



PRAGOPLYN, a.s. ANNUAL REPORT 2010

Reviewed by the Board of Directors at its meeting held on 8 April 2011
Reviewed by the Supervisory Board at its meeting held on 27 April 2011

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REPORT OF THE BOARD OF DIRECTORS ON COMPANY BUSINESS ACTIVITIES AND ASSETS

General information about the Company

Company name: Pragoplyn, a.s.

Registered office: Praha 1 – Nové Město
Jungmannova 36/31

Postcode: 110 00

Registration number: 27933318

VAT number: CZ27933318

Incorporated in the Commercial Register kept by the Municipal Court in Prague,
Section B, Entry 12177

Bank: Citibank Europe plc, organizační složka
CZK account number: 2049340208/2600
CZK account number: 2049340507/2600
USD account number: 0204934037/2600
EUR account number: 0204934045/2600
ČSOB, a.s.
CZK account number: 117270733/0300
EUR account number: 02394280/0300

Share capital: CZK 10,000,000

Licence to trade in gas number 240705404.
Licence to trade in electricity number 140705636.

Corporate profile

Pragoplyn, Inc., is a 100% subsidiary of Pražská plynárenská, a.s. ("PP, a.s."), and, together with other subsidiaries, forms a holding. It was founded by its sole shareholder under a Memorandum of Association of 24 May 2007. It was incorporated by entry in the Commercial Register on 30 July 2007. The Company's main mission is to arrange natural gas purchases for Pražská plynárenská, a.s. and other business partners, and to arrange the sale of natural gas and electricity to customers throughout the Czech Republic. The business activities of Pragoplyn, a.s. will also focus on trade abroad in the long term.

Principal business:

- gas trading
- electricity trading
- manufacture, trade and services not specified in Annexes 1 to 3 to the Trade Licensing Act

Corporate governance

Board of Directors:

Chairman: Eckart Baum

Members: Marta Ptáčková (until 16 November 2010)
Josef Hais (from 16 November 2010)
Milan Jadlovský

Supervisory Board:

Chairman: Pavel Hurda

Members: František Kotula

Josef Hais (until 16 November 2010)

Marta Ptáčková (from 16 November 2010)

Significant activities in 2010**Gas supply management**

Under a Mandate Agreement, in 2010 Pragoplyn, a.s. managed all the purchase, transmission and storage contracts of PP, a.s. In addition, it provided PP, a.s. with a trade dispatching service, entailing nomination and balancing activities within the market operator's system. Pragoplyn, a.s. represented PP, a.s. in e-auctions for storage capacity and trading in unused tolerance margins. Pragoplyn, a.s. also covered a significant part of the PP, a.s. purchasing portfolio.

Natural gas sales

In 2010, gas was supplied to the existing portfolio of customers according to established practices and to new customers.

Customer supply took place through bundled gas supply and purchase agreements contracts.

Natural gas was also sold to certain traders, especially those active in the market in the Czech Republic. Trader supplies were made under a supply and purchase agreement.

Product pricing and conditions were updated for customers according to the following options:

- a) formula prices – two-component prices; the customer can choose from several commodity formulas
- b) fixed single-component prices for other supply services
- c) at the end of the year, product pricing was offered with a direct link to spot commodity markets

Other supply services were chargeable in foreign currency (EUR and USD) were required by customers.

Acquisitions (new business)

Acquisitions were primarily and actively the responsibility of full-time employees. The following new-business techniques were used to approach potential customers across the Czech Republic:

- 1. the shared ownership structure of individual enterprises and organizations
- 2. expansion of supply to customers in the Company's regional scope
- 3. the expansion of gas supply to enterprises in similar sectors

The network of regional sales representatives continued to be used in acquisition activity.

Electricity

In 2010 Pragoplyn, a.s. all the administration required to start selling electricity as of 1 January 2011. It also focused on mapping potential customers with a view to contacting them in 2011.

The Company's role in the Pražská plynárenská Group

The Company is part of the group operated by Pražská plynárenská, a.s. It is governed by the group's internal regulations and is gradually introducing new rules. It continually updates its intragroup commercial contracts and works closely with group companies.

Principal activities of 2011 – outlook

The provision of trade dispatching services for other companies.

The organization of natural gas offers and sales for customers and traders operating in the market in the Czech Republic.

The maintenance and extension of the existing portfolio of natural gas customers.

The organization of all administration necessary for the purchase and sale of electricity, with the launch of sales target for 1 January 2011.

The organization of electricity offers and sales for current customers of Pragoplyn, a.s. for the coming period.

The organization of new-business operations through sales representatives and the internal resources of Pragoplyn, a.s.

Analysis of the feasibility of entering other markets.

Organizational structure

Company organizational chart as at 31 December 2010

				Pragoplyn, a.s. 1000 Chief Executive Officer			
			1001 Management Assistance				
Electricity Purchasing Section 100 Head of Section			Natural Gas Purchasing Section 500 Head of Purchasing Section (Vacant)		Sales Section 200 Head of Sales Section (Vacant)	Economics and Administration Section 300 Head of Section	Risk Management Section 400 Head of the Risk Management Section (Vacant)
Trading Unit 110 Head of Trading Unit (Vacant)	Electricity Purchase and Sales Coordination Unit 120 Head of Unit (Vacant)	Natural Gas Purchase and Sales Coordination Unit 520 Specialist (Vacant)	Trading and Purchasing Unit 510 Specialist (Vacant)	Supply Management Unit 530 Head of Unit	End Customer Sales Unit 220 Head of Unit	Economics Unit 310 Head of Unit	Administration Unit 320 Head of Unit
111 Trading Specialist (Vacant)	121 Electricity Purchasing Specialist		531 Supply Management Specialist	221 End Customer Sales Specialist	221 End Customer Sales Specialist	311 Economics Specialist	322 Administration Specialist (Vacant)
	122 Electricity Purchasing and Sales Specialist			221 End Customer Sales Specialist	221 End Customer Sales Specialist	311 Economics Specialist (Vacant)	322 Administration Specialist (Vacant)
				221 End Customer Sales Specialist (Vacant)			

In its present form the Company's organizational chart fully sets out the coverage of the current and future operations of Pragoplyn, a.s.; individual positions will be filled in line with operational developments.

Number of employees

Number of employees	2010	2009	2008
Number of employees (FTE)	12	8	6
Of which management (director)	1	1	1
Actual number at 31 December	16	8	6

Economic highlights

(CZK thousands)	actual 2010	actual 2009	actual 2008	actual 2007
Total costs	4,690,394	1,397,699	485,280	3,128
Operating expenses	4,673,003	1,394,810	485,100	3,122
Financial expenses	17,391	2,889	180	6
Extraordinary expenses	0	0	0	0
Total revenues	4,865,369	1,417,185	494,384	3,635
Operating revenues	4,852,519	1,415,006	493,805	3,561
Financial revenues	12,850	2,179	579	74
Extraordinary revenues	0	0	0	0
Profit (loss) before tax	174,975	19,486	9,104	507
Profit (loss) after tax	141,746	14,995	7,114	370

(CZK thousands)	actual 2010	actual 2009	actual 2008	actual 2007
Total assets	1,424,172	309,845	90,663	11,908
Fixed assets	753	2,373	228	292
Current assets	1,423,311	307,311	90,225	11,596
Accruals	108	161	210	20
Total liabilities and equity	1,424,172	309,845	90,663	11,908
Equity	161,435	26,248	17,475	10,370
Liabilities	1,262,737	283,597	73,188	1,538
Deferrals	0	0	0	0

Detailed economic data are disclosed in the audited annual financial statements for 2010.

Research and development

The Company was not involved in any activities related to research and development in the reporting period.

