all its gas and electricity in foreign currencies. The choice of currency for purchases made in forward purchases is fully dependent on the overall commercial conditions offered.

The Company always secures the exchange rate risk in the form of currency forwards at the bank up to 100% of the purchased volume. All spot purchase transactions are made in EUR, while a certain portion of these purchases are sold in EUR, or the purchase is made to the portfolio of customers at the listed price using the exchange rate in force on the purchase date. The Group actively manages currency risk through quarterly closing of open foreign currency positions, by setting a stop-loss limit and by managing the purchase of natural gas and electricity in foreign currency, thus maintains full hedging of long-term currency risk.

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

Sensitivity analysis:

If the CZK/EUR exchange rate as of 31 December 2020 had weakened (increased) / strengthened (dropped) by 0.5 CZK/EUR with all other variables held constant as of 31 December 2020, the profit before tax as of 31 December 2020 as a result of revaluation of forward purchases realised as of 31 December 2020 would be CZK 146 thousand higher/lower (as of 31 December 2019: CZK 8,397 thousand).

If the CZK/EUR exchange rate as of 31 December 2020 had weakened (increased) / strengthened (dropped) by 0.5 CZK/EUR while all other variables held constant, the profit before tax as at 31 December 2020 as a result of revaluation of liabilities in EUR would have been CZK 1,760 thousand lower/higher (as of 31 December 2019: CZK 1,456 thousand).

If the CZK/EUR exchange rate had weakened (increased) / strengthened (dropped) by 0.5 CZK/EUR, while all other variables held constant as of 31 December 2020, the profit before tax as of 31 December 2020 as a result of revaluation of liabilities in EUR would have been CZK 1,642 thousand higher/lower (as of 31 December 2019: CZK 1,714 thousand).

(in thousands of CZK)	2020	2019	2020	2019
	increase of 0.5 CZK/EUR		decrease of 0.5 CZK/EUR	
Forward purchases in EUR	146	8,397	-146	-8,397
Liabilities in EUR	-1,760	-1,456	1,760	1,456
Receivables in EUR	1,642	1,714	-1,642	-1,714
Impact on profit before tax	28	8,655	-28	-8,655

If the CZK/EUR exchange rate as of 31 December 2020 had weakened (increased) / strengthened (dropped) by 0.5 CZK/EUR with all other variables held constant as of 31 December 2020, the other total profit as of 31 December 2020 as a result of revaluation of hedged forward purchases realised as of 31 December 2020 would be CZK 65,417 thousand higher/lower (as of 31 December 2019: CZK

110,119 thousand).

(in thousands of CZK)	2020	2019	2020	2019
	increase of 0.5 CZK/EUR		decrease of 0.5 CZK/EUR	
Secured forward purchases in EUR	65,417	110,119	-65,417	-110,119
Impact of total profit / loss result	65,417	110,119	-65,417	-110,119

5.3.3. Derivative financial tools

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

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

Secured cash flows:

31 December 2020:

(in thousands of CZK)	0-3 months	3-6 months	6-12 months	1-3 years	3-5 years	Total
Cash flow hedging future liabilities	2,313,870	882,099	272,156	0	0	3,468,125

31 December 2019:

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

Derivatives securing cash flows:

31 December 2020:

(in thousands of CZK)	Nominal value	Fair value Positive	Fair value Negative	Secured period	Average secured rate
Currency forwards	3,468,125	0	30,272	0-1 year	26,508

31 December 2019:

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

5.4. Fair value estimate

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

The fair value of a currency derivative relative to the nominal value of a trade results from the difference between the agreed forward rate and the expected rate at the maturity of the trade. This currency difference is discounted to the date on which the fair value is determined. The resulting valuation of the net present value is sent by the bank with which the derivative transaction was agreed.

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 5.1.)

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

5.5. Offsetting financial receivables and financial liabilities

31 December 2020:

(in thousands of CZK)	Gross amount of compensation in the Statement of financial position	Gross amount of the offsetting in the statement of financial position	Net amount after compensation in the statement of financial position	The amount which is subject of the framework netting agreement and similar arrangements in the statement of financial position	Total net exposure
Trade and other receivables	1,885,898	0	1,885,898	37,155	1,848,743
Trade and other financial liabilities	1,303,948	0	1,303,948	37,155	1,266,793

31 December 2019:

(in thousands of CZK)	Gross amount of compensation in the Statement of financial position	Gross amount of the offsetting in the statement of financial position	Net amount after compensation in the statement of financial position	The amount which is subject of the framework netting agreement and similar arrangements in the statement of financial position	Total net exposure
Trade and other receivables	2,004,598	0	2,004,598	76,927	1,927,671
Trade and other financial liabilities	1,348,622	0	1,348,622	76,927	1,271,695

5.6. Net profit and losses from financial instruments

(in thousands of CZK)	2020	2019
Trade receivables (particularly depreciation of receivables and creation of provisions)	-26,470	-12,276
Cash and cash equivalents (especially profits from the appreciation of funds)	39,407	7,404
Other financial assets	0	2,870
Bonds (particularly cost interest)	-29,801	-32,300
Financial derivatives (especially losses from derivative transactions)	-33,123	-80,878
Bank loans (particularly cost interest)	-1,345	-1,269
Other financial liabilities (especially currency exchange gains / losses)	-35,090	12,601
Net gains (+) / losses (-) reported in the profit / loss statement	-86,422	-103,848
Financial derivatives in other comprehensive income (settlement)	-30,359	-137,662
Net gains (+) / losses (-) reported in other total income	-30,359	-137,662
Total net gains (+) / losses (-)	-116,781	-241,510

6. Capital Management

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

The goal of capital risk management is to maintain such proportion of equity and liabilities that all financial liabilities are repaid and that the Group's value increase for shareholders is ensured. The Group's management continuously evaluates the current and expected results including planned and potential investments and cash flows, and adjusts the capital structure to achieve these goals.

The goal of the Group is to achieve such business results as to fulfil these financial indicators. In the event of their non-fulfilment, the banks may request premature loan repayment and bond redemption. These indicators were fulfilled as of 31 December 2020 and as of 31 December 2019.

7. Notes to the consolidated financial statements

7.1. Land, buildings, and equipment

Property, plant , and equipment (in thousands of CZK)	Land	Gas pipelines, buildings and other structures	Movables and sets of movables	Boiler installations and other tangible fixed assets	Incomplete tangible fixed assets	Advance payments for tangible fixed assets	Total
Acquisition value							
Balance as of 1/ 1/ 2019	126,070	10,813,013	1,905,362	203,570	132,165	7,280	13,187,460
Purchases	0	0	0	0	808,733	10,607	819,340
Transfers	6,471	597,535	177,917	8,277	-790,200	-10,316	-10,316
Decreases	-1,802	-49,901	-105,694	-4,012	0	0	-161,409
Balance as of 31/ 12/ 2019	130,739	11,360,647	1,977,585	207,835	150,698	7,571	13,835,075
Purchases	0	0	0	0	826,142	10,727	836,869
Transfers	0	675,575	181,856	28,238	-885,669	-10,705	-10,705
Decreases	-103	-73,462	-84,013	-14,464	0	0	-172,042
Balance as of 31/ 12/ 2020	130,636	11,962,760	2,075,428	221,609	91,171	7,593	14,489,197
Accumulated depreciation, impairment, depreciation, recharging							
Balance as of 1/ 1/ 2019	0	4,480,128	1,574,582	84,789	0	0	6,139,499
Depreciation	1802	245,233	113,078	11,597	0	0	371,710
Adjustments	0	-23	-31	0	0	0	-54
Accumulated depreciation for disposals	-1802	-49,396	-94,478	-3,706	0	0	-149,382
Balance as of 31/ 12/ 2019	0	4,675,942	1,593,151	92,680	0	0	6,361,773
Depreciation	0	273,387	116,045	12,055	0	0	401,487
Adjustments	0	-23	0	0	0	0	-23
Accumulated depreciation for disposals	0	-72,939	-83,167	-12,402	0	0	-168,508
Balance as of 31/ 12/ 2020	0	4,876,367	1,626,029	92,333	0	0	6,594,729
Net book value 2019	130,739	6,684,705	384,434	115,155	150,698	7,571	7,473,302
Net book value 2020	130,636	7,086,393	449,399	129,276	91,171	7,593	7,894,468

The most significant part of unfinished investments in tangible fixed assets as of 31 December 2020 and 31 December 2019 consists of investment projects and projects related to building modifications and development of the existing distribution network, which are in various stages of completion and whose project preparation and implementation requires a longer time horizon. Above all, these projects are also related to the value of reported and provided advances for tangible fixed assets, which mainly represent advances for materials and services that are provided by external entities. As of 31 December 2019, another significant part of the value of unfinished fixed assets represented investments in buildings, which are related to the implementation of extensive reconstructions and modernisations projects performed in the Michle facility.

Movables and sets of movables – detail (in thousands of CZK)	Vehicles (means of transport)	Computer equipment	Gas meters, reducers and regulators	Machine equipment for regulating station technology	Other movables	Total
Acquisition value						
Balance as of 1/ 1/ 2019	128,067	124,078	620,018	477,638	555,561	1,905,362
Transfers	22,135	17,713	87,631	3,752	46,686	177,917
Decreases	-11,441	-15,910	-57,078	-4,691	-16,574	-105,694
Balance as of 31/ 12/ 2019	138,761	125,881	650,571	476,699	585,673	1,977,585
Transfers	10,817	13,317	79,418	31,686	46,618	181,856
Decreases	-8,332	-4,933	-49,962	-2,706	-18,080	-84,013
Balance as of 31/ 12/ 2020	141,246	134,265	680,027	505,679	614,211	2,075,428
Accumulated depreciation, adjustments, impairment, recharging						
Balance as of 1/ 1/ 2019	79,278	94,485	528,751	428,453	443,615	1,574,582
Depreciation	17,333	11,891	23,927	27,037	32,890	113,078
Adjustments	0	0	0	0	-31	-31
Accumulated depreciation for disposals	-4,546	-15,677	-57,078	-4,691	-12,486	-94,478
Balance as of 31/ 12/ 2019	92,065	90,699	495,600	450,799	463,988	1,593,151
Depreciation	16,931	14,321	30,107	25,265	29,421	116,045
Accumulated depreciation for disposals	-7,588	-4,927	-49,962	-2,706	-17,984	-83,167
Balance as of 31/ 12/ 2020	101,408	100,093	475,745	473,358	475,425	1,626,029
Net book value 2019	46,696	35,182	154,971	25,900	121,685	384,434
Net book value 2020	39,838	34,172	204,282	32,321	138,786	449,399

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

(i) Up to CZK 3,200 mil. and EUR 12 mil. secured debts of Pražská plynárenská, a.s., from operating financing, which may arise on the basis of the Operating Loan Agreement dated 24 May 2016, as amended and the Bill of Exchange Programme Agreement dated 24 May 2016 as amended, and

(ii) up to CZK 2,700 mil. secured debts of the subsidiary Pražská plynárenská Distribuce, a.s., a member of the Pražská plynárenská, a.s. Group, arising in connection with the issue of PPD bonds 0.70% / 2023, ISIN CZ0003515348 issued by the mentioned subsidiary on the basis of the issuance conditions dated 16 November 2016 and maturing in 2023.

