

2016

ANNUAL
REPORT



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FOREWORD FROM THE COMPANY MANAGEMENT

Dear shareholders,
Dear lady colleagues,
Dear gentleman colleagues,

We present you with the Annual Report summarizing results of our activities and implementation of projects in 2016, which can be evaluated as very successful. Compared to previous periods, company management was positively influenced by the cooler winter and resulting higher volumes of distributed natural gas. At the same time, we further increased the effectiveness of distribution by the implementation of own optimization measures. Due to the aforesaid factors, we generated revenues of EUR 383,29 million and profit after taxation of EUR 142,95 million in 2016. In the same year we succeeded in maintaining a high level of safety of operations; the plan of maintenance of gas facilities was fulfilled to 100%. Thanks to solid maintenance, gas leaks on the distribution network decreased by 17 %. In addition, we reconstructed 127 km of local networks, improved the database for distribution network management and developed a system of evaluation

of the quality of maintenance. Safety was, is, and will be our strategic priority; we continuously improve safety and invest funds with the aim of increasing its level. We develop risk models that allow us to define an adequate scope of maintenance according to the state of a particular asset and level of risk linked to its operation.

In an effort to ensure safety of the distribution network, we also continuously focused our attention on unauthorised gas usage, strengthening our analytical capacities in the detection thereof. We established a telephone line and e-mail box for reporting any suspicion of unauthorized use, and prepared further legislative proposals to discourage unauthorized users. In connection with our commercial activities, we continuously strive to increase the effectiveness and search for synergies in the company. In 2016, in this spirit we launched a pilot project aimed at the extension of our business activities to the implementation of reconstruction of local networks by our own means. We want to better use our bargaining position in view of the higher purchased volumes of materials, as well as

the use of a wide portfolio of implemented maintenance works and the know-how of our employees.

In the previous year we reconstructed the first 20 km of local networks in the framework of this pilot project. We have made progress in improvement of customer services, too. Our internet applications receive a very good response. More than 60 per cent of the applicants for connection to the distribution network communicate with our company by e-mail and use for applications the online forms published on our website, which are accessible 24 hours a day, 7 days a week. Consequently, the number of electronic applications for meter installations, applications for statement to the existence of gas facilities, as well as online payments of the fees significantly increased. Thanks to digitalization, connection to the gas distribution network became much simpler, more comfortable and accessible for our customers. We will continue this effort by extending electronic services and by improving those that worked out well.

The previous year was also successful because we completed the process of unbundling our company. Today, after the deployment of our own IT system, we only purchase property rental services from SPP. We thus completed a difficult process and achieved the highest level of unbundling. Management of environmental aspects of our company's activities remains our priority, therefore we observe defined

operating and control procedures and performance indicators in accordance with standard ISO 14 001.

Moreover, in the previous year we continued the promotion of natural gas as a "green" heating medium. The objective was to intensify the communication of the advantages of natural gas as the energy medium which can contribute to improvement of the environment at an acceptable price.

In the previous year SPP - distribúcia celebrated the 10th anniversary of its foundation.

From the perspective of the last 10 years we regard as important the traditional maintenance of the high level of safety and reliability of our activities and services, while continuously increasing the effectiveness of all our activities. In this period our company went through important changes, thanks to which it flexibly reacted and supported the development of the energy market. Nowadays we offer our services to more than 25 gas traders; we made great progress in the digitalization of our electronic services and completed the process of unbundling, achieving its highest level corresponding to the ownership separation. Thanks to the long-lasting efforts of our employees and the ability to flexibly react to changes on the energy market, SPP - distribúcia has become a modern, reliable and effective entity which creates values for its customers, business partners and shareholders, and respects its employees. All our future steps will be taken in this spirit.

Ing. František Čupr, MBA
Chairman of the Board of Directors

Ing. Štefan Šebesta
Deputy Chairman
of the Board of Directors

Ing. Martin Hollý
General Director (CEO)



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cia SPP

Distribúcia **SPP**

ÚSTREDIE
BRATISLAVA

MLYNSKÉ NIVY 44b

COMPANY

COMPANY PROFILE

The company SPP - distribúcia, a. s., as the owner and operator of a gas distribution network of more than 33 000 km, provides natural gas distribution in the territory of the Slovak Republic to more than 1,5 million points of delivery. The volume of such distributed gas accounts for about 98 % of the total natural gas volume distributed in the Slovak Republic for more than 94 % of the Slovak population with access to natural gas.

The reliability of operation of such an extensive gas distribution network requires a high level of professionalism, continuous development and consistent monitoring of the condition of pipelines and gas facilities in order to ensure the technically safe, user reliable and economically efficient distribution of natural gas.

SPP - distribúcia considers a continuous natural gas supply as one of the strategic pillars for maintaining the energy security of the Slovak Republic; therefore, increased attention is paid to it by the company.

Furthermore, the company concentrates on the consistent implementation of quality standards and a number of other legislative requirements.

SPP - distribúcia is a responsible guarantor of a strategic gas supply for household customers.

The company also performs logistic control and monitoring of the gas distribution system, including its physical balancing.

SPP - distribúcia actively supports the development of an open gas environment through its activities.

The company aspires to be a stable and efficient provider of professional services for 26 distribution network users as well as natural gas customers of all categories. It places emphasis on transparent and non-discriminatory business activities and strives to continuously improve the provided services, which is reflected in the growing options for electronic access to key services.

Priority business areas for SPP - distribúcia include the sale of distribution capacity, connections to the gas distribution network, active promotion of the use of natural gas as a comfortable, economical and environmentally friendly fuel, development activities, and the operation and maintenance of gas facilities.

The provision of safety for the extensive gas distribution network and its operation is preceded by safety of people in their own workplaces, which remains the company's priority. SPP - distribúcia strives to set up its processes optimally and to increase the efficiency of the operating activities resulting from its position as an independent operator on the Slovak gas market.

BOARD OF DIRECTORS AS AT 31 DECEMBER 2016



Ing. František Čupr, MBA
Chairman
of the Board of Directors

František Čupr graduated from the Faculty of Business and Economy of Mendel Agricultural and Forestry University Brno with a Masters of Business Administration (MBA) in 2006. After graduating, he worked for seven years with Jihomoravská energetika, a. s., in Brno, in various managerial positions, including Deputy Director of the Sales Division and Strategy Director. In 2005, he started to work for the J&T Investment Group, dealing with energy projects. In the same year, he founded a company trading in electricity and natural gas, EP Energy Trading, a. s. (former United Energy Trading, a. s.), where he executed the function of Chairman of the Board of Directors and CEO until 2012. In the period of 2006 - 2010, he was a member of the Supervisory Board of Pražská energetika, a. s. From 2009 - 2013, he operated as a member of the Supervisory Board of Pražská teplárenská, a. s. In 2013, he became Chairman of the Board of Directors of Stredoslovenská energetika - distribúcia, a. s. Since 24 January 2013, he has held the position of Chairman of the Board of Directors of SPP - distribúcia, a. s.



Ing. Štefan Šebesta
Deputy Chairman
of the Board of Directors

Štefan Šebesta completed studies in the Management of Industry and Food Enterprises at the Faculty of Chemical and Food Technology of the Slovak University of Technology in Bratislava in 1993. He began his career in 1991 as Communications Manager in Solid, a. s. In the period of 1992 - 1994, he worked for the investment company DIVIDEND, a. s., in the position of Communication Manager and at the same time as Portfolio Manager. He was appointed Chairman of the Supervisory Board of Záhorácke pekárne and cukrárne, a. s. in 1995. In the years 1994 to 1998 he worked in the polygraphic company DEAL, s. r. o. He was a manager at DEAL & PRINT, s. r. o., between 1998 and 2006. In the years 2006 and 2007 he was Director of the Investment and Acquisitions Office at the Ministry of Defence of the Slovak Republic. He became a Member of the Supervisory Board of Vojenský opravárenský podnik, a. s., in Trenčín in 2007. Since August 2007 he has been the Executive of Cleanlife, s. r. o., and at the same time of DEAL & PRINT, s. r. o. He became Vice-Chairman of the Board of Directors of SPP - distribúcia, a. s., on 12 July 2012.



Mgr. Petr Hájek
Member of the
Board of Directors

Petr Hájek graduated from the Faculty of Mathematics and Physics of Charles University in Prague. He started his professional career in 1994 in Živnostenská Banka as a Securities Analyst. In 1997 he worked for HSBC in Prague. Since 1998 he has been working for the investment group J&T/EPH, dealing with mergers and acquisitions, originally as an analyst and now as a senior project manager. He participated in acquisitions, administration and restructuring of a significant number of companies in the J&T/EPH portfolio. He was also chairman and member of the boards of directors in a number of companies owned by J&T/EPH. Since 2011 he has been Chairman of the Board of Directors of United Energy, a. s., and První Mostecká, a. s., and at the moment also the executive of the company SOR Libchavy spol. s.r. o. He became a member of the Board of Directors of SPP -distribúcia on 24 January 2013.



Ing. Gustáv Laca
Member of the
Board of Directors

Gustáv Laca completed his studies at the Department of Operations Research and Econometrics of the University of Economics in Bratislava in 1997. He started his career in 1995 in the financial sector, as co-owner and director of a securities dealer company. From 1995 to 2006, he worked for the companies Fineus brokers, o. c. p. a. s., KORUNA Invest, o. c. p. a. s. and Capital Partners, o. c. p. a. s., where he took charge of the overall workings of the company and its strategic management, in the position of Chairman of the Board of Directors and Director. Since 2006 he has also extended his range of companies to the real estate market. He has operated as director of KORUNA Finance, s. r. o. since 2012. He became a member of the Board of Directors of SPP -distribúcia on 22 August 2014.



Mgr. Ing. Marek Štrpka
Member of the
Board of Directors

Marek Štrpka graduated from the Faculty of Commerce of the University of Economics in Bratislava and the Faculty of Law of Comenius University in Bratislava. He started his professional career in 1996 in the St. Nicolaus Group, holding various managerial positions for eight years. In 2003 he started to work for the AGROFERT Group, first holding the position of financial director and member of the Board of Directors of Duslo, a. s., and from 2008 as the CEO and vice-chairman of the Board of Directors of this company. At the same time, he operated as chairman of the Supervisory Board of the Association of Chemical and Pharmaceutical Industry SR, member of the Board of Directors of the Slovak Agriculture and Food Chamber, member of Klub 500). Since 2013, he has been the CEO of Stredoslovenská energetika - distribúcia, a. s. Since 11 November 2015, he has been a member of the Board of Directors of Stredoslovenská energetika - distribúcia, a. s. Until 10 November 2015, the function of member of the Board of Directors was held by Ing. Miroslav Haško.

TOP MANAGEMENT AS AT 31 DECEMBER 2016



Ing. Martin Hollý
General Director

Martin Holly graduated from the Faculty of Commerce at the University of Economics in Bratislava with a specialization in foreign trade, and from the Universidad de Grenada in Spain. After graduating, he first worked for several years as Senior Auditor and Consultant at Arthur Andersen. In 2003 he took up the position of Director of the Economic Department in NAFTA a.s., where he significantly contributed to the restructuring of the company. From July 2008 to September 2012, he was General Director of NAFTA, a. s., as well as a Member of statutory bodies in POZAGAS a. s. In October 2012 he moved to SPP -distribúcia, a. s., within the SPP Group, where he has held the position of General Director of the company SPP - distribúcia, a. s. since 1 December 2012.



Ing. Roman Filipoiu, MBA
Head of the Economics
and Regulatory Division

Roman Filipoiu completed his Financial Management studies at the Faculty of Business Management at the University of Economics in Bratislava. Later on, he obtained his MBA at Oxford University in Great Britain. After graduating, he started working as an Auditor and Consultant in Deloitte, where he participated in audits of several major banks, financial institutions, and media companies in Slovakia. He started working in the energy sector after joining NAFTA a. s. in 2007. As Head of the Controlling Department, he was responsible for controlling, price regulation, and relations with equity holdings, and later as Deputy Finance Director, also for accounting, procurement, and finance. In the same period he also worked as Chairman of the Supervisory Board in Karotáž a cementace s. r. o. and Naftárska leasingová spoločnosť a. s. Since April 2009 he has been Director of the Economics and Regulatory Division for SPP -distribúcia, a. s. At the same time, he operates as Chairman of the Supervisory Board in SPP - distribúcia Servis, s. r. o., and member of the Supervisory Board in Plynárenská metrológia, s. r. o.



Ing. Rastislav Prelec
Head of the Network Operation
and Asset Management Division

Rastislav Prelec graduated from the Faculty of Electrical Engineering at the Slovak University of Technology in Bratislava in 1985 and completed his Masters in Industrial Engineering at Fachhochschule Ulm (Germany) in 2005.

After completing his studies, he worked in the Chemical Technology Research Institute as Head of the Automation Department until 1991. In the period of 1991 - 1995 he was self-employed in the field of industrial automation. In 1995 he joined Slovenský plynárenský priemysel, a. s. as a Telemetric Equipment Technician. He later worked as Head of the Control Systems Department. Since 1997 he has worked as a Project Manager and Co-Manager on the following projects: Reconstruction and Remote Control of Transfer Stations (SCADA SPD), Remote Monitoring of Regulation Stations (SCADA OZ), Dispatching Control Systems (SCADA), Remote Monitoring of Large Customers, Mobile Workplaces, and the Distribution Information System. In 2009 he was appointed Director of the Maintenance and Metering Division in SPP - distribúcia, a. s., where he served until 1 July 2013, when he became Director of the Network Operation and Asset Management Division in SPP - distribúcia, a. s.



Ing. Miroslav Horváth
Head of the Maintenance
and Metering Division

Miroslav Horváth completed his studies at the Faculty of Mechanical Engineering of the University of Žilina, specializing in the gas industry. After graduating, he started working for Slovenský plynárenský priemysel, š.p., as a Technician of Gasification in 1999. Subsequently he worked in several positions, among others also as Head of the Centre District Gasworks in Považská Bystrica. In July 2004 he became Head of the Local Unit in Prievidza. After the legal unbundling in 2007, he joined SPP - distribúcia, a. s., in the post of Head of the Regional Centre East in Košice. Since the year 2009 he has worked as Head of the maintenance department in the Maintenance and Metering Division and subsequently as Deputy to the Section Head. On 1 July 2013 he was appointed Director of Maintenance and Metering Division for SPP - distribúcia, a. s.



Ing. Marek Paál
Head of the Distribution
Services Division

Marek Paál, specialising in the gas industry, completed his studies at the Faculty of Mechanical Engineering of the University of Žilina in 2003. However, he had already started working in this field in 1996, when he joined Slovenský plynárenský Dispatching at Slovenský plynárenský priemysel, a. s. (SPP), holding various posts. Since 2004 he has worked at SPP as Director of the Distribution Capacities Sales Division. In 2006 he participated in the legal unbundling process of SPP into three separate companies and led the project for the implementation of a distribution information system for liberalised gas trading. After the legal unbundling, he continued to work as Director of the Distribution Capacities Sales Division in the now separated company SPP - distribúcia, a. s. Since the restructuring of the company in 2009, he has held the position of Director of the Distribution Services Division

TOP MANAGEMENT AS AT 31 DECEMBER 2016



Ing. Irenej Denkocy, ACCA
Head of the
Investment Division

Irenej Denkocy graduated from the Faculty of Business Management of the University of Economics in Bratislava with a specialization in financial management. He continued his studies by qualifying for and gaining ACCA membership. After graduating, he first worked as an assistant auditor at Ernst & Young, where he participated in the audits of several significant businesses in Slovakia. In 2009 he joined SPP - distribúcia, a.s., in the position of Senior Controller. Starting from 2011, he worked in the position of Head of Investments Controlling and Asset Registry. From July 2014 to January 2015 he was authorized to manage the Investments Department of SPP -distribúcia a. s. Since 1 February 2015 he has been Head of the Investments Division of SPP - distribúcia a. s



Mgr. Ing. František Kajánek
Head of the Human Resources
and QHSE Division

František Kajánek graduated from the Mining-Geology Faculty at the Mining College in Ostrava with a specialization in economics and the management of mines, and later studied law at Comenius University. He has been actively engaged in the area of human resources since 1995, working at NCHZ a. s., Nováky, for the Office for State Services, and for the Ministry of Labour, Social Affairs and Family of the Slovak Republic. Starting from 2007, he worked for NAFTA, a.s., where he held the position of Director of Human Resources from 1 January 2008. In addition to human resources, he was also responsible for corporate culture and the development of internal communications. Since 1 December 2013 he has been a part of SPP - distribúcia as Director of the Human Resources and QHSE Division.

SUPERVISORY BOARD



Ing. Rastislav Chovanec, PhD.
Chairman of the
Supervisory Board

In 2002 Rastislav Chovanec completed his International Business studies at the Faculty of Business Management at the University of Economics in Bratislava, where in 2006 he also obtained his PhD. He started working in 2004 as a project manager at FDI section of the Slovak Investment and Trade Development Agency (SARIO), where he worked until 2006. Between 2006 and 2010 he worked as an Adviser to the Prime Minister for Foreign Investment. In the years 2008 - 2012 he was CEO of Ceptra, s.r.o. In 2012 he returned to the Government Office of the Slovak Republic, where he worked two years as an Adviser to the Prime Minister for Investment. In 2014 he was appointed State Secretary of the Ministry of the Economy of the Slovak Republic, where he operates up to now. Since 2012 he has been Chairman of the Supervisory Board for SPP - distribúcia, a. s.

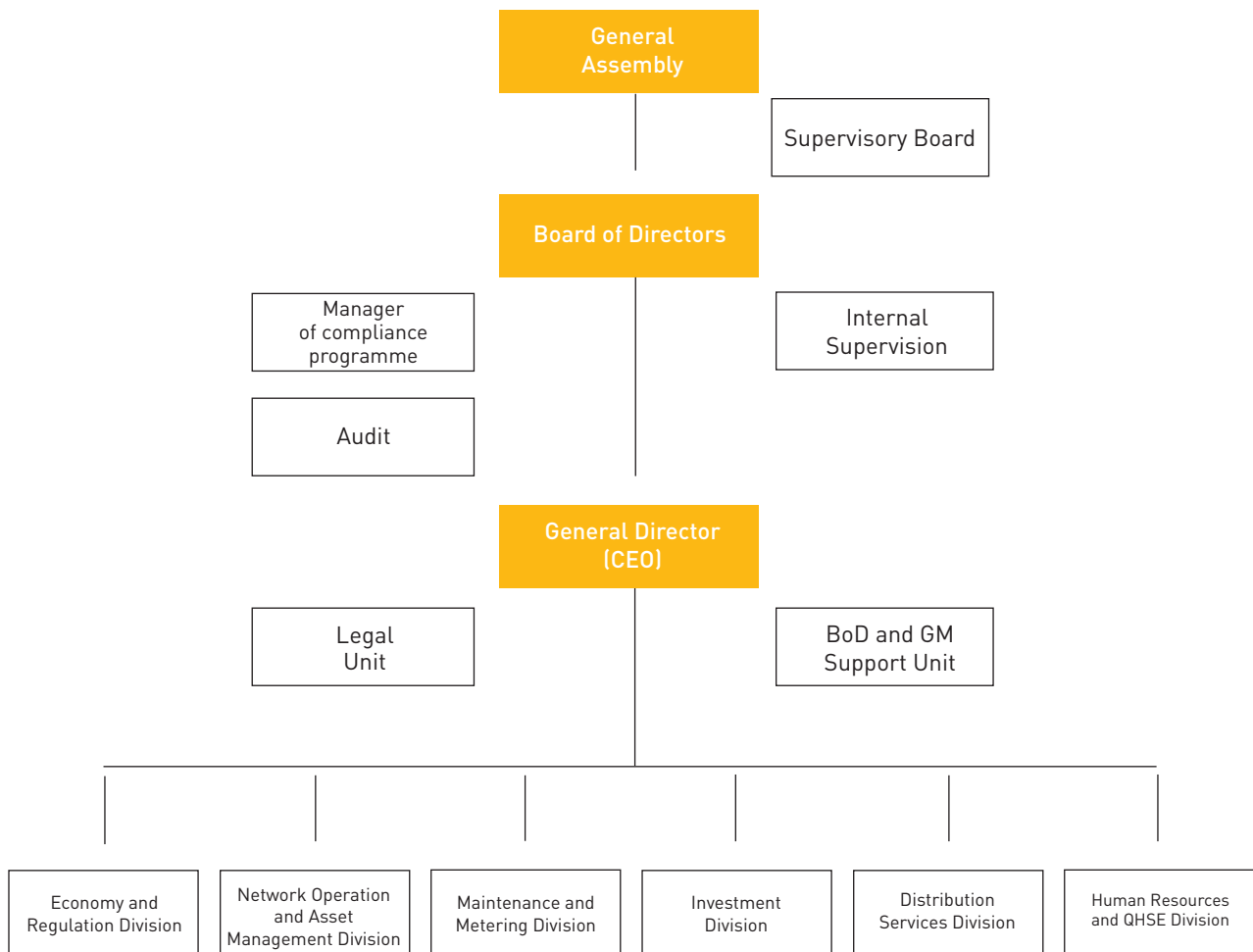
Mgr. Ing. Tomáš David
Deputy Chairman of the Supervisory Board

Members:

Pavol Korienek
Ing. Robert Procházka
Ing. Miroslav Recký
Milan Boris*

* Mr. Milan Boris became a member of the Supervisory Board on 25 November 2016. Until 24 November 2016, the function of Deputy Chairman of the Supervisory Board was held by Ing. Richard Vadkerty.