Environmental protection

The Company operates its core business as a trader of natural gas within distribution systems. These and other business activities operated by the Company have virtually no adverse environmental impact.

In 2010, the Company did not carry out actions geared directly towards environmental protection.

Labour relations

The Company makes contributions to employees' supplementary pension schemes or life assurance policies in accordance with the existing Collective Agreement.

The Company pays special attention to the training of its employees by providing professional courses and language lessons.

Organizational units abroad

The Company has no branches abroad.

Risk management, pricing, credit and liquidity risks, risks associated with cash flow

Throughout 2010, Pragoplyn, a.s. demonstrated its financial stability by meeting all financial commitments to customers, suppliers, banks, government institutions and employees on time.

The Company drew on its own resources and bank credit under a cash pooling scheme to cover its financial needs.

The Company seeks to avoid the risks associated with running a business by employing a control system for gas purchasing and sales, receivables and cash flow optimization. The Company also uses several programmes to monitor potential customers.

To cover currency risk, the Company applies a system of EUR/CZK foreign exchange forward contracts fixing most purchase contracts in euro for the full term of their validity. This hedging arrangement allows the Company to secure set margins on gas sales without the risk of possible reductions due to exchange rate movements. The system of foreign exchange forward contracts is provided by the parent company based on the PGP's foreign-currency transaction requirements.

Litigation, administrative proceedings and arbitration initiated during the last two reporting periods which have had or could have a significant impact on the Company's financial situation

No litigation, administrative proceedings or arbitration have been initiated against Pragoplyn which could significantly affect the Company's operations and assets.

Post-balance-sheet date events

No events occurred after the balance sheet date which would have a material impact on the financial statements for the year ended 31 December 2010.

Milan Jadlovský
Member of the Board of Directors
Pragoplyn, a. s.

PRAGOPLYN, A.S.

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

31 DECEMBER 2010



Independent Auditor's Report

to the Shareholder of PRAGOPLYN, A.S.

We have audited the accompanying separate financial statements of Pragoplyn, a.s., registration number 27933318, having its registered office at Jungmannova 36/31, Praha 1 (the "Company"), i.e. the balance sheet as at 31 December 2010, the profit and loss account for the year then ending, and the notes, including a summary of significant accounting policies (the "financial statements").

Company management's responsibility for the financial statements

Company management is responsible for the preparation and fair presentation of these financial statements in accordance with Czech accounting legislation and for internal control considered relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2010, and financial performance for the year then ended in accordance with Czech accounting legislation.

23 February 2011

PricewaterhouseCoopers Audit, s.r.o.
represented by

Reinhard Langenhövel
Partner

Pavel Kulhavý
Statutory Auditor, Licence No 1538

2010 FINANCIAL STATEMENTS

Company: Pragoplyn, a.s.
 Registration number: 27933318
 Legal form: public limited company
 Principal business: gas trading
 Balance sheet date: 31 December 2010
 Date of preparation of financial statements: 23 February 2011

BALANCE SHEET (CZK thousands)

Ident. a	ASSETS b	31 December 2010			31 December 2009
		Gross 1	Adjustment 2	Net 3	Net 4
	TOTAL ASSETS	1,425,551	(1,379)	1,424,172	309,845
B.	Fixed assets	873	(120)	753	2,373
B.I.	Intangible fixed assets	638	(82)	556	44
B.I.1.	Incorporation expenses	101	(82)	19	44
2.	Intangible fixed assets under construction	537	0	537	0
B.II.	Tangible fixed assets	235	(38)	197	2,329
B.II. 1.	Buildings	0	0	0	2,250
2.	Property, plant and equipment	90	(38)	52	17
3.	Tangible fixed assets under construction	145	0	145	62
C.	Current assets	1,424,570	(1,259)	1,423,311	307,311
C.II.	Long-term receivables	433	0	433	93
C.II. 1.	Deferred tax asset	433	0	433	93
C.III.	Short-term receivables	1,398,185	(1,259)	1,396,926	306,243
C.III. 1.	Trade receivables	22,239	(1,259)	20,980	83,406
2.	Receivables – controlling entity	237,042	0	237,042	88,994
3.	Short-term advances paid	259,701	0	259,701	52,711
4.	Estimated receivables	820,662	0	820,662	67,298
5.	Other receivables	58,541	0	58,541	13,834
C.IV.	Short-term financial assets	25,952	0	25,952	975
C.IV 1.	Cash in hand	1	0	1	0
2.	Cash in bank	25,951	0	25,951	975
D.I.	Deferrals	108	0	108	161
D.I. 1.	Prepaid expenses	108	0	108	124
3.	Accrued revenues	0	0	0	37

Ident. a	LIABILITIES AND EQUITY b	31 December 2010	31 December 2009
		6	7
	TOTAL LIABILITIES AND EQUITY	1,424,172	309,845
A.	Equity	161,435	26,248
A.I.	Share capital	10,000	10,000
A.I.1.	Share capital	10,000	10,000
A.II.	Capital contributions	210	210
A.II.1.	Other capital contributions	210	210
A.III.	Reserve funds and other funds from profit	1,714	724
A.III.1.	Statutory reserve fund	1,179	430
2.	Statutory and other funds	535	294
A.IV.	Retained earnings	7,765	319
A.IV.1.	Retained profits	7,765	319
A.V.	Profit (loss) for the current period	141,746	14,995
B.	Liabilities	1,262,737	283,597
B.I.	Provisions	31,708	3,562
B.I. 1.	Income tax provision	30,243	2,926
2.	Other provisions	1,465	636
B.III.	Short-term liabilities	1,231,029	280,035
B.III.1.	Trade payables	4,703	157,503
2.	Payables to employees	2,164	1,334
3.	Payables to social security and health insurance	1,261	636
4.	Tax liabilities and subsidies	39,742	6,562
5.	Short-term advances received	451,386	99,981
6.	Estimated payables	727,594	14,015
7.	Other payables	4,179	4

Prepared on 23 February 2011	Signature of governing body or natural person constituting the entity Milan Jadlovský Member of the Board of Directors
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[stamp.]
AUDITOR IDENTIFICATION
PricewaterhouseCoopers Audit, s.r.o.
Kateřinská 40/466
120 00 Praha 2
No 40765521, Auditor Certificate 021

Company: Pragoplyn, a.s.
 Registration number: 27933318
 Legal form: public limited company
 Principal business: gas trading
 Balance sheet date: 31 December 2010
 Date of preparation of financial statements: 23 February 2011

PROFIT AND LOSS ACCOUNT (CZK thousands)

Ident. a	TEXT b	Accounting period	
		2010 1	2009 2
II.	Revenue from production	4,850,260	1,412,835
II.1.	Revenue from own products and services	4,850,260	1,412,835
B.	Cost of sales	4,653,303	1,382,460
B.1.	Materials and consumables	4,468,991	1,292,913
B.2.	Services	184,312	89,547
+	Added value	196,957	30,375
C.	Staff costs	14,857	9,823
C.1.	Wages and salaries	10,847	7,180
C.2.	Remuneration of board members	360	419
C.3.	Social security and health insurance expenses	3,442	2,097
C.4.	Social expenses	208	127
D.	Taxes and charges	28	40
E.	Depreciation of intangible and tangible fixed assets	60	107
III	Revenue from disposal of fixed assets and raw materials	2,241	0
III 1.	Revenue from disposal of fixed assets	2,241	0
F.	Net book value of fixed asset and raw material disposals	4,232	0
F.1.	Net book value of fixed asset disposals	4,232	0
G.	Change in provisions and adjustments relating to operating activity	97	1,991
IV.	Other operating revenues	18	2,171
H.	Other operating expenses	426	389
*	Operating profit (loss)	179,516	20,196
IX.	Revenue from revaluation of securities and derivatives	6,771	0
L.	Expense from revaluation of securities and derivatives	15,083	0
X.	Interest revenue	583	435
N.	Interest expense	0	2
XI.	Other financial revenues	5,496	1,744
O.	Other financial expenses	2,308	2,887
*	Profit (loss) from financial operations	(4,541)	(710)
Q.	Income tax on ordinary activities	33,229	4,491
Q.1.	- current	33,569	4,530
Q.2.	- deferred	(340)	(39)
**	Profit (loss) on ordinary activities	141,746	14,995
***	Profit (loss) for the accounting period	141,746	14,995
****	Profit (loss) before tax	174,975	19,486

Prepared on 23 February 2011	Signature of governing body or natural person constituting the entity Milan Jadlovský Member of the Board of Directors
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

Name of entity: Pragoplyn, a.s.