7.2. Intangible assets

Intangible assets (in thousands of CZK)	Goodwill	Software	Assessable rights	Incomplete Long-term intangible assets	Total
Acquisition value					
Balance as of 1/ 1/ 2019	171	710,433	11,790	31,710	754,104
Purchases	20,791	0	0	47,001	67,792
Transfers	0	49,331	2,345	-51,676	0
Decreases	0	-2,892	0	0	-2,892
Balance as of 31/ 12/ 2019	20,962	756,872	14,135	27,035	819,004
Purchases	4,500	0	0	32,296	36,796
Transfers	0	44,435	204	-44,639	0
Decreases	-279	-4,319	0	0	-4,598
Balance as of 31/ 12/ 2020	25,183	796,988	14,339	14,692	851,202

Intangible assets (in thousands of CZK)	Goodwill	Software	Assessable rights	Incomplete Long-term intangible assets	Total
Accumulated depreciation, depreciation, impairment					
Balance as of 1/ 1/ 2019	0	655,477	11,454	0	666,931
Depreciation	0	12,780	509	0	13,289
Accumulated depreciation for disposals	0	-2,415	0	0	-2,415
Balance as of 31/ 12/ 2019	0	665,842	11,963	0	677,805
Depreciation	0	27,787	739	0	28,526
Accumulated depreciation for disposals	0	-4,319	0	0	-4,319
Balance as of 31/ 12/ 2020	0	689,310	12,702	0	702,012
Net book value 2019	20,962	91,030	2,172	27,035	141,199
Net book value 2020	25,183	107,678	1,637	14,692	149,190

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

7.3. Goodwill

As of 31 December 2019 goodwill in the Group includes the incorporation of goodwill due to the acquisition of a 90% ownership in MONTSERVIS PRAHA, a.s. which occurred on 8 March 2019. This goodwill was allocated to the cash-generating unit MONTSERVIS PRAHA, a.s. As of 24 June 2020, Pražská plynárenská, a.s. increased its ownership stake in this company to 95%.

The Group has tested goodwill for value impairment (value in use). Tests performed as of 31 December 2020 did not indicate any decrease in the value of goodwill. Value from the use was calculated on the basis of cash flow budgets, which were based on a medium-term business plan (a three-year period 2021–2023). The business plan has been approved by management and is current as of the time of the value impairment test performance. The business plan is based on the past experience and the expected future developments, while taking into account the current pandemic situation.

Revenues from sales between 2021–2023 reflects the increase in the number of operating boiler rooms. Revenues from construction are constant in 2021–2023; the growth of personnel costs in 2021–2023 in the amount of 2% is based on the collective agreement.

The increase in service costs reflects the increase in the number of operated boiler rooms (re-invoicing of repairs and revision costs) and it also includes rents associated with the relocation of MONTSERVIS PRAHA, a.s., to the Michle complex - in April 2021.

The discounted cash flow method, while using a discount rate of 5.21%, was used to determine the present value of free cash flows that exceed the value of the cash-generating unit. In 2020 and 2019, no impairment of goodwill was found.

7.4. Assets originating from the right of use and lease liabilities

(in thousands of CZK) Non-residential spaces and lands

Acquisition value	
Balance as of 1/ 1/ 2020	55,252
Decreases	-1,953
Balance as of 31/ 12/ 2020	53,299
Accumulated depreciation, depreciation, impairment	
Balance as of 1/ 1/ 2020	5,808
Depreciation	7,532
Balance as of 31/ 12/ 2020	13,340
Net book value 1/ 1/ 2020	49,444
Net book value 31/ 12/ 2020	39,959

(in thousands of CZK) Non-residential spaces and lands

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

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

As of 31 December 2020 the Group reported lease liabilities as follows:

(in thousands of CZK)	0-3 months	3-6 months	6-12 months	1-3 years	3-5 years	5 years or more	Total
Long-term lease liabilities	0	0	0	14,045	8,244	15,772	38,061
Short-term lease liabilities	1,094	1,099	2,680	0	0	0	4,873
Total	1,094	1,099	2,680	14,045	8,244	15,772	42,934

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

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

The total cash flow related to lease liabilities in 2020 amounted to CZK 6,545 thousand , in 2019 amounted to CZK 7,244 thousand .

Interest expenses from lease liabilities included in the 2020 financial expenses are reported in Chapter 7.28.

Short-term lease expenses included in Other operating expenses and leasing of low-value assets, which are not reclassified as lease liabilities, are reported in Chapter 7.27.

7.5. Inventories

Inventories represent mainly gas stored in the gas storage. This gas was extracted in 2020 and recognised as consumption in the amount of CZK 571,520 thousand (in 2019: 534,176 thousand CZK).

No surpluses and/or shortfalls in inventories were found during stock-taking in 2020.

7.6. Short-term and other receivables

Type of receivable (in thousands of CZK)	31 December 2020	31 December 2019
Trade receivables from third parties	628,423	719,029
Trade receivables from related parties	1,145	3,845
Financial trade receivables	629,568	722,874
Adjusting entries for trade receivables	-223,923	-215,473
Net trade receivables – financial	405,645	507,401
Unbilled deliveries	1,494,932	1,508,346
Adjusting entries for unbilled deliveries	-14,679	-11,149
Total trade and other receivables – financial	1,885,898	2,004,598
Short-term operational advances made	38,446	19,689
Other receivables – refinancing	24,525	28,259
Allowances for other receivables and advances paid	-19,471	-20,135
Total trade and other receivables – non-financial	43,500	27,813
Total trade and other receivables – short-term	1,929,398	2,032,411

Short-term operating advances provided to individual suppliers for natural gas and electricity purchases and purchases of gas distribution services were offset with anticipated payables created In 2020 the offset amount of advances with estimated payables was CZK 785,254 thousand (2019: CZK 641,356 thousand).

Outstanding trade receivables have not been secured. Receivables from related parties are defined in detail in Chapter 7.32.

The age structure of outstanding trade and other receivables that have not been classified as impaired as of the date of the consolidated financial statements is as follows:

Receivables overdue (in thousands of CZK)	31 December 2020	31 December 2019
up to 30 days	27,611	36,068
Total	27,611	36,068

The age structure of trade and other receivables that have been classified as impaired as of the date of the consolidated financial statements is as follows:

Receivables overdue (in thousands of CZK)	31 December 2020	31 December 2019
up to 6 months	45,707	46,605
6 to 12 months	12,111	14,364
more than 1 year	174,726	204,232
Total	232,544	265,201

Changes in adjusting entries for trade receivables may be analysed as follows:

Adjusting entries for receivables (in thousands of CZK)	31 December 2020	31 December 2019
Initial balance as of 1 January	226,622	236,729
Creation of an allowance for receivables	33,082	11,473
Use of the allowance	21,102	21,580
Final balance as of 31 December	238,602	226,622

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

31 December 2020:

Adjusting entries for receivables (in thousands of CZK)	Expected interest risk impairment			
	Level 1	Level 2	Level 3	Total
Cat. MO	21,050	697	57,980	79,727
Cat. DOM	18,626	932	77,035	96,593
Cat. VO	7,636	17	23,985	31,638
Cat. Other	6,309	803	23,532	30,644
Total	53,621	2,449	182,532	238,602

31 December 2019:

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

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

Loss due to depreciation of financial assets (in thousands of CZK)	31 December 2020	31 December 2019
Change in adjustment entry – to existing receivables	9,732	-11,855
Loss due to receivables written-off	21,102	21,580
Loss due to depreciation of financial assets - total	30,834	9,725

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

7.7. Cash and cash equivalents

As of 18 December 2020, the Group acquired corporate bills of exchange of total worth EUR 10,000 thousand due on 4 January 2021. The yield to maturity was 0.00% p.a. This financial operation optimised the Group's cash-flow positions in bank accounts in relation to the obligatory payments of banks to the resolution fund according to the applicable legislation valid since 31 December 2020 while providing the necessary euro funding for the purchase of commodities in early 2021.

The Group acquired the corporate bills of exchange of total value of CZK 700,000 thousand with maturity in January 2020. The yield to maturity was 0.50% p.a.

The structure of cash and cash equivalents is shown below:

Cash and cash equivalents (in thousands of CZK)	31 December 2020	31 December 2019
Cash on hand	3,054	3,000
Money in bank accounts	1,240,170	799,284
Short-term investments – bills	262,450	700,000
Total	1,505,674	1,502,284

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

7.8. Other assets

Other assets (in thousands of CZK)	31 December 2020	31 December 2019
Receivables from revaluation of commodity derivatives to fair value	0	19,169
Liabilities from revaluation of trade derivatives at fair value	6	0
Other (especially capitalised costs)	22,760	26,527
Other assets - total	22,766	45,696

7.9. Incremental costs of obtaining a contract

Incremental costs (in thousands of CZK)	31 December 2020	31 December 2019
Commission paid to traders - long-term part	29,856	32,712
Commission paid to traders - short-term part	28,804	11,471
Incremental costs - total	58,660	44,183

The incremental costs to obtain a contract represent the commissions of sales representatives.

7.10. Contract assets

Contract assets (in thousands of CZK)	31 December 2020	31 December 2019
Bonuses to customers - long-term part	54,559	40,253
Bonuses to customers - short-term part	19,369	48,362
Contract assets – total	73,928	88,615

Contract assets represent bonuses to customers for negotiating a contract or amendments.

7.11. Registered capital

Form of shares	2020		2019	
	Number of pieces	Nominal value (CZK)	Number of pieces	Nominal value (CZK)
Bearer shares	950,338	300	950,338	300
Registered shares	489,569	300	489,569	300
Total	1,439,907		1,439,907	
Total share capital		431,972,100		431,972,100

Bearer shares are issued in book-registered form.

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

- Right to a share of the profit,
- The right to vote,
- The right to request and receive an explanation at the General Assembly on matters relating to the Group or for the exercise of shareholder rights,
- The right to present proposals and counter-proposals on matters included on the agenda of the General Assembly,
- The rights of qualified shareholders to ask the Board of Directors to convene a General Assembly and the Supervisory Board to review the performance of the Board of Directors,
- The right to bring a lawsuit action against a member of the Board of Directors or the Supervisory Board, the right to seek repayment of the issue price against shareholders who defaulted on repayment,
- The right to require the compulsory transfer of the securities,
- The right to a share in the liquidation balance.