ORGANIZATIONAL STRUCTURE AS AT 31 DECEMBER 2016







SAFE AND RELIABLE DISTRIBUTION

OPERATION AND SAFETY OF THE NETWORK

2016 was a successful year for the company as a network operator. No serious emergencies while operating the gas facilities was recorded throughout the year, which confirms that the preventive activities were properly set. By the regular evaluation and solution of increased leaks in the distribution network, the volume of gas leaks from the house control units was stabilized and decreased by 17 % against the year 2015, when the increased volume of gas leaks was caused by transition to a new type of odorant. The organizational skills of the operating staff and the professionalism of the maintenance staff were verified, in particular by addressing and elimination of faults after internal inspection on gas pipelines DN 500 and DN 300. One challenge which was perfectly mastered in terms of operation was the elimination of the most serious faults by cutting out of the pipeline, which, apart from the cut-out work, required interruption and restoration of gas supply for the customers. The distribution network is prepared to provide business partners with a safe and reliable natural gas supply for the upcoming period. In the effort to continuously improve the risk-management operation and maintenance of administered facilities, we successfully terminated

the internal development of a risk model for gas pipelines of the high-pressure network from the previous year. We continued the development of Data Cube, the ambition of which is to credibly visualize and analyze any technical and economic data related to asset management.

DAMAGE TO GAS FACILITIES CAUSED BY THIRD PARTIES

In 2016 the company registered a decrease by 5 % in the number of cases where its gas facilities were damaged by third parties. It should be noted that the damages were recorded prevalingly during the implementation of earthworks in the protective zones of gas facilities, which are the most risky and most dangerous works in terms of operation. An increase in the number of damages was registered in cases where the party had implemented earthworks in the protective zones of gas facilities without marking of the gas facilities. The company SPP - distribúcia, a. s., performs the marking of gas facilities free of charge up to a certain degree, so these damages can be regarded as a gross violation of obligations by the party implementing the earthworks. Our company cooperated with the Slovak Trade Inspection in solving cases of damage to gas facilities.

PROVIDING A STANDARD FOR SECURITY OF SUPPLY

In order to resolve and prevent a possible state of emergency, the company SPP – distribúcia, as the distribution network operator, continued to provide a standard of safety for the gas supplies to household customers in compliance with valid legislation also in 2016. The main tool was chiefly the utilisation of natural gas reserves in underground storage intended for balancing the network, as well as a contractual agreement for gas supplies in a way fully covering the needs for the fulfilment of the safety standards in accordance with economic and efficiency criteria. The implementation of these measures in the previous year proves that the company is able to provide continuous and reliable gas distribution to all households in the Slovak Republic, even in the event of an emergency situation.

GASIFICATION OF SLOVAKIA

In Slovakia 77 % of municipalities, which are home to more than 94 % of the country's population, are currently gasified. In terms of the achieved gasification level of municipalities, no further development of the distribution network is required. However, due to the considerable development of residential areas, their connection to the distribution network has been ongoing for several years now. New residential areas are usually located

DETECTION OF UNAUTHORIZED USE OF NATURAL GAS

In 2016 we continued the successful detection of cases of unauthorized gas usage with the aim of achieving a reduction in losses from natural gas distribution. Company employees identified and documented 2 498 cases of unauthorized usage of more than 8,3 mil. m³ of gas. In order to increase the safety of our operated facilities, we carried out tens of area checks in 2016 focused on detection and documentation of unauthorized gas usage. For this purpose, 32 652 points of delivery were checked in the previous year. These checks identified 573 cases of demonstrable unauthorized tampering with meters or direct interventions into the gas pipeline. Based on facts suggesting the crime of gas theft, SPP - distribúcia brought 333 charges.

in municipalities already gasified, meaning the distribution network is being densified. As compared to the previous year, 2016 saw a moderate increase in the volume of gas distributed through the distribution network of SPP - distribúcia. However, with respect to the long term, the volumes of gas currently distributed are lower, mostly due to higher air temperatures in the winter months compared to the long-term norms.

Distribution of natural gas through the SPP-D distribution network 2012 - 2016 (in billion m³/15 °C)

	2012	2013	2014	2015	2016
Distributed volumes	5,03	5,03	4,24	4,59	4,68

Investments in modernisation / reconstruction of the network 2012 - 2016 (mil. EUR)

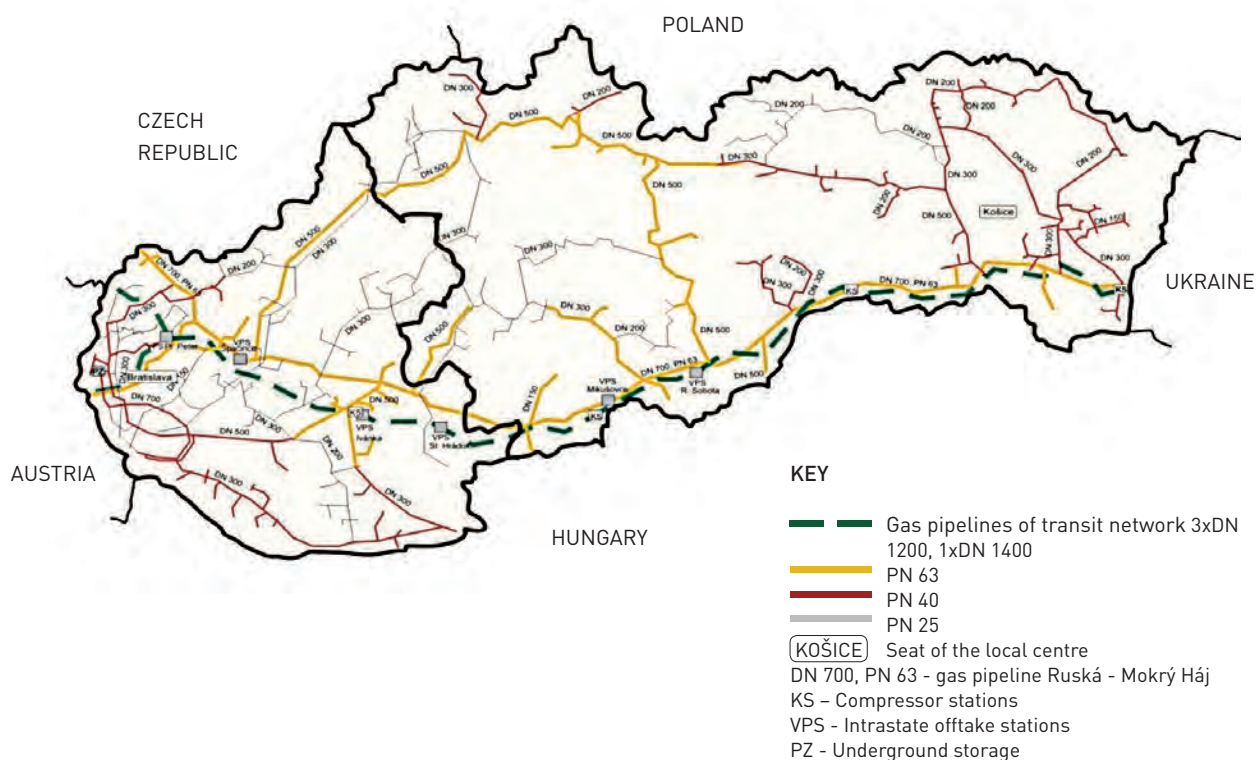
	2012	2013	2014	2015	2016
Investments in modernisation	42	28	14	21	27
Number of km of reconstructed gas pipelines of the local network (low and medium - pressure gas pipelines)	134	136	90	126	129

Length of the distribution network in 2012 - 2016 (km)

	2012	2013	2014	2015	2016
High - pressure gas pipelines	6 294	6 291	6 297	6 278	6 274
Medium and low-pressure gas pipelines	26 785	26 891	26 966	27 023	26 996
Total	33 079	33 182	33 263	33 301	33 270*

*Update and specification of lengths of gas pipelines after transition of the company to the new geographic information system (GIS).

Map of the distribution network of SPP - distribúcia



Classification of gas pipelines in local network 2012 - 2016 (in km)

	2012	2013	2014	2015	2016
Steel	12 733	12 623	12 559	12 509	12 429
Polyethylene	14 052	14 268	14 407	14 514	14 567



ONLINE formuláre > Proces pripojenia a technické zmeny > Žiadosť o pripojenie, žiadosť o technickú zmenu, žiadosť o montáž meradla

ONLINE formuláre

- Proces pripojenia a technické zmeny
 - Žiadosť o pripojenie, žiadosť o technickú zmenu, žiadosť o montáž meradla
- Online formuláre k vydaniu stanoviska
- Vytýčenie plynárenských zariadení
- Iné formuláre a aplikácie

ŽIADOSŤ O PRÍPOJENIE, ŽIADOSŤ O TECHNICKÚ ZMENU, ŽIADOSŤ O MONTÁŽ MERADLA

1. KROK Typ žiadosti a špecifikácia žiadateľa	2. KROK Predkladateľ žiadosti	3. KROK Identifikačné a kontaktné údaje žiadateľa	4. KROK Charakteristika žiadosti
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Žiadosť o pripojenie do distribučnej siete
 Žiadosť o technickú zmenu na existujúcom odbočení
 Žiadosť o realizáciu pripojenia a montáž meradla



Vyberte si oblasť, ktorá vás zaujíma.

Výroba elektrickej energie	Chladienie	Technologické teplo	CNG
NAJNOVŠIE AKTUÁLNE SPRÁVY	NAJČITANEJŠIE	Doprava na CNG	

Eurokomisár tvrdí, že plynárenské odvetvie prežije po roku 2050, ak...
 04.04.2017 - Kúrenie, Výroba elektrickej energie, Zemný plyn - keď Európske odvetvie do budúcnosti plynára z oboch Európske odvetvia správy

MacBook

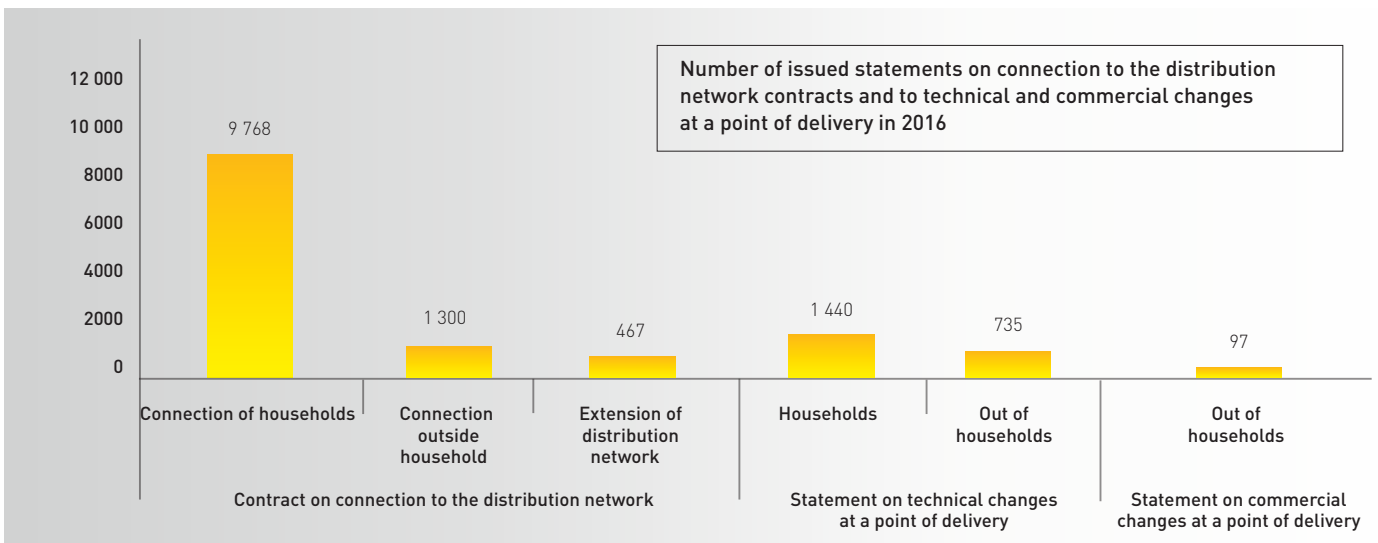
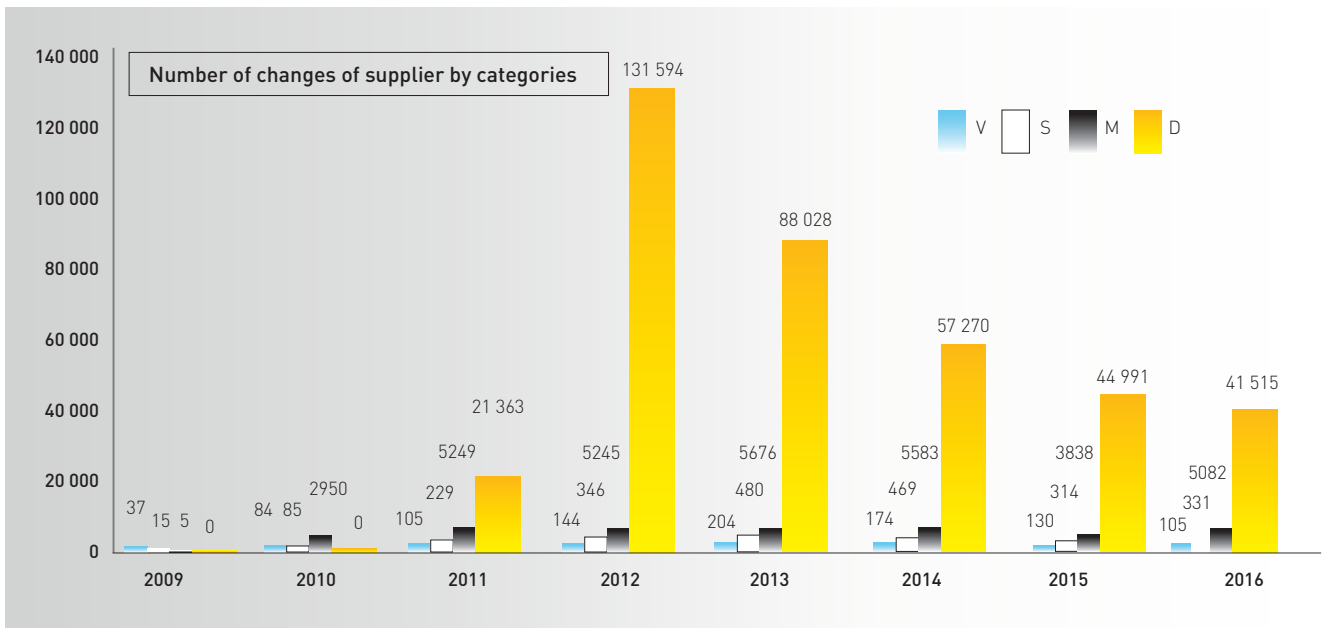
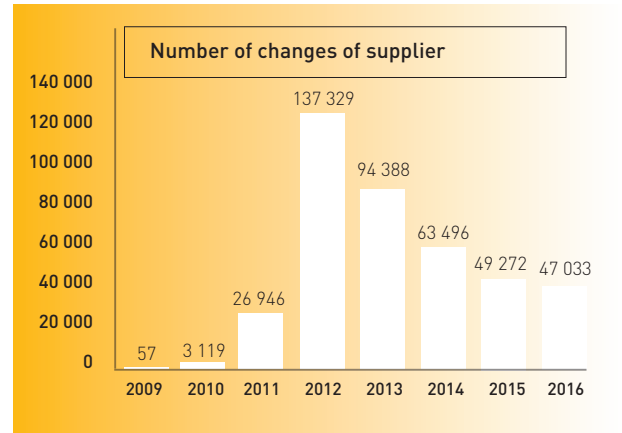
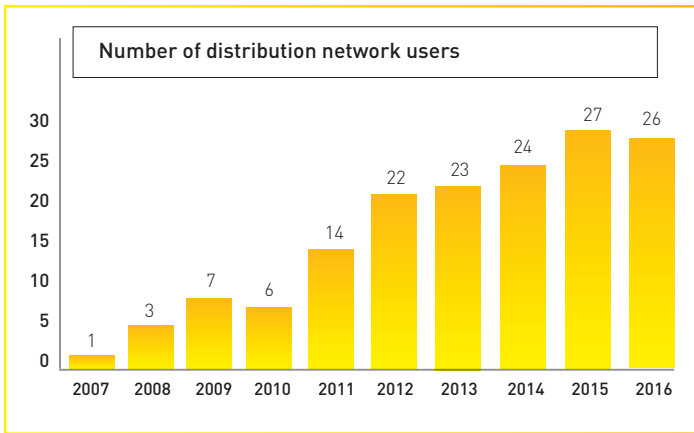
CUSTOMER ORIENTATION

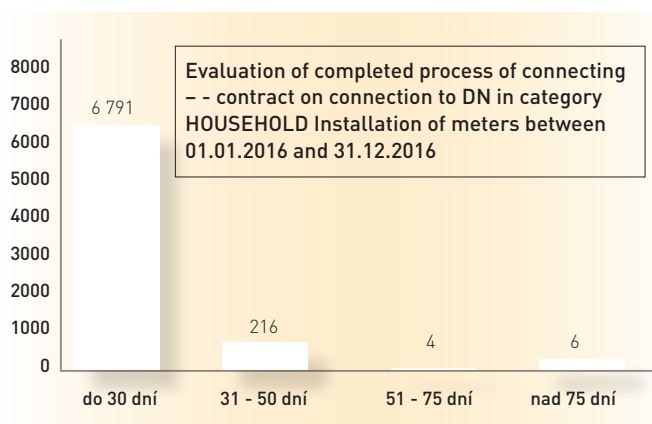
RELATIONS WITH GAS SUPPLIERS, LIBERALIZED GAS MARKET

As at 31 December 2016 we provided access to the distribution network and distribution of gas for 26 distribution-network users (25 gas suppliers and 1 large-end gas customer). The number of gas - supplier changes at points of delivery continued to decrease in 2016, probably due to saturation of the gas supply market in the individual segments. Our company implements the processes of gas-supplier changes in an automated manner and with maximum efficiency. As regards the development of the gas market in Slovakia, in 2016 we implemented a new comprehensive IT system that allows distribution-network users full digitalization of relations with the distribution network operator. SPP - distribúcia thus currently fulfils the integration function on the gas supply market in SR as far as is possible.

CONNECTION TO DISTRIBUTION NETWORK - SHORTENING OF THE PROCESS

During 2016 our company provided connection applicants with the possibility of personal contact in three customer offices in Bratislava, Žilina, and Košice. At the same time, these applicants could contact us by mail or on-line through our website. SPP - distribúcia fulfilled at a 100 % level the quality standards for determining business and technical conditions for connection (Decree of the Regulatory Office for Network Industries č. 278/2012 Coll.). In 2016 our company connected 9 685 new points of delivery to the distribution network in the categories: households, retail, medium, and wholesale customers. We have successfully continued to improve the connection process and tried to reduce the total length of the process of connecting.





Evaluation of the process of connecting on the side of SPP - Distribúcia:

- Issue of the technical conditions of connection and draft contract on connection to the distribution network
- Statement on project documentation
- Administration of applications for installation of meters and installation of meters at a point of delivery

DIGITALIZATION OF SERVICES - WEB FOR CUSTOMERS

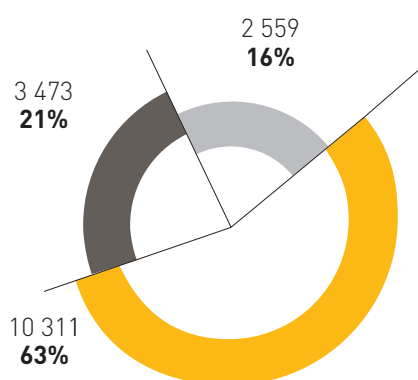
Already in 2014 we posted on the website www.spp-distribucia.sk the first electronic forms through which our customers can lodge applications for connection, applications for statement on technical changes at an existing point of delivery, or applications for installation of meters online from their homes. Whereas in 2015 the electronic form was used by 55 % of applicants for connection, in 2016 it was used by 63 % of applicants for connection; in addition, 51 % of applications for installation of meters were submitted in this manner, which represents an increase of 10 % against the year 2015. Applicants use this service especially because it can be completed very rapidly and is available 24 hours a day. Starting from September 2016, we extended electronic communication with applicants who had submitted their applications for connection and applications for statement on technical changes online. To these applicants we electronically send invoices for the

connection fee, the technical conditions of connection and a draft contract on connection to the distribution network to their e-mail addresses. The statements are sent to the applicants' electronic mailbox; thus we eliminated the need for personal acceptance of registered mail. The implementation of this new method of communication is a further natural step in providing the highest comfort of service to existing and future customers.