Legal form: public limited company

Registered office: Praha 1, Nové Město, Jungmannova 36/31, 110 00

Registration number: 27933318

1 GENERAL INFORMATION

Basic corporate information

Name of entity: Pragoplyn, a.s. (the “Company”)
Legal form: Public limited company
Date incorporated: 30 July 2007
Registered office: Jungmannova 36/31
Praha 1, Nové Město
110 00

Registration number: 27933318

Objects of business:
The Company’s principal business activity is gas trading.

Share capital: CZK 10,000,000

The **composition of the Board of Directors** as at 31 December 2010 was as follows:

	<u>Position</u>
Eckart Baum	Chairman
Josef Hais	Member
Milan Jadloviský	Member

The **composition of the Supervisory Board** as at 31 December 2010 was as follows:

	<u>Position</u>
Pavel Hurda	Chairman
František Kotula	Member
Marta Ptáčková	Member

The following changes were made to the Board of Directors and the Supervisory Board during the reporting period:

Composition of the Board of Directors:

Marta Ptáčková ceased to be a member of the Board of Directors on 16 November 2010
deleted from the Commercial Register on 21 January 2011
Josef Hais became a member of the Board of Directors on 17 November 2010
entered in the Commercial Register on 21 January 2011

Composition of the Supervisory Board:

Marta Ptáčková became a member of the Supervisory Board on 14 November 2010
entered in the Commercial Register on 21 January 2011
Josef Hais ceased to be a member of the Supervisory Board on 16 November 2010
deleted from the Commercial Register on 21 January 2011

Company organizational structure

				Pragoplyn, a.s. 1000 Chief Executive Officer Milan Jádlovský			
			1001 Management Assistance [illegible] Eva Sedivá				
Electricity Purchasing Section 100 Head of Section Marek Medva			Natural Gas Purchasing Section 500 Head of Purchasing Section (Vacant)		Sales Section 200 Head of Sales Section (Vacant)	Economics and Administration Section 300 Head of Section Jana Laušmanová	Risk Management Section 400 Head of the Risk Management Section (Vacant)
Trading Unit 110 Head of Trading Unit (Vacant)	Electricity Purchase and Sales Coordination Unit 120 Head of Unit (Vacant)	Natural Gas Purchase and Sales Coordination Unit 520 Specialist (Vacant)	Trading and Purchasing Unit 510 Specialist (Vacant)	Supply Management Unit 530 Head of Unit Martin Špánek	End Customer Sales Unit 220 Head of Unit Jan Zizka	Economics Unit 310 Head of Unit Aleš Kahovec	Administration Unit 320 Head of Unit Olga Mikšová
111 Trading Specialist (Vacant)	121 Electricity Purchasing Specialist Hana Ptáčková		531 Supply Management Specialist Ondřej Štěpánek	221 End Customer Sales Specialist Petr Dvořák	221 End Customer Sales Specialist Jana Kubínová	311 Economics Specialist Jan Mašek	322 Administration Specialist (Vacant)
	122 Electricity Purchasing and Sales Specialist Michaela Podkovčik			221 End Customer Sales Specialist Lenka Kišová	221 End Customer Sales Specialist Petr Dolejš	311 Economics Specialist (Vacant)	322 Administration Specialist (Vacant)
				221 End Customer Sales Specialist (Vacant)			

2 ACCOUNTING POLICES

The financial statements have been prepared in accordance with accounting principles generally accepted in the Czech Republic and are prepared under the historical cost convention except as disclosed below.

a) Intangible and tangible fixed assets

Intangible fixed assets with a useful life longer than one year and cost of more than CZK 5,000 per item are considered intangible fixed assets.

Tangible fixed assets with a useful life longer than one year and cost of more than CZK 10,000 per item are considered tangible fixed assets.

Intangible and tangible fixed asset acquisitions are initially recorded at cost, which includes the purchase price and expenses associated with the acquisition.

Intangible and tangible fixed assets are depreciated using the straight-line basis over their estimated useful lives. The Company applies annual depreciation rates, which differ from the rates deductible for tax purposes.

If the carrying value of an asset exceeds its estimated recoverable amount, the carrying value is reduced to that amount by means of an adjustment. The recoverable amount is determined on the basis of expected future cash flows generated by the asset.

Repairs and maintenance of tangible fixed assets are expensed as incurred. Technical improvements of intangible and tangible fixed assets are capitalized.

Fixed assets costing less than CZK 5,000 (intangible assets) or CZK 10,000 (tangible assets) per item are expensed as consumed.

b) Receivables

Receivables are stated at nominal value less provision for doubtful debts. Provision for doubtful debts is made based on the aging of receivables. Company has not created adjustments to receivables from related parties.

c) Foreign currency translation

Transactions in foreign currencies are translated and recorded at the exchange rate prevailing on the transaction date.

Monetary assets, receivables and liabilities denominated in foreign currencies are translated at the exchange rate published by the Czech National Bank at the balance sheet date. All exchange gains and losses on monetary assets, receivables and liabilities are recognized in profit or loss.

d) Derivative financial instruments

Derivative financial instruments, including currency trading, interest rate futures, FRAs (forward rate agreements), currency and interest rate swaps, currency and interest rate options and other derivative financial instruments are initially recorded in the off-balance sheet at cost and subsequently their fair value at the balance sheet date is recognized in the balance sheet date. Fair values are derived from market prices, discounted cash flow models or option pricing models. All derivatives are recorded under other receivables if they have a positive fair value, or under other payables if their fair value is negative for the Company.

Derivatives embedded in other financial instruments are not separately reported.

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

e) Provisions

The Company establishes provisions to cover its liabilities or expenses which are likely to occur, the purpose of which is known but the exact amount or timing of payment of which is unknown. However, provisions are not made for current operating expenses or for expenses directly related to future earnings.

The Company recognizes an outstanding liability for tax on income in its provisions. If advances on income tax exceed the estimated tax payable at the balance sheet date, the difference is recorded as a current receivable.

f) Employee benefits

The Company creates a provision for employees' accrued vacation time and allowances.

The Company makes regular contributions to the national budget to fund the national pension system. The Company also makes contributions to employees' supplementary pension schemes or life assurance policies.

g) Revenues

Revenues are recognized upon the provision of services and are reported net of discounts and value added tax.

h) Leases

The cost of assets acquired under finance or operating leases or hiring agreements is not capitalized under fixed assets. Lease and rental payments are expensed evenly over the entire duration of the lease or hiring agreement. Future lease and rental payments that are not due at the balance sheet date are disclosed in the notes to the financial statements but are not recorded in the balance sheet.

i) Deferred tax

Deferred tax is recognized on all temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base. Deferred tax assets are recognized when it is probable that a taxable profit will be reported in the future.

j) Related parties

The Company's related parties are considered to be:

- parties which, directly or indirectly, can exercise a significant or controlling influence on the Company, and companies where those parties exercise a controlling influence;
- members of the governing, supervisory and management bodies of the Company or its parent company, and relatives of such members, including enterprises where such members and relatives exercise a significant or controlling influence.