7.12. Profit funds

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

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

7.13. Cash flow secure fund

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

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

(in thousands of CZK)	31 December 2020	31 December 2019
Balance as of the beginning of the year	-111,506	0
Change in fair value of securing derivatives	107,303	-137,662
Related deferred income tax	-20,388	26,156
Balance as of the end of year	-24,591	-111,506
Reclassification as a complete result for the monitored period (in thousands of CZK)	2020	2019
Profit after tax	1,166,649	901,511
Fair value of non-matured securing derivatives	-30,272	-83,912
Fair value of matured continuous securing derivatives	-87	-53,750
Effective component of the fair value of securing derivatives	-30,359	-137,662
Deferred tax receivable from securing derivatives (19%)	5,768	26,156
Total performance for the period	1,142,058	790,005

7.14. Trade liabilities and other long-term liabilities

Other liabilities (in thousands of CZK) Maturity	Long-term advances received	Other long-term liabilities	Total
Balance as of 31/ 12/ 2019	50	6,166	6,216
– of which: due in less than 5 years	50	6,166	6,216
Balance as of 31/ 12/ 2020	50	1,842	1,892
– of which: due in less than 5 years	50	1,842	1,892
Total as of 31/ 12/ 2019	50	6,166	6,216
Total as of 31/ 12/ 2020	50	1,842	1,892

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

Trade payables, advances, principals received – current (in thousands of CZK)	31 December 2020	31 December 2019
Trade liabilities payable to third parties	1,291,243	1,337,961
Trade payables to related parties	12,705	10,661
Operating advances and short-term principals received (non-financial liabilities)	1,711,406	1,851,635
Trade payables, advances received and principals - total	3,015,354	3,200,257

Total trade payables and advances received – short-term (based on maturity) (in thousands of CZK)	Trade payables	Short-term advances received and principals	Contingent liability accounts (Estimated payables)	Total
Balance as of 31/ 12/ 2019	135,157	1,851,635	1,213,465	3,200,257
– of which: due in less than 6 months	129,534	1,851,635	1,218,801	3,199,970
– of which: due from 6 months to 1 year	287	0	0	287
Balance as of 31/ 12/ 2020	84,547	1,711,406	1,219,401	3,015,354
– of which: due in less than 6 months	84,252	1,711,406	1,219,401	3,015,059
– of which: due from 6 months to 1 year	295	0	0	295
Total as of 31/ 12/ 2020	84,547	1,711,406	1,219,401	3,015,354

Liabilities to related parties are defined in detail in Chapter 7.32.

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

As of 31 December 2020, funds from the parent company PPH a.s. were drawn in the amount of CZK 62,477 thousand (as of 31 December, 2019: CZK 59,926 thousand), which represent liabilities related to cash-pulling and in 2020 and these carried an interest rate as follows: in 01-05/2020: O/N PRIBOR -0.60% p.a., between 06-10/2020: O/N PRIBOR -0.20% p.a., between 11-12/2020: O/N PRIBOR + -0.15% p.a.

which represent liabilities related to cash-pulling and in 2019 and these carried an interest rate as follows: between 01-04/2019: O/N PRIBOR +0.05% p.a., in 05/2019: fixed rate 0.75% p.a., in 06-07/2019: fixed rate 1.30% p.a., in 08-12/2019: O/N PRIBOR -0.60% p.a. As for financial instruments drawn under cash-pooling in 2020, the debit interest rate was as follows: between 01–12 / 2020: O/N PRIBOR + +0.25% p.a. In 2019 the carried debit interest rate was: between 01-05/2019: O/N PRIBOR +0.50% p.a., between 06-12/2019: O/N PRIBOR + +0.25% p.a.

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

7.15.1. Derivatives

7.15.1.1. Financial derivatives for trading

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

(in thousands of CZK)	31 December 2020			31 December 2019		
	Fair value - positive	Fair value - negative	Nominal value	Fair value - positive	Fair value - negative	Nominal value
Currency forwards	6	0	7,638	0	9,208	437,252
Commodity futures	0	17,479	64,217	19,169	0	67,383

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

Losses from the settlement of trade derivatives reported in profit / loss for 2020, amount to CZK 33,023 thousand of which the costs arising from the settlement of trade derivatives amount to CZK 34,575 thousand and revenues arising from the settlement of trade derivatives amount to CZK 1,551 thousand, see Chapter 7.28. and 7.29.

In 2019, losses from the settlement of trade derivatives reported in the comprehensive profit / loss statement were CZK 80,871 thousand of which the costs arising from the settlement of trade derivatives amount to CZK 117,347 thousand and revenues arising from the settlement of trade derivatives amount to CZK 36,476 thousand, see Chapter 7.28. and 7.29.

7.16. Unbilled supplies and advances received

as of 31 December 2020 (in thousands of CZK)	Cat. DOM	Cat. MO	Cat. VO/SO	Other	Total
Unbilled deliveries	1,799,873	1,166,051	567,258	999,674	4,532,857
Advance payments received	-2,049,160	-1,499,656	-336,601	-741,227	-4,626,644
Clearing of Accounts	1,669,059	680,137	336,601	352,128	3,037,925
Unbilled deliveries – after netting	130,814	485,914	230,657	647,546	1,494,932
Advances received – after netting	-380,101	-819,520	0	-389,099	-1,588,719

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

7.17. Bank loans and bonds

The details of bank loans and bonds issued are given in Chapter 5.2

In connection with the conditions under the loan agreements and bond issuance conditions concluded in 2016, 2017 and 2020, financial indicators are monitored at the level of consolidated data of the Group. In the event of their non-fulfilment, the banks may request premature loan repayment and bond redemption. These indicators were fulfilled as of 31 December 2020 and as of 31 December 2019.

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

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

(in thousands of CZK)	31 December 2019	Cash flows	Non-cash flows – Revaluation of liabilities using the effective interest rate method	31 December 2020
PP Bonds	401,477	-403,600	2,123	0
PPD Bonds	2,669,355	-18,900	27,459	2,677,914
Loan from the parent company PPH a.s. – cash-pooling (see item 7.32.)	59,926	2,401	150	62,477
Total	3,130,758	-420,099	29,732	2,740,391

(in thousands of CZK)	31 December 2018	Cash flows	Non-cash flows – Revaluation of liabilities using the effective interest rate method	31 December 2019
PP Bonds	400,526	-3,600	4,551	401,477
PPD Bonds	2,660,795	-18,900	27,460	2,669,355
Loan from the parent company PPH a.s. – cash-pooling (see item 7.32.)	51,493	7,605	828	59,926
Total	3,112,814	-14,895	32,839	3,130,758

7.18. Other liabilities

Other liabilities (in thousands of CZK)	31 December 2020	31 December 2019
Loan from the parent company PPH a.s.	62,477	59,926
Liabilities from revaluation of currency derivatives at fair value	0	9,208
Liabilities from revaluation of commodity derivatives to fair value	17,479	0
Liabilities from revaluation of securing derivatives to fair value	30,272	83,912
Other financial liabilities	1,735	1,735
Total financial liabilities	111,963	154,781
Payables towards employees	181,849	181,294
Payables towards social insurance institutions	21,115	19,400
Other liabilities – non-financial	12,955	6,807
Non-financial liabilities - total	215,919	207,501
Other liabilities - total	327,882	362,282

Liabilities payable to employees also include liabilities related to wages and unpaid future liabilities payable to the members of the statutory bodies of the Group according to contracts describing executive performance (Chapter 4.17.4) in the amount of CZK 60,285 thousand (2019: CZK 57,862 thousand).

7.19. Deferred tax receivables and liabilities

Compensation of deferred tax assets and liabilities was as follows:

Deferred tax liability (+) and deferred tax receivable (-) (in thousands of CZK)	31 December 2020	31 December 2019
Deferred tax asset to be recovered after more than 12 months	5,561	45,823
Deferred tax asset to be recovered within 12 months	43,719	36,205
Deferred tax liability payable after more than 12 months	-615,677	-606,407
Deferred tax liability payable within 12 months	-9,153	-11,368
Net deferred tax liability	-575,550	-535,747

Deferred tax was calculated at 19% (the rate for 2019 and subsequent years was used).

Deferred tax liability (+) and deferred tax receivable (-) (in thousands of CZK)	31 December 2020	31 December 2019
The item represents deferred tax from the following titles		
Difference in the residual prices of fixed assets	-601,947	-562,983
Tax non-deductible part of allowances for receivables	17,549	9,973
Other provisions, adjustment entries and temporary differences	2,102	42,418
Lease liabilities	565	110
Change in fair value of hedging derivative	5,768	-26,156
Incremental costs of obtaining a contract	-25,191	-25,232
Obligations towards employees and board members	25,604	26,122
Total	-575,550	-535,747

Deferred tax liability (-) and deferred tax receivable (+) CZK)	Difference in the residual prices of fixed assets	Tax non-deductible part of allowances for receivables	Obligations towards employees and board members	Other	Total
31 December 2019	-562,983	9,973	26,122	-8,859	-535,747
profit (+) / loss (-)	-38,964	7,576	-518	12,491	-19,415
Other total performance	0	0	0	-20,388	-20,388
31 December 2020	-601,947	17,549	25,604	-16,756	-575,550

Deferred tax liability (-) and deferred tax receivable (+) CZK)	Difference in the residual prices of fixed assets	Tax non-deductible part of allowances for receivables	Obligations towards employees and board members	Other	Total
31 December 2018	-531,485	9,378	22,901	4,714	-494,492
profit (+) / loss (-)	-31,498	595	3,221	12,583	-15,099
Other total performance	0	0	0	-26,156	-26,156
31 December 2019	-562,983	9,973	26,122	-8,859	-535,747

7.20. Other tax liabilities

Other tax liabilities in 2020 consist of personal income tax in the amount of CZK 7,534 thousand (2019: CZK 6,749 thousand), VAT in the amount of CZK 82,364 thousand CZK (2019: CZK 101,345 thousand) and other taxes and charges in the amount of CZK 6,438 thousand (2019: CZK 6,516 thousand).

7.21. Provisions

Provisions (in thousands of CZK)	Long-term	Short-term
Book value		
Balance as of 1/ 1/ 2019	0	287,823
Creation of provisions	144,872	0
Reversals of provisions	0	-76,177
Use of provisions	0	-210,296
Balance as of 31/ 12/ 2019	144,872	1,350
Creation of provisions	824	0
Reversals of provisions	-10,026	-1,350
Use of provisions	-128	0
Recharging of provisions	-101,968	101,968
Balance as of 31/ 12/ 2020	33,574	101,968
Net book value 2019	144,872	1,350
Net book value 2020	33,574	101,968

Provisions as at 31 December 2020 mainly include a provision for late interest in the amount of CZK 102 mil. (CZK 112 million as of 31 December 2019) and repair of environmental impact in the amount of CZK 15 mil. (CZK 15 million as of 31 December 2019). The provision for late interest was released in full in January 2021.