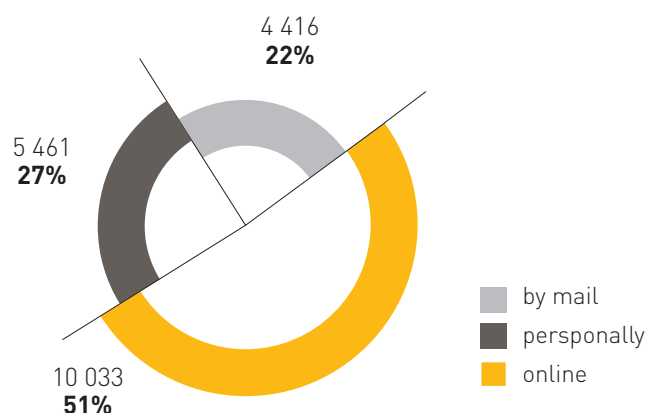
SERVICES FOR MEDIUM AND LARGE CUSTOMERS

SPP - distribúcia uses its key account managers to strive to constantly improve its individual approach to customers with an annual consumption of natural gas over 60 000 m³. Our managers provide customers with professional advice and propose appropriate technical and business solutions before making the connection to the distribution network or before implementing technical changes to an existing point of delivery in order to provide customers with the highest comfort in gasifying their project.

Applications for connection to the distribution network and for a statement on technical changes 01.01.2016 - 31.12.2016



Applications for installation of meters 01.01.2016- 31.12.2016





EMPLOYEES AND DEVELOPMENT OF CORPORATE CULTURE

Professionalism, responsibility and reliability are an integral part of the work of our company. These three pillars are the guarantee of safety and quality which we provide in the area of distribution of natural gas to the Slovak population. The high quality of our activities and provided services is the result of the consistent cooperation and commitment of our team. We highly appreciate the engagement and commitment that our employees demonstrate in their everyday work. Thanks to their professional knowledge and skills, our company enjoys long-term stability and safety in its operations, which have a key importance for gas distribution and the energy security of our country. As at 31 December, 2016 our team was made up of 1 321 members.

Deepening the professionalism of our employees and improving processes and activities in human resources management and development were our priorities also in 2016. On the basis of obtained certification for training in the area of OHS through the use of the professional knowledge of our internal lecturers, we implemented, on the basis of legislative requirement, extensive updating vocational training for employees aimed at renewing their authorizations to work with reserved gas technical equipment. In the previous year we launched the implementation of the development programme Career at Full Throttle. The programme is devoted to key employees in managerial and expert positions with the aim of retaining specific know-how in the company and, through development of its participants, of developing our company. During the 2015/2016 school year, we implemented the Young Gasman Project in cooperation with secondary schools, focusing on preparation of students for potential employment in the corporate environment of SPP - distribúcia. After successfully completing their study, five students who had participated in the project became employees of our company. In the framework of the Graduate Development



Programme we devote our time to those university graduates evaluated as fit to strengthen our team in the field of design or operation of gas facilities. In the area of support for the development of specific target groups, we implemented in the internal environment of our company a development programme for purchasers as providers of services to customers. We also devote attention to employees who come into direct contact with our customers in the external environment, e.g. in customer offices or via the Customer Line for connection, or the Emergency line - gas. We will also actively work on the development of specific groups of employees in 2017. We continued intensive cooperation on the development and setting of IT systems that we use in the area of human resources development and management. The results of these efforts are a new attendance system and the Intranet. In the past year, in the framework of activities targeting the development and strengthening of corporate culture, we implemented the second round of a employee survey to collect information about the employees' actual level of commitment, satisfaction and loyalty. We focused on gathering proposals for the future development of the company as well as on monitoring of trends in development of perception of the company by its employees.

SUPPORT OF INDIVIDUAL PERFORMANCE AND INITIATIVE

To support the motivation, individual performance, and initiative of employees, we pay special attention to performance evaluations based on an efficient linking of rewards to individual performance and contribution for the company. We highlight good practice and the contribution of individuals and teams, and support the introduction of improvements, processes simplification and a continuous increasing of the quality and effectiveness of the work of our teams. In 2016 we first used the Working Time Account – a form of uneven distribution of working time. On the basis of the experience acquired during the past twelve months, the use of the Working Time Account has contributed to the higher effectiveness and harmonization of the available capacity with the requirements for performance of work. We are glad that we succeeded in concluding an agreement with employee representatives, on the basis of which we will continue the use of the Working Time Account in 2017. Through the annual "Development Interviews" we create conditions for personal/working development and effective planning of the individual development aims of our employees. Development interviews are an opportunity for mutual communication in working

teams and a precious source of suggestions and good ideas for the development of the company.

SAFETY IS OUR PRIORITY

Management and implementation of the occupational health and safety policy and the environmental policy are among the priority objectives of the company SPP - distribúcia. They achieve it through the introduction of safe working procedures, technologies, suitable organization of work, improvement of working conditions with regard to the factors of the working environment, and also by involving employees in the process of selection of personal protection equipment, inspection of the working environment and the addressing of occupational health safety issues. By observing the legal requirements, we systematically improve the risk management system. We use a system of employee training to enhance their awareness and knowledge of OHS, with emphasis on risk prevention.

The system of management of safety and health protection in the company SPP - distribúcia, a. s., is based on the approved OHS and environmental policy, focusing on prevention of accidents by identification of risks and factors, quality and safety of technical equipment, work hygiene and other damages to health at work, prevention of diseases and injuries, as well as provision of health care to the employees. The adopted Programme of Occupational safety and environmental activities 2016 was fulfilled. We systematically identify potential risks, threats and environmental aspects, and implement preventive measures.

In 2016 the following activities were performed:

- periodical training of employees in the area of valid general regulations relating to OHS and fire protection,
 - OHS audit, conducted in cooperation with representatives of employees responsible for OHS, which did not identify any weakness in the competence of our company,
 - Updating of risk evaluation and assessment in individual working positions, one of the basic pillars of providing OHS,
 - Fulfilment of tasks of an occupational health service for the purposes of creation of optimal working conditions,
 - Enhancing of awareness of occupational safety on common workplaces with suppliers of the company.
- SPP - distribúcia regards the area of environmental protection as another pillar of its long-term functioning. SPP - distribúcia disposes of the wide range of waste produced in everyday activities, repairs, maintenance or cleaning work on technological equipment. Therefore, together with regular monitoring of the working environment, we perform monitoring

and evaluation of the environment. Any deficiencies found are analysed and responsibly eliminated. In the area of work safety, fire protection and protection of environment, the state professional supervision performed a number of checks in the SPP - Distribúcia Company in 2016. No fines or sanctions were imposed on the company during the checks. By giving priority to preventive measures, we constantly improve the conditions for safe work and the protection of all environmental components.

SOCIAL RESPONSIBILITY

In view of the character of its business and in its efforts towards sustainability, the SPP - Distribúcia Company realizes the importance of a responsible approach, especially in the areas of human health, environment friendliness and entrepreneurial ethics. Therefore we develop activities to support charities, voluntary donations, and disadvantaged groups of the population, communities and regions. In cooperation with the SPP Foundation we have implemented the grant programme "Cooperation with Municipalities" for the long term, through which we support community projects aimed at supporting

and enhancing the villages, cities, and regions of Slovakia. Our employees again actively participated in the implementation of the "Employee Grant Programme", within which they cultivated the towns or communities they are active in. By their projects they also contributed to the implementation of the grant programme "Energy that helps" implemented under the auspices of the EPH endowment fund to support publicly beneficial activities and to improve the quality of life in communities.

We appreciate the approach of our employees to the annual organization of promotions of charity and donations. In the past year they again participated in the Mission 05charitable project, focused on helping children with health disabilities. In the third year, they manifested their attitude by donations to fundraising for the Union of the Blind and Partially Sighted of Slovakia, "The White Crayon", as well as by several voluntary blood donations. In the past year we celebrated 10 years of independent activity of the company on the Slovak gas market. In this context we organized Corporate Games 2016 to support health and sport, and a Gala Night on the occasion of the 10th anniversary. During these events, which our employees supported by their active participation, we continued long-term cooperation with a number of protected workshops.





NATURAL GAS – AN EFFECTIVE AND ECOLOGICAL SOLUTION

In Slovakia, 94 % of households and companies have access to natural gas. Easy access, reliability of use, simple control of gas appliances and environmental friendliness are key reasons for the permanent use of natural gas in Slovakia.

NATURAL GAS AND EFFECTIVENESS

Heating systems including hot-water preparation are an integral part of family houses and should be taken into account before construction.

The selection of a system influences thermal comfort in a house, general comfort, as well as the total sum of money which the user must pay for the installation and operation of the heating system over a long period. Nowadays only ultra-low energy family houses

(class of energy performance of buildings A1) are designed and built; in the future they will be replaced by nearly-zero energy buildings (passive houses, class of energy performance of buildings A0). For comparison we will use a family house from class A1, with an area of 120 m² and low-temperature floor (hot-water) heating system. The estimated heat (heating and hot water) consumption is 10 000 kWh.

The economic evaluation of any heating system takes into account two basic parameters: investment costs and costs during the useful life of equipment or during the evaluation period.

As regards total heating system costs, if we include user comfort and the health aspect (threat of production of carcinogenic emissions from solid polluting substances in firewood combustion) in the evaluation, then gas heating seems to be the best option.

Type of fuel	Natural gas	Wooden pellets	Firewood	HP - air/water
Heat installation	Condensation boiler	Conventional boiler	Conventional boiler	HP - air/water
Efficiency	97 %	90 %	70 %	275 %
Quantity of fuel	1 075 m ³	2 222 kg	3 682 kg	3 636 kWh

Operating costs (CAPEX)	Natural gas	Wooden pellets	Firewood	HP - air/water
TOTAL	590 €/year	624 €/year	456 €/year	584 €/year

Investment costs (CAPEX)	Natural gas	Wooden pellets	Firewood	HP - air/water
TOTAL	4880 €	5180 €	2480 €	11230 €

Costs per 15 years	13 734 €	14 547 €	9 322 €	19 987 €
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NATURAL GAS AND THE ENVIRONMENT

Although natural gas is a fossil fuel, it has very positive environmental characteristics, compared to other fuels. Compared to solid fuels, significantly fewer harmful substances and a negligible amount of dust particles, which in higher concentrations can endanger the health of the population, are generated during the combustion of natural gas. In addition to low levels of solid pollutants (SP), negligible amounts of sulphur oxides and minimum amounts of carbon monoxide originate, and the level of nitrogen oxides is also very low. Compared to firewood and coal, natural gas combustion produces significantly lower emissions of carbon dioxide. When using natural gas for heating, it is possible to save up to 50 % of CO₂ emissions compared to coal.

CONDENSATION BOILERS FOR FAMILY HOUSES

Thermal comfort, safety, user comfort and effective use of energy contained in natural gas – all this is provided by the progressive technology of condensation boilers.

Compared to conventional, classic or low-temperature boilers, condensation boilers can use a larger quantity of the energy contained in gas, which leads to lower costs for energy consumption.

ENERGY PERFORMANCE OF BUILDINGS

After 2020, in line with the EU Action Plan 20/20/20, only nearly-zero energy buildings will be constructed, which will represent a fully new phenomenon in terms of design, construction and, last but not least, operation of buildings. The ultimate goal is not only the construction of nearly-zero energy buildings, but also the implementation of sustainable architecture and construction with the overall aim to design, implement and operate energy-active, environmentally safe and economically effective buildings in the future. The obligation to implement nearly-zero energy buildings results from Directive 2010/31/EC of the European Parliament and of the Council on energy performance of buildings [hereinafter "EPBD"]. According to this directive, all new buildings in the EU will have to have nearly-zero energy consumption after 31 December 2020 (it does not apply to the public

sector). For the public sector an earlier date was determined - 1 January 2019.

Natural gas seems to be a suitable fuel for heating and hot-water preparation in buildings belonging to the A1 class of energy performance, in particular due to the advantageous ratio of the price of condensation boiler (including installation), its high efficiency, low operating costs, simplicity, real comfort and affordability, not to mention the nearly negligible environmental impact. For class A0, which will enter into force after 2020, it is necessary to reconsider the value of the factor of primary energy of natural gas and adjust it to a value taking into account the technical reality in the SR. A cogeneration unit is able to produce heat,

electricity, or even cold in a single device, resulting in significant savings in primary energy compared to separate production of heat and electricity, while reducing emissions of pollutants (up to 40 %). The direct consequence of primary fuel savings is a reduction of the emissions produced in the combustion process. A cogeneration unit is able to cover all customers' energy needs using only a single appliance. Given the availability of cogeneration in many power classes, it has a wide range of applications in industry, in the municipal sector, and in health or social care services. Customers interested in cogeneration are offered a free analysis of cogeneration usage when installing a new, or renovating an existing, source to natural gas.



COMPRESSED NATURAL GAS (CNG) AND ITS USE IN TRANSPORT

Natural gas continues to progressively confirm its place also in transport, and an increasing number of car producers have CNG vehicles in their portfolios. The operation of such vehicles provides users with advantages regarding lower fuel cost as well as a 50 % lower motor vehicle tax compared to vehicles using conventional fuels. Moreover, by using CNG, emissions of pollutants are significantly reduced, along with decreased noise, which in the end is beneficial

for the whole of society in the form of a cleaner environment. The use of CNG brings economically advantageous, ecological and safe transport.

SPP - distribúcia supports CNG through preferential distribution charges for the points of delivery of CNG fuelling stations and through the websites www.spp-distribucia.sk and www.oplyne.info, where in addition to general information on the advantages of natural gas, we also introduce the general public to CNG as an ecological fuel with the potential of greater application in transport. Customers interested in building CNG stations are also provided with business and technical consulting.



REPORT ON BUSINESS ACTIVITIES OF THE COMPANY

ECONOMIC AND FINANCIAL PERFORMANCE

DEVELOPMENT OF THE BUSINESS ENVIRONMENT

As previous years, 2016 too classed among hotter years. In the history of temperature measurement, it placed seventh among the hottest years in Slovakia since 1931. In terms of sales, an increase against 2015 was registered, caused in particular by lower average temperatures in the final months of the year. The optimization of internal processes continued in 2016. At the same time, the gradual takeover of auxiliary activities into our internal environment from SPP, a. s. continued in 2016 which, along with other optimization measures, contributed to stabilization of the level of operational expenses. In March 2016 the Regulatory Board issued the Regulatory policy 2017 - 2021,

which among other things defines objectives and priorities of regulation in the gas industry for the following regulation period. Decree of the Regulatory Office for Network Industries no. 223/2016 Coll., determining price regulation in the gas industry valid from 27 July 2016, was approved in July 2016. The Regulatory Office for Network Industries issued decisions approving prices for connection to the distribution network and for access to the distribution network and gas distribution, and for purchase of gas installation.

An amendment to Decree of the Regulatory Office for Network Industries no. 24/2013 Coll., determining common rules for the electricity market and common rules for the gas market, was approved.

The Regulatory Office for Network Industries issued a decision by which it approved changes in the Operation Rules of the company SPP - distribúcia, a. s. The legislative proposal of the European Commission - Clean Energy for all Europeans, known as the so-called "Winter Package", was published on 30 November 2016.

THE SHAREHOLDER STRUCTURE

as at 31.12.2016 was as follows:

SPP Infrastructure, a. s.	1 share	100 %
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ECONOMIC RESULTS OF THE COMPANY

In 2016 the company SPP - distribúcia generated revenues from the sale of services in the amount of EUR 383,29 million. The main component of the revenues was revenues from gas distribution, which represented nearly 99% of the proceeds. Operating expenses incurred through securing of revenues from the sale of services amounted to EUR 198,99 million. The prevailing components of operating costs were depreciation and amortization

charges, costs of gas storage and personnel costs. The company concluded the 2016 financial year with profit before tax amounting to EUR 166,41 million.

The income tax payable for the year 2016 amounted to EUR 38,96 million, special contribution from business in regulated industries of EUR 7,21 million and deferred tax liability of EUR 22,71 million. Profit after taxation represented EUR 142,95 million.

PORCOMPARISION OF PROFIT STRUCTURE AFTER TAXATION (MIL. EUR)

	2016	2015
Revenues from sale of services	383,29	362,22
Operating costs	-198,99	-211,42
Profit/loss on financial operations	-17,88	-16,17
Profit before taxation	166,41	134,64
Income tax payable	-38,96	-34,74
Special contribution	-7,21	-6,11
Deferred income tax	22,71	5,76
Profit after taxation	142,95	99,55

ASSET AND CAPITAL STRUCTURE

ASSETS

As of the balance sheet date, the total assets of the company amounted to EUR 2 741,05 million. Non-current assets of EUR 2 366,83 million accounted for 86,35 % of total assets. The most significant items of non-current assets were gas distribution pipelines, regulating stations, technologies and equipment of distribution networks. Costs of acquisition of non-current assets amounted to EUR 35,37 million and were directed mostly

to the renewal of the network.

As of the balance sheet date, the current assets of the company stood at EUR 374,22 million, which represents an increase of EUR 77,10 million against the year 2015. Inventory, receivables and advance payments represented major current assets items in 2016. The increase in the value of current assets is simultaneously the decisive factor of the increase in total assets.

COMPARISON OF ASSET STRUCTURE V (mil. EUR)

	2016	2015	2014	2013
Non-current assets	2 366,83	2 430,53	86,35 %	89,11 %
Current assets	374,22	297,12	13,65 %	10,89 %

SHAREHOLDER'S EQUITY AND LIABILITIES

As in the previous period, in 2016 the structure of financing of SPP - distribúcia was dominated by own resources, which accounted for 59,37 % of the total resources of asset coverage. Shareholder's equity amounted to EUR 1 627,45 million and consisted mostly of share capital, statutory reserve fund and retained earnings from the current accounting period. The share capital of the company recorded in the Commercial Register represents EUR 1,200 million. As at the balance sheet date, the statutory reserve fund consisting of capital contributions amounted to EUR 291,48 million. The retained earnings for the year 2015 - profit of EUR 99,55 million - was paid to the sole

shareholder of the company in the form of a dividend. The General Meeting will decide on distribution of profit for the accounting period 2016 in the amount of EUR 142,95 million. The statutory body proposes that the General Meeting pay the profit to the sole shareholder in General Meeting full amount, in the form of a dividend. As at the balance sheet date, liabilities represented 40,63 % of coverage of the company's assets and amounted to EUR 1 113,59 million. The liability structure was dominated by non-current liabilities in a total amount of EUR 1 002,75 million. Current liabilities amounted to EUR 110,84 million at the balance sheet date.

COMPARISON OF LIABILITY STRUCTURE (mil. EUR)

	2016	2015	2014	2013
Shareholder's equity	1 627,45	1 584,88	59,37 %	58,10 %
Liabilities	1 113,59	1 142,77	40,63 %	41,90 %

SUMMARY RESULTS

Progress of the assets and profits of SPP - distribúcia, a. s., for the year ending 31 December 2016, and compared to 2015, according to the individual financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU.

BALANCE SHEET (selected data in EUR)

ASSETS	Year ending 31 December 2016	Year ending 31 December 2015
NON-CURRENT ASSETS		
Buildings, structures, machinery and equipment	2 346 136	2 413 087
Investments in subsidiary companies	1 005	1 005
Intangible non-current and other assets	19 686	16 440
Total non-current assets	2 366 827	2 430 532
CURRENT ASSETS		
Inventory	148 458	153 369
Receivables and advance payments	148 246	63 055
Tax receivables and income taxes	0	0
Cash and cash equivalents	77 516	80 692
Provided loans	0	0
Total current assets	374 220	297 116
TOTAL ASSETS	2 741 047	2 727 648

SHAREHOLDER'S EQUITY AND LIABILITIES

CAPITAL AND PROVISIONS		
Share capital	1 200 000	1 200 000
Statutory reserve fund and other funds	284 502	285 330
Retained profit	142 951	99 545
Total shareholder's equity	1 627 453	1 584 875
NON-CURRENT LIABILITIES	1 002 754	1 027 692
CURRENT LIABILITIES	110 840	115 081
Total liabilities	1 113 594	1 142 773
TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES	2 741 047	2 727 648

PROFIT AND LOSS STATEMENT

(selected data in EUR)

	Year ending 31 December 2016	Year ending 31 December 2015
Revenues from sale of services	383 286	362 217
Operating costs	-198 992	-211 415
Operating profit	184 294	150 802
Financial revenues	245	1 792
Costs of financing	-18 129	-17 957
PROFIT BEFORE TAXATION	166 410	134 637
Income tax payable	-38 959	-34 740
Special tax	-7 208	-6 113
Deferred income tax	22 708	5 761
PROFIT FOR PERIOD	142 951	99 545

CASH FLOW STATEMENT

(selected data in thousand of EUR)

	Year ending 31 December 2016	Year ending 31 December 2015
OPERATING ACTIVITIES		
Cash flows from operating activities	258 046	240 659
Interest paid	-13 749	-15 693
Interest received	297	2 364
Income tax paid	-40 213	-35 938
CASH FLOWS FROM OPERATING ACTIVITIES	204 381	191 392
CASH FLOWS FROM INVESTMENTS	-153 631	-378 562
CASH FLOWS FROM FINANCIAL ACTIVITIES	-53 926	-55 184
NET INCREASE OF CASH	-3 176	-242 354
BALANCE OF CASH AT THE BEGINNING OF THE PERIODA	80 692	323 046
BALANCE OF CASH AT THE END OF THE PERIOD	77 516	80 692

IMPORTANT EVENTS
THAT OCCURRED AFTER THE TERMINATION OF THE ACCOUNTING PERIOD FOR WHICH THE ANNUAL REPORT IS PREPARED

After 31 December 2016 no important events occurred which would require changes or disclosure in the annual report.

