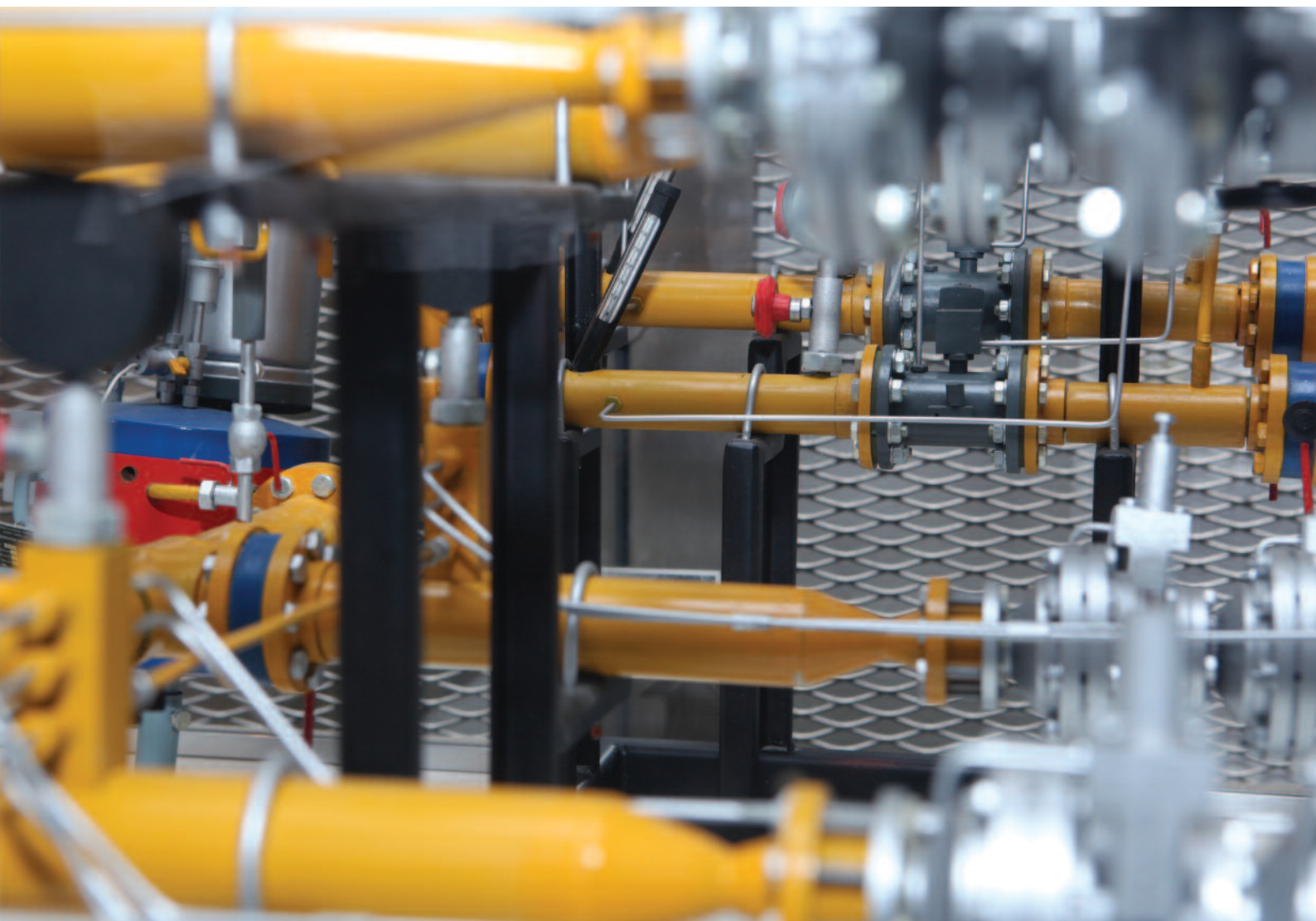


ANNUAL REPORT

2014





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FOREWORD FROM THE COMPANY MANAGEMENT