The provision for the repair of environmental impact was recorded on the basis of an analysis of the risks of residual pollution in the Group facility, which included the valuation of corrective measures in the area of the former naphthalene plant. This is primarily a liability of the state towards the Group, on the basis of a contract where the repair of most environmental burdens has already been carried out at the expense of the state.

At present, the state (MoF CR) is financing a survey of the affected locality and the event is included in the long-term plan of the MoF CR. The exact date of the repair work is not yet known. Further, the share of costs that will be covered by state funds and how much will be paid by the Group is not known.

7.22. Revenues from sales

Sales (in thousands of CZK)	2020	2019
Sale of natural gas	7,172,835	8,100,409
Sale of own and foreign gas	3,429,762	3,339,340
Sale of heat and CNG	175,404	161,947
Sale of flexibility	2,798	3,675
Sale of electricity	2,196,362	1,642,871
Sale of foreign distributions of electricity	1,963,768	1,382,222
Other services	259,150	247,070
– of which: revenues from asset repairs and maintenance	29,637	33,678
– of which: revenues from construction of gas pipelines	47,498	76,583
- of which: revenues from earthworks	14,167	19,651
– of which: revenues from other services	167,848	117,158
Sale of goods and products (services)	6,687	9,164
Revenues from contracts with customers	15,206,766	14,886,698
Revenues from property leases	13,013	15,585
Total	15,219,779	14,902,283

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

Purchased gas, electricity, materials and services connected with gas and electricity supplies (in thousands of CZK)	2020	2019
Costs of gas purchases	6,412,587	7,389,115
- of which: gas reservoir costs	119,196	178,552
Gas distribution fee	1,188,463	1,131,113
Costs of electricity purchases	2,139,078	1,620,911
Electricity distribution fee	1,966,580	1,385,637
Purchasing expenses - total	11,706,708	11,526,776
Derivative transactions expense - secured	16,710	32,331
Total	11,723,418	11,559,107

7.24. Other operating income

Other operating income (in thousands of CZK)	2020	2019
Profit from sales of fixed assets	3,223	2,761
Income from sale of material	6,992	9,008
Income from write-off of receivables	912	1,513
Income from write-off of lapsed liabilities	6,799	6,572
Court fee compensations	4,522	5,786
Benefits from insurance (indemnity)	2,697	1,830
Other	36,726	22,124
Total	61,871	49,594

7.25. Personnel costs

Personnel costs (in thousands of CZK)	2020	2019
Employees	655,358	656,957
Members of statutory bodies	96,291	113,475
Future benefits to members of statutory bodies provided under contract defining their executive performance (Chapter 4.17.4)	444	1,479
Total	752,093	771,911

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

During 2020 and 2019 no loans or credit lines were provided to members of the Board of Directors, members of the Supervisory Board or to other management members of the Group. Company cars, computers and telecommunication equipment are available for use by the Board members and other executives.

In 2020, the personnel costs of members of statutory bodies included also dividends paid to members of statutory bodies in the amount of CZK 13,550 thousand (2019: CZK 29,908 thousand and paid benefits according to executive contracts (see Chapter 4.17.4) in the amount of CZK 324 thousand (2019: CZK 1,981 thousand).

Contributions to the State pension scheme (on the basis of defined contributions) in 2020 amounted to CZK 110,181 thousand per employee (2019: CZK 110,987 thousand) and CZK 7,740 thousand for members of statutory bodies (2019: CZK 8,350 thousand).

7.26. Depreciation of fixed assets

Depreciation of fixed assets (in thousands of CZK)	2020	2019
Depreciation of buildings and other structures	30,125	29,957
Depreciation of pipelines	237,877	209,721
Depreciation of the buildings of regulating stations	5,385	5,555
Depreciation of the technology of regulating stations	25,265	27,037
Depreciation of gas meters, reducers and regulators	30,107	23,927
Depreciation of boiler installations and other fixed assets	12,055	11,597
Depreciation of vehicles	16,931	17,333
Depreciation of intangible assets	28,526	13,289
Depreciation of IT equipment	14,321	11,891
Depreciation of other movables	29,421	32,890
– of which: depreciation of other gas facilities	12,879	16,989
– of which: depreciation of other assets (inventory, and the like)	16,542	15,901
Depreciation of assets originating from the right of use	7,532	5,808
Net book value of discarded lands	0	1,802
Total	437,545	390,807

7.27. Other operating costs

Other operating cost (in thousands of CZK)	2020	2019
Consumption of materials and energy	107,317	99,321
Costs of goods	2,951	7,094
Lease fees	70,339	63,410
Services	673,414	661,147
– of which: asset repair and maintenance costs	367,673	350,401
– of which: claims collection costs	9,711	11,109
– of which: promotion, advertising and marketing costs	75,792	77,567
– of which: IT systems management and maintenance costs	81,242	65,661
– of which: business representatives' commissions	33,890	43,359
– of which: consulting costs	22,984	26,426
– of which: gas meter reading costs	16,175	17,784
– of which: telecommunication service and postal charges	9,946	10,991
– of which: educational costs	3,862	4,638
– of which: costs of other services	52,139	53,211
Taxes, fees and other fees	39,657	90,162
Total	893,678	921,134

Information on fees paid to the auditing company is disclosed in the Annex to the consolidated financial statements of Pražská plynárenská Holding, a.s., as of 31 December 2020.

7.28. Financial costs

Financial costs (in thousands of CZK)	2020	2019
Interest expense	30,401	34,372
Lease liabilities - interest paid	900	1,008
Cost paid to settle trade derivatives	34,575	117,348
Bank charges	6,187	6,817
Other financial expense	148,457	29,014
Total	220,520	188,559

Other financial expenses represent mainly foreign exchange differences.

7.29. Financial revenues

Financial revenues (in thousands of CZK)	2020	2019
Interest income	8,140	17,570
Income from contractual fines and default interest	4,690	5,174
Cost paid to settle trade derivatives	1,552	36,477
Other financial revenues	149,682	39,087
Total	164,064	98,308

Other financial income and expenses represent mainly foreign exchange differences.

7.30. Income tax

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

(in thousands of CZK)	2020	2019
Income tax – current	203,701	234,923
Income tax – previous years adjustment	-2,139	5,103
Income tax – deferred	19,415	67,405
Income tax - paid	220,977	307,431

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

(in thousands of CZK)	2020	2019
Profit before tax	1,387,626	1,208,942
Income tax at the statutory rate of 19%	263,649	229,699
Non-taxable income	-596	-1,695
Tax non-deductible expenses	-19,950	11,236
Gifts	-587	-602
Other	-21,539	68,793
Income tax - paid	220,977	307,431

7.31. Dividends paid

On 27 July 2020 a dividend in the amount of CZK 608,000 thousand (CZK 422 per share) was paid, and in 2019: CZK 514,000 thousand (CZK 357 per share).

7.32. Related party transactions and balances

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

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

Controlling entity (PPH a.s.)

Revenues (in thousands of CZK)	2020	2019
Revenues from sale of services	892	902
Total revenues	892	902

Costs (in thousands of CZK)	2020	2019
Other costs	292	828
Total costs	292	828

Ultimate parent company (HMP - Capital City of Prague)

Revenues (in thousands of CZK)	2020	2019
Revenues from sale of services	23,789	24,527
Total revenues	23,789	24,527

Costs (in thousands of CZK)	2020	2019
Purchase of other services	5,395	973
Other costs	4	3
Total costs	5,399	976

Other related parties

Revenues (in thousands of CZK)	2020	2019
Revenues from sale of services	1,369	2,403
Revenue from sold property	0	765
Other revenue	37	0
Total revenues	1,406	3,168

Costs (in thousands of CZK)	2020	2019
Purchase of other services	91,972	95,827
Other costs	991	168
Total costs	92,963	95,995

The Group recognised the following balances with related parties:

Controlling entity (PPH a.s.)

Receivables and liabilities (in thousands of CZK)	31 December 2020	31 December 2019
Trade receivables	1	3
Contingent asset accounts	22	0
Total receivables	23	3
Trade payables	0	2
Short-term advances received*	24	0
Financial resources from PPH a.s.	62,477	59,926
Other liabilities	5	75
Total accounts payable	62,506	60,003

* these balances are reported with VAT.

Ultimate parent company (HMP)

Receivables and liabilities (in thousands of CZK)	31 December 2020	31 December 2019
Trade receivables	1,111	2,726
Total receivables	1,111	2,726
Trade payables	44	182
Short-term advances received*	30	30
Total accounts payable	74	212

* these balances are reported with VAT.

Other related parties

Receivables and liabilities (in thousands of CZK)	31 December 2020	31 December 2019
Trade receivables	33	1,116
Short-term advances paid*	974	315
Total receivables	1,007	1,431
Trade payables	12,661	10,477
Total accounts payable	13,793	15,770

* these balances are reported with VAT.

Dividends paid to shareholders in 2020 and 2019 are disclosed in Chapter 7.31.

Transactions and balances with key management are disclosed in Chapter 7.25. and 7.18.

7.33. Regulatory framework

Under the granted licences, the Group trades in natural gas and electricity.

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

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

b) Gas distribution – price regulation

The prices for natural gas distribution on the Czech gas market are regulated in accordance with the Energy Act and published in the price list of the independent regulatory body, the Energy Regulatory Office.

The past year was the last year of the fourth regulatory period, but especially it was the year when the rules and parameters for the forthcoming fifth regulatory period were set, i.e. the years 2021–2025. The final setting of the fifth regulatory period gives PPD, a.s., a solid basis for responsible renewal, maintenance and repair of the distribution network.

The Energy Regulatory Office determines for PPD, a.s., in accordance with applicable legislation, the permitted revenues from licensed activities.

Other related parties represent companies and affiliates controlled by the ultimate parent company (Capital City of Prague).

In 2020, the Company received permitted revenues through prices and conditions set out in Price decision No. 4/2019 dated November 2019, on regulated prices related to gas supply, with effect from 1 January 2020. Further, the parameters of revenues were adjusted in Price decision No. 1/2020 dated 23 April 2020 amending the ERO Price decision No. 4/2019 dated 26 November 2019 on regulated prices related to gas supply. This step by the ERO to adjust the price decision was triggered by the first wave of the COVID-19 pandemic.

It is also in the competence of the Authority to protect the legitimate interests of the licensees whose activity is regulated in compliance with Section 17 (4) of the Energy Act. The legislative framework of price regulation that is stipulated under Section 19a (1) of the Energy Act guarantees coverage of the legitimate (justified) costs to the regulated subjects to ensure reliable, safe and efficient performance of the licensed activity, also depreciation and reasonable profit to ensure return on investments in facilities used to perform the licensed activity. The price regulation policies, among other things, also state the procedure in the event of deviations between the regulated revenues for the regulated year and the subsequently truly achieved revenues in the regulated year. In such scenario, the Energy Regulatory Office shall compensate for the deviation during the next period.