STATEMENT ON COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE IN SLOVAKIA

In administration and management, SPP - distribúcia complies with the Code of Corporate Governance in Slovakia issued by the Central European Corporate Governance Association. The Code is publicly available on the Association's website www.cecga.org. Our aim is the implementation of and compliance with the various principles of the Code, demonstration of the process of their implementation, while issuing a statement on corporate governance. Pursuant to § 20 (6) of Act no. 431/2002 Coll. on Accounting, as amended, the company presents the following Statement:

GENERAL ASSEMBLY

The General Meeting is the supreme body of the company by means of which the shareholders participate in the management of the company. Each shareholder has rights through which they exert their influence in the company:

- a. the right to participate in the management of the company, to a share in the profit and liquidation balance of the company in case of its winding up with liquidation. The shareholder exercises the right to participate in the management of the company by voting at General Meeting; the shareholder must respect the organizational measures valid for the course of the General Meeting. At the General Meeting the shareholder has the right to request information, explanations relating to matters of the company or issues concerning the controlled persons, to submit proposals to the agenda of the General Meeting and to be elected to bodies of the company;
- b. A shareholder is entitled to a share in the profit of the company (a dividend) that the General Meeting has designated for distribution. A shareholder is not obliged to return a dividend received in good faith to the company,
- c. To the extent permitted by applicable legislation (including Energy Act no. 251/2012 Coll.), a shareholder is entitled to inspect the minutes of meetings of the Supervisory Board, while being obliged to maintain confidentiality of the information thus obtained,
- d. The right to vote at General Assemblies - the shareholder's number of votes is determined by the ratio of the nominal value of his/her shares to the share capital,
- e. Any transfer of shares shall be subject to the approval of the General Meeting. The General Meeting may refuse a transfer of shares if it is in conflict with the company's statutes or the shareholders agreement.

The General Meeting performs the following functions:

- a. election and dismissal of members of the Supervisory Board,
- b. election and dismissal of members of the Board of Directors,
- c. changes in the Articles of Association, the statute of the Supervisory Board or the statute of the Board of Directors,
- d. change in the share capital,
- e. merger, amalgamation, split, change of legal form, winding up with liquidation or other significant changes in the corporate structure of the company,
- f. decision on appointment of a liquidator of the company and determination of remuneration of the liquidator,
- g. decision on the distribution of any dividend by the company or distribution of other payments arising from shares,
- h. decisions on the increase or decrease of the share capital of the company,
- i. approval of ordinary individual, extraordinary individual, ordinary consolidated or extraordinary consolidated financial statements of the company,
- j. decisions on the allocation of profit of the company, including determination of the amount of dividend and any royalties, and on the method of settlement of any company's losses,

- k. decision on changes to the rights linked to any type of the company's shares,
- l. decisions on the conversion of registered shares to bearer shares and vice versa,
- m. decisions on the limitation or exclusion of the preferential right of a shareholder to subscribe newly issued shares of the company in accordance with and subject to conditions laid down by law,
- n. approval of a contract on transfer of the company's business and the contract on transfer of a part of the company's business,
- o. any substantial change in the nature of the core business of the company or in the manner in which the company conducts its core business;
- p. approval of the commencement of any legal or arbitration proceedings against persons who were direct or indirect shareholders of SPP before 23 January 2013 and ceased to be shareholders of SPP no later than on 23 January 2013,
- q. appointment of an auditor.

BOARD OF DIRECTORS

The Board of Directors is a statutory body of the company acting on behalf of the company. The Board of Directors decides on all matters related to the company. The Board of Directors has five members. Members of the Board are appointed and dismissed by the General Meeting for the period of four years. When electing or dismissing a member of the Board, the General Meeting may determine that his/her election to or dismissal from office is effective at a later date than on the date when the decision of the General Meeting was taken.

The Board:

- a. Manages the business of the company and ensures all of its operational and organizational issues,
- b. Convenes the General Meeting,
- c. Exercises employer rights,
- d. Implements resolutions of the General Meeting, or written decisions of the sole shareholder,
- e. Ensures prescribed book-keeping and keeping of other records, books and other documents of the company,
- f. Submits reports to the General Meeting,
- g. Submits materials to the Supervisory Board for consideration,
- h. Prepares an annual budget and business plan of the company.

SUPERVISORY BOARD

The Supervisory Board is the supreme control body of the company. It supervises the execution of functions by the Board of Directors. The Supervisory Board is the supreme audit body of the company. The Supervisory Board supervises the activities of the Board of Directors and the performance of business activities of the company. The Supervisory Board of the company has six members. Two-thirds (2/3) of the members of the Supervisory Board are elected and dismissed by the General Meeting. One-third (1/3) of the members of the Supervisory Board are elected by employees of the company for the period of five years, if so required within that scope by the mandatory provisions of Slovak law at the time of election of the members of the Supervisory Board. A meeting of the Supervisory Board shall be convened by its chairman at least every three months.

The Supervisory Board reviews procedures in matters of the company and is entitled at any time to inspect accounting documents, files, and records related to the activities of the company and to establish the standing of the company. The Supervisory Board also checks and - to the extent permitted by law (in particular, the Energy Act) - submits to the General Meeting conclusions and recommendations resulting from its monitoring activities related to:

- a. Fulfilment of tasks assigned by the General Meeting to the Board of Directors,
- b. Compliance with the statutes of the company and relevant legislation with regard to the company's activities,
- c. Economic and financial activities of the company, accounting, records, accounts, the state of the company's assets, its liabilities and receivables.

The Supervisory Board reviews and - to the extent permitted by law (in particular, the Energy Act) - may submit to the General Meeting reports related to:

- a. Proposals by the Board of Directors for the dissolution of the company,
- b. Proposals by the Board of Directors for the appointment of a liquidator of the company,
- c. Proposals by the Board of Directors regarding an individual annual budget and business plan of the company,
- d. Reports of the Board of Directors.

COMMITTEES

The company SPP - distribúcia, a. s., used a legal exemption from the obligation to establish an audit committee directly at the level of SPP - distribúcia, a. s., and ensured that activities of the audit committee would be performed by a committee established at the level of the parent company SPP Infrastructure, a. s., because the parent company SPP Infrastructure, a. s. also fulfils conditions of the Act on Statutory Audit for establishment of an audit committee and therefore they have established such a committee.

The Audit Committee established at the level of the parent company SPP Infrastructure, a. s., performs its activities for SPP - distribúcia, a. s., on the basis of a contract on provision of services.

In addition, it was necessary to cancel the initial Audit Committee of the company SPP - distribúcia, a. s., which had been appointed in 2014, for the reason of issue of securities tradable on regulated market and fulfilment of the requirement of Act no. 431/2002 Coll. on Accounting, as amended, §19a. This Audit Committee did not fulfil the requirements of the new Act no. 423/2015 Coll. on statutory audit and on amendment of Act no. 431/2002 Coll. on accounting, as amended.

The Audit Committee must have at least 3 members. The committee members are appointed by the General Meeting. At least one Committee member must have professional experiences in the area of accounting or statutory audit and all members as a whole must have qualifications suitable for the sector in which the accounting entity is active. An absolute majority of members as well as the chairman of the committee (elected by members of the committee or the Supervisory Board) must be independent. An independent member is an individual who is not connected by property or personally with the accounting entity or its subsidiary, its partners, members of statutory bodies and statutory auditor of the accounting entity, and who is not their close person and does not receive from the accounting entity or its subsidiary any other income than remuneration for work on the Supervisory Board or the Audit Committee.

MANAGEMENT METHODS

For its management, the company mainly uses methods of direct management, methods combining direct and professional (indirect) management, and project management methods.

Direct management is generally based on setting goals, tasks and directions, and on the operational guidance of activities of the managed organizational unit or employee.

Professional (indirect) management is based on the use of internal control mechanisms, determination of the scope for self-management and organization of own work of the managed organizational unit or employee, as well as on the application of advanced economic incentives that are consistent with effective risk management.

Project management assumes temporary allocation of specific organizational units or employees and their temporary subordination to the project leader within the specified scope in order to achieve objectives of the project.

INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT IN 2016

The performance of internal control is an integral part of management at all levels of the organizational structure. The internal control system consists of a set of controls and audits of individual processes, their risks, valid managing documentation and legislation; it comprises all forms of continuous control measures, procedures and mechanisms in the individual units. The internal control system of SPP - distribúcia was implemented through adoption of internal management acts which regulate the performance of internal controls and internal audits by own employees of SPP - distribúcia. The controls are performed by internal auditors, employees directly participating in individual processes, and the managers of the individual units or employees authorized by them, who are responsible for controlled processes and control results. Results of the checks are submitted to relevant bodies of the company on a regular basis.

The risk management system in the company SPP - distribúcia is an important part of the decision-making processes. It is designed in a manner allowing for timely recognition of the risks, and taking appropriate measures. Key areas of the risk management system are internal regulations, regular reporting and actions plans for permanent reduction of impact of the risks on the company's operation. In the framework of risk management, the SPP - Distribúcia

Company monitors, evaluates, manages and regularly submits to the company's management evaluations of regulatory, gas, financial, operating, environmental, personnel and media risks. By the early adoption of preventive measures, the company SPP - distribúcia achieves the effective adjustment of key processes.

SHARE CAPITAL OF THE COMPANY

The share capital of the company is EUR 1 200 000 000 and is structured as follows:

Emission No. (CEM): LP0001508566

Nominal value: EUR 1 200 000 000

Number: 1 pc

Type: ordinary share

Form: materialized

Class: registered share

Percentage share in the share capital: 100 %

Admitted to trading: 0 pc

The share capital structure does not include shares whose owners would have special rights of inspection.

The company has no knowledge of any agreements between holders of securities which may result in restrictions as to the transferability of securities and the limitation of voting rights.

The company has not entered into any agreements which take effect, alter, or terminate as a consequence of a change in the control conditions related to the takeover bid.

The company has not entered into any agreements with members of its bodies or employees on the basis of which they shall be granted compensation if their position or employment is terminated by resignation, notice by the employee, dismissal, notice of dismissal by the employer without indication of the cause, or if the employment is terminated as a result of a takeover bid.



REPORT ON THE IMPLEMENTATION OF MEASURES ADOPTED IN THE COMPLIANCE PROGRAMME OF THE DISTRIBUTION NETWORK OPERATOR FOR 2016

1. The compliance programme is an internal regulation of the distribution network operator, SPP - distribúcia, a. s. which, according to the provisions of Act no. 251/2012 Coll., on Energy and on amendments to certain acts, defines measures to ensure non-discriminatory administration of the distribution network, which is a part of a vertically integrated business. The Compliance Programme determines the specific obligations of employees, aimed at preventing possible discriminatory behaviour of the distribution network operator. The regulation identified as D.RM.04.06.06 was updated in the last quarter of 2015. The update identified as D.RM.04.07.06, with effect from 01/12/2015, was amended by banning insider trading, based on the provisions of the Regulation of EU No. 1227/2011 wholesale energy market integrity and transparency (REMIT).

2. The Compliance Programme includes the following measures:
 - (a) Obligation to ensure the independence of the distribution network from other activities not related to gas distribution,
 - (b) Obligation to ensure non-discriminatory behaviour of the distribution network for the provision of information,
 - (c) Obligation to ensure non-discriminatory conditions of service of the distribution network for gas market participants,
 - (d) Conditions relating to the manager of the Compliance Programme, including appointment and dismissal,
 - (e) Activity of the manager of the compliance programme including the training of distribution network staff on the compliance programme and activities of staff designed to maintain the compliance programme,
 - (f) Obligations ensuring publicity about the compliance programme, control and execution of the annual report on the implementation of the compliance programme.

3. In 2016, the implementation of measures listed in the Compliance Programme was performed mainly in the following way:
 - (a) SPP - distribúcia, a. s., as the distribution network operator is established as a separate company and its organizational structure is arranged to ensure the independence of all activities of the distribution network associated with gas distribution from other activities in the vertically integrated company which are not related to gas distribution;

- (b) Maintaining a non-discriminatory approach to the provision of information meant for the gas market participants and in providing services of the distribution network operator;
 - (c) The internal procedures of the distribution network operator include measures implemented to ensure non-discriminatory behaviour in accordance with the compliance programme;
 - (d) Publication of the Compliance Programme, which is accessible to employees of the distribution network in the electronic database of regulations, and for other market participants on the website of the distribution network operator;
 - (e) Carrying out checks of maintenance of the compliance programme. In 2016, for example, the Compliance Programme manager verified the application of a non-discriminatory approach for conditions of gas supply from interconnected networks to the entry points of the distribution network and for determination of commercial deviation, for notifying data on measured consumption to distribution network users, for verification and evaluation of complaints delivered by the customers. Further checks concerned compliance with the provisions of the EU Regulation on integrity and transparency of the wholesale energy market (REMIT), including the respect of the prohibition of abuse of confidential information in own name by employees who have access to confidential commercial information.
4. On 14 May 2014, on the basis of the shareholder's decision, the company SPP Infrastructure, a. s. became the sole shareholder of SPP - distribúcia, a.s. Based on this change, the gas supplier Slovenský plynárenský priemysel, a.s., is no longer a part of the vertically integrated company that includes SPP - distribúcia, a.s. This has provided for full independence of the activities of the distribution network operator relating to gas distribution from activities relating to gas supply. In 2016, based on the contracts, SPP - distribúcia, a.s. took over only the property rental services and provisionally the IT services from Slovenský plynárenský priemysel, a.s. Takeover of the IT services was completed on 31 July 2016.
5. The manager of the Compliance Programme of the distribution network operator did not identify any breach of obligations set by the Compliance Programme during the period from 1 January 2016 to 31 December 2016.

In Bratislava, 31 January 2017



Ing. Milan Kachút
Compliance Programme manager
of the distribution network operator SPP - distribúcia, a. s.



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VAT Id. Nr.: SK2020325516

SPP - distribúcia, a.s.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders, Supervisory Board and Board of Directors of SPP – distribúcia, a.s. and the Audit Committee:

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of SPP – distribúcia, a.s. (the "Company"), which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements *present fairly, in all material respects* the financial position of the Company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union (EU).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the provisions of Act No. 423/2015 Coll. on Statutory Audit and on Amendment to and Supplementation of Act No. 431/2002 Coll. on Accounting, as amended (hereinafter the "Act on Statutory Audit") related to ethical requirements, including the Code of Ethics for Auditors that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment Assessment

The Company owns significant amounts of property, plant and equipment, i.e. the natural gas distribution network in Slovakia, in the amount of EUR 2.7 billion. At each reporting date, the Company makes an assessment as to whether the carrying amount of the distribution network is impaired by calculating the present value of future cash flows arising from the Company's operation. According to adopted accounting policies, such an impairment assessment is performed regardless of the outcome of an impairment indicator evaluation as required by IAS36. An impairment test requires an estimate of the following key calculation inputs:

- Future fees the Company can charge for its distribution services under the price regulation regime
- Future volume of gas distributed
- Discount rate specific to the assets owned
- Associated capital and operating costs.

The above assumptions require management to make highly subjective judgments related to long time periods into the future.

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Our audit procedures included, inter alia:

- Discussions of the evaluation process with top management to identify impairment indicators. The conclusion of such discussions was that there were no such indicators as at 31 December 2016
- Using a valuation expert to assist us in evaluating the assumptions and methodologies used by the Company, in particular those relating to the discount rate and forecast revenue growth
- Examining the model's mathematical basis
- Retrospective review of the assumptions used in the model
- Ensuring that all available information as regards the likely future regulatory regime is adequately reflected in the model.

The applicable accounting policies are described in Note 3 d).

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS as adopted in the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on Information Disclosed in the Annual Report

The statutory body is responsible for information disclosed in the annual report prepared under the requirements of the Act on Accounting No. 431/2002 Coll. as amended (the "Act on Accounting"). Our opinion on the financial statements stated above does not apply to other information in the annual report.

In connection with the audit of financial statements, our responsibility is to gain an understanding of the information disclosed in the annual report and consider whether such information is materially inconsistent with the financial statements or our knowledge obtained in the audit of the financial statements, or otherwise appears to be materially misstated.

As at the issuance date of the auditor's report on the audit of financial statements, the annual report was not available to us.

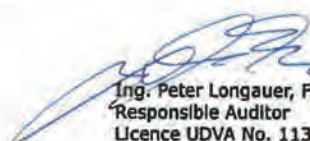
When we obtain the annual report, we will evaluate whether the Company's annual report includes information whose disclosure is required under the Act on Accounting, and based on procedures performed during the audit of the financial statements, we will express an opinion on whether:

- Information disclosed in the annual report prepared for 2016 is consistent with the financial statements for the relevant year; and
- The annual report includes information pursuant to the Act on Accounting.

Furthermore, we will disclose whether material misstatements were identified in the annual report based on our understanding of the Company and its position, obtained in the audit of the financial statements.

Bratislava, 10 March 2017


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Ing. Peter Longauer, FCCA
Responsible Auditor
Licence UDVA No. 1136



PROSPECTS OF THE COMPANY FOR 2017

Safety was, is, and will be our strategic priority; we continuously improve safety and invest funds with the aim to increase its level. However, the required level of safety can be achieved also under rational economic conditions; in this context we therefore develop risk models that allow us to define an adequate scope of maintenance according to the state of a particular asset and the level of risk that is linked to its operation. We have positive experience with maintenance of regulating stations, where risk modelling has proved well in the past; moreover, the correctness of this approach was confirmed by the relevant authorities.

In connection with our commercial activities we will continuously increase the effectiveness and search for synergies in the company. The deterioration of conditions of reconstruction work suppliers on the external market, as well as opportunities that arose from the increased competitiveness of our maintenance activities, led us to launch of a pilot project of implementation of local network reconstructions by our own means. Our ambition is to better use our bargaining position in view of higher purchased volumes of materials, as well as the use of a wide portfolio of implemented maintenance works and the know-how of our employees. In 2017, in connection with the successful pilot project, we plan to implement more than one third of reconstructions of gas pipelines of the local networks by our own means.

As for customer services, we will continuously work on increasing of the quality of provided services. Our applications enjoy great interest. More than 60 per cent of the applicants for connection to the distribution network communicate with our company by e-mail and for applications use the online forms published on our website, that are accessible 24 hours a day, 7 days in a week. Consequently, the number of electronic applications for installation of meters, applications for statement to the existence of gas facilities, as well as online payments of the fees increased significantly. Thanks to digitalization, the connection to the gas distribution network became much simpler, comfortable and accessible for our customers. We will continue this effort by extending electronic services and by improving those that proved well.

Our priorities will also include active promotion of natural gas as an economically and ecologically favourable energy medium. Renewable sources (hereinafter "RS") have become an important part of the EU energy policy, which is projected in their support in Slovakia. However, they should not be regarded as the aim of the energy policy, but as a means of improvement of the climate and environment. It is also important to ensure that evaluation of their contribution is not limited to CO₂ emission savings; it is necessary to take into account their impact on emissions of other substances, in particular solid pollutants, because their content in the air has direct negative impact on human health. Otherwise, investments in RS may not bring the desirable effect but, paradoxically, will lead to deterioration of the environment and human health in cases where natural gas sources have been replaced by biomass. It is due to the fact that the volume of emissions of solid pollutants from biomass combustion represents more than 8 times the volume of natural gas emissions, and 2 times the volume of CO₂ emissions.

Therefore, we will raise awareness with the aim of contributing to an energy mix in Slovakia that will improve the quality of environment in a rational manner and without significant negative financial impact on energy consumers. Last but not least, we will continue to increase the effectiveness of our operating activities, especially in the area of procurement, work productivity and also the optimization of costs of property and fleet administration. In the future we want to flexibly react to the identified and future needs of our customers and to developments on the energy market, with the aim to remain a stable, trustworthy and effective provider of services in the distribution of natural gas. We will achieve the aims set for 2017 through the high level of safety of our operating activities, continuous improvement of operating and investment effectiveness, improvement of the customer approach and increasing of the commitment of our employees, and thus create values for our business partners, shareholders and employees.

CONTACTS

SPP - distribúcia, a. s.