Dear shareholders,
Dear lady colleagues,
Dear gentleman colleagues,

The annual report we present contains the results of our efforts, activities and successful implementations of projects over the last twelve months, on the basis of which we can evaluate the year 2014 as successful in several areas. SPP - distribúcia, a.s., entered the year with new responsibilities after successfully taking over most of the support activities previously provided by the parent company, SPP. After the complete separation of the company, we are effectively using the space to set our own policies for tailored processes and tools in areas such as human resources, procurement, customer service and more. With this transfer of responsibilities we have achieved autonomy of SPP - distribúcia as an independent utility network operator and provider of distribution services, and have reached a state where our internal services in all respects are more flexible and targeted towards our real needs.

All the activities of the company have been performed with the proper and safe operation of the network, as evidenced by the fact that we have successfully avoided major incidents in the utility network. This is due to our pragmatic approach to investment planning and modernisation, but especially to the high quality of maintenance activities. The maintenance of the network is closely related to a new trend in the area of looking after the company's assets. As part of Risk-Based Maintenance we are gradually shifting from fixed intervals of preventive maintenance activities to intensification with risky assets. Conversely, we are reducing interventions in facilities that operate without problems or are risk-free. The models to evaluate technical condition assess the potential not only for technical failure, but also its possible

consequences for our company and especially the safety and reliability of the distribution system, which is directly linked to reducing the risk to health and property of residents in the vicinity of pipelines. In this way, we look after assets while increasing the efficiency of operational activities and, at the same time, the level of safety and reliability of gas facilities. The most important investments of the company in 2014 were directed to the renovation of gas facilities, especially local networks in order to increase their safety. In addition to these, investments included reconstruction of control stations, innovations in commercial measurement, purchase of gas meters and miscellaneous assets.

Before the winter period the attention of the company was directed particularly to processes connected with securing a sufficient quantity of natural gas for homes even in the event of a potential crisis situation, so that even in the event of insufficient gas from suppliers we could provide safe and reliable distribution of gas at the level of standard to which gas customers are normally accustomed. Our storage capacity for natural gas was full and thanks to the precise maintenance of the distribution network, which we undertook during the course of the year, we were 100 percent ready to provide reliable distribution of gas to all customers.

As in previous years, in 2014 we worked intensively on the problem of unauthorized use. Our main priority in this area is to persuade the professional and particularly general public that unauthorized use is theft like any other and it also risks the security of gas supplies and the lives, health and property of users. Therefore this year we have spent maximum effort so that when dealing with unauthorized use, to reinforce the position of our company as the operator of the distribution network.

As regards services, the company is continually concentrating on the constant increase of the level of customer services with the aim of providing the greatest convenience of operation for current and future customers. The customer can sort out matters relating to connection to the distribution network using one of the Customer Offices for connecting to the distribution network (Bratislava, Žilina, Košice and Zvolen). Apart from personal contact the customer can also use the Customer Line, post or email contact. As the requirements of customers are ever more demanding and there is nowadays more pressure for quality and speed, SPP - distribúcia in 2014 extended its existing offer of electronic services provided. The process of connecting to the distribution network has become significantly quicker and at the same time has improved the comfort of customers due to the comfortable method of communication with our company using internet pages.

Managing the environment aspects of the activities of our company is a constant priority for us, therefore we maintain the defined operational and control methods and indicators of performance in accordance with the requirements of the ISO 14 001 standard. In connection with environmental protection we further support gas as a traditional "green" fuel. As part of this support, during 2014 our company continued the project of supporting the use of gas as an efficient and ecological fuel. The project is primarily focused on the support of modern

technologies which use natural gas as a fuel. These are primarily technologies of co-generation units, gas boilers for homes and small users and CNG.