7.34. Contractual and other future commitments

The expenditure for the acquisition of tangible and intangible assets contracted as of 31 December 2020, which have not yet been incurred, amounts to CZK 497,860 thousand (2019: CZK 475,807 thousand).

(in thousands of CZK)	2020	2019
Up to 1 year	116,747	137,683
1-3 years	269,074	237,906
3-5 years	85,203	73,736
Above 5 years	26,836	26,482
Total	497,860	475,807

The sum of future minimum lease payments within non-cancellable operating leases, mainly due to the lease of capacity in the gas storage facility, which were not reclassified as lease liabilities (excluding applicable VAT) as at 31 December 2020 amounted to CZK 363,804 thousand. (as of 31 December, 2019: CZK 470,168 thousand)

(in thousands of CZK)	2020	2019
Up to 1 year	122,843	141,278
1-3 years	158,450	179,688
3-5 years	80,475	132,946
Above 5 years	2,036	16,256
Total	363,804	470,168

8. Other facts

8.1. Contingent liabilities

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

The Group management is not aware of any important potential Group liabilities as of 31 December 2020 apart those mentioned in Chapter 7.21.

8.2. Events after the date of the financial statements

Teplu pro Kbely, a.s. was founded on 19 January 2021. It is a joint venture between Prometheus, energetické služby, a.s., a member of the Pražská plynárenská, a.s. Group, and the Prague 19 Kbely district. The shareholder agreement was signed on 22 October 2020.

The Supervisory Board of Pražská plynárenská, a.s., at its meeting on 15 January 2021, removed Ing. Pavel Janeček from his position as a member of the Board and elected Ing. Martin Pacovský, MBA, with effect from 15 January 2021, as a member of the Board of Directors of PP, a.s.,

Further, the Supervisory Board of PP, a.s., took note of the resignation of Ing. Milan Jadloviský from his position as a member of the Board of Directors, and at his request approved the date of termination of his position on 30 April 2021.

The Board of Directors of PPH a.s., within the competence of the General Assembly of PP, a.s., accepted at its meeting on 11 February 2021 the resignation of the member of the Supervisory Board of PP, a.s., Mgr. Redy Ífrah. Starting on 12 February 2021, the vacant position was be taken by Martin Šenkýř.

8.3. Authorisation of the financial statements

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

Prague, 23 March 2021

Ing. Martin Pacovský, MBA
Chairman of the Board of the Directors
Pražská plynárenská, a.s.

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

THE FAMOUS WORKS OF CZECH ARTISTS
WERE CREATED IN THE COMFORT OF
THEIR HOMES EVEN TODAY, **WE**
SUPPORT CREATIVE ENERGY BY
SUPPLYING GREEN ENERGY.



VIII. Information about the People Responsible for the Annual Report and Verification of the Financial Statements

Ing. Martin Pacovský, MBA, Chairman of the Board of the Directors of Pražská plynárenská, a.s.,
and
Ing. Milan Jadlovský, Vice-Chairman of the Board of the Directors of Pražská plynárenská, a.s.,

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

23 March 2021

23 March 2021

Ing. Martin Pacovský, MBA

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

Ing. Milan Jadlovský

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

The Company's financial statements for 2020 were audited by PricewaterhouseCoopers Audit, s.r.o, registered office at Hvězdova 1734/2c, 140 00, Prague 4, Company ID No.: 407 65 521, registered in the Business Register maintained by the Municipal Court in Prague, section C, file 3637 and on the list of auditing companies at the Chamber of Auditors of the Czech Republic under Licence No. 021.

The Company's consolidated financial statements for 2020 were audited by PricewaterhouseCoopers Audit, s. r. o, registered office at Hvězdova 1734/2c, 140 00 Prague 4 Company ID: 407 65 521, registered in the Commercial Register maintained by the Municipal Court in Prague, section C, file 3637 and on the list of auditing companies at the Chamber of Auditors of the Czech Republic under Licence No. 021.



WE PROVIDED LIGHT FOR THE
SELF-EMPLOYED AT THE TIME
OF THE FIRST REPUBLIC **AND**
YOU CAN RELY ON US
TODAY TOO.

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ours:
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IX. Report on relations between the controlling and controlled entity and relations between the controlled entity and other entities under the control of the same entity (affiliates) for 2020

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

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

), hereinafter referred to as the "Corporate Act", for the accounting period of 2020 (hereinafter referred to as the "Relevant period"). The report was prepared by the Board of Directors pursuant to Section 82 of the cited Act, while taking into account the provisions of Section 504 of Act No. 89/2012 Coll., of the Civil Code, which defines trade secret regulations.

Introduction

The enclosed graphical representation of the shareholder structure of Pražská plynárenská, a.s., (hereinafter referred to as "PP, a.s.") as at 31 December 2020 shows the basic relations between the related parties. The graph shows that the controlling entity - Pražská plynárenská Holding a.s. As the graph shows, the controlling party Pražská plynárenská Holding a.s. (hereinafter referred to as "PPH a.s.") is controlled by another party, the Capital City of Prague, which holds 100% of the registered capital of PPH a.s.

Based on the Articles of Incorporation of PPH, a.s., the sole shareholder elects and recalls members of the Board of Directors and the Supervisory Board, as the shareholder acts in the capacity of the General Assembly (as of 31 December 2019, it was the Capital City of Prague).

The Board of Directors of PP, a.s., in this report describes the relations between:

- PP, a.s., and PPH a.s., i.e. the controlled party and the party directly controlling the controlled party,
- related parties, i.e. PP, a.s., and the Capital City of Prague, the party indirectly controlling the controlled party and its controlled parties.

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

1. Structure of the control relations

1.1. Party indirectly controlling the controlled entity

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

1.2. Party controlling a directly controlled entity

The controlling party in 2020 was Pražská plynárenská Holding a.s., registered office U Plynárny 500/44, Michle, 140 00 Prague 4, Company ID: 264 42 272.

In 2020, the capital interest of the party directly controlling the controlled party was 100% of the share capital of the controlled party.

1.3. Controlled entity

Is Pražská plynárenská, a.s., registered office Prague 1 Nové Město, Národní 37, post code 110 00, Company ID: 601 93 492 (hereinafter also "PP, a.s.," or the "controlled entity").

1.4. Other entities controlled by the same controlling entities

The organisations and companies, in which the Capital City of Prague had a major share in 2020 and with whom PP, a.s., entered into a contractual relationship in 2020 are listed below in Section No. 2.

1.5. Related parties

These are Pražská plynárenská, a.s., Pražská plynárenská Holding a.s., the Capital City of Prague other company organisations where the Capital City of Prague owned a major share in 2020.

1.6. Role of PP, a.s., in the Group

PP, a.s., is the parent trading company of the Pražská plynárenská, a.s. Group It exercises its influence through participation in the general meetings of its subsidiary companies, staffing of the boards of directors and supervisory boards of the subsidiaries and application of the Group's directives.

2. Description of the relations between the related parties

2.1. Controlling method and means

PP, a.s., was mainly controlled by its shareholder through representatives at Board of Directors and the Supervisory Board meetings, as well as through the exercise of voting rights at the General Assembly of PP, a.s.

2.2. Contracts concluded between related entities in force in 2020

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

a) Contracts for gas and electricity supplies

Akademické gymnázium, škola hlavního města Prahy, Štěpánská 22, Prague 1
Company ID: 708 72 503

Akademie řemesel Prague – Střední škola technická
Company ID: 148 91 522

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

Botanická zahrada hl. m. Prahy
Company ID: 000 64 572

Centrum služeb pro rodinu a dítě a dětský domov Charlotty Masarykové,
Company ID: 008 74 957

Centrum sociálních služeb Praha,
Company ID: 708 78 277

Československá akademie obchodní Dr. Edvarda Beneše,
Company ID: 006 38 463

Československá akademie obchodní,
Střední odborná škola,
Company ID: 613 86 138

Dětské centrum Paprsek,
Company ID: 708 75 413

Dětský domov a Školní jídelna
Company ID: 613 89 293

Dětský domov,
Company ID: 000 67 563

Divadlo na Vinohradech,
Company ID: 000 64 386

Divadlo pod Palmovkou,
Company ID: 000 64 301

Divadlo Spejbla a Hurvínka,
Company ID: 000 64 360

Domov mládeže a školní jídelna,
Company ID: 659 92 351

Domov mládeže a školní jídelna,
Company ID: 638 32 208

Domov mládeže a školní jídelna,
Company ID: 006 38 706

Domov pro osoby se zdravotním postižením, Lochovice
Company ID: 708 79 567

Domov pro osoby se zdravotním postižením, Sulická
Company ID: 708 73 046

Domov pro seniory Ďáblice,
Company ID: 708 75 839

Domov pro seniory Dobřichovice,
Company ID: 708 75 880

Domov pro seniory Elišky Purkyňové,
Company ID: 708 75 316

Domov pro seniory Háje,
Company ID: 708 75 111

Domov pro seniory Heřmanův Městec,
Company ID: 708 76 258

Domov pro seniory Hortenzie,
Company ID: 708 76 886

Domov pro seniory Chodov,
Company ID: 708 76 606

Domov pro seniory Krč,
Company ID: 708 74 212

Domov pro seniory Pyšely,
Company ID: 708 71 256

Domov pro seniory Zahradní Město,
Company ID: 708 78 030

Domov se zvláštním režimem Krásná Lípa,
Company ID: 708 72 741

Domov se zvláštním režimem Terežín,
Company ID: 708 75 308

Domov sociálních služeb Vlašská,
Company ID: 708 75 430

Dopravní podnik hl. m. Prahy, akciová společnost
Company ID: 000 05 886

Dům dětí a mládeže hlavního města Prahy,
Company ID: 000 064 289

Dům dětí a mládeže Modřany,
Company ID: 452 41 295

Dům dětí a mládeže Prague 10 – Dům UM,
Company ID: 452 41 945

Dům dětí a mládeže Prague 2
Company ID: 452 45 924

Dům dětí a mládeže Prague 3 – Ulita,
Company ID: 452 41 848

Dům dětí a mládeže Prague 4 – Hobby centrum 4,
Company ID: 452 41 651

Dům dětí a mládeže Prague 5
Company ID: 452 42 941

Dům dětí a mládeže Prague 6-Suchdol,
Company ID: 452 42 950

Dům dětí a mládeže Prague 7
Company ID: 452 42 879

Fakultní základní umělecká škola Hudební a taneční fakulty AMU
v Praze,
Company ID: 673 61 471