Significant transactions and balances with related parties are disclosed in the note "Related-party transactions".

k) Post-balance-sheet date events

The impact of events occurring between the balance sheet date and the date on which the financial statements are prepared is reflected in the financial statements where these events provide additional information about facts existing at the balance sheet date.

If significant events reflecting circumstances occurring after the balance sheet date take place between the balance sheet date and the date of preparation of the financial statements, the consequences of these events are described in the notes to the financial statements but are not reflected in the financial statements.

l) Changes in accounting policies

In the 2010 reporting period, there was a change in the method for the preparation of monthly balance sheets. This change was brought about by a significant increase in the production of estimated receivables and payables, an increase in short-term advances granted and received, and a reduction in trade receivables and payables compared to the previous reporting period. There were no further changes in valuation methods, depreciation methods and accounting policies in 2010.

3 SUPPLEMENTARY INFORMATION ON THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

a) Intangible fixed assets

2010

(CZK thousands)

COST	1 January 2010	Acquisitions	Disposals	31 December 2010
Incorporation expenses	101	0	0	101
Intangible fixed assets under construction	0	537	0	537
Total	101	537	0	638

ACCUMULATED AMORTIZATION	1 January 2010	Additions	Disposals	31 December 2010
Incorporation expenses	57	25	0	82
Total	57	25	0	82

Net book value	44			556
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2010

(CZK thousands)

COST	1 January 2009	Acquisitions	Disposals	31 December 2009
Incorporation expenses	101	0	0	101
Intangible fixed assets under construction	214	0	214	0
Total	315	0	214	101

ACCUMULATED AMORTIZATION	1 January 2009	Additions	Disposals	31 December 2009
Incorporation expenses	32	25	0	57
Royalties	55	52	107	0
Total	87	77	107	57

Net book value	228			44
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b) Tangible fixed assets

2010

(CZK thousands)

COST	1 January 2010	Acquisitions	Disposals	31 December 2010
Buildings and constructions	4,259	0	4,259	0
Plant, machinery and equipment	29	61	0	90
Assets	62	144	61	145
Total	4,350	205	4,320	235

ACCUMULATED DEPRECIATION	1 January 2010	Additions	Disposals	31 December 2010
Buildings and constructions	18	9	27	0
Plant, machinery and equipment	12	26	0	38
Total	30	35	27	38

ADJUSTMENTS	1 January 2010	Creation	Release	31 December 2010
Buildings and constructions	1,991	0	1,991	0
Total	1,991	0	1,991	0

Net book value	2,329			197
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2009

(CZK thousands)

COST	1 January 2009	Acquisitions	Disposals	31 December 2009
Buildings and constructions	0	4,259	0	4,259
Plant, machinery and equipment	0	29	0	29
Assets	0	4,383	4,321	62
Total	0	8,671	4,321	4,350

ACCUMULATED DEPRECIATION	1 January 2009	Additions	Disposals	31 December 2009
Buildings and constructions	0	18	0	18
Plant, machinery and equipment	0	12	0	12
Total	0	30	0	30

ADJUSTMENTS	1 January 2009	Creation	Release	31 December 2009
Buildings and constructions	0	1,991	0	1,991
Total	0	1,991	0	1,991

Net book value	0			2,329
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In 2010, the Company acquired tangible assets with a cost of less than CZK 10,000 which were charged directly to expenses at an aggregate amount of CZK 86,000 (2009: CZK 29,000).

c) Receivables

Outstanding trade receivables are not secured and none of them has a maturity of longer than five years.

As at 31 December 2010, past-due receivables totalled CZK 3,995,000 (31 December 2009: CZK 0).

The adjustment for doubtful receivables was CZK 1,259,000 at 31 December 2010 (31 December 2009: CZK 0).

Receivables and payables in respect of VAT on advances received and granted are offset and are reported net as other receivables in the amount of CZK 58,541,000 as at 31 December 2010 (31 December 2009: CZK 13,827,000).

Receivables from the controlling entity comprise the cash-pooling balance, which at 31 December 2010 was CZK 237,042,000 (31 December 2009: CZK 88,994,000).

Estimated receivables include an estimate of unbilled gas and gas distribution at 31 December 2010 in the amount of CZK 820,689,000 (31 December 2009: CZK 67,298,000).

d) Equity

Statement of changes in equity

(CZK thousands)

Changes/balances	Share capital	Other capital funds	Statutory reserve fund	Other funds from profit	Retained earnings	Profit subject to approval / current period profit	Total profit
Balances at 31 December 2008	10,000	0	74	26	261	7,114	17,475
Distribution of profit for 2008 accounting period	0	0	356	300	58	(714)	0
Dividends	0	0	0	0	0	(6,400)	(6,400)
Other changes	0	210	0	(32)	0	0	178
Profit for 2009 accounting period	0	0	0	0	0	14,995	14,995
Balances at 31 December 2009	10,000	210	430	294	319	14,995	26,248
Distribution of profit for 2009 accounting period	0	0	749	300	7,446	(8,495)	0
Dividends	0	0	0	0	0	(6,500)	(6,500)
Other changes	0	0	0	(59)	0	0	(59)
Profit for 2010 accounting period	0	0	0	0	0	141,746	141,746
Balances at 31 December 2010	10,000	210	1,179	535	7,765	141,746	161,435

The Company is wholly owned by Pražská plynárenská, a.s., which holds 10 certificated registered shares with a nominal value per share of CZK 1,000,000.

The statutory reserve is created from Company profit in accordance with the law and cannot be distributed to shareholders, but can be used to offset losses.

On 26 May 2010, the General Meeting approved the Company's financial statements for 2009 and decided on the distribution profit amounting to CZK 14,995,000.

e) Provisions

(CZK thousands)

	31 December 2010	31 December 2009
Income tax provision	33,536	4,535
Other provisions	1,465	636
Total	35,001	5,171

The income tax provision is set off against prepayments in the statements and is recognized at its net worth.

Other provisions include a provision for untaken leave.

f) Liabilities

Trade payables and other payables were not secured with any Company assets and do not have a maturity of longer than five years.

As at 31 December 2010 and 31 December 2009, the Company had no past-due trade payables.

The Company has no overdue social or health insurance liabilities, nor any overdue liabilities in relation to tax authorities or other government institutions.

Estimated payables include an estimate of unbilled gas and gas distribution at 31 December 2010 in the amount of CZK 722,389,000 (31 December 2009: CZK 13,525,000).

g) Derivative financial instruments

The aggregate fair value of derivative financial instruments is reported under other receivables if positive overall for the Company, or under other payables if negative overall:

(CZK thousands)

	31 December 2010			31 December 2009		
	Fair value		Nominal value	Fair value		Nominal value
	Positive	Negative		Positive	Negative	
Currency forwards	6,202	10,365	1,012,216	0	0	0

Any change in the fair value of derivatives held for trading is recognized in the profit and loss account.

The Company has derivative financial instruments that are used in accordance with the Company's risk management strategy as an effective hedging tool but to which hedge accounting cannot be applied under Czech accounting regulations because they do not satisfy the criteria for hedge accounting. These derivatives are therefore reported as derivatives held for trading in the above table.

h) Income tax

(CZK thousands)

	2010	2009
Tax due (2010: 19%; 2009: 20%)	33,536	4,535
Tax deferred	(340)	(39)
Adjustment to tax expense of previous period based on tax return actually filed	33	(5)
Total tax expense	33,229	4,491

Deferred tax is calculated at a rate of 19% (the tax rate for 2010 and subsequent periods).