The firm's performance in the past year has been significantly influenced by the deviation of temperatures from their long-term average. The above average temperatures seen in the winter months were significantly reflected in the volume of natural gas distributed. We partially compensated for the unfavourable factors by adopting optimization measures particularly in the area of consumption of material and energy and services purchased. As a result of the above-mentioned factors, in 2014 revenues were 343.6 million EUR and profit after tax was 97.5 million EUR.

Behind every result of the company we see a person, which is why we thank our employees for the quality of work done in the past year.

The further development of SPP - distribúcia as a modern, efficient and competitive company stands on the pillars of quality created in the challenging past period. We believe that in the coming years we will be a stable, trustworthy and effective service provider in the field of distribution of natural gas, predict the future needs of our customers, flexibly react to identified need, as well as to developments in the energy industry and create value for our customers, shareholders and employees.

Ing. František Čupr, MBA
chairman of the board

Ing. Štefan Šebesta
vice-chairman of the board

Ing. Martin Hollý
CEO

PROFILE OF THE COMPANY

SPP distribúcia owns and operates a gas distribution network in the Slovak Republic with an impressive length of more than 33 000 km. Through the network it provides natural gas distribution amounting to about 98% of the total distributed volume of natural gas in the Slovak Republic to more than 1.5 million points of delivery, representing more than 94% of the population with access to natural gas. A network of such dimensions requires continuous care, so we thoroughly devote attention to the condition of our pipelines and gas facilities. Enhancing professionalism and continuous development is a prerequisite for consistently providing technically safe, reliable and at the same time economically efficient distribution of natural gas.

SPP - distribúcia as one of the main guarantors of continuity of supply of natural gas plays a significant role in maintaining the energy security of the Slovak Republic. Its focus is on the consistent implementation of quality standards and a number of other legislative requirements. The company is responsible for the strategic security of supply for household customers, for logistical control and monitoring of the system, including its physical balancing, therefore SPP - distribution is one of the key players in the Slovak gas industry.

SPP - distribúcia in its activities actively participates in the development of an open market environment. It places emphasis on providing professional services for the 24 users of the distribution network as well as all categories of end users, and not least, transparent and non-discriminatory activity in business. We consider continually improving services as really important and we are increasingly providing them to our customers electronically.

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

The primary prerequisite for network safety is the safety of our workplaces, so we thoroughly focus on the prevention of workplace injuries. We also place importance on the continuing challenge of optimizing new process solutions, streamlining operations and increasing operational efficiency.

BOARD AS OF 31.12.2014



Ing. František Čupr, MBA
chairman of the board



Ing. Štefan Šebesta
vice-chairman of the board



Mgr. Petr Hájek
member of the board



Ing. Miroslav Haško
member of the board



Ing. Gustáv Laca
member of the board

Ing. Miroslav Haško became a member of the board on 14.5.2014.
Ing. Gustáv Laca became a member of the board on 22.8.2014.

UPPER MANAGEMENT AS OF 31.12.2014



Ing. Martin Holly
CEO



Ing. Roman Filipoiu, MBA
head of the economy
and regulation section



Ing. Rastislav Prelec
head of the network operation
and asset management section



Ing. Miroslav Horváth
head of the maintenance
and metering section



Ing. Marek Paál
head of the distribution services
section



Ing. Irenej Denkocy, ACCA
head of the investment section



Mgr. Ing. František Kajánek
head of human resources
and QHSE section

Ing. Irenej Denkocy, ACCA
was entrusted with leading
the investment section on
1.7.2014. Until 30.6.2014
the head of the investment
section was Ing. Dušan
Dobiaš.

SUPERVISORY BOARD



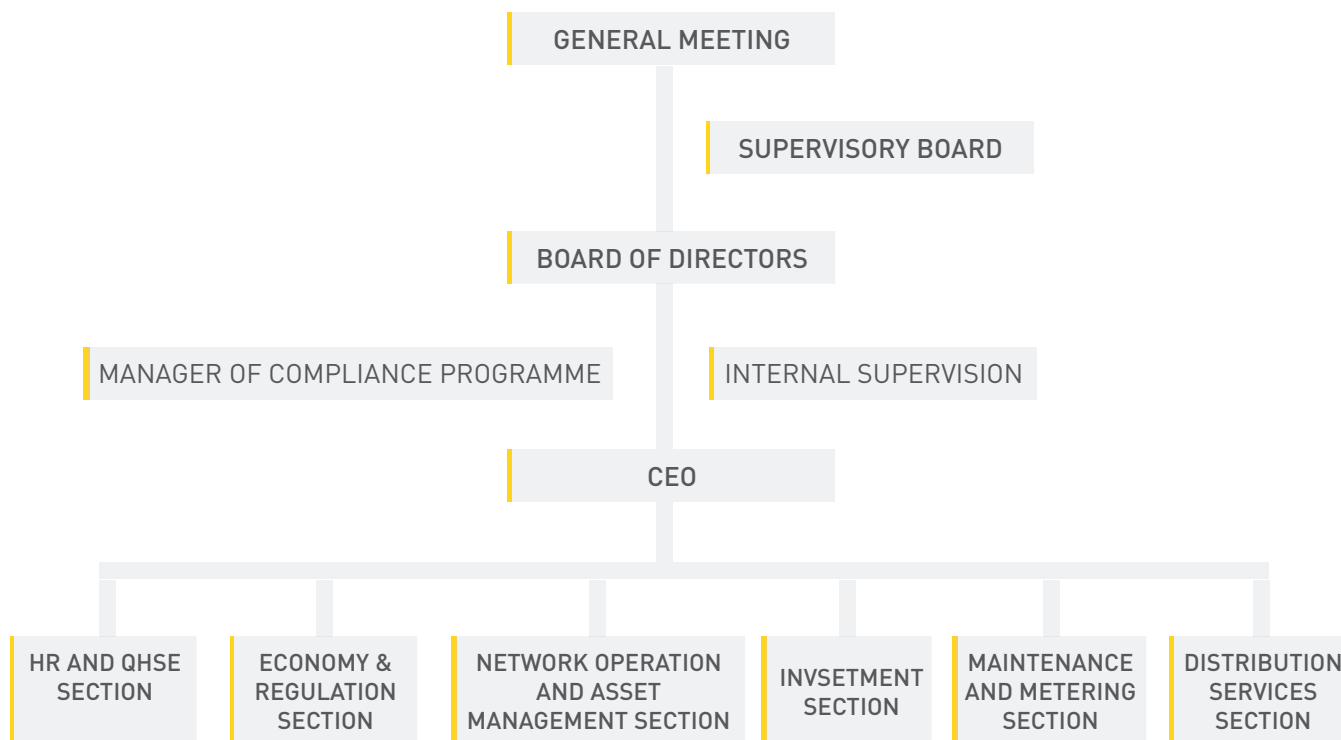
Ing. Rastislav Chovanec, PhD.
chairman of the supervisory board

Mgr. Pavel Horský
vice-chairman of the supervisory board

Members:
Pavol Korienek
Ing. Richard Vadkerty
Ing. Robert Procházka
Ing. Miroslav Recký

Mgr. Pavel Horský became a member of the supervisory board on 30.9.2014. On 13.11.2014 he was elected to the position of vice chairman of the supervisory board. Up to 29.9.2014 the function of vice-chairman of the supervisory board was held by Ing. Robert Ševela, Ph.D.

ORGANIZATIONAL STRUCTURE



SAFE AND RELIABLE DISTRIBUTION

OPERATION AND SAFETY OF THE NETWORK

The year 2014, in terms of the operation of the gas distribution network, was a challenge which our company passed, confirming our professional maturity in solving operational problems and credibility to ensure the distribution of natural gas to its customers. Pipes washed away by torrential rains in the spring and summer months, the transition to the new odorant and the growth in the amount of damage to