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825 11 Bratislava 26
Slovak Republic
www.spp-distribucia.sk

Emergency line- gas:

Tel.: 0850 111 727 (charged at the price of local call)

Customer line for connection to the distribution network:

Tel.: 0850 269 269 (charged at the price of local call)
Customer line is in operation on working days from 7.00 AM to 8.00 PM.
E-mail: pripajanie@distribuciaplynu.sk
On-line forms: www.spp-distribucia.sk/sk_online-aplikacie

Contract relations between SPP - distribúcia, a. s., and gas suppliers:

Tel.: +421 2 2040 201 1 Secretariat of the Distribution Services
E-mail: distribucia@aspp-distribucia.sk

Microsite on natural gas:

www.oplyne.info

Facebook:

www.facebook.com/SPPdistribucia/

Complaints regarding services of SPP - distribúcia, a. s.:

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FOREWORD FROM THE COMPANY MANAGEMENT

Dear shareholders,
Dear lady colleagues,
Dear gentleman colleagues,

We present you with the Annual Report summarizing results of our activities and implementation of projects in 2016, which can be evaluated as very successful. Compared to previous periods, company management was positively influenced by the cooler winter and resulting higher volumes of distributed natural gas. At the same time, we further increased the effectiveness of distribution by the implementation of own optimization measures. Due to the aforesaid factors, we generated revenues of EUR 383,29 million and profit after taxation of EUR 142,95 million in 2016. In the same year we succeeded in maintaining a high level of safety of operations; the plan of maintenance of gas facilities was fulfilled to 100%. Thanks to solid maintenance, gas leaks on the distribution network decreased by 17 %. In addition, we reconstructed 127 km of local networks, improved the database for distribution network management and developed a system of evaluation

of the quality of maintenance. Safety was, is, and will be our strategic priority; we continuously improve safety and invest funds with the aim of increasing its level. We develop risk models that allow us to define an adequate scope of maintenance according to the state of a particular asset and level of risk linked to its operation.

In an effort to ensure safety of the distribution network, we also continuously focused our attention on unauthorised gas usage, strengthening our analytical capacities in the detection thereof. We established a telephone line and e-mail box for reporting any suspicion of unauthorized use, and prepared further legislative proposals to discourage unauthorized users. In connection with our commercial activities, we continuously strive to increase the effectiveness and search for synergies in the company. In 2016, in this spirit we launched a pilot project aimed at the extension of our business activities to the implementation of reconstruction of local networks by our own means. We want to better use our bargaining position in view of the higher purchased volumes of materials, as well as

the use of a wide portfolio of implemented maintenance works and the know-how of our employees.

In the previous year we reconstructed the first 20 km of local networks in the framework of this pilot project. We have made progress in improvement of customer services, too. Our internet applications receive a very good response. More than 60 per cent of the applicants for connection to the distribution network communicate with our company by e-mail and use for applications the online forms published on our website, which are accessible 24 hours a day, 7 days a week. Consequently, the number of electronic applications for meter installations, applications for statement to the existence of gas facilities, as well as online payments of the fees significantly increased. Thanks to digitalization, connection to the gas distribution network became much simpler, more comfortable and accessible for our customers. We will continue this effort by extending electronic services and by improving those that worked out well.

The previous year was also successful because we completed the process of unbundling our company. Today, after the deployment of our own IT system, we only purchase property rental services from SPP. We thus completed a difficult process and achieved the highest level of unbundling. Management of environmental aspects of our company's activities remains our priority, therefore we observe defined

operating and control procedures and performance indicators in accordance with standard ISO 14 001.

Moreover, in the previous year we continued the promotion of natural gas as a "green" heating medium. The objective was to intensify the communication of the advantages of natural gas as the energy medium which can contribute to improvement of the environment at an acceptable price.

In the previous year SPP - distribúcia celebrated the 10th anniversary of its foundation.

From the perspective of the last 10 years we regard as important the traditional maintenance of the high level of safety and reliability of our activities and services, while continuously increasing the effectiveness of all our activities. In this period our company went through important changes, thanks to which it flexibly reacted and supported the development of the energy market. Nowadays we offer our services to more than 25 gas traders; we made great progress in the digitalization of our electronic services and completed the process of unbundling, achieving its highest level corresponding to the ownership separation. Thanks to the long-lasting efforts of our employees and the ability to flexibly react to changes on the energy market, SPP - distribúcia has become a modern, reliable and effective entity which creates values for its customers, business partners and shareholders, and respects its employees. All our future steps will be taken in this spirit.

Ing. František Čupr, MBA
Chairman of the Board of Directors

Ing. Štefan Šebesta
Deputy Chairman
of the Board of Directors

Ing. Martin Holly
General Director (CEO)



11 454

cia **SPP**

Distribúcia **SPP**

ÚSTREDIE
BRATISLAVA

MLYNSKÉ NIVY 44b

COMPANY

COMPANY PROFILE

The company SPP - distribúcia, a. s., as the owner and operator of a gas distribution network of more than 33 000 km, provides natural gas distribution in the territory of the Slovak Republic to more than 1,5 million points of delivery. The volume of such distributed gas accounts for about 98 % of the total natural gas volume distributed in the Slovak Republic for more than 94 % of the Slovak population with access to natural gas.

The reliability of operation of such an extensive gas distribution network requires a high level of professionalism, continuous development and consistent monitoring of the condition of pipelines and gas facilities in order to ensure the technically safe, user reliable and economically efficient distribution of natural gas.

SPP - distribúcia considers a continuous natural gas supply as one of the strategic pillars for maintaining the energy security of the Slovak Republic; therefore, increased attention is paid to it by the company.

Furthermore, the company concentrates on the consistent implementation of quality standards and a number of other legislative requirements.

SPP - distribúcia is a responsible guarantor of a strategic gas supply for household customers.

The company also performs logistic control and monitoring of the gas distribution system, including its physical balancing.

SPP - distribúcia actively supports the development of an open gas environment through its activities.

The company aspires to be a stable and efficient provider of professional services for 26 distribution network users as well as natural gas customers of all categories. It places emphasis on transparent and non-discriminatory business activities and strives to continuously improve the provided services, which is reflected in the growing options for electronic access to key services.

Priority business areas for SPP - distribúcia include the sale of distribution capacity, connections to the gas distribution network, active promotion of the use of natural gas as a comfortable, economical and environmentally friendly fuel, development activities, and the operation and maintenance of gas facilities.

The provision of safety for the extensive gas distribution network and its operation is preceded by safety of people in their own workplaces, which remains the company's priority. SPP - distribúcia strives to set up its processes optimally and to increase the efficiency of the operating activities resulting from its position as an independent operator on the Slovak gas market.

BOARD OF DIRECTORS AS AT 31 DECEMBER 2016



Ing. František Čupr, MBA
Chairman
of the Board of Directors

František Čupr graduated from the Faculty of Business and Economy of Mendel Agricultural and Forestry University Brno with a Masters of Business Administration (MBA) in 2006. After graduating, he worked for seven years with Jihomoravská energetika, a. s., in Brno, in various managerial positions, including Deputy Director of the Sales Division and Strategy Director. In 2005, he started to work for the J&T Investment Group, dealing with energy projects. In the same year, he founded a company trading in electricity and natural gas, EP Energy Trading, a. s. (former United Energy Trading, a. s.), where he executed the function of Chairman of the Board of Directors and CEO until 2012. In the period of 2006 - 2010, he was a member of the Supervisory Board of Pražská energetika, a. s. From 2009 - 2013, he operated as a member of the Supervisory Board of Pražská teplárenská, a. s. In 2013, he became Chairman of the Board of Directors of Stredoslovenská energetika - distribúcia, a. s. Since 24 January 2013, he has held the position of Chairman of the Board of Directors of SPP - distribúcia, a. s.



Ing. Štefan Šebesta
Deputy Chairman
of the Board of Directors

Štefan Šebesta completed studies in the Management of Industry and Food Enterprises at the Faculty of Chemical and Food Technology of the Slovak University of Technology in Bratislava in 1993. He began his career in 1991 as Communications Manager in Solid, a. s. In the period of 1992 - 1994, he worked for the investment company DIVIDEND, a. s., in the position of Communication Manager and at the same time as Portfolio Manager. He was appointed Chairman of the Supervisory Board of Záhorácke pekárne and cukrárne, a. s. in 1995. In the years 1994 to 1998 he worked in the polygraphic company DEAL, s. r. o. He was a manager at DEAL & PRINT, s. r. o., between 1998 and 2006. In the years 2006 and 2007 he was Director of the Investment and Acquisitions Office at the Ministry of Defence of the Slovak Republic. He became a Member of the Supervisory Board of Vojenský opravárenský podnik, a. s., in Trenčín in 2007. Since August 2007 he has been the Executive of Cleanlife, s. r. o., and at the same time of DEAL & PRINT, s. r. o. He became Vice-Chairman of the Board of Directors of SPP - distribúcia, a. s., on 12 July 2012.



Mgr. Petr Hájek
Member of the
Board of Directors

Petr Hájek graduated from the Faculty of Mathematics and Physics of Charles University in Prague. He started his professional career in 1994 in Živnostenská Banka as a Securities Analyst. In 1997 he worked for HSBC in Prague. Since 1998 he has been working for the investment group J&T/EPH, dealing with mergers and acquisitions, originally as an analyst and now as a senior project manager. He participated in acquisitions, administration and restructuring of a significant number of companies in the J&T/EPH portfolio. He was also chairman and member of the boards of directors in a number of companies owned by J&T/EPH. Since 2011 he has been Chairman of the Board of Directors of United Energy, a. s., and První Mostecká, a. s., and at the moment also the executive of the company SOR Libchavy spol. s.r. o. He became a member of the Board of Directors of SPP -distribúcia on 24 January 2013.



Ing. Gustáv Laca
Member of the
Board of Directors

Gustáv Laca completed his studies at the Department of Operations Research and Econometrics of the University of Economics in Bratislava in 1997. He started his career in 1995 in the financial sector, as co-owner and director of a securities dealer company. From 1995 to 2006, he worked for the companies Fineus brokers, o. c. p. a. s., KORUNA Invest, o. c. p. a. s. and Capital Partners, o. c. p. a. s., where he took charge of the overall workings of the company and its strategic management, in the position of Chairman of the Board of Directors and Director. Since 2006 he has also extended his range of companies to the real estate market. He has operated as director of KORUNA Finance, s. r. o. since 2012. He became a member of the Board of Directors of SPP -distribúcia on 22 August 2014.



Mgr. Ing. Marek Štrpka
Member of the
Board of Directors

Marek Štrpka graduated from the Faculty of Commerce of the University of Economics in Bratislava and the Faculty of Law of Comenius University in Bratislava. He started his professional career in 1996 in the St. Nicolaus Group, holding various managerial positions for eight years. In 2003 he started to work for the AGROFERT Group, first holding the position of financial director and member of the Board of Directors of Duslo, a. s., and from 2008 as the CEO and vice-chairman of the Board of Directors of this company. At the same time, he operated as chairman of the Supervisory Board of the Association of Chemical and Pharmaceutical Industry SR, member of the Board of Directors of the Slovak Agriculture and Food Chamber, member of Klub 500). Since 2013, he has been the CEO of Stredoslovenská energetika - distribúcia, a. s. Since 11 November 2015, he has been a member of the Board of Directors of Stredoslovenská energetika - distribúcia, a. s. Until 10 November 2015, the function of member of the Board of Directors was held by Ing. Miroslav Haško.

TOP MANAGEMENT AS AT 31 DECEMBER 2016



Ing. Martin Hollý
General Director

Martin Holly graduated from the Faculty of Commerce at the University of Economics in Bratislava with a specialization in foreign trade, and from the Universidad de Grenada in Spain. After graduating, he first worked for several years as Senior Auditor and Consultant at Arthur Andersen. In 2003 he took up the position of Director of the Economic Department in NAFTA a.s., where he significantly contributed to the restructuring of the company. From July 2008 to September 2012, he was General Director of NAFTA, a. s., as well as a Member of statutory bodies in POZAGAS a. s. In October 2012 he moved to SPP -distribúcia, a. s., within the SPP Group, where he has held the position of General Director of the company SPP - distribúcia, a. s. since 1 December 2012.



Ing. Roman Filipoiu, MBA
Head of the Economics
and Regulatory Division

Roman Filipoiu completed his Financial Management studies at the Faculty of Business Management at the University of Economics in Bratislava. Later on, he obtained his MBA at Oxford University in Great Britain. After graduating, he started working as an Auditor and Consultant in Deloitte, where he participated in audits of several major banks, financial institutions, and media companies in Slovakia. He started working in the energy sector after joining NAFTA a. s. in 2007. As Head of the Controlling Department, he was responsible for controlling, price regulation, and relations with equity holdings, and later as Deputy Finance Director, also for accounting, procurement, and finance. In the same period he also worked as Chairman of the Supervisory Board in Karotáž a cementace s. r. o. and Naftárska leasingová spoločnosť a. s. Since April 2009 he has been Director of the Economics and Regulatory Division for SPP -distribúcia, a. s. At the same time, he operates as Chairman of the Supervisory Board in SPP - distribúcia Servis, s. r. o., and member of the Supervisory Board in Plynárenská metrológia, s. r. o.



Ing. Rastislav Prelec
Head of the Network Operation
and Asset Management Division

Rastislav Prelec graduated from the Faculty of Electrical Engineering at the Slovak University of Technology in Bratislava in 1985 and completed his Masters in Industrial Engineering at Fachhochschule Ulm (Germany) in 2005.

After completing his studies, he worked in the Chemical Technology Research Institute as Head of the Automation Department until 1991. In the period of 1991 - 1995 he was self-employed in the field of industrial automation. In 1995 he joined Slovenský plynárenský priemysel, a. s. as a Telemetric Equipment Technician. He later worked as Head of the Control Systems Department. Since 1997 he has worked as a Project Manager and Co-Manager on the following projects: Reconstruction and Remote Control of Transfer Stations (SCADA SPD), Remote Monitoring of Regulation Stations (SCADA OZ), Dispatching Control Systems (SCADA), Remote Monitoring of Large Customers, Mobile Workplaces, and the Distribution Information System. In 2009 he was appointed Director of the Maintenance and Metering Division in SPP - distribúcia, a. s., where he served until 1 July 2013, when he became Director of the Network Operation and Asset Management Division in SPP - distribúcia, a. s.



Ing. Miroslav Horváth
Head of the Maintenance
and Metering Division

Miroslav Horváth completed his studies at the Faculty of Mechanical Engineering of the University of Žilina, specializing in the gas industry. After graduating, he started working for Slovenský plynárenský priemysel, š.p., as a Technician of Gasification in 1999. Subsequently he worked in several positions, among others also as Head of the Centre District Gasworks in Považská Bystrica. In July 2004 he became Head of the Local Unit in Prievidza. After the legal unbundling in 2007, he joined SPP - distribúcia, a. s., in the post of Head of the Regional Centre East in Košice. Since the year 2009 he has worked as Head of the maintenance department in the Maintenance and Metering Division and subsequently as Deputy to the Section Head. On 1 July 2013 he was appointed Director of Maintenance and Metering Division for SPP - distribúcia, a. s.



Ing. Marek Paál
Head of the Distribution
Services Division

Marek Paál, specialising in the gas industry, completed his studies at the Faculty of Mechanical Engineering of the University of Žilina in 2003. However, he had already started working in this field in 1996, when he joined Slovenský plynárenský Dispatching at Slovenský plynárenský priemysel, a. s. (SPP), holding various posts. Since 2004 he has worked at SPP as Director of the Distribution Capacities Sales Division. In 2006 he participated in the legal unbundling process of SPP into three separate companies and led the project for the implementation of a distribution information system for liberalised gas trading. After the legal unbundling, he continued to work as Director of the Distribution Capacities Sales Division in the now separated company SPP - distribúcia, a. s. Since the restructuring of the company in 2009, he has held the position of Director of the Distribution Services Division

TOP MANAGEMENT AS AT 31 DECEMBER 2016



Ing. Irenej Denkocy, ACCA
Head of the
Investment Division

Irenej Denkocy graduated from the Faculty of Business Management of the University of Economics in Bratislava with a specialization in financial management. He continued his studies by qualifying for and gaining ACCA membership. After graduating, he first worked as an assistant auditor at Ernst & Young, where he participated in the audits of several significant businesses in Slovakia. In 2009 he joined SPP - distribúcia, a.s., in the position of Senior Controller. Starting from 2011, he worked in the position of Head of Investments Controlling and Asset Registry. From July 2014 to January 2015 he was authorized to manage the Investments Department of SPP -distribúcia a. s. Since 1 February 2015 he has been Head of the Investments Division of SPP - distribúcia a. s



Mgr. Ing. František Kajánek
Head of the Human Resources
and QHSE Division

František Kajánek graduated from the Mining-Geology Faculty at the Mining College in Ostrava with a specialization in economics and the management of mines, and later studied law at Comenius University. He has been actively engaged in the area of human resources since 1995, working at NCHZ a. s., Nováky, for the Office for State Services, and for the Ministry of Labour, Social Affairs and Family of the Slovak Republic. Starting from 2007, he worked for NAFTA, a.s., where he held the position of Director of Human Resources from 1 January 2008. In addition to human resources, he was also responsible for corporate culture and the development of internal communications. Since 1 December 2013 he has been a part of SPP - distribúcia as Director of the Human Resources and QHSE Division.

SUPERVISORY BOARD



Ing. Rastislav Chovanec, PhD.
Chairman of the
Supervisory Board

In 2002 Rastislav Chovanec completed his International Business studies at the Faculty of Business Management at the University of Economics in Bratislava, where in 2006 he also obtained his PhD. He started working in 2004 as a project manager at FDI section of the Slovak Investment and Trade Development Agency (SARIO), where he worked until 2006. Between 2006 and 2010 he worked as an Adviser to the Prime Minister for Foreign Investment. In the years 2008 - 2012 he was CEO of Ceptra, s.r.o. In 2012 he returned to the Government Office of the Slovak Republic, where he worked two years as an Adviser to the Prime Minister for Investment. In 2014 he was appointed State Secretary of the Ministry of the Economy of the Slovak Republic, where he operates up to now. Since 2012 he has been Chairman of the Supervisory Board for SPP - distribúcia, a. s.

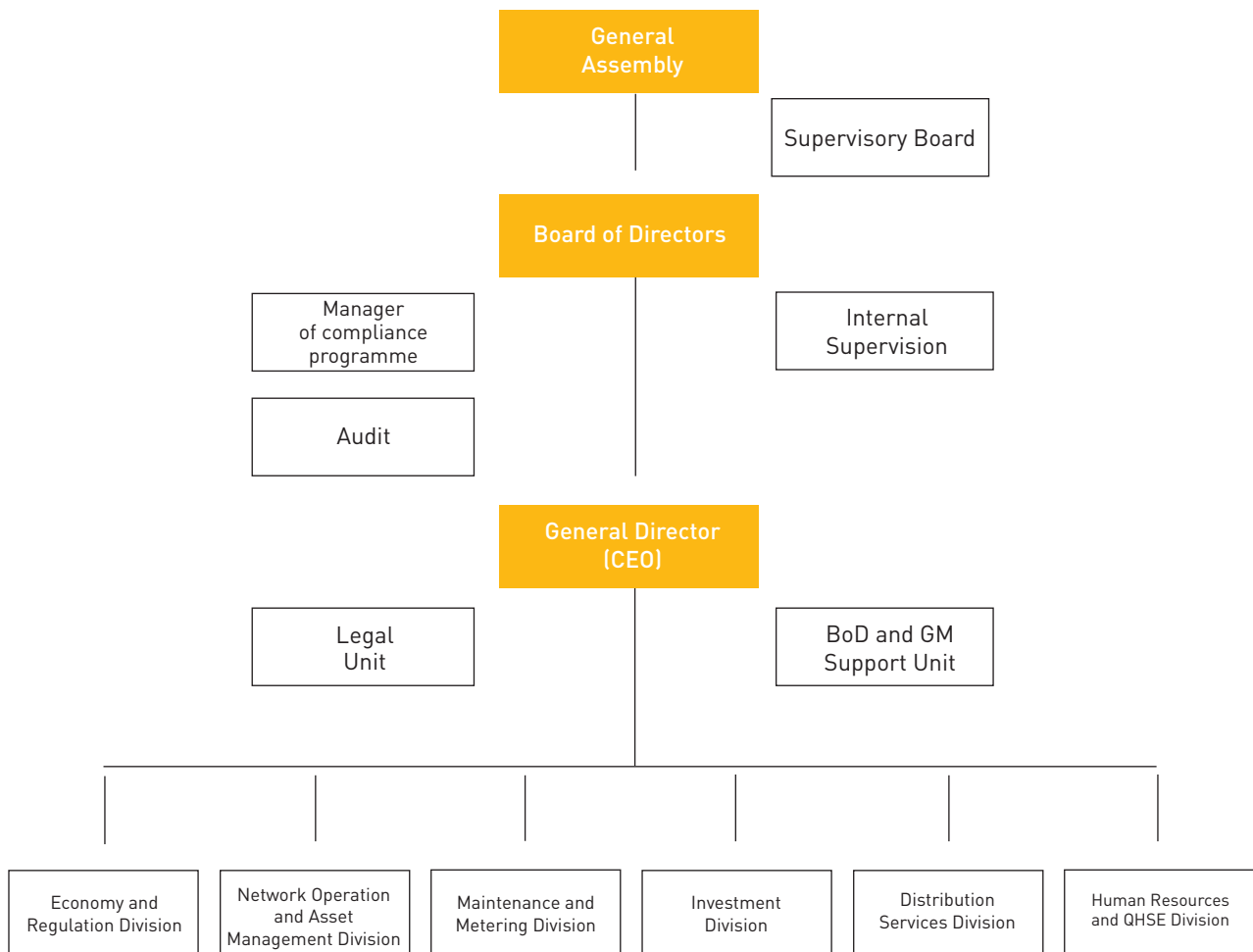
Mgr. Ing. Tomáš David
Deputy Chairman of the Supervisory Board

Members:

Pavol Korišek
Ing. Robert Procházka
Ing. Miroslav Recký
Milan Boris*

* Mr. Milan Boris became a member of the Supervisory Board on 25 November 2016. Until 24 November 2016, the function of Deputy Chairman of the Supervisory Board was held by Ing. Richard Vadkerty.