The deferred tax asset can be analysed as follows:

(CZK thousands)

	31 December 2010	31 December 2009
Accelerated tax depreciation of assets	11	(27)
Provisions and adjustments	422	120
Net tax asset deferred	433	93

i) Revenue recognition

Revenue from operating activities was generated as follows:

(CZK thousands)

		2010	2009
Natural gas sales	Czech Republic	4,841,646	1,398,675
Service provision	Czech Republic	8,614	14,160
Revenue from disposals of fixed assets		2,241	0
Other revenues		18	2,171
Total		4,852,519	1,415,006

j) Staff costs and employees

(CZK thousands)

	Number	Staff costs	Number	Staff costs
Employees	10	10,243	7	6,878
Management	2	4,232	1	2,526
Total employees	12	14,475	8	9,404
Company bodies	6	382	6	419
Total		14,857		9,823

The number of employees is based on the full-time equivalent.

k) Related-party transactions

This note sets out all material related-party transactions, apart from transactions with the City of Prague and its affiliates. Transactions with the City of Prague and its affiliates were concluded on an arm's-length basis and are not enumerated in the following table.

	(CZK thousands)	
	2010	2009
Revenues:		
Revenues from sales of natural gas	2,784,958	44,437
Other (revenues from distribution, interest, contractual penalties)	1,444	14,160
Total revenues	2,786,402	58,597
Costs		
Purchase of services	42,110	13,276
Purchase of raw materials and gas	908,614	968,944
Other costs	822	0
Total costs	951,546	982,220
Acquisition of investments	562	3,973

The Company had the following balances with related parties:

	(CZK thousands)	
	31 December 2010	31 December 2009
Trade receivables	3,453	1,406
Short-term advances granted	10,656	1,663
Loans granted – cash pooling	237,042	88,994
Estimated receivables	401,411	0
Total receivables	652,562	92,063
Trade payables	415	137,354
Short-term advances received	268,057	39,851
Estimated payables	243,957	302
Total payables	512,429	177,507

Company cars are placed at the disposal of senior management and members of the Company's Board of Directors. The remuneration of members of the Board of Directors and the remuneration of members of the Supervisory Board of the Company is included in staff costs.

l) Auditor's fee

Information about the auditor's fee is set out in the notes to the consolidated financial statements of the Pražská plynárenská, a.s.

4 OTHER IMPORTANT INFORMATION

Contractual obligations

The Company did not enter into any significant investment commitments.

Total commitments not included in the balance sheet, based on operating lease contracts, amounted to CZK 8,814,000 at 31 December 2010 (31 December 2009: CZK 5,855,000). These commitments arise from contracts concluded for an indefinite period. Where contracts of indefinite duration have a notice period of one to three months, the commitments due within one year are reported.

The Company has secured its financial obligations arising from operations in the gas market at Citibank Europe plc, organizační složka in favour of OTE, a.s. to an amount up to CZK 16,200,000 as at 31 December 2010 (31 December 2009: CZK 16,200,000). This commitment is not included in the balance sheet.

5 CONTINGENT LIABILITIES

The Company management is not aware of any other contingent liabilities of the Company as at 31 December 2010.

6 SUBSEQUENT EVENTS

No events occurred after the balance sheet date which would have a material impact on the financial statements for the year ended 31 December 2010.

Prague, 23 February 2011

Milan Jadloviský
Member of the Board of Directors

SUPERVISORY BOARD REPORT ON OVERSIGHT IN 2010, INCLUDING ITS OPINION ON THE FINANCIAL STATEMENTS AND THE PROFIT ALLOCATION PROPOSAL FOR 2010

Pragoplyn, a.s. is a 100% subsidiary of Pražská plynárenská, a.s. It was founded by its sole shareholder under a Memorandum of Association of 24 May 2007. It was incorporated by entry in the Commercial Register on 30 July 2007.

The actions of the Supervisory Board in 2010 were based on the relevant provisions of the Commercial Code and the Company's current Articles of Association, and focused on supervising the exercise of powers by the Board of Directors and the performance of the Company's business activities.

In keeping with the Articles of Association, the Supervisory Board's oversight in the past year concentrated in particular on the continuous monitoring of developments in the Company's financial management, business objectives and compliance with legislation of general application.

In its oversight, the Supervisory Board found no shortcomings in the work of the Board of Directors or any other activities conflicting with the interests of the sole shareholder that could ultimately devalue shares in Pragoplyn, a.s. Further, the Supervisory Board did not record any conflict of interest, violations of ethical principles, or failure to comply with applicable legislative regulations and standards among the individual members of the Board of Directors. The Supervisory Board rates cooperation with the Board of Directors, including the attendance of representatives of the Board of Directors at meetings of the Supervisory Board, in a positive light. All the Supervisory Board's requests and recommendations to the Board of Directors were addressed and respected by the Board of Directors on time.

On the basis of a decision by the sole shareholder, acting in the capacity of the General Meeting of Pragoplyn, a.s., of 16 November 2010, a change was made in the composition of the Company's Board of Directors and Supervisory Board. Josef Hais was elected as a member of the Board of Directors and removed from his position of member of the Supervisory Board. Marta Ptáčková was elected as a member of the Supervisory Board and removed from her position of member of the Board of Directors.

In accordance with Article V, Section 28(1) and (2) of the Company's Articles of Association, the Supervisory Board reviewed the annual financial statements for the year ended 31 December 2010, as audited by PricewaterhouseCoopers Audit, s.r.o., studied the auditor's opinions, and scrutinized the 2010 profit allocation proposal put forward by the Board of Directors. In its review of the annual financial statements, the Supervisory Board found no misstatements, and no comments or suggestions were raised by members of the Supervisory Board.

In the light of these facts, the Supervisory Board acquainted itself with the audit findings and recommends that the General Meeting approve the 2010 financial statements of Pragoplyn, a.s. and pass a resolution on profit allocation in keeping with the proposal submitted by the Board of Directors.

Prague, 27 April 2011

Pavel Hurda
Chairman of the Supervisory Board, Pragoplyn, a.s.

PRAGOPLYN, A. S. REPORT ON RELATED-PARTY TRANSACTIONS FOR 2010

1. Purpose

This report on relations between the controlling and the controlled entity and on relations between the controlled entity and other entities controlled by the same controlling entity (related parties) has been prepared for the 2010 accounting period in accordance with the requirements of Section 66a of Act No 513/1991, the Commercial Code, as amended. The Report was drawn up by the Board of Directors with due regard to Section 17 of the Commercial Code, which relates to trade secrets. The Report was produced in the absence of a controlling agreement between the controlling entity and controlled entity pursuant to Section 190b of the Commercial Code.