Galerie hlavního města Prahy,
Company ID: 000 064 416

Gymnázium a Hudební škola hlavního města Prahy, základní
umělecká škola, Komenského nám.,
Company ID: 708 74 204

Gymnázium Elišky Krásnohorské,
Company ID: 003 35 533

Gymnázium Christiana Dopplera
Company ID: 613 85 701

Gymnázium Jana Keplera
Company ID: 613 88 246

Gymnázium Jana Nerudy, škola hlavního města Prahy,
Company ID: 708 72 767

Gymnázium Jaroslava Heyrovského, Company ID: 604 46 234	Gymnázium, Střední odborná škola, Základní škola a Mateřská škola pro sluchově postižené, Company ID: 613 88 149
Gymnázium Karla Sladkovského, Company ID: 613 85 131	Capital City of Prague Company ID: 000 64 581
Gymnázium Na Pražačce, Company ID: 604 61 675	Hotelová škola Radlická, Company ID: 604 46 242
Gymnázium Opatov, Company ID: 493 66 629	Hudební divadlo v Karlíně, Company ID: 000 64 335
Gymnázium prof. Jana Patočky, Company ID: 604 49 004	Hvězdárna a planetárium hlavního města Prahy, Company ID: 000 64 441
Gymnázium, Company ID: 631 09 026	Institut plánování a rozvoje hlavního města Prahy, Company ID: 708 83 858
Gymnázium, Company ID: 613 85 379	Integrované centrum pro osoby se zdravotním postižením Horní Poustevna Company ID: 708 72 686
Gymnázium, Company ID: 613 853 61	Integrované centrum sociálních služeb Odlochovice, Company ID: 708 75 324
Gymnázium, Company ID: 613 88 106	Jedličkův ústav a Mateřská škola a Základní škola a Střední škola, Company ID: 708 73 160
Gymnázium, Company ID: 003 35 479	Karlínské gymnázium, Prague 8, Pernerova 25, Company ID: 613 89 064
Gymnázium, Company ID: 003 35 487	Kolektory Praha, a.s., Company ID: 267 141 24
Gymnázium, Company ID: 613 85 298	Kongresové centrum Praha, a.s., Company ID: 630 80 249
Gymnázium, Company ID: 613 86 022	Lesy hl. m. Prahy, Company ID: 452 47 650
Gymnázium, Company ID: 496 25 446	Mateřská škola a Základní škola, Company ID: 708 48 572
Gymnázium, Company ID: 613 85 476	Mateřská škola speciální Sluníčko, Company ID: 638 31 708
Gymnázium, Company ID: 613 87 509	Mateřská škola speciální, Company ID: 604 46 633
Gymnázium, Company ID: 604 60 784	Mateřská škola speciální, Company ID: 638 32 674
Gymnázium, Company ID: 604 45 475	Městská divadla pražská, Company ID: 000 64 297
Gymnázium, Company ID: 638 31 562	Městská knihovna v Praze, Company ID: 000 64 467

Městská nemocnice následné péče, Company ID: 452 45 843	Pražské služby, a.s., Company ID: 601 94 120
Městská poliklinika Praha, Company ID: 001 28 601	Smíchovská střední průmyslová škola, Company ID: 613 86 855
Minor, Company ID: 000 64 351	Správa pražských hřbitovů, Company ID: 452 45 801
Muzeum hlavního města Prahy, Company ID: 000 64 432	Správa služeb hlavního města Prahy, Company ID: 708 89 660
Národní kulturní památka Vyšehrad, Company ID: 004 19 745	Středisko praktického vyučování, Company ID: 006 39 184
Obecní dům, a.s., Company ID: 272 51 918	Střední odborná škola civilního letectví, Company ID: 006 39 494
Obchodní akademie Bubeneč, Company ID: 613 84 534	Střední odborná škola Jarov, Company ID: 003 00 268
Obchodní akademie Dušní, Company ID: 708 37 872	Střední odborná škola pro administrativu Evropské unie, Company ID: 148 91 247
Obchodní akademie Vinohradská, Company ID: 613 86 774	Střední odborná škola, Company ID: 452 48 001
Obchodní akademie, Company ID: 613 85 387	Střední odborné učiliště gastronomie, Company ID: 411 90 726
Obchodní akademie, Company ID: 701 07 050	Střední odborné učiliště gastronomie a podnikání, Company ID: 496 29 077
Odborné učiliště Vyšehrad, Company ID: 604 36 735	Střední odborné učiliště kadeřnické, Company ID: 006 39 028
Palata – Domov pro zrakově postižené, Company ID: 708 72 783	Střední odborné učiliště, Company ID: 006 38 846
Pedagogicko-psychologická poradna pro Prahu 10, Company ID: 604 61 926	Střední odborné učiliště, Company ID: 148 91 531
Pedagogicko-psychologická poradna pro Prahu 11 a 12, Company ID: 481 35 054	Střední průmyslová škola dopravní, a.s., Company ID: 256 32 141
Prague City Tourism a.s., Company ID: 073 12 890	Střední průmyslová škola elektrotechnická, Company ID: 613 85 409
Pražská energetika, a.s., Company ID: 601 93 913	Střední průmyslová škola elektrotechnická, Company ID: 613 85 301
Pražská informační služba – Prague City Tourism, Company ID: 000 64 491	Střední průmyslová škola na Proseku, Company ID: 148 91 239
Pražská konzervatoř, Company ID: 708 37 911	Střední průmyslová škola sdělovací techniky, Company ID: 613 88 866
Pražská strojírna a. s., Company ID: 601 93 298	Střední průmyslová škola stavební Josefa Gočára, Company ID: 496 24 059

Střední průmyslová škola strojnická, škola hlavního města Prahy, Company ID: 708 72 589	Vyšší odborná škola a Střední průmyslová škola dopravní, Company ID: 708 37 899
Střední škola – Centrum odborné přípravy technickohospodářské, Company ID: 148 91 212	Vyšší odborná škola a Střední průmyslová škola elektrotechnická Františka Křížíka, Company ID: 708 37 881
Střední škola a Mateřská škola Aloyse Klara, Company ID: 006 38 625	Vyšší odborná škola a Střední umělecká škola Václava Hollara, Company ID: 613 86 871
Střední škola a vyšší odborná škola umělecká a řemeslná, Company ID: 148 91 263	Vyšší odborná škola ekonomických studií, Střední průmyslová škola potravinářských technologií a Střední odborná škola přírodovědná a veterinární, Company ID: 613 85 930
Střední škola automobilní a informatiky, Company ID: 004 97 070	Vyšší odborná škola grafická a Střední průmyslová škola grafická, Company ID: 708 37 783
Střední škola designu a umění, knižní kultury a ekonomiky Náhorní, Company ID: 613 88 262	Vyšší odborná škola informačních studií a Střední škola elektrotechniky, multimédií a informatiky, Company ID: 148 91 409
Střední škola dostihového sportu a jezdeckví, Company ID: 000 69 621	Vyšší odborná škola pedagogická a sociální, Střední odborná škola pedagogická a Gymnázium, Company ID: 613 88 068
Střední škola elektrotechniky a strojírenství, Company ID: 006 39 133	Vyšší odborná škola stavební a Střední průmyslová škola stavební, Company ID: 613 88 726
Střední škola obchodní, Company ID: 005 49 185	Vyšší odborná škola uměleckoprůmyslová a Střední uměleckoprůmyslová škola, Company ID: 613 88 025
Střední škola, Základní škola a Mateřská škola pro sluchově postižené, Company ID: 481 34 058	Vyšší odborná škola zdravotnická a Střední zdravotnická škola, Company ID: 006 38 749
Střední škola, Základní škola a Mateřská škola, Company ID: 708 35 578	Vyšší odborná škola zdravotnická a Střední zdravotnická škola, Company ID: 006 38 722
Symfonický orchestr hlavního města Prahy FOK, Company ID: 000 64 475	Základní škola a Mateřská škola, Company ID: 701 02 431
Školní jídelna, Štefánikova 235/11, Prague 5 – Smíchov Company ID: 708 42 132	Základní škola a Střední škola Karla Herforta, Company ID: 604 36 107
Švandovo divadlo na Smíchově, Company ID: 000 64 327	Základní škola a střední škola waldorfská, Company ID: 70922,306
Technická správa komunikací hl. m. Prahy, a.s., Company ID: 034 47 286	Základní škola a Střední škola, Company ID: 613 85 450
Technologie hlavního města Prahy, a.s., Company ID: 256 72 541	
TRADE CENTRE PRAHA a.s., Company ID: 004 09 316	
Výstaviště Praha, a.s., Company ID: 256 49 329	

Základní škola logopedická a Mateřská škola logopedická,
Company ID: 613 85 425

Základní škola pro žáky s poruchami zraku,
Company ID: 481 33 035

Základní škola pro žáky se specifickými poruchami chování,
Company ID: 677 74 172

Základní škola pro žáky se specifickými poruchami učení,
Company ID: 683 79 919

Základní škola speciální a Praktická škola,
Company ID: 684 07 157

Základní škola speciální,
Company ID: 654 01 646

Základní škola Tolerance,
Company ID: 708 31 025

Základní škola Vokovice,
Company ID: 604 61 969

Základní škola Vokovice, 708 45 964

Základní umělecká škola Charlotty Masarykové,
Company ID: 604 46 889

Základní umělecká škola Ilji Hurníka,
Company ID: 006 39 338

Základní umělecká škola Klementa Slavického,
Company ID: 673 60 572

Základní umělecká škola
Company ID: 613 85 093

Základní umělecká škola Vadima Petrova,
Company ID: 452 45 118

Základní umělecká škola
Company ID: 604 60 041

Základní umělecká škola
Company ID: 708 32 897

Základní umělecká škola
Company ID: 700 98 506

Základní umělecká škola
Company ID: 613 85 433

Základní umělecká škola
Company ID: 613 87 894

Základní umělecká škola
Company ID: 481 35 143

Základní umělecká škola
Company ID: 684 07 289

Základní umělecká škola
Company ID: 452 42 593

Základní umělecká škola
Company ID: 613 87 452

Zdravotnická záchraná služba hlavního města Prahy,
Company ID: 006 38 927

Zoologická zahrada hl. m. Prahy,
Company ID: 000 64 459

Želivská provozní a.s., ,
Company ID: 291 31 804

b) Other agreements

Capital City of Prague
Company ID: 000 64 581 – Non-residential Property Lease Agreements, Agreements on lease of parking space, Agreements on lease of business space, Agreement on the establishment of easement, Agreement on future contract for the establishment of easement,

Divadlo Na zábradlí,
Company ID: 000 64 394 – Cooperation agreement

Domov pro seniory Krč,
Company ID: 708 74 212 – Agreement on sale of compressed natural gas (CNG) and use of the non-transferable customer cards