ORGANIZATIONAL STRUCTURE AS AT 31 DECEMBER 2016







SAFE AND RELIABLE DISTRIBUTION

OPERATION AND SAFETY OF THE NETWORK

2016 was a successful year for the company as a network operator. No serious emergencies while operating the gas facilities was recorded throughout the year, which confirms that the preventive activities were properly set. By the regular evaluation and solution of increased leaks in the distribution network, the volume of gas leaks from the house control units was stabilized and decreased by 17 % against the year 2015, when the increased volume of gas leaks was caused by transition to a new type of odorant. The organizational skills of the operating staff and the professionalism of the maintenance staff were verified, in particular by addressing and elimination of faults after internal inspection on gas pipelines DN 500 and DN 300. One challenge which was perfectly mastered in terms of operation was the elimination of the most serious faults by cutting out of the pipeline, which, apart from the cut-out work, required interruption and restoration of gas supply for the customers. The distribution network is prepared to provide business partners with a safe and reliable natural gas supply for the upcoming period. In the effort to continuously improve the risk-management operation and maintenance of administered facilities, we successfully terminated

the internal development of a risk model for gas pipelines of the high-pressure network from the previous year. We continued the development of Data Cube, the ambition of which is to credibly visualize and analyze any technical and economic data related to asset management.

DAMAGE TO GAS FACILITIES CAUSED BY THIRD PARTIES

In 2016 the company registered a decrease by 5 % in the number of cases where its gas facilities were damaged by third parties. It should be noted that the damages were recorded prevalingly during the implementation of earthworks in the protective zones of gas facilities, which are the most risky and most dangerous works in terms of operation. An increase in the number of damages was registered in cases where the party had implemented earthworks in the protective zones of gas facilities without marking of the gas facilities. The company SPP - distribúcia, a. s., performs the marking of gas facilities free of charge up to a certain degree, so these damages can be regarded as a gross violation of obligations by the party implementing the earthworks. Our company cooperated with the Slovak Trade Inspection in solving cases of damage to gas facilities.

PROVIDING A STANDARD FOR SECURITY OF SUPPLY

In order to resolve and prevent a possible state of emergency, the company SPP – distribúcia, as the distribution network operator, continued to provide a standard of safety for the gas supplies to household customers in compliance with valid legislation also in 2016. The main tool was chiefly the utilisation of natural gas reserves in underground storage intended for balancing the network, as well as a contractual agreement for gas supplies in a way fully covering the needs for the fulfilment of the safety standards in accordance with economic and efficiency criteria. The implementation of these measures in the previous year proves that the company is able to provide continuous and reliable gas distribution to all households in the Slovak Republic, even in the event of an emergency situation.

GASIFICATION OF SLOVAKIA

In Slovakia 77 % of municipalities, which are home to more than 94 % of the country's population, are currently gasified. In terms of the achieved gasification level of municipalities, no further development of the distribution network is required.

However, due to the considerable development of residential areas, their connection to the distribution network has been ongoing for several years now.

New residential areas are usually located

DETECTION OF UNAUTHORIZED USE OF NATURAL GAS

In 2016 we continued the successful detection of cases of unauthorized gas usage with the aim of achieving a reduction in losses from natural gas distribution. Company employees identified and documented 2 498 cases of unauthorized usage of more than 8,3 mil. m³ of gas. In order to increase the safety of our operated facilities, we carried out tens of area checks in 2016 focused on detection and documentation of unauthorized gas usage. For this purpose, 32 652 points of delivery were checked in the previous year. These checks identified 573 cases of demonstrable unauthorized tampering with meters or direct interventions into the gas pipeline. Based on facts suggesting the crime of gas theft, SPP - distribúcia brought 333 charges.

in municipalities already gasified, meaning the distribution network is being densified.

As compared to the previous year, 2016 saw a moderate increase in the volume of gas distributed through the distribution network of SPP - distribúcia.

However, with respect to the long term, the volumes of gas currently distributed are lower, mostly due to higher air temperatures in the winter months compared to the long-term norms.

Distribution of natural gas through the SPP-D distribution network 2012 - 2016 (in billion m³/15 °C)

	2012	2013	2014	2015	2016
Distributed volumes	5,03	5,03	4,24	4,59	4,68

Investments in modernisation / reconstruction of the network 2012 - 2016 (mil. EUR)

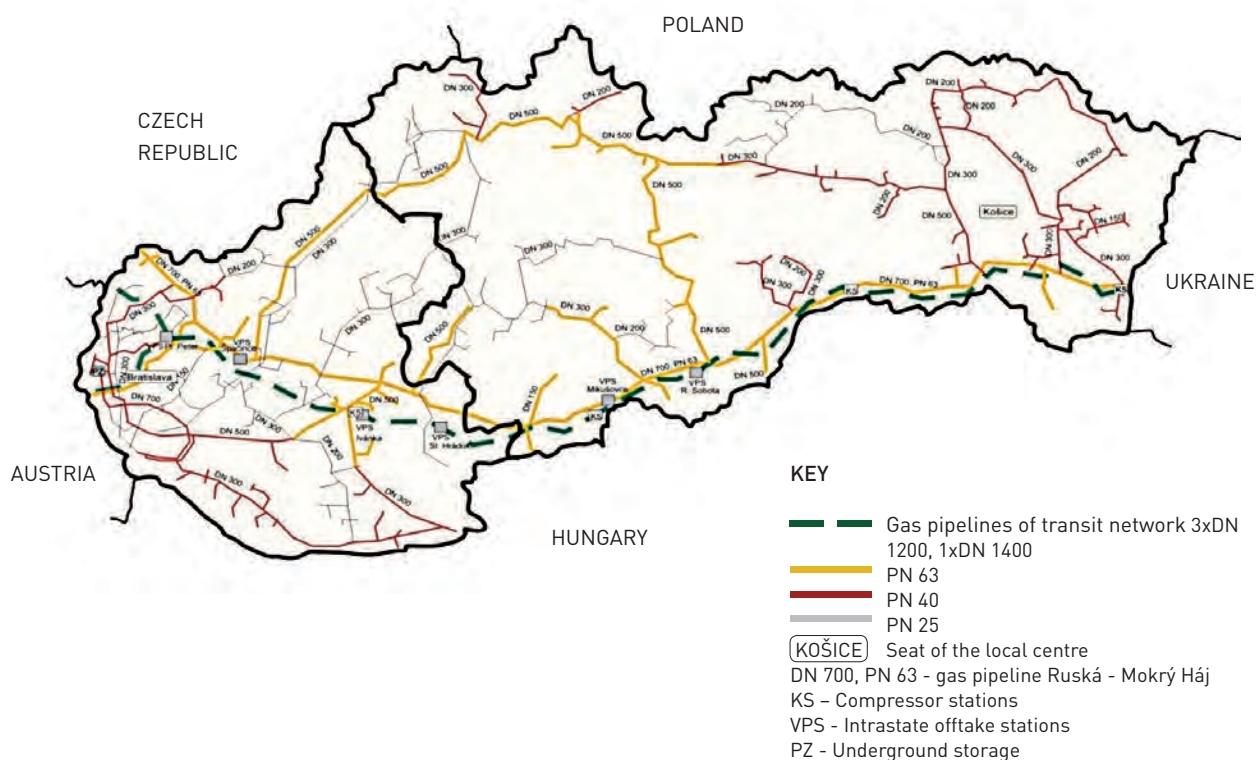
	2012	2013	2014	2015	2016
Investments in modernisation	42	28	14	21	27
Number of km of reconstructed gas pipelines of the local network (low and medium - pressure gas pipelines)	134	136	90	126	129

Length of the distribution network in 2012 - 2016 (km)

	2012	2013	2014	2015	2016
High - pressure gas pipelines	6 294	6 291	6 297	6 278	6 274
Medium and low-pressure gas pipelines	26 785	26 891	26 966	27 023	26 996
Total	33 079	33 182	33 263	33 301	33 270*

*Update and specification of lengths of gas pipelines after transition of the company to the new geographic information system (GIS).

Map of the distribution network of SPP - distribúcia



Classification of gas pipelines in local network 2012 - 2016 (in km)

	2012	2013	2014	2015	2016
Steel	12 733	12 623	12 559	12 509	12 429
Polyethylene	14 052	14 268	14 407	14 514	14 567



ONLINE formuláre > Proces pripojenia a technické zmeny > Žiadosť o pripojenie, žiadosť o technickú zmenu, žiadosť o montáž meradla

ONLINE formuláre

▼ Proces pripojenia a technické zmeny

> **Žiadosť o pripojenie, žiadosť o technickú zmenu, žiadosť o montáž meradla**

> Online formuláre k vydaniu stanoviska

> Vytýčenie plynárenských zariadení

> Iné formuláre a aplikácie

ŽIADOSŤ O PRIPOJENIE, ŽIADOSŤ O TECHNICKÚ ZMENU, ŽIADOSŤ O MONTÁŽ MERADLA

1. KROK

Typ žiadosti a špecifikácia žiadateľa

2. KROK

Predkladateľ žiadosti

3. KROK

Identifikačné a kontaktné údaje žiadateľa

4. KROK

Charakteristika žiadosti

Žiadosť o pripojenie do distribučnej siete
Žiadosť o technickú zmenu na existujúcom odbočení
Žiadosť o realizáciu pripojenia a montáž meradla

MacBook



ZEMNÝ PLYN

EKOLÓGIA

AKTUALITY

PRÍKLADY

KA

Vyberte si oblasť, ktorá vás zaujíma.

Výroba elektrickej energie

Chladienie

Technologické teplo

Doprava na CNG

NAJNOVŠIE AKTUÁLNE SPRÁVY

Eurokomisár tvrdí, že plynárenské odvetvie prežije po roku 2050, ak...

04.04.2017 - Kúrenie, Výroba elektrickej energie, Zemný plyn - keď Eurogas zvoľá do Bratislavy plynárov z celej Európy, rozbúcha sa jazyk

NAJČITANEJŠIE



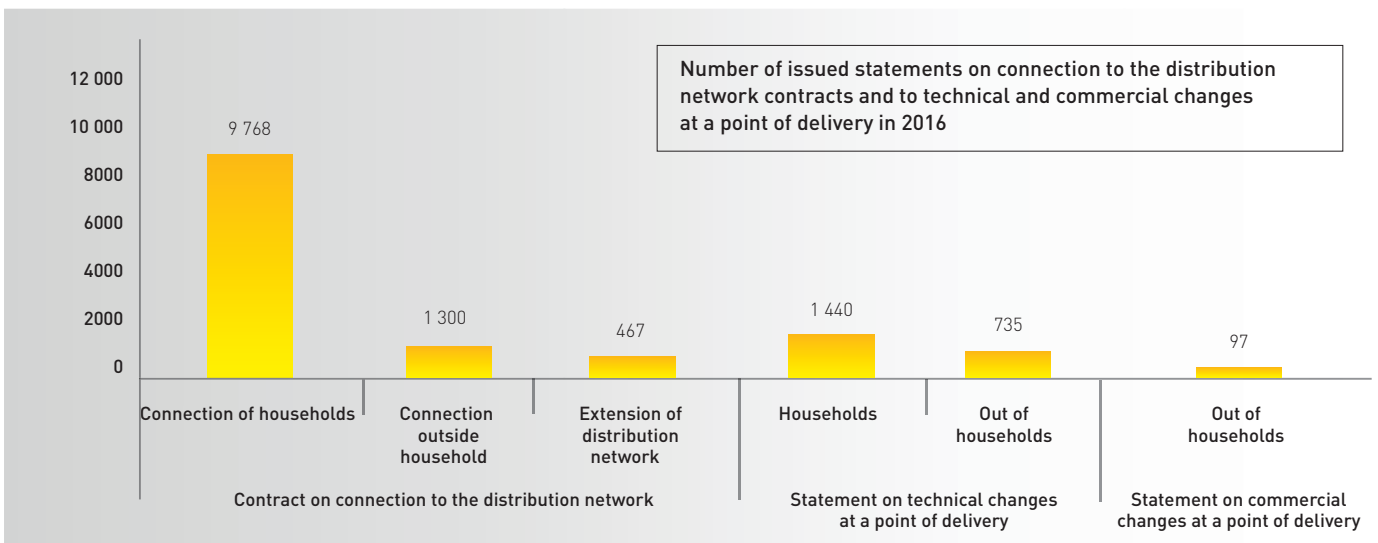
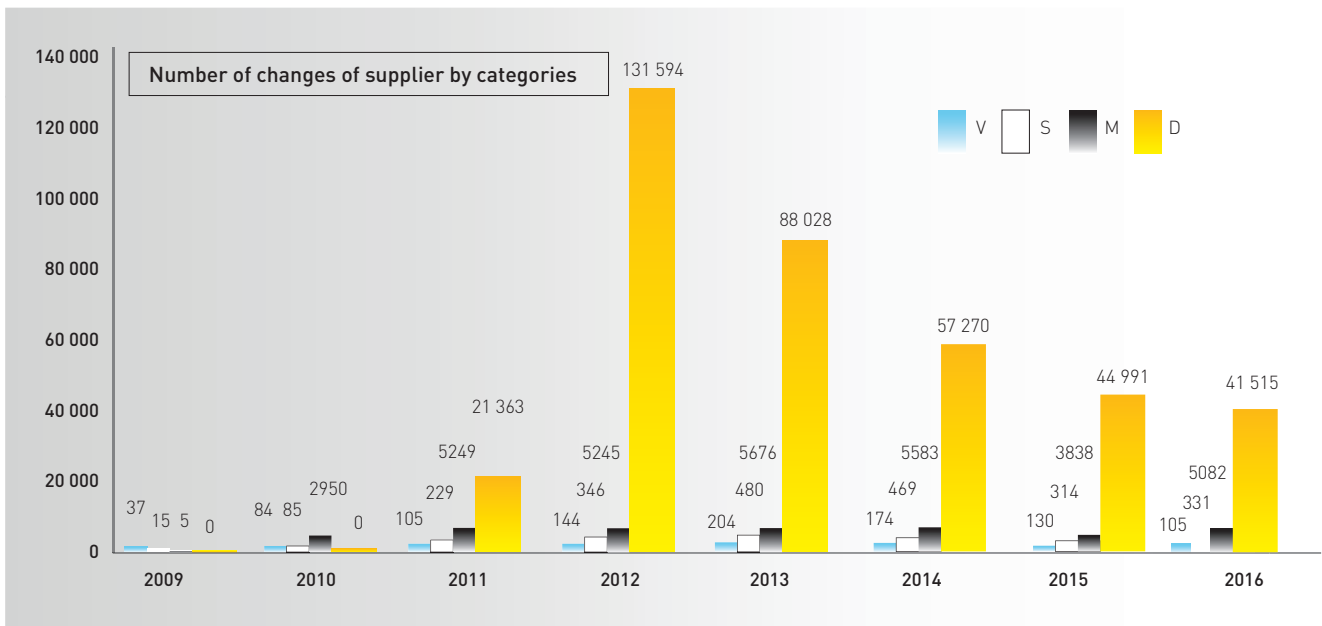
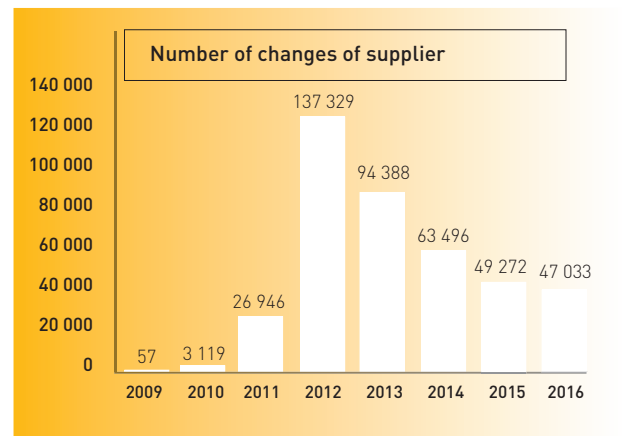
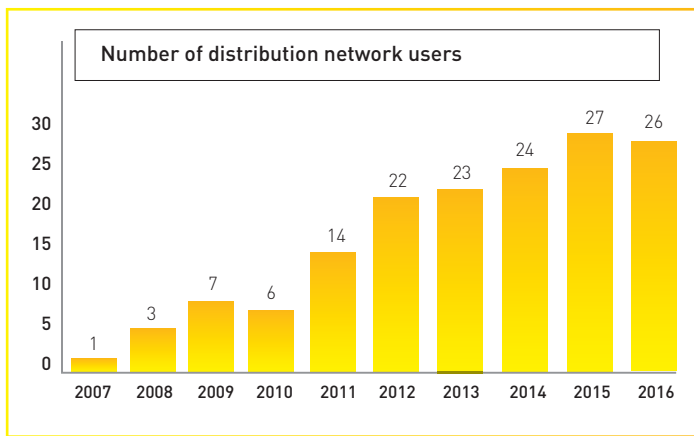
CUSTOMER ORIENTATION

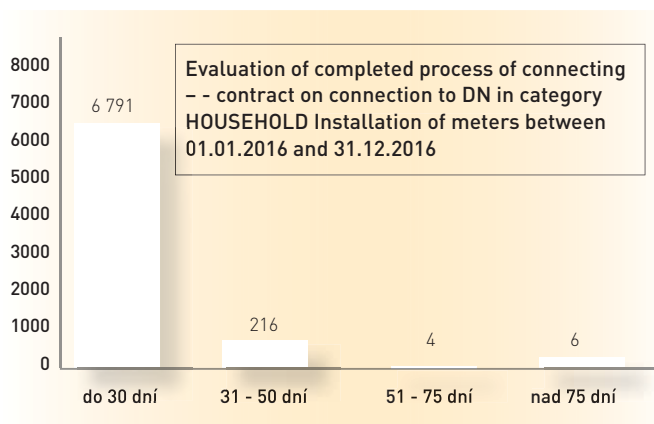
RELATIONS WITH GAS SUPPLIERS, LIBERALIZED GAS MARKET

As at 31 December 2016 we provided access to the distribution network and distribution of gas for 26 distribution-network users (25 gas suppliers and 1 large-end gas customer). The number of gas - supplier changes at points of delivery continued to decrease in 2016, probably due to saturation of the gas supply market in the individual segments. Our company implements the processes of gas-supplier changes in an automated manner and with maximum efficiency. As regards the development of the gas market in Slovakia, in 2016 we implemented a new comprehensive IT system that allows distribution-network users full digitalization of relations with the distribution network operator. SPP - distribúcia thus currently fulfils the integration function on the gas supply market in SR as far as is possible.

CONNECTION TO DISTRIBUTION NETWORK - SHORTENING OF THE PROCESS

During 2016 our company provided connection applicants with the possibility of personal contact in three customer offices in Bratislava, Žilina, and Košice. At the same time, these applicants could contact us by mail or on-line through our website. SPP - distribúcia fulfilled at a 100 % level the quality standards for determining business and technical conditions for connection (Decree of the Regulatory Office for Network Industries č. 278/2012 Coll.). In 2016 our company connected 9 685 new points of delivery to the distribution network in the categories: households, retail, medium, and wholesale customers. We have successfully continued to improve the connection process and tried to reduce the total length of the process of connecting.





Evaluation of the process of connecting on the side of SPP - Distribúcia:

- Issue of the technical conditions of connection and draft contract on connection to the distribution network
- Statement on project documentation
- Administration of applications for installation of meters and installation of meters at a point of delivery

DIGITALIZATION OF SERVICES - WEB FOR CUSTOMERS

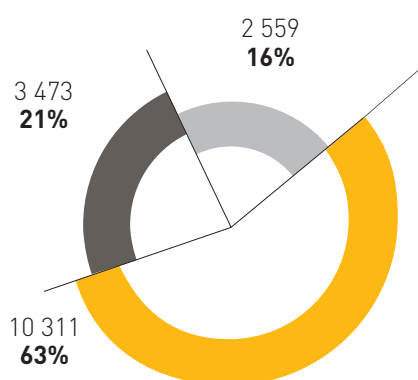
Already in 2014 we posted on the website www.spp-distribucia.sk the first electronic forms through which our customers can lodge applications for connection, applications for statement on technical changes at an existing point of delivery, or applications for installation of meters online from their homes. Whereas in 2015 the electronic form was used by 55 % of applicants for connection, in 2016 it was used by 63 % of applicants for connection; in addition, 51 % of applications for installation of meters were submitted in this manner, which represents an increase of 10 % against the year 2015. Applicants use this service especially because it can be completed very rapidly and is available 24 hours a day. Starting from September 2016, we extended electronic communication with applicants who had submitted their applications for connection and applications for statement on technical changes online. To these applicants we electronically send invoices for the

connection fee, the technical conditions of connection and a draft contract on connection to the distribution network to their e-mail addresses. The statements are sent to the applicants' electronic mailbox; thus we eliminated the need for personal acceptance of registered mail. The implementation of this new method of communication is a further natural step in providing the highest comfort of service to existing and future customers.