2. Definition of the controlling entity and legal entities controlled by the same controlling entity

2.1. Controlling entity

Company name: **Pražská plynárenská, a.s.**
Registration number: 601 93 492
Registered office: Praha 1 – Nové Město, Národní 37, 110 00
Register entry: B 2337, in the Commercial Register kept by the registration court in Prague
Method of control: sole shareholder
(hereinafter referred to as "PP")

2.2. Persons controlling the controlled entity indirectly

Company name: **Pražská plynárenská Holding a.s.**
Registration number: 26442272
Registered office: Praha 4, U Plynárny 500, 140 00
Register entry: B 7151, in the Commercial Register kept by the registration court in Prague

Company name: **City of Prague**
Registration number: 00064581
Registered office: Praha 1, Mariánské náměstí 2/2, 110 01

Company name: **E.ON Czech Holding AG**
Registered office: Denisstraße 2, D-80335, München, Germany

2.3. Controlled entity

Company name: **Pragoplyn, a.s.**
Registration number: 27933318
Registered office: Praha 1 – Nové Město, Jungmannova 36/31, 110 00
Register entry: B 12177, in the Commercial Register kept by the registration court in Prague
(hereinafter referred to as "PGP")

2.4. Other entities controlled by the same controlling entity

2.4.1. Existing controlled entities controlled by the same controlling entity

Company name: **Pražská plynárenská Distribuce, a.s., člen koncernu Pražská plynárenská, a.s.**
Registration number: 274 03 505
Registered office: Praha 4, U Plynárny 500, 145 08
Register entry: B 10356, in the Commercial Register kept by the registration court in Prague
(hereinafter referred to as "PPD")

Company name: **Pražská plynárenská Servis distribuce, a.s., člen koncernu Pražská plynárenská, a.s.**
Registration number: 471 16471
Registered office: Praha 4, U Plynárny 1450/2a, 140 00
Register entry: B 1878, in the Commercial Register kept by the registration court in Prague
(hereinafter referred to as "PPSD")

Company name: **Pražská plynárenská Správa majetku, s.r.o., člen koncernu Pražská plynárenská, a.s.**
Registration number: 27436551
Registered office: Praha 4, U Plynárny 500, 145 08
Register entry: C 116303, in the Commercial Register kept by the registration court in Prague
(hereinafter referred to as "PPSM")

Company name: **Prometheus, energetické služby, s.r.o.**
Registration number: 630 72 599
Registered office: Praha 4, U plynárny 500, 140 00
Register entry: C 35900, in the Commercial Register kept by the registration court in Prague
(hereinafter referred to as "PROM")

Company name: **Informační služby – energetika, a.s.**
Registration number: 264 20 830
Registered office: Praha 4, U Plynárny 500, 141 00
Register entry: B 7946, in the Commercial Register kept by the registration court in Prague
(hereinafter referred to as "ISE")

Company name: **Měření dodávek plynu, a. s.**
Registration number: 290 01 498
Registered office: Praha 4, U Plynárny 500/44, 145 08
Register entry: B 15764, in the Commercial Register kept by the registration court in Prague
(hereinafter referred to as "MDP")

Foundation: **Galerie Smečky Foundation**
Registration number: 272 14 451
Registered office: Praha 1, Národní 38/37, 110 00
Register entry: N 552, in the Commercial Register kept by the registration court in Prague

3. Description of relations between related parties

3.1. Contracts concluded between related parties

Pražská plynárenská, a.s.

Parent company warranties and letters of guarantee: Letter of Guarantee (of 12 November 2009) for a gas supplier. Letter of Guarantee (of 10 December 2010) for a gas supplier. Guarantee (of 1 December 2009) for a gas supplier. Parent company guarantee (of 28 December 2010) for a gas supplier. Parent company guarantee (of 20 August 2010) for a gas supplier. Parent company guarantee (of 25 June 2010) for a gas supplier. Written guarantee of Pražská plynárenská, a.s. (of 24 May 2010) for a company where Pragoplyn, a.s. was tendering for future natural gas supplies.

Mandate of Pragoplyn, a.s. to participate, in its name and on for its own account instead of Pražská plynárenská, a.s., in tendering procedure for the supply of natural gas, notified by Vojenská lázeňská a rekreační zařízení under Ref. No 18-1/2010/DP-8092.

Contracts concluded in 2010: Addendum No 2 to Mandate Contract No 1336/2009/OŘ of 7 December 2009 (of 14 January 2010). Addendum No 2 to Gas Supply Agreement 68/V/2009/PGP and 1400/2009/OŘ (of 28 January 2010). Addendum No 3 to Mandate Contract No 1336/2009/OŘ of 7 December 2009 (of 1 February 2010). Addendum No 3 to Gas Supply Agreement 68/V/2009/PGP and 1400/2009/OŘ (of 25 March 2010). Framework Natural Gas Purchase and Sale Agreement (30 March 2010). Gas Supply Agreement No 81/V/2010/PGP, No 537/2010/OŘ (of 3 May 2010). Gas Supply Agreement No 80/V/2010/PGP, No 536/2010/OŘ (of 3 May 2010). Addendum No 1 to Gas Supply Agreement No 80/V/2010/PGP, No 536/2010/OŘ (of 25 November 2010). Addendum No 2 to Gas Supply Agreement 80/V/2010/PGP and 536/2010/OŘ (of 14 December 2010). Addendum No 4 to Mandate Contract No 1336/2009/OŘ of 7 December 2009 (of 9 September 2010). Addendum No 3 to Contract on the Lease of Non-residential Premises No 248/2007/KFŘ (of 24 November 2010). Addendum No 4 to Contract on the Lease of Movable Assets – Furniture No 301/2007/KFŘ (of 26 March 2010). Addendum No 5 to Contract on the Lease of Movable Assets – Furniture No 301/2007/KFŘ (of 29 September 2010). Addendum to Contract on the Lease of Computer and Copying Equipment No 302/2007/KFŘ (of 24 November 2010). Addendum No 2 to Contract on the Provision of Accounting and Financial Services No 323/2007/KFŘ (of 23 April 2010). Addendum No 3 to Contract on the Provision of Accounting and Financial Services No 323/2007/KFŘ (of 29 September 2010). Addendum No 4 to Contract on the Provision of Accounting and Financial Services No 323/2007/KFŘ (of 30 November 2010). Addendum No 5 to Contract on the Provision and Arrangement of Operations – Telecommunications No 347/2007/KFŘ (of 29 March 2010). Addendum No 6 to Contract on the Provision and Arrangement of Operations – Telecommunications No 347/2007/KFŘ (of 19 August 2010). Addendum No 7 to Contract on the Provision and Arrangement of Operations – Telecommunications No 347/2007/KFŘ (of 30 November 2010). Addendum to Contract on the Lease of a Furniture Safe No 349/2007/KFŘ (of 24 November 2010). Addendum No 1 to Contract on the Hire of Motor Vehicles for Temporary Use No 353/2007/KFŘ (of 4 March 2010). Addendum No 2 to Contract on the Hire of Motor Vehicles for Temporary Use No 353/2007/KFŘ (of 25 August 2010). Addendum No 3 to Contract on the Hire of Motor Vehicles for Temporary Use No 353/2007/KFŘ (of 29 September 2010). Addendum No 4 to Contract on the Hire of Motor Vehicles for Temporary Use No 353/2007/KFŘ (of 12 November 2010). Addendum No 4 to Contract on the Provision of Rights to Use IT Software and Services No 332/2007/KŘSI (of 20 September 2010). Addendum No 5 to Contract on the Provision of Rights to Use IT Software and Services No 332/2007/KŘSI (of 29 September 2010). Addendum No 6 to Contract on the Provision of Rights to Use IT Software and Services No 332/2007/KŘSI (of 12 November 2010, with effect as of 1 October 2010). Addendum No 7 to Contract on the Provision of Rights to Use IT Software and Services No 332/2007/KŘSI (of 12 November 2010, with effect as of 1

November 2010). Addendum to Contract on the Provision and Processing of a Comprehensive Personnel and Wage Agenda No 352/2007/OIAP (of 2 February 2010). Addendum to Contract on the Provision and Processing of a Comprehensive Personnel and Wage Agenda No 352/2007/OIAP (of 17 September 2010). Addendum to a Contract on the Lease of a Parking Space in a Self-service Stacker (of 24 November 2010). Mandate Contract No 534/2010/KOŘ (of 30 April 2010). Agreement on the Replacement of a Party to Contract on the Assignment of Rights and Assumption of Obligations No 1051/2010/OŘ (of 30 August 2010). Addendum to a Contract on Cash Pooling within the PP, a.s. Group (of 28 June 2010).