Dopravní podnik hl. m. Prahy, a.s.,
Company ID: 000 05 886 – Agreements on the establishment of easement,

Galerie hlavního města Prahy,
Company ID: 000 64 416 – Exhibition loan contract

Gymnázium, Střední odborná škola, Základní škola a Mateřská škola pro sluchově postižené,
Company ID: 613 88 149 – Professional practice agreement

Kolektory Praha, a.s.,
Company ID: 267 14 124 – Agreement on sale of compressed natural gas (CNG) and use of the non-transferable customer cards

Lesy hl. m. Prahy,
Company ID: 452 47 650 – Agreement on promotional activities

Obchodní akademie
Company ID: 613 85 387 – Professional practice agreement

Obchodní akademie Vinohradská,
Company ID: 613 86 774 – Professional practice agreement

Pražská energetika, a.s.,
Company ID: 601 93 913 - EFET contract (purchase / sale of natural gas), non-residential space lease contracts, contract on the sublease of non-residential spaces,

Pražské služby, a.s.,
Company ID: 601 94 120 - Agreement for the provision of promotion and advertising services, Agreement for the sale and purchase of compressed natural gas and the use of a non-portable customer card, CNG station lease agreement

Městská knihovna v Praze,
Company ID: 000 64 467 – Brusnice loan contract

Městská poliklinika Praha,
Company ID: 001 28 601 – Agreement on sale of compressed natural gas (CNG) and use of the non-transferable customer cards

Museum hlavního města Prahy
Company ID: 000 64 432 – Exhibition loan contract

Výstaviště Praha, a.s.,
Company ID: 256 49 329 – agreement on promotional activities

Zoologická zahrada hl. m. Prahy,
Company ID: 000 64 459 – Agreement on sale of compressed natural gas and use of the non-transferable customer card

2.2.2. Contracts signed between PP, a.s., and PPH a.s.

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

- a) Agreement on provision of services
- b) Agreement on lease of movable assets
- c) Agreement on lease of business premises
- d) Agreement on cash-pooling within the PP, a.s. Group

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

Based on the decision of Pražská plynárenská Holding a.s. - the sole shareholder acting as General Assembly of Pražská plynárenská, a.s. there were no negotiations (with the exception of the profit share paid to the shareholder in the amount of CZK 608,000 thousand), which would affect the assets of Pražská plynárenská, a.s., the value of which would exceed 10% of

equity of Pražská plynárenská, a.s., according to the latest financial statements, i.e. the value of which would exceed the amount of CZK 299,443 thousand according to the financial statement dated 31 December 2020.

2.3. Other legal acts

The Capital City of Prague 000 64 581 - memorandum defining cooperation and mutual support for youth focusing on the preparation of young adults to study for vocational positions (vocational certificate) in the Capital City of Prague.

Pražská vodohospodářská společnost, a.s.,
Company ID: 256 56 112 - memorandum on mutual cooperation in the field of mobility, reduction of emission and effective cost reduction.

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

2.4. Assessment of detriment suffered by the controlled entity

PP, a.s. did not suffer any detriment from control by the controlling party.

2.5. Assessment of the statutory body

The statutory body assessed the advantages and disadvantages arising from the relations between persons referred to in chapter 1 and stated that benefits prevailed and that there were no risks arising from these relationships for the controlled entity.

PP, a.s., was replaced in 2020 by Pražská plynárenská Holding a.s., as the company that controls PP, a.s. directly. It was backed by the shareholder of PPH a.s., i.e. the Capital City of Prague, which controlled PP, a.s., through PPH a.s. indirectly.

Pražská plynárenská, a.s. is a member of the Group, which includes subjects engaged mainly in activities related to energy trade and distribution. Relations with the indirectly controlling party, the Capital City of Prague, should be considered as significant also with regard to the fact that the directly controlled company PP, a.s., Pražská plynárenská Distribuce, a.s., - a member of the Pražská plynárenská, a.s. Group, is the main operator of the natural gas distribution network in Prague.

2.6. Other facts

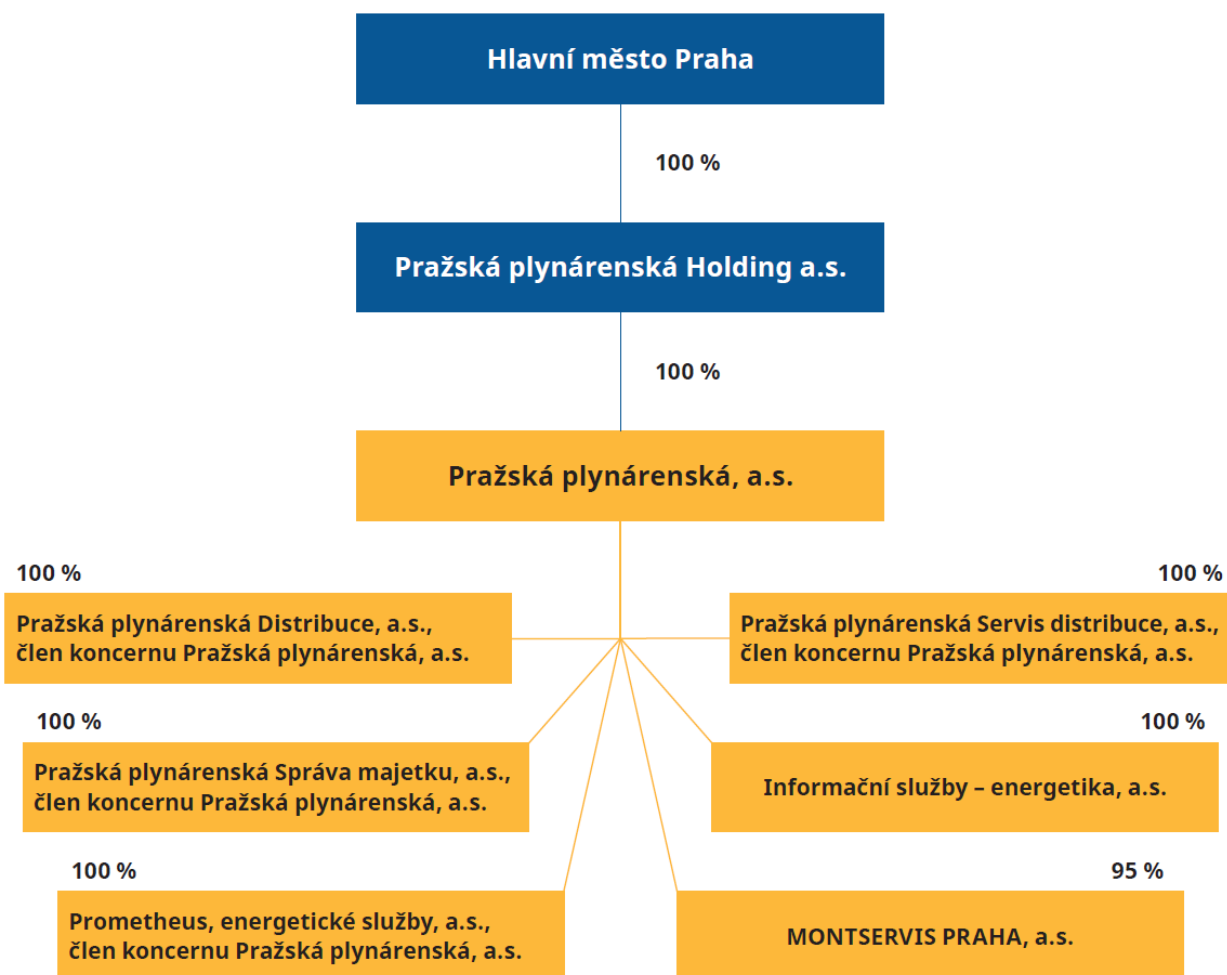
2.6.1. Cooperation between PP, a.s., and Pražská energetika, a.s.

In 2020, cooperation continued between PP, a.s., and Pražská energetika, a.s., within the project Specifically, this cooperation concerned the joint business office, the call centre line and joint meter readings.

2.6.2. Members of PP, a.s. bodies

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

3. Graph showing the relationship between Pražská plynárenská, a.s. and related parties as of 31 December 2020



X. Annual Report on the Provision of Information Pursuant to Act No. 106/1999 Coll., on Free Access to Information for 2020

ANNUAL REPORT

on the provision of information in line with Act No. 106/1999 Coll., on free access to information for 2020

Within the meaning of Section 18 of the Act No. 106/1999 Coll., defining free access to information, as amended (hereinafter the “Act” only), Pražská plynárenská, a.s. publishes this annual report which defines its activities relating to information sharing during 2020:

a) Number of submitted applications to release information and number of issued decisions to reject such application:

A total of 3 applications were submitted

A total of 10 rejections / partial rejections of the application were issued (of which 5 decisions relate to one and the same application submitted in 2019, when the decision was repeatedly returned to the obliged entity by the superior authority for a new decision - always after submission of an appeal by the applicant).

b) Number of appeals submitted against issued the decision:

Five appeals against the decision were submitted (one of which was lodged late and was then assessed by the higher authority as a complaint - see letter e) of this report).

c) Copies of the essential parts of each decision of the court reviewing the legality of the obliged entity's decision to refuse the request for information and an overview of all expenses incurred by the obliged entity in connection with legal proceedings on the rights and obligations under this Act, including costs for its own staff and costs of legal representation:

1 decision was issued concerning the review of the legality of the decision of the obliged entity. The total costs incurred by the entity in 2020 in connection with court proceedings under the Act represented CZK 9,982.50.

Decision – description of important parts:

The plaintiff's request for information can be seen only that the plaintiff /applicant seeks information, or in other words, requests information and defines in what form it is to be provided to the applicant (see item 2 of this decision). However, the application does not include the reason for which the information is requested and also the indication of whether the applicant meets the criteria set out in the wage award.

It is clear from the processing of the request for information (both in the first and in the second instance) that the defendant was not considered to be a liable entity at that time.

The Municipal Court in Prague found that as a result of the defendant's misconduct, who did not invite the applicant to complete the application and did not perform the necessary proportionality test, there was a procedural defect for which the decision must be annulled and the case returned to the defendant.

d) List of exclusive licences granted, including justification for the issuance of an exclusive license:

No exclusive licence was granted.

e) Number of complaints submitted in line with Section 16a, reasons for the complaint filing and brief description of complaint settlement procedures:

One complaint has been submitted challenging the procedure followed in connection with the application to receive information in line with Section 16a of the Act. Pursuant to Section 16a the superior body regarded as the complaint the fact that the appeal against the decision of the obliged entity was lodged late. As part of the assessment, the superior body then ordered the obliged entity to process the request for information within the statutory time limit. The obliged entity subsequently assessed the application and issued a decision on the partial rejection of the application.

f) Other information related to the application of this Act:

Information concerning the possibility to exercise the right to receive information under the Act is available to applicants at ppas.cz website and also at the company filing office at Národní 37/38, 110 00 Prague 1.