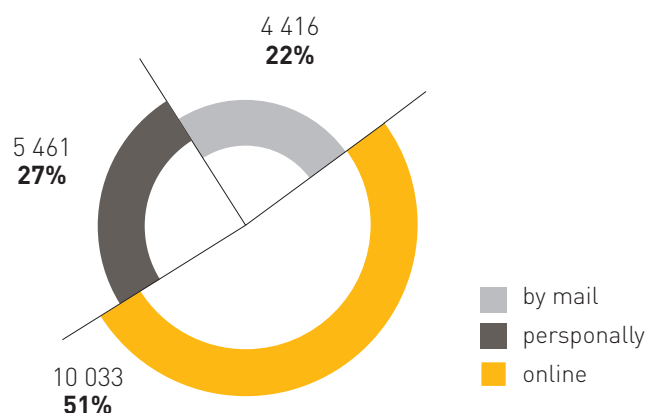
SERVICES FOR MEDIUM AND LARGE CUSTOMERS

SPP - distribúcia uses its key account managers to strive to constantly improve its individual approach to customers with an annual consumption of natural gas over 60 000 m³. Our managers provide customers with professional advice and propose appropriate technical and business solutions before making the connection to the distribution network or before implementing technical changes to an existing point of delivery in order to provide customers with the highest comfort in gasifying their project.

Applications for connection to the distribution network and for a statement on technical changes 01.01.2016 - 31.12.2016



Applications for installation of meters 01.01.2016- 31.12.2016





EMPLOYEES AND DEVELOPMENT OF CORPORATE CULTURE

Professionalism, responsibility and reliability are an integral part of the work of our company. These three pillars are the guarantee of safety and quality which we provide in the area of distribution of natural gas to the Slovak population. The high quality of our activities and provided services is the result of the consistent cooperation and commitment of our team. We highly appreciate the engagement and commitment that our employees demonstrate in their everyday work. Thanks to their professional knowledge and skills, our company enjoys long-term stability and safety in its operations, which have a key importance for gas distribution and the energy security of our country. As at 31 December, 2016 our team was made up of 1 321 members.

Deepening the professionalism of our employees and improving processes and activities in human resources management and development were our priorities also in 2016. On the basis of obtained certification for training in the area of OHS through the use of the professional knowledge of our internal lecturers, we implemented, on the basis of legislative requirement, extensive updating vocational training for employees aimed at renewing their authorizations to work with reserved gas technical equipment. In the previous year we launched the implementation of the development programme Career at Full Throttle. The programme is devoted to key employees in managerial and expert positions with the aim of retaining specific know-how in the company and, through development of its participants, of developing our company. During the 2015/2016 school year, we implemented the Young Gasman Project in cooperation with secondary schools, focusing on preparation of students for potential employment in the corporate environment of SPP - distribúcia. After successfully completing their study, five students who had participated in the project became employees of our company. In the framework of the Graduate Development



Programme we devote our time to those university graduates evaluated as fit to strengthen our team in the field of design or operation of gas facilities. In the area of support for the development of specific target groups, we implemented in the internal environment of our company a development programme for purchasers as providers of services to customers. We also devote attention to employees who come into direct contact with our customers in the external environment, e.g. in customer offices or via the Customer Line for connection, or the Emergency line - gas. We will also actively work on the development of specific groups of employees in 2017. We continued intensive cooperation on the development and setting of IT systems that we use in the area of human resources development and management. The results of these efforts are a new attendance system and the Intranet. In the past year, in the framework of activities targeting the development and strengthening of corporate culture, we implemented the second round of a employee survey to collect information about the employees' actual level of commitment, satisfaction and loyalty. We focused on gathering proposals for the future development of the company as well as on monitoring of trends in development of perception of the company by its employees.

SUPPORT OF INDIVIDUAL PERFORMANCE AND INITIATIVE

To support the motivation, individual performance, and initiative of employees, we pay special attention to performance evaluations based on an efficient linking of rewards to individual performance and contribution for the company. We highlight good practice and the contribution of individuals and teams, and support the introduction of improvements, processes simplification and a continuous increasing of the quality and effectiveness of the work of our teams. In 2016 we first used the Working Time Account – a form of uneven distribution of working time. On the basis of the experience acquired during the past twelve months, the use of the Working Time Account has contributed to the higher effectiveness and harmonization of the available capacity with the requirements for performance of work. We are glad that we succeeded in concluding an agreement with employee representatives, on the basis of which we will continue the use of the Working Time Account in 2017. Through the annual "Development Interviews" we create conditions for personal/working development and effective planning of the individual development aims of our employees. Development interviews are an opportunity for mutual communication in working

teams and a precious source of suggestions and good ideas for the development of the company.

SAFETY IS OUR PRIORITY

Management and implementation of the occupational health and safety policy and the environmental policy are among the priority objectives of the company SPP - distribúcia. They achieve it through the introduction of safe working procedures, technologies, suitable organization of work, improvement of working conditions with regard to the factors of the working environment, and also by involving employees in the process of selection of personal protection equipment, inspection of the working environment and the addressing of occupational health safety issues. By observing the legal requirements, we systematically improve the risk management system. We use a system of employee training to enhance their awareness and knowledge of OHS, with emphasis on risk prevention.

The system of management of safety and health protection in the company SPP - distribúcia, a. s., is based on the approved OHS and environmental policy, focusing on prevention of accidents by identification of risks and factors, quality and safety of technical equipment, work hygiene and other damages to health at work, prevention of diseases and injuries, as well as provision of health care to the employees. The adopted Programme of Occupational safety and environmental activities 2016 was fulfilled. We systematically identify potential risks, threats and environmental aspects, and implement preventive measures.

In 2016 the following activities were performed:

- periodical training of employees in the area of valid general regulations relating to OHS and fire protection,
 - OHS audit, conducted in cooperation with representatives of employees responsible for OHS, which did not identify any weakness in the competence of our company,
 - Updating of risk evaluation and assessment in individual working positions, one of the basic pillars of providing OHS,
 - Fulfilment of tasks of an occupational health service for the purposes of creation of optimal working conditions,
 - Enhancing of awareness of occupational safety on common workplaces with suppliers of the company.
- SPP - distribúcia regards the area of environmental protection as another pillar of its long-term functioning. SPP - distribúcia disposes of the wide range of waste produced in everyday activities, repairs, maintenance or cleaning work on technological equipment. Therefore, together with regular monitoring of the working environment, we perform monitoring

and evaluation of the environment. Any deficiencies found are analysed and responsibly eliminated. In the area of work safety, fire protection and protection of environment, the state professional supervision performed a number of checks in the SPP - Distribúcia Company in 2016. No fines or sanctions were imposed on the company during the checks. By giving priority to preventive measures, we constantly improve the conditions for safe work and the protection of all environmental components.

SOCIAL RESPONSIBILITY

In view of the character of its business and in its efforts towards sustainability, the SPP - Distribúcia Company realizes the importance of a responsible approach, especially in the areas of human health, environment friendliness and entrepreneurial ethics. Therefore we develop activities to support charities, voluntary donations, and disadvantaged groups of the population, communities and regions. In cooperation with the SPP Foundation we have implemented the grant programme "Cooperation with Municipalities" for the long term, through which we support community projects aimed at supporting

and enhancing the villages, cities, and regions of Slovakia. Our employees again actively participated in the implementation of the "Employee Grant Programme", within which they cultivated the towns or communities they are active in. By their projects they also contributed to the implementation of the grant programme "Energy that helps" implemented under the auspices of the EPH endowment fund to support publicly beneficial activities and to improve the quality of life in communities.

We appreciate the approach of our employees to the annual organization of promotions of charity and donations. In the past year they again participated in the Mission 05charitable project, focused on helping children with health disabilities. In the third year, they manifested their attitude by donations to fundraising for the Union of the Blind and Partially Sighted of Slovakia, "The White Crayon", as well as by several voluntary blood donations. In the past year we celebrated 10 years of independent activity of the company on the Slovak gas market. In this context we organized Corporate Games 2016 to support health and sport, and a Gala Night on the occasion of the 10th anniversary. During these events, which our employees supported by their active participation, we continued long-term cooperation with a number of protected workshops.





NATURAL GAS – AN EFFECTIVE AND ECOLOGICAL SOLUTION

In Slovakia, 94 % of households and companies have access to natural gas. Easy access, reliability of use, simple control of gas appliances and environmental friendliness are key reasons for the permanent use of natural gas in Slovakia.

NATURAL GAS AND EFFECTIVENESS

Heating systems including hot-water preparation are an integral part of family houses and should be taken into account before construction.

The selection of a system influences thermal comfort in a house, general comfort, as well as the total sum of money which the user must pay for the installation and operation of the heating system over a long period. Nowadays only ultra-low energy family houses

(class of energy performance of buildings A1) are designed and built; in the future they will be replaced by nearly-zero energy buildings (passive houses, class of energy performance of buildings A0). For comparison we will use a family house from class A1, with an area of 120 m² and low-temperature floor (hot-water) heating system. The estimated heat (heating and hot water) consumption is 10 000 kWh.

The economic evaluation of any heating system takes into account two basic parameters: investment costs and costs during the useful life of equipment or during the evaluation period.

As regards total heating system costs, if we include user comfort and the health aspect (threat of production of carcinogenic emissions from solid polluting substances in firewood combustion) in the evaluation, then gas heating seems to be the best option.

Type of fuel	Natural gas	Wooden pellets	Firewood	HP - air/water
Heat installation	Condensation boiler	Conventional boiler	Conventional boiler	HP - air/water
Efficiency	97 %	90 %	70 %	275 %
Quantity of fuel	1 075 m ³	2 222 kg	3 682 kg	3 636 kWh

Operating costs (CAPEX)	Natural gas	Wooden pellets	Firewood	HP - air/water
TOTAL	590 €/year	624 €/year	456 €/year	584 €/year

Investment costs (CAPEX)	Natural gas	Wooden pellets	Firewood	HP - air/water
TOTAL	4880 €	5180 €	2480 €	11230 €

Costs per 15 years	13 734 €	14 547 €	9 322 €	19 987 €
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NATURAL GAS AND THE ENVIRONMENT

Although natural gas is a fossil fuel, it has very positive environmental characteristics, compared to other fuels. Compared to solid fuels, significantly fewer harmful substances and a negligible amount of dust particles, which in higher concentrations can endanger the health of the population, are generated during the combustion of natural gas. In addition to low levels of solid pollutants (SP), negligible amounts of sulphur oxides and minimum amounts of carbon monoxide originate, and the level of nitrogen oxides is also very low. Compared to firewood and coal, natural gas combustion produces significantly lower emissions of carbon dioxide. When using natural gas for heating, it is possible to save up to 50 % of CO₂ emissions compared to coal.

CONDENSATION BOILERS FOR FAMILY HOUSES

Thermal comfort, safety, user comfort and effective use of energy contained in natural gas – all this is provided by the progressive technology of condensation boilers.

Compared to conventional, classic or low-temperature boilers, condensation boilers can use a larger quantity of the energy contained in gas, which leads to lower costs for energy consumption.

ENERGY PERFORMANCE OF BUILDINGS

After 2020, in line with the EU Action Plan 20/20/20, only nearly-zero energy buildings will be constructed, which will represent a fully new phenomenon in terms of design, construction and, last but not least, operation of buildings. The ultimate goal is not only the construction of nearly-zero energy buildings, but also the implementation of sustainable architecture and construction with the overall aim to design, implement and operate energy-active, environmentally safe and economically effective buildings in the future. The obligation to implement nearly-zero energy buildings results from Directive 2010/31/EC of the European Parliament and of the Council on energy performance of buildings [hereinafter "EPBD"]. According to this directive, all new buildings in the EU will have to have nearly-zero energy consumption after 31 December 2020 (it does not apply to the public

sector). For the public sector an earlier date was determined - 1 January 2019.

Natural gas seems to be a suitable fuel for heating and hot-water preparation in buildings belonging to the A1 class of energy performance, in particular due to the advantageous ratio of the price of condensation boiler (including installation), its high efficiency, low operating costs, simplicity, real comfort and affordability, not to mention the nearly negligible environmental impact. For class A0, which will enter into force after 2020, it is necessary to reconsider the value of the factor of primary energy of natural gas and adjust it to a value taking into account the technical reality in the SR. A cogeneration unit is able to produce heat,

electricity, or even cold in a single device, resulting in significant savings in primary energy compared to separate production of heat and electricity, while reducing emissions of pollutants (up to 40 %). The direct consequence of primary fuel savings is a reduction of the emissions produced in the combustion process. A cogeneration unit is able to cover all customers' energy needs using only a single appliance. Given the availability of cogeneration in many power classes, it has a wide range of applications in industry, in the municipal sector, and in health or social care services. Customers interested in cogeneration are offered a free analysis of cogeneration usage when installing a new, or renovating an existing, source to natural gas.



COMPRESSED NATURAL GAS (CNG) AND ITS USE IN TRANSPORT

Natural gas continues to progressively confirm its place also in transport, and an increasing number of car producers have CNG vehicles in their portfolios. The operation of such vehicles provides users with advantages regarding lower fuel cost as well as a 50 % lower motor vehicle tax compared to vehicles using conventional fuels. Moreover, by using CNG, emissions of pollutants are significantly reduced, along with decreased noise, which in the end is beneficial

for the whole of society in the form of a cleaner environment. The use of CNG brings economically advantageous, ecological and safe transport.

SPP - distribúcia supports CNG through preferential distribution charges for the points of delivery of CNG fuelling stations and through the websites www.spp-distribucia.sk and www.oplyne.info, where in addition to general information on the advantages of natural gas, we also introduce the general public to CNG as an ecological fuel with the potential of greater application in transport. Customers interested in building CNG stations are also provided with business and technical consulting.



REPORT ON BUSINESS ACTIVITIES OF THE COMPANY

ECONOMIC AND FINANCIAL PERFORMANCE

DEVELOPMENT OF THE BUSINESS ENVIRONMENT

As previous years, 2016 too classed among hotter years. In the history of temperature measurement, it placed seventh among the hottest years in Slovakia since 1931. In terms of sales, an increase against 2015 was registered, caused in particular by lower average temperatures in the final months of the year. The optimization of internal processes continued in 2016. At the same time, the gradual takeover of auxiliary activities into our internal environment from SPP, a. s. continued in 2016 which, along with other optimization measures, contributed to stabilization of the level of operational expenses. In March 2016 the Regulatory Board issued the Regulatory policy 2017 - 2021,

which among other things defines objectives and priorities of regulation in the gas industry for the following regulation period. Decree of the Regulatory Office for Network Industries no. 223/2016 Coll., determining price regulation in the gas industry valid from 27 July 2016, was approved in July 2016. The Regulatory Office for Network Industries issued decisions approving prices for connection to the distribution network and for access to the distribution network and gas distribution, and for purchase of gas installation.

An amendment to Decree of the Regulatory Office for Network Industries no. 24/2013 Coll., determining common rules for the electricity market and common rules for the gas market, was approved.

The Regulatory Office for Network Industries issued a decision by which it approved changes in the Operation Rules of the company SPP - distribúcia, a. s. The legislative proposal of the European Commission - Clean Energy for all Europeans, known as the so-called "Winter Package", was published on 30 November 2016.

THE SHAREHOLDER STRUCTURE

as at 31.12.2016 was as follows:

SPP Infrastructure, a. s.	1 share	100 %
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ECONOMIC RESULTS OF THE COMPANY

In 2016 the company SPP - distribúcia generated revenues from the sale of services in the amount of EUR 383,29 million. The main component of the revenues was revenues from gas distribution, which represented nearly 99% of the proceeds. Operating expenses incurred through securing of revenues from the sale of services amounted to EUR 198,99 million. The prevailing components of operating costs were depreciation and amortization

charges, costs of gas storage and personnel costs. The company concluded the 2016 financial year with profit before tax amounting to EUR 166,41 million.

The income tax payable for the year 2016 amounted to EUR 38,96 million, special contribution from business in regulated industries of EUR 7,21 million and deferred tax liability of EUR 22,71 million. Profit after taxation represented EUR 142,95 million.

PORCOMPARISION OF PROFIT STRUCTURE AFTER TAXATION (MIL. EUR)

	2016	2015
Revenues from sale of services	383,29	362,22
Operating costs	-198,99	-211,42
Profit/loss on financial operations	-17,88	-16,17
Profit before taxation	166,41	134,64
Income tax payable	-38,96	-34,74
Special contribution	-7,21	-6,11
Deferred income tax	22,71	5,76
Profit after taxation	142,95	99,55

ASSET AND CAPITAL STRUCTURE

ASSETS

As of the balance sheet date, the total assets of the company amounted to EUR 2 741,05 million. Non-current assets of EUR 2 366,83 million accounted for 86,35 % of total assets. The most significant items of non-current assets were gas distribution pipelines, regulating stations, technologies and equipment of distribution networks. Costs of acquisition of non-current assets amounted to EUR 35,37 million and were directed mostly

to the renewal of the network.

As of the balance sheet date, the current assets of the company stood at EUR 374,22 million, which represents an increase of EUR 77,10 million against the year 2015. Inventory, receivables and advance payments represented major current assets items in 2016. The increase in the value of current assets is simultaneously the decisive factor of the increase in total assets.

COMPARISON OF ASSET STRUCTURE V (mil. EUR)

	2016	2015	2014	2013
Non-current assets	2 366,83	2 430,53	86,35 %	89,11 %
Current assets	374,22	297,12	13,65 %	10,89 %

SHAREHOLDER'S EQUITY AND LIABILITIES

As in the previous period, in 2016 the structure of financing of SPP - distribúcia was dominated by own resources, which accounted for 59,37 % of the total resources of asset coverage. Shareholder's equity amounted to EUR 1 627,45 million and consisted mostly of share capital, statutory reserve fund and retained earnings from the current accounting period. The share capital of the company recorded in the Commercial Register represents EUR 1,200 million. As at the balance sheet date, the statutory reserve fund consisting of capital contributions amounted to EUR 291,48 million. The retained earnings for the year 2015 - profit of EUR 99,55 million - was paid to the sole

shareholder of the company in the form of a dividend. The General Meeting will decide on distribution of profit for the accounting period 2016 in the amount of EUR 142,95 million. The statutory body proposes that the General Meeting pay the profit to the sole shareholder in General Meeting full amount, in the form of a dividend. As at the balance sheet date, liabilities represented 40,63 % of coverage of the company's assets and amounted to EUR 1 113,59 million. The liability structure was dominated by non-current liabilities in a total amount of EUR 1 002,75 million. Current liabilities amounted to EUR 110,84 million at the balance sheet date.

COMPARISON OF LIABILITY STRUCTURE (mil. EUR)

	2016	2015	2014	2013
Shareholder's equity	1 627,45	1 584,88	59,37 %	58,10 %
Liabilities	1 113,59	1 142,77	40,63 %	41,90 %

SUMMARY RESULTS

Progress of the assets and profits of SPP - distribúcia, a. s., for the year ending 31 December 2016, and compared to 2015, according to the individual financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU.

BALANCE SHEET (selected data in EUR)

ASSETS	Year ending 31 December 2016	Year ending 31 December 2015
NON-CURRENT ASSETS		
Buildings, structures, machinery and equipment	2 346 136	2 413 087
Investments in subsidiary companies	1 005	1 005
Intangible non-current and other assets	19 686	16 440
Total non-current assets	2 366 827	2 430 532
CURRENT ASSETS		
Inventory	148 458	153 369
Receivables and advance payments	148 246	63 055
Tax receivables and income taxes	0	0
Cash and cash equivalents	77 516	80 692
Provided loans	0	0
Total current assets	374 220	297 116
TOTAL ASSETS	2 741 047	2 727 648

SHAREHOLDER'S EQUITY AND LIABILITIES

CAPITAL AND PROVISIONS		
Share capital	1 200 000	1 200 000
Statutory reserve fund and other funds	284 502	285 330
Retained profit	142 951	99 545
Total shareholder's equity	1 627 453	1 584 875
NON-CURRENT LIABILITIES	1 002 754	1 027 692
CURRENT LIABILITIES	110 840	115 081
Total liabilities	1 113 594	1 142 773
TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES	2 741 047	2 727 648

PROFIT AND LOSS STATEMENT

(selected data in EUR)

	Year ending 31 December 2016	Year ending 31 December 2015
Revenues from sale of services	383 286	362 217
Operating costs	-198 992	-211 415
Operating profit	184 294	150 802
Financial revenues	245	1 792
Costs of financing	-18 129	-17 957

PROFIT BEFORE TAXATION**166 410****134 637**

Income tax payable	-38 959	-34 740
Special tax	-7 208	-6 113
Deferred income tax	22 708	5 761

PROFIT FOR PERIOD**142 951****99 545****CASH FLOW STATEMENT**

(selected data in thousand of EUR)

	Year ending 31 December 2016	Year ending 31 December 2015
OPERATING ACTIVITIES		
Cash flows from operating activities	258 046	240 659
Interest paid	-13 749	-15 693
Interest received	297	2 364
Income tax paid	-40 213	-35 938
CASH FLOWS FROM OPERATING ACTIVITIES	204 381	191 392
CASH FLOWS FROM INVESTMENTS	-153 631	-378 562
CASH FLOWS FROM FINANCIAL ACTIVITIES	-53 926	-55 184
NET INCREASE OF CASH	-3 176	-242 354
BALANCE OF CASH AT THE BEGINNING OF THE PERIODA	80 692	323 046
BALANCE OF CASH AT THE END OF THE PERIOD	77 516	80 692

IMPORTANT EVENTS**THAT OCCURRED AFTER THE TERMINATION OF THE ACCOUNTING PERIOD FOR WHICH THE ANNUAL REPORT IS PREPARED**

After 31 December 2016 no important events occurred which would require changes or disclosure in the annual report.