Contracts in force in 2010: Contract on the Lease of Non-residential Premises No 248/2007/KFŘ (of 6 June 2007). Addendum No 1 to Contract on the Lease of Non-residential Premises No 248/2007/KFŘ (of 28 August 2007). Addendum No 2 to Contract on the Lease of Non-residential Premises No 248/2007/KFŘ (of 4 December 2009). Addendum to Contract on the Lease of Movable Assets – Furniture No 301/2007/KFŘ (of 28 August 2007). Addendum No 1 to Contract on the Lease of Movable Assets – Furniture No 301/2007/KFŘ (of 28 December 2007). Addendum No 2 to Contract on the Lease of Movable Assets – Furniture No 301/2007/KFŘ (of 3 February 2009). Addendum No 3 to Contract on the Lease of Movable Assets – Furniture No 301/2007/KFŘ (of 4 December 2009). Contract on the Lease of Computer and Copying Equipment No 302/2007/KFŘ (of 20 August 2007). Contract on the Provision of Accounting and Financial Services No 323/2007/KFŘ (of 28 August 2007). Addendum No 1 to Contract on the Provision of Accounting and Financial Services No 323/2007/KFŘ (of 5 October 2009). Contract on the Provision and Arrangement of Operations – Telecommunications No 347/2007/KFŘ (of 28 August 2007). Addendum No 4 to Contract on the Provision and Arrangement of Operations – Telecommunications No 347/2007/KFŘ (of 21 September 2009). Contract on the Provision of Registry Services No 348/2007/KFŘ (of 28 August 2007). Addendum to Contract on the Provision of Registry Services No 348/2007/KFŘ (of 11 April 2008). Contract on the Lease of a Furniture Safe No 349/2007/KFŘ (of 20 September 2007). Contract on the Hire of Motor Vehicles for Temporary Use No 353/2007/KFŘ (of 28 August 2007). Contract on the Provision of Rights to Use IT Software and Services No 332/2007/KŘSI (of 1 September 2007). Service Agreement – Creation and Updating of a Map of Corporate Processes No 343/2007/OPSŘ (of 31 August 2007). Contract on the Provision of Works Catering to the Employees of Pragoplyn, a.s. No 351/2007/OIAP (of 28 August 2007). Contract on the Provision and Processing of a Comprehensive Personnel and Wage Agenda No 352/2007/OIAP (of 28 August 2007).

Addendum to Framework Agreement between PP and Telefonica O2 No EtOP/7489 (of 21 December 2007). Contract on the Lease of a Parking Space in a Self-service Stacker No 357/2007/KFŘ (of 23 August 2007). Framework Compressed Natural Gas Sale and Purchase Agreement No 73/2008/KFŘ (of 11 February 2008). Framework Natural Gas Purchase and Sale Agreement (of 30 April 2009). Natural Gas Input and Offtake Agreement No 1036/2009/OŘ (of 15 September 2009). Mandate Contract No 1336/2009/OŘ (of 7 December 2009). Addendum to Mandate Contract No 1336/2009/OŘ (of 21 December 2009). Natural Gas Supply Contract No 1400/2009/OŘ (of 4 December 2009). Addendum to Natural Gas Supply Contract No 1400/2009/OŘ (of 30 December 2009). Addendum to Contract on Cash Pooling within the PP, a.s. Group No 1516/2006/OEOF (of 27 August 2008). Authorization for the Automatic Transfer of Balances in Accounts with Citibank (of 27 August 2008) – for the whole group.

Contracts terminated in 2010: Natural Gas Input and Offtake Agreement (of 3 December 2008, valid until 1 January 2010). Addendum to a Natural Gas Input and Offtake Agreement (of 22 December 2008, valid until 1 January 2010). Addendum to a Natural Gas Input and Offtake Agreement (of 29 December 2008, valid until 1 January 2010). Addendum to Contract on the Lease of Computer and Copying Equipment No 302/2007/KFŘ (of 22 March 2010). Addendum to Contract on the Provision of Rights to Use IT Software and Services No

332/2007/KŘSI (of 1 June 2009, valid until 31 July 2010). Framework Vehicle Lease Agreement No 11/2010/SAVP (of 31 December 2009, valid until 31 December 2010). Lease of Computer and Copying Equipment No 302/2007/KFŘ (of 22 March 2010).

Pražská plynárenská Správa majetku, s.r.o., člen koncernu Pražská plynárenská, a.s.

Contracts signed in 2010: Addendum to Works Contract on the Cleaning of Non-residential Premises No 065/2007/PPSM (of 8 January 2010). Addendum to Works Contract on the Cleaning of Non-residential Premises No 065/2007/PPSM (of 13 October 2010). Addendum to Works Contract for Services Related to Occupational Health and Safety and Fire Protection No 067/2007/PPSM (of 11 October 2010). Works Contract – Washer No 041/2010/PPSM (of 1 December 2010).

Contracts in force in 2010: Works Contract on the Cleaning of Non-residential Premises No 065/2007/PPSM (of 1 September 2007). Works Contract for Services Related to Occupational Health and Safety and Fire Protection No 067/2007/PPSM (of 1 September 2007). Works Contract for the Management of Data on Records for All Vehicles Operated by the Client; Management of Data on Driver Records No 068/2007/PPSM (of 1 September 2007). Works Contract for the Provision of Transport Services, Vehicle and Mechanical Equipment Repairs and Regular Inspections of Vehicles and Mechanical Equipment No 070/2007/PPSM (of 1 September 2007). Works Contract for the Centralized Processing of Master Data into the Integrated Information System SAP R3 No 071/2007/PPSM (of 1 September 2007). Works Contract on Radio Fees for Radio in Mobile Telephones – Fee Processing Service No 001/2008/PPSM (of 29 January 2008). Addendum to Works Contract on Radio Fees for Radio in Mobile Telephones – Fee Processing Service No 001/2008/PPSM (of 1 July 2009). Mandate Contract on the Optimization of Goods Procurement (of 2 January 2009).

Contracts terminated in 2010: Contract on Vehicle and Mechanical Equipment Washing No 069/2007/PPSM (of 1 September 2007, valid until 30 November 2010).

Informační služby – energetika, a.s.

Contracts signed in 2010: Framework Subcontracting Agreement (of 27 September 2010).

Prometheus, energetické služby, s.r.o.

Contracts signed in 2010: Bundled Natural Gas Input and Offtake Service Agreement (above 630,000 kWh/year) (of 28 June 2010). Addendum No 1 to Bundled Natural Gas Input and Offtake Service Agreement of 28 June 2010 (of 5 November 2010). Bundled Natural Gas Input and Offtake Service Agreement (commercial and residential category up to 630 MWh/year) (of 28 June 2010).

Pražská plynárenská Distribuce, a.s., člen koncernu Pražská plynárenská, a.s.

Contracts in force in 2010: Gas Distribution Agreement, Agreement No 810/2008/OODK (28 August 2008), including Addendum No 1 to Addendum No 13 (Addendum 13 of 29 October 2010). Letter of Guarantee for a Credit Product Agreement of 10 October 2008, Guarantor: Pražská plynárenská Distribuce, a.s., člen koncernu Pražská plynárenská, a.s.

Contracts terminated in 2010: Agreement on the Operation of Natural Gas Facilities (of 23 September 2009, valid until 31 January 2010). Addendum to an Agreement on the Operation of Natural Gas Facilities (of 17 December 2009, valid until 31 January 2010). Addendum to an Agreement on the Operation of Natural Gas Facilities (of 25 January 2010, valid until 31 January 2010).

Pražská plynárenská Servis distribuce, a.s., člen koncernu Pražská plynárenská, a.s.
No contracts

Měření dodávek plynu, a.s.
No contracts

E.ON Energie, a.s.