23 February 2021

23 February 2021

Ing. Martin Pacovský, MBA

Ing. Milan Jadlovský

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

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

XI. Abbreviations

a.s.	joint stock company	HMP	the Capital City of Prague
OSH	Occupational Safety and Health	IFRS	International Financial Reporting Standards
CNG -	Compressed Natural Gas	IAS/IASB	International Accounting Standards / International Accounting Standards Board
CZK	Czech crown	IČO	Company ID number
č.ú.	Account Number	ISE, a.s.	Informační služby – energetika, a.s.
ČNB	Czech National Bank	ISIN	identification number under which a share was recorded at the Centrálním depozitáři cenných papírů, a.s. (Securities Centre / Central Depository of Securities)
CR	Czech Republic	ISO	International Organisation for Standardisation
ČSOB, a. s.	Československá obchodní banka, a. s.	ICT	information and communication technology
DIČO	Tax identification number (VAT)	CZK	Czech crown
DOM	household customer – natural person using gas for personal needs connected with housing or for personal needs of members of the natural person's household	kg	kilogramme
VAT	Value Added Tax	Pc	piece
EEX	European Energy Exchange	m³	cubic metre
EMS	Environmental management system	MČ	City District
ERO	Energy Regulatory Office	MoF	Ministry of Finance
EU	European Union	mil.	million
EUR	Euro – common currency of the European Union	bn.	billion
EZ	the Energy Act	MONT, a.s.	MONTSERVIS PRAHA, a.s.
GmbH	Gesellschaft mit beschränkter Haftung (German abbreviation for a limited liability company)	MO	small customer – end (low-volume) customer who is not a large, medium-sized or household customer
GDP	Gross Domestic Product	MOO	electricity retail customer - population
		MOP	retail business consuming electricity

MWh	megawatt hour	TV	television
NEZ	the New Energy Act	VH	net profit/loss
OSVČ	self-employed person	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
OTE	market operator	ZP	the Labour Code
OZE/RE	renewable energy		
PCR	polymerase chain reaction		
PD	project documentation		
PO	fire protection		
PP, a.s.	Pražská plynárenská, a.s.		
PPD, a.s.	Pražská plynárenská Distribuce, a.s., Member of the Pražská plynárenská, a.s. Group		
PPH a.s.	Pražská plynárenská Holding a.s.		
PPSD, a.s.	Pražská plynárenská Servis distribuce, a.s., Member of the Pražská plynárenská, a.s. Group		
PPSM, a.s.	Pražská plynárenská Správa majetku, a.s., Member of the Pražská plynárenská, a.s. Group		
PR	Public Relations		
Prometheus, a.s.	Prometheus, energetické služby, a.s., Member of the Pražská plynárenská, a.s. Group		
PSC	postal code		
s. p.	state enterprise		
s. r. o.	limited liability company		
Coll.	Collection of the laws of the Czech Republic		
SO	Medium-sized customer – natural person or legal entity whose offtake gas facility is connected to the transport or distribution system and whose annual consumption at the offtake point is at least 630 MWh but does not exceed 4,200 MWh		
Tel.	telephone number		

Thous. **thousand (in thousands)**



FRANTIŠEK RIEGER USED OUR
GAS AND WE HAVE BEEN
SUPPLYING GAS TO OUR
CUSTOMERS FOR 174
YEARS.

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XII. Auditor's Report



Report of the Independent Auditor

to the shareholder of Pražská plynárenská, a.s.

Our statement

In our opinion:

- the submitted consolidated financial statements give a true and fair picture of the consolidated financial position of Pražská plynárenská, a.s., registered office Národní 37, Prague 1, ("the Company") and its subsidiary companies (together "the Group") as at 31 December 2020, its consolidated financial performance and consolidated cash flows for the year ended 31 December 2020 in accordance with International Financial Reporting Standards as adopted by the European Union and
- the individual financial statements give a faithful and fair picture of the financial position of the Company itself as at 31 December 2020, its financial performance and cash flows for the year ended 31 December 2020 in compliance with IFRS as adopted by the EU.

Scope of audit

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

- Consolidated statement of financial position as of 31 December 2020,
- Consolidated statement of comprehensive income for the year ended 31 December 2020,
- Consolidated statement of changes in equity for the year ended 31 December 2020,
- Consolidated statement of cash flows for the year ended 31 December 2020, and
- Notes to the consolidated financial statements, which contains the significant accounting policies and other explanatory information.

The individual financial statements of the Company consist of the following:

- financial position statement as of 31 December 2020,
- Statement of comprehensive income for the year ended 31 December 2020,
- Statement of changes in equity capital for the year ended 31 December 2020,
- Cash flow statement for the year ended 31 December 2020, and
- Notes to the individual financial statements, which contain the significant accounting methods and other explanatory information.

Basis for the statement

We conducted our audit in accordance with the Act on Auditors and the auditing standards of the Chamber of Auditors of the Czech Republic, which are the International Standards on Auditing supplemented and amended by related application clauses (collectively the "Auditing Regulations"). Our responsibility as stipulated by these regulations is outlined in detail in the section on the Auditor's responsibility for the audit of the financial statements.

We assume that the evidence that we obtained provides a sufficient and appropriate basis for us to make our statement.

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



Independence

In accordance with the Code of Ethics for Auditors and Accountants (including International Standards of Independence) issued by the International Accounting Standards Board (“IESBA Code”) and adopted by the Chamber of Auditors of the Czech Republic and the Act on Auditors, we are independent of the Group and the Company and we have also complied with other ethical obligations arising from the IESBA Code and the Act on Auditors.

Other information

The Company’s Board of Directors is responsible for the other information. As defined in Section 2 letter b) of the Act on Auditors, other information refers to information provided in the annual report outside of the consolidated and separate financial statements (together “financial statements”) and our auditor’s report.

Our opinion on the financial statements does not apply to the other information. Regardless of the above, it is part of our duty related to the audit of the financial statements to get acquainted with the other information and assess whether the other information does not significantly conflict with the financial statements or our knowledge of the Group and Company obtained during the audit or whether this information does not otherwise seem to be significantly misstated. We have also assessed whether other information was processed in all significant aspects in compliance with the applicable legal regulations. This assessment means whether the other information meets the legal requirements for formalities as well as for the process of preparing other information in the context of importance.

Based on the procedures performed during the audit, to the extent that we can assess, it is our opinion that:

- other information describes the facts that are also the subject shown in the financial statements and that, in all major aspects, complies with the financial statements and
- other information was processed in compliance with the legal regulations.

Further, we are required to state based on our knowledge and awareness of the Group and the Company and the environment where both entities operate, and based on our audit that also other information is free from material discrepancies. We did not find any significant inaccuracy.

Responsibility of the Board of Directors, Supervisory Board and the Audit Committee regarding the financial statements

The Company’s Board of Directors is responsible for the preparation of the financial statements, providing a faithful and fair image in compliance with the International Accounting Standards adopted by the EU and for such an internal control system, which it considers necessary for the preparation of the financial statements so that they do not contain any material misstatements due to fraud or error.

When issuing the financial statements, the Board of Directors of the Company is obliged to assess whether the Group and the Company fulfil the going concern principle, and if relevant, describe the issues related to their continued existence in the notes to the financial statements and application of the going concern basis to the compilation of the financial statements, with the exception of cases in which the Board of Directors plans to dissolve the Group or the Company or terminate their operations, respectively, when it has no real choice other than to take such action.

The Supervisory Board of the Company is responsible for supervision of the financial reporting process. The Company’s Audit Committee is responsible for monitoring the process of preparing financial statements.

Auditor’s responsibility for the audit of the financial statements

Our target is to get adequate assurance that the financial statements as an entirety are free from material misstatement, whether due to fraud or error and issue an auditor’s report containing our opinion. Adequate level of certainty and assurance is a high level of assurance, nevertheless, it is not a guarantee that the audit performed in compliance with the above-stated legal regulations shall in all cases reveal any existing material misstatement in the financial statements. Misstatements may arise in consequence of fraud or error and are considered as material if it is possible to realistically assume that they could individually or collectively impact the economic decisions made by the users of the financial statements on their basis.



During the audit in accordance with the above-stated regulations, it is our obligation to apply professional judgement and maintain professional scepticism during the entire audit. It is also our obligation:

- To identify and assess the risks of significant misstatements in the financial statements due to fraud or error, suggest and execute auditing procedures that respond to such risks and obtain adequate and suitable evidence that we can use as a basis for our opinion. The risk that we shall not uncover a significant misstatement, which occurred as a result of fraud, is greater than the risk of non-discovery of a significant misstatement due to error because components of the fraud may also be secret agreements, falsification, intentional omissions, untrue declarations or circumvention of internal controls.
- To get acquainted with the internal control systems of the Group and Company that are relevant for audit on such a scale, to enable us to suggest suitable audit procedures with regard to the given circumstances, not for us to be able to express our opinion on the efficiency of their internal control systems.
- To assess the suitability of the applied accounting rules, adequacy of the accounting estimates made and the information, which the Board of Directors of the Company stated in the notes to the financial statements in this regard.
- To assess the suitability of application of the going concern assumption during the compilation of the financial statements by the board of directors, whether significant uncertainty exists with regard to the obtained evidence that arises from events or conditions, which may significantly cast a doubt on the going concern capability of the Group and Company. If we arrive at the conclusion that such a significant uncertainty exists, it is our duty to draw attention in our report to the information stated in this connection in the notes to the financial statements, and if such information is inadequate, express a modified opinion. Our conclusions regarding the ability of the Group and the Company to continue as a going concern are based on the evidence we have obtained up to the date of our report. Nevertheless, future events or conditions may lead to loss of the going concern capability of the Group or Company.
- To assess the overall presentation, classification and content of the financial statement, including the notes, and also assess whether the financial statements show the underlying transactions and events in a manner, which leads to a fair picture.
- To obtain adequate and suitable evidence of the financial information regarding the companies or business activities within the Group to enable us to express an opinion on the consolidated financial statements. We are responsible for management of the audit of the Group, its supervision and execution. Expressing an opinion is our exclusive responsibility.

Our duty is to inform the Board of Directors, Supervisory Board and Audit Committee, among other things, about the planned scope and timing of the audit and the major findings, which we made during the audit, including the ascertained significant deficiencies in the internal control systems.

23 March 2021

PricewaterhouseCoopers Audit, s.r.o.
Represented by

Ing. Václav Prýmek

Ing. Petra Jirková Bočáková
Statutory Auditor, Authorisation No. 2253

This report is prepared for the shareholders of Pražská plynárenská, a.s.