STATEMENT ON COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE IN SLOVAKIA

In administration and management, SPP - distribúcia complies with the Code of Corporate Governance in Slovakia issued by the Central European Corporate Governance Association. The Code is publicly available on the Association's website www.cecga.org. Our aim is the implementation of and compliance with the various principles of the Code, demonstration of the process of their implementation, while issuing a statement on corporate governance. Pursuant to § 20 (6) of Act no. 431/2002 Coll. on Accounting, as amended, the company presents the following Statement:

GENERAL ASSEMBLY

The General Meeting is the supreme body of the company by means of which the shareholders participate in the management of the company. Each shareholder has rights through which they exert their influence in the company:

- a. the right to participate in the management of the company, to a share in the profit and liquidation balance of the company in case of its winding up with liquidation. The shareholder exercises the right to participate in the management of the company by voting at General Meeting; the shareholder must respect the organizational measures valid for the course of the General Meeting. At the General Meeting the shareholder has the right to request information, explanations relating to matters of the company or issues concerning the controlled persons, to submit proposals to the agenda of the General Meeting and to be elected to bodies of the company;
- b. A shareholder is entitled to a share in the profit of the company (a dividend) that the General Meeting has designated for distribution. A shareholder is not obliged to return a dividend received in good faith to the company,
- c. To the extent permitted by applicable legislation (including Energy Act no. 251/2012 Coll.), a shareholder is entitled to inspect the minutes of meetings of the Supervisory Board, while being obliged to maintain confidentiality of the information thus obtained,
- d. The right to vote at General Assemblies - the shareholder's number of votes is determined by the ratio of the nominal value of his/her shares to the share capital,
- e. Any transfer of shares shall be subject to the approval of the General Meeting. The General Meeting may refuse a transfer of shares if it is in conflict with the company's statutes or the shareholders agreement.

The General Meeting performs the following functions:

- a. election and dismissal of members of the Supervisory Board,
- b. election and dismissal of members of the Board of Directors,
- c. changes in the Articles of Association, the statute of the Supervisory Board or the statute of the Board of Directors,
- d. change in the share capital,
- e. merger, amalgamation, split, change of legal form, winding up with liquidation or other significant changes in the corporate structure of the company,
- f. decision on appointment of a liquidator of the company and determination of remuneration of the liquidator,
- g. decision on the distribution of any dividend by the company or distribution of other payments arising from shares,
- h. decisions on the increase or decrease of the share capital of the company,
- i. approval of ordinary individual, extraordinary individual, ordinary consolidated or extraordinary consolidated financial statements of the company,
- j. decisions on the allocation of profit of the company, including determination of the amount of dividend and any royalties, and on the method of settlement of any company's losses,

- k. decision on changes to the rights linked to any type of the company's shares,
- l. decisions on the conversion of registered shares to bearer shares and vice versa,
- m. decisions on the limitation or exclusion of the preferential right of a shareholder to subscribe newly issued shares of the company in accordance with and subject to conditions laid down by law,
- n. approval of a contract on transfer of the company's business and the contract on transfer of a part of the company's business,
- o. any substantial change in the nature of the core business of the company or in the manner in which the company conducts its core business;
- p. approval of the commencement of any legal or arbitration proceedings against persons who were direct or indirect shareholders of SPP before 23 January 2013 and ceased to be shareholders of SPP no later than on 23 January 2013,
- q. appointment of an auditor.

BOARD OF DIRECTORS

The Board of Directors is a statutory body of the company acting on behalf of the company. The Board of Directors decides on all matters related to the company. The Board of Directors has five members. Members of the Board are appointed and dismissed by the General Meeting for the period of four years. When electing or dismissing a member of the Board, the General Meeting may determine that his/her election to or dismissal from office is effective at a later date than on the date when the decision of the General Meeting was taken.

The Board:

- a. Manages the business of the company and ensures all of its operational and organizational issues,
- b. Convenes the General Meeting,
- c. Exercises employer rights,
- d. Implements resolutions of the General Meeting, or written decisions of the sole shareholder,
- e. Ensures prescribed book-keeping and keeping of other records, books and other documents of the company,
- f. Submits reports to the General Meeting,
- g. Submits materials to the Supervisory Board for consideration,
- h. Prepares an annual budget and business plan of the company.

SUPERVISORY BOARD

The Supervisory Board is the supreme control body of the company. It supervises the execution of functions by the Board of Directors. The Supervisory Board is the supreme audit body of the company. The Supervisory Board supervises the activities of the Board of Directors and the performance of business activities of the company. The Supervisory Board of the company has six members. Two-thirds (2/3) of the members of the Supervisory Board are elected and dismissed by the General Meeting. One-third (1/3) of the members of the Supervisory Board are elected by employees of the company for the period of five years, if so required within that scope by the mandatory provisions of Slovak law at the time of election of the members of the Supervisory Board. A meeting of the Supervisory Board shall be convened by its chairman at least every three months.

The Supervisory Board reviews procedures in matters of the company and is entitled at any time to inspect accounting documents, files, and records related to the activities of the company and to establish the standing of the company. The Supervisory Board also checks and - to the extent permitted by law (in particular, the Energy Act) - submits to the General Meeting conclusions and recommendations resulting from its monitoring activities related to:

- a. Fulfilment of tasks assigned by the General Meeting to the Board of Directors,
- b. Compliance with the statutes of the company and relevant legislation with regard to the company's activities,
- c. Economic and financial activities of the company, accounting, records, accounts, the state of the company's assets, its liabilities and receivables.

The Supervisory Board reviews and - to the extent permitted by law (in particular, the Energy Act) - may submit to the General Meeting reports related to:

- a. Proposals by the Board of Directors for the dissolution of the company,
- b. Proposals by the Board of Directors for the appointment of a liquidator of the company,
- c. Proposals by the Board of Directors regarding an individual annual budget and business plan of the company,
- d. Reports of the Board of Directors.

COMMITTEES

The company SPP - distribúcia, a. s., used a legal exemption from the obligation to establish an audit committee directly at the level of SPP - distribúcia, a. s., and ensured that activities of the audit committee would be performed by a committee established at the level of the parent company SPP Infrastructure, a. s., because the parent company SPP Infrastructure, a. s. also fulfils conditions of the Act on Statutory Audit for establishment of an audit committee and therefore they have established such a committee.

The Audit Committee established at the level of the parent company SPP Infrastructure, a. s., performs its activities for SPP - distribúcia, a. s., on the basis of a contract on provision of services.

In addition, it was necessary to cancel the initial Audit Committee of the company SPP - distribúcia, a. s., which had been appointed in 2014, for the reason of issue of securities tradable on regulated market and fulfilment of the requirement of Act no. 431/2002 Coll. on Accounting, as amended, §19a. This Audit Committee did not fulfil the requirements of the new Act no. 423/2015 Coll. on statutory audit and on amendment of Act no. 431/2002 Coll. on accounting, as amended.

The Audit Committee must have at least 3 members. The committee members are appointed by the General Meeting. At least one Committee member must have professional experiences in the area of accounting or statutory audit and all members as a whole must have qualifications suitable for the sector in which the accounting entity is active. An absolute majority of members as well as the chairman of the committee (elected by members of the committee or the Supervisory Board) must be independent. An independent member is an individual who is not connected by property or personally with the accounting entity or its subsidiary, its partners, members of statutory bodies and statutory auditor of the accounting entity, and who is not their close person and does not receive from the accounting entity or its subsidiary any other income than remuneration for work on the Supervisory Board or the Audit Committee.

MANAGEMENT METHODS

For its management, the company mainly uses methods of direct management, methods combining direct and professional (indirect) management, and project management methods.

Direct management is generally based on setting goals, tasks and directions, and on the operational guidance of activities of the managed organizational unit or employee.

Professional (indirect) management is based on the use of internal control mechanisms, determination of the scope for self-management and organization of own work of the managed organizational unit or employee, as well as on the application of advanced economic incentives that are consistent with effective risk management.

Project management assumes temporary allocation of specific organizational units or employees and their temporary subordination to the project leader within the specified scope in order to achieve objectives of the project.

INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT IN 2016

The performance of internal control is an integral part of management at all levels of the organizational structure. The internal control system consists of a set of controls and audits of individual processes, their risks, valid managing documentation and legislation; it comprises all forms of continuous control measures, procedures and mechanisms in the individual units. The internal control system of SPP - distribúcia was implemented through adoption of internal management acts which regulate the performance of internal controls and internal audits by own employees of SPP - distribúcia. The controls are performed by internal auditors, employees directly participating in individual processes, and the managers of the individual units or employees authorized by them, who are responsible for controlled processes and control results. Results of the checks are submitted to relevant bodies of the company on a regular basis.

The risk management system in the company SPP - distribúcia is an important part of the decision-making processes. It is designed in a manner allowing for timely recognition of the risks, and taking appropriate measures. Key areas of the risk management system are internal regulations, regular reporting and actions plans for permanent reduction of impact of the risks on the company's operation. In the framework of risk management, the SPP - Distribúcia

Company monitors, evaluates, manages and regularly submits to the company's management evaluations of regulatory, gas, financial, operating, environmental, personnel and media risks. By the early adoption of preventive measures, the company SPP - distribúcia achieves the effective adjustment of key processes.

SHARE CAPITAL OF THE COMPANY

The share capital of the company is EUR 1 200 000 000 and is structured as follows:

Emission No. (CEM): LP0001508566

Nominal value: EUR 1 200 000 000

Number: 1 pc

Type: ordinary share

Form: materialized

Class: registered share

Percentage share in the share capital: 100 %

Admitted to trading: 0 pc

The share capital structure does not include shares whose owners would have special rights of inspection.

The company has no knowledge of any agreements between holders of securities which may result in restrictions as to the transferability of securities and the limitation of voting rights.

The company has not entered into any agreements which take effect, alter, or terminate as a consequence of a change in the control conditions related to the takeover bid.

The company has not entered into any agreements with members of its bodies or employees on the basis of which they shall be granted compensation if their position or employment is terminated by resignation, notice by the employee, dismissal, notice of dismissal by the employer without indication of the cause, or if the employment is terminated as a result of a takeover bid.



REPORT ON THE IMPLEMENTATION OF MEASURES ADOPTED IN THE COMPLIANCE PROGRAMME OF THE DISTRIBUTION NETWORK OPERATOR FOR 2016

1. The compliance programme is an internal regulation of the distribution network operator, SPP - distribúcia, a. s. which, according to the provisions of Act no. 251/2012 Coll., on Energy and on amendments to certain acts, defines measures to ensure non-discriminatory administration of the distribution network, which is a part of a vertically integrated business. The Compliance Programme determines the specific obligations of employees, aimed at preventing possible discriminatory behaviour of the distribution network operator. The regulation identified as D.RM.04.06.06 was updated in the last quarter of 2015. The update identified as D.RM.04.07.06, with effect from 01/12/2015, was amended by banning insider trading, based on the provisions of the Regulation of EU No. 1227/2011 wholesale energy market integrity and transparency (REMIT).

2. The Compliance Programme includes the following measures:
 - (a) Obligation to ensure the independence of the distribution network from other activities not related to gas distribution,
 - (b) Obligation to ensure non-discriminatory behaviour of the distribution network for the provision of information,
 - (c) Obligation to ensure non-discriminatory conditions of service of the distribution network for gas market participants,
 - (d) Conditions relating to the manager of the Compliance Programme, including appointment and dismissal,
 - (e) Activity of the manager of the compliance programme including the training of distribution network staff on the compliance programme and activities of staff designed to maintain the compliance programme,
 - (f) Obligations ensuring publicity about the compliance programme, control and execution of the annual report on the implementation of the compliance programme.

3. In 2016, the implementation of measures listed in the Compliance Programme was performed mainly in the following way:
 - (a) SPP - distribúcia, a. s., as the distribution network operator is established as a separate company and its organizational structure is arranged to ensure the independence of all activities of the distribution network associated with gas distribution from other activities in the vertically integrated company which are not related to gas distribution;

- (b) Maintaining a non-discriminatory approach to the provision of information meant for the gas market participants and in providing services of the distribution network operator;
 - (c) The internal procedures of the distribution network operator include measures implemented to ensure non-discriminatory behaviour in accordance with the compliance programme;
 - (d) Publication of the Compliance Programme, which is accessible to employees of the distribution network in the electronic database of regulations, and for other market participants on the website of the distribution network operator;
 - (e) Carrying out checks of maintenance of the compliance programme. In 2016, for example, the Compliance Programme manager verified the application of a non-discriminatory approach for conditions of gas supply from interconnected networks to the entry points of the distribution network and for determination of commercial deviation, for notifying data on measured consumption to distribution network users, for verification and evaluation of complaints delivered by the customers. Further checks concerned compliance with the provisions of the EU Regulation on integrity and transparency of the wholesale energy market (REMIT), including the respect of the prohibition of abuse of confidential information in own name by employees who have access to confidential commercial information.
4. On 14 May 2014, on the basis of the shareholder's decision, the company SPP Infrastructure, a. s. became the sole shareholder of SPP - distribúcia, a.s. Based on this change, the gas supplier Slovenský plynárenský priemysel, a.s., is no longer a part of the vertically integrated company that includes SPP - distribúcia, a.s. This has provided for full independence of the activities of the distribution network operator relating to gas distribution from activities relating to gas supply. In 2016, based on the contracts, SPP - distribúcia, a.s. took over only the property rental services and provisionally the IT services from Slovenský plynárenský priemysel, a.s. Takeover of the IT services was completed on 31 July 2016.
5. The manager of the Compliance Programme of the distribution network operator did not identify any breach of obligations set by the Compliance Programme during the period from 1 January 2016 to 31 December 2016.

In Bratislava, 31 January 2017



Ing. Milan Kachút
Compliance Programme manager
of the distribution network operator SPP - distribúcia, a. s.



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SPP - distribúcia, a.s.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders, Supervisory Board and Board of Directors of SPP – distribúcia, a.s. and the Audit Committee:

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of SPP – distribúcia, a.s. (the "Company"), which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements *present fairly, in all material respects* the financial position of the Company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union (EU).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the provisions of Act No. 423/2015 Coll. on Statutory Audit and on Amendment to and Supplementation of Act No. 431/2002 Coll. on Accounting, as amended (hereinafter the "Act on Statutory Audit") related to ethical requirements, including the Code of Ethics for Auditors that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment Assessment

The Company owns significant amounts of property, plant and equipment, i.e. the natural gas distribution network in Slovakia, in the amount of EUR 2.7 billion. At each reporting date, the Company makes an assessment as to whether the carrying amount of the distribution network is impaired by calculating the present value of future cash flows arising from the Company's operation. According to adopted accounting policies, such an impairment assessment is performed regardless of the outcome of an impairment indicator evaluation as required by IAS36. An impairment test requires an estimate of the following key calculation inputs:

- Future fees the Company can charge for its distribution services under the price regulation regime
- Future volume of gas distributed
- Discount rate specific to the assets owned
- Associated capital and operating costs.

The above assumptions require management to make highly subjective judgments related to long time periods into the future.

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Our audit procedures included, inter alia:

- Discussions of the evaluation process with top management to identify impairment indicators. The conclusion of such discussions was that there were no such indicators as at 31 December 2016
- Using a valuation expert to assist us in evaluating the assumptions and methodologies used by the Company, in particular those relating to the discount rate and forecast revenue growth
- Examining the model's mathematical basis
- Retrospective review of the assumptions used in the model
- Ensuring that all available information as regards the likely future regulatory regime is adequately reflected in the model.

The applicable accounting policies are described in Note 3 d).

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS as adopted in the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on Information Disclosed in the Annual Report

The statutory body is responsible for information disclosed in the annual report prepared under the requirements of the Act on Accounting No. 431/2002 Coll. as amended (the "Act on Accounting"). Our opinion on the financial statements stated above does not apply to other information in the annual report.

In connection with the audit of financial statements, our responsibility is to gain an understanding of the information disclosed in the annual report and consider whether such information is materially inconsistent with the financial statements or our knowledge obtained in the audit of the financial statements, or otherwise appears to be materially misstated.

As at the issuance date of the auditor's report on the audit of financial statements, the annual report was not available to us.

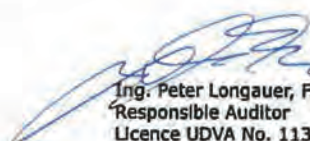
When we obtain the annual report, we will evaluate whether the Company's annual report includes information whose disclosure is required under the Act on Accounting, and based on procedures performed during the audit of the financial statements, we will express an opinion on whether:

- Information disclosed in the annual report prepared for 2016 is consistent with the financial statements for the relevant year; and
- The annual report includes information pursuant to the Act on Accounting.

Furthermore, we will disclose whether material misstatements were identified in the annual report based on our understanding of the Company and its position, obtained in the audit of the financial statements.

Bratislava, 10 March 2017


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Ing. Peter Longauer, FCCA
Responsible Auditor
Licence UDVA No. 1136



PROSPECTS OF THE COMPANY FOR 2017

Safety was, is, and will be our strategic priority; we continuously improve safety and invest funds with the aim to increase its level. However, the required level of safety can be achieved also under rational economic conditions; in this context we therefore develop risk models that allow us to define an adequate scope of maintenance according to the state of a particular asset and the level of risk that is linked to its operation. We have positive experience with maintenance of regulating stations, where risk modelling has proved well in the past; moreover, the correctness of this approach was confirmed by the relevant authorities.

In connection with our commercial activities we will continuously increase the effectiveness and search for synergies in the company. The deterioration of conditions of reconstruction work suppliers on the external market, as well as opportunities that arose from the increased competitiveness of our maintenance activities, led us to launch of a pilot project of implementation of local network reconstructions by our own means. Our ambition is to better use our bargaining position in view of higher purchased volumes of materials, as well as the use of a wide portfolio of implemented maintenance works and the know-how of our employees. In 2017, in connection with the successful pilot project, we plan to implement more than one third of reconstructions of gas pipelines of the local networks by our own means.

As for customer services, we will continuously work on increasing of the quality of provided services. Our applications enjoy great interest. More than 60 per cent of the applicants for connection to the distribution network communicate with our company by e-mail and for applications use the online forms published on our website, that are accessible 24 hours a day, 7 days in a week. Consequently, the number of electronic applications for installation of meters, applications for statement to the existence of gas facilities, as well as online payments of the fees increased significantly. Thanks to digitalization, the connection to the gas distribution network became much simpler, comfortable and accessible for our customers. We will continue this effort by extending electronic services and by improving those that proved well.

Our priorities will also include active promotion of natural gas as an economically and ecologically favourable energy medium. Renewable sources (hereinafter "RS") have become an important part of the EU energy policy, which is projected in their support in Slovakia. However, they should not be regarded as the aim of the energy policy, but as a means of improvement of the climate and environment. It is also important to ensure that evaluation of their contribution is not limited to CO₂ emission savings; it is necessary to take into account their impact on emissions of other substances, in particular solid pollutants, because their content in the air has direct negative impact on human health. Otherwise, investments in RS may not bring the desirable effect but, paradoxically, will lead to deterioration of the environment and human health in cases where natural gas sources have been replaced by biomass. It is due to the fact that the volume of emissions of solid pollutants from biomass combustion represents more than 8 times the volume of natural gas emissions, and 2 times the volume of CO₂ emissions.

Therefore, we will raise awareness with the aim of contributing to an energy mix in Slovakia that will improve the quality of environment in a rational manner and without significant negative financial impact on energy consumers. Last but not least, we will continue to increase the effectiveness of our operating activities, especially in the area of procurement, work productivity and also the optimization of costs of property and fleet administration. In the future we want to flexibly react to the identified and future needs of our customers and to developments on the energy market, with the aim to remain a stable, trustworthy and effective provider of services in the distribution of natural gas. We will achieve the aims set for 2017 through the high level of safety of our operating activities, continuous improvement of operating and investment effectiveness, improvement of the customer approach and increasing of the commitment of our employees, and thus create values for our business partners, shareholders and employees.

CONTACTS

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Customer line for connection to the distribution network:

Tel.: 0850 269 269 (charged at the price of local call)
Customer line is in operation on working days from 7.00 AM to 8.00 PM.
E-mail: pripajanie@distribuciaplynu.sk
On-line forms: www.spp-distribucia.sk/sk_online-aplikacie

Contract relations between SPP - distribúcia, a. s., and gas suppliers:

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E-mail: distribucia@aspp-distribucia.sk

Microsite on natural gas:

www.oplyne.info

Facebook:

www.facebook.com/SPPdistribucia/

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