Contracts concluded in 2010: Framework Agreement on Electricity Supply with the Assumption of the Commitment to Take Electricity from the Grid No SM2009-EL-PGP-01 (of 15 November 2010). Addendum No 2 to a Natural Gas Purchase and Sale Agreement (of 29 September 2010). Confirmation of Natural Gas Input and Offtake (of 26 October 2010). Confirmation of Natural Gas Input and Offtake (of 5 November 2010). Confirmation of Natural Gas Input and Offtake (of 25 November 2010). Mandate Contract (of 30 November 2010). Addendum No 1 to a Mandate Contract.

Contracts in force in 2010: Natural Gas Purchase and Sale Agreement (of 30 September 2009). Addendum No 1 to a Natural Gas Purchase and Sale Agreement (of 15 November 2009). Framework Natural Gas Purchase and Sale Agreement (of 30 November 2009).

E.ON Distribuce, a.s

Contracts concluded in 2010: Framework Agreement on Electricity Distribution for the Wholesale Segment No 1600133000/125/ECD/2010 (of 29 November 2010). Framework Agreement on Electricity Distribution for the Commercial Segment No 1600133000/126/ECD/2010 (of 29 November 2010). Framework Agreement on Electricity Distribution for the Residential Segment No 1600133000/127/ECD/2010 (of 29 November 2010). Framework Agreement on Electricity Distribution for the Wholesale Segment No 1600133000/125/ECD/2011 (of 15 December 2010). Framework Agreement on Electricity Distribution for the Commercial Segment No 1600133000/126/ECD/2011 (of 15 December 2010). Framework Agreement on Electricity Distribution for the Residential Segment No 1600133000/127/ECD/2010 (of 15 December 2010). Gas Distribution Agreement No 1PGP/2010 (of July 2010). Addendum No 1 to Gas Distribution Agreement No 1PGP/2010 (of 31 August 2010). Addendum No 2 to Gas Distribution Agreement No 1PGP/2010 (of 31 August 2010). Addendum No 3 to Gas Distribution Agreement No 1PGP/2010 (of 24 September 2010). Addendum No 4 to Gas Distribution Agreement No 1PGP/2010 (of 27 October 2010). Addendum No 5 to Gas Distribution Agreement No 1PGP/2010 (of 31 December 2010). Addendum No 6 to Gas Distribution Agreement No 1PGP/2010 (of 24 September 2010).

Contracts terminated in 2010: Annual Natural Gas Distribution Agreement No 1RAC2PGP/2010 (of 30 December 2009, valid until July 2010), including addenda thereto. Annual Natural Gas Distribution Agreement No 10PGP/2008 (of 16 September 2008, valid until July 2010), including addenda thereto.

E.ON Ruhrgas AG, organizační složka

Contracts signed in 2010: Framework Agreement on Gas Sales and Purchases at a Fixed Quantity (of 7 July 2010). Individual Contract (of 9 December 2010).

Pražská teplárenská, a.s.

Contracts signed in 2010: Bundled Gas Supply Agreement (of 3 December 2010).

PREdistribuce, a.s.

Contracts signed in 2010: Framework Agreement on Electricity Distribution to the Service Points of Electricity Trader Customers (of 26 November 2010)

ČEZ Distribuce, a.s.

Contracts signed in 2010:

Framework Agreement on the Provision of Electricity Distribution (of 15 November 2010).

All transactions arising from these contracts were carried out in 2010 and contractual liabilities were duly honoured. A quantification of consideration from transactions carried out in 2010 with related parties on the basis of valid contracts is provided in the notes to the financial statements for the year ended 31 December 2010. The controlled entity incurred no detriment or loss under these contracts.

3.2. Other measures taken on behalf of or at the instigation of related parties by the controlled entity

Other actions taken by the controlled entity were prompted in particular by the decisions and recommendations of the sole shareholder's Board of Directors acting in the capacity of the Pragoplyn, a.s. General Meeting.

All purchase contracts concluded by Pragoplyn, a.s. for the period 2010–2012 and based on gas formulas were reviewed and approved by the bodies of Pražská plynárenská, a.s. further to collaboration between Pragoplyn, a.s. and Pražská plynárenská, a.s. in gas supply management and gas portfolio management.

The controlled entity incurred no detriment or loss under these measures.

3.3. Other legal acts

In the 2010 accounting period, no legal acts were implemented between the controlled entity and the controlling entities or related parties in the interests of or at the instigation of such controlling entities or related parties resulting in detriment or loss to the Company.

3.4. Other information

The controlled entity's bodies include natural persons who were simultaneously members of the bodies of related companies in 2010. Agreements on remuneration for work done within the controlled entity's bodies were concluded with these persons; their relations with the controlled company remained within the powers vested in them by their office held in the controlled entity's bodies or by their positions held at the controlling entity.

Members of the bodies of Pragoplyn, a.s.:

In 2010, members of the Board of Directors and the Supervisory Board of Pragoplyn, a.s. were also members of the bodies of, or employees of, related parties or other companies. These were:

a) members of the Board of Directors

Eckart Baum – Vice-Chairman of the Board of Directors of PP, a.s., Vice-Chairman of the Supervisory Board of Teplárna Kyjov a.s., Managing Director of Ško-Energo Fin, s.r.o., Chairman of the Board of Directors of Pragoplyn, a.s., Chairman of the Supervisory Board of Pražská plynárenská Distribuce, a.s., člen koncernu Pražská plynárenská, a.s., Authorized Signatory of E.ON Česká republika, s.r.o.

Marta Ptáčková – member of the Supervisory Board of PP, a.s., member of the Board of Directors of Pragoplyn, a.s. (terminated as at 16 November 2010)

Josef Hais – member of the Board of Directors of Pragoplyn, a.s. (as of 16 November 2010), Authorized Signatory of Pražská plynárenská, a.s.

Milan Jadlovský – member of the Board of Directors of Pragoplyn, a.s.

b) members of the Supervisory Board

Pavel Hurda – Chairman of the Board of Directors of PP, a.s., member of the Prague City Assembly, member of the Praha 3 Assembly, Vice-Chairman of the Board of Directors of Pražská strojírna, a.s., Chairman of the Supervisory Board of Pragoplyn, a.s.

František Kotula – member of the Board of Directors of PP, a.s., Vice-Chairman of the Board of Directors of PPH, a.s., member of the Supervisory Board of Pragoplyn, a.s., member of the Supervisory Board of Pražská plynárenská Distribuce, a.s., člen koncernu Pražská plynárenská, a.s.

Josef Hais – member of the Supervisory Board of Pragoplyn, a.s. (until 16 November 2010), Authorized Signatory of Pražská plynárenská, a.s.

Marta Ptáčková – member of the Supervisory Board of PP, a.s., member of the Supervisory Board of Pragoplyn, a.s. (as of 16 November 2010)

The Board of Directors of Pragoplyn, a.s. is not aware of any member of the Company's bodies influencing any decisions of the Board of Directors or the Supervisory Board in favour of the controlling entity or an entity controlled by the same controlling entity.

Prague, 28 March 2011

Eckart Baum
Chairman of the Board of Directors

Josef Hais
Member of the Board of Directors

Milan Jadlovský
Member of the Board of Directors

Supervisory Board comments on the Report on relations between the controlling entity and the controlled entity and on relations between the controlled entity and other entities controlled by the same controlling entity (“related parties”)

The Supervisory Board, after examining the Report on Related-Party Transactions for 2010, notes that the Report was prepared by the Board of Directors of Pragoplyn, a.s. in accordance with Section 66a of Act No 513/1991, the Commercial code, as amended. The Supervisory Board is not aware of any member of the Company's bodies influencing any decisions of the Board of Directors or the Supervisory Board in favour of the controlling entity or an entity controlled by the same controlling entity.

Prague, 27 April 2011

Pavel Hurda
Chairman of the Supervisory Board
Pragoplyn, a.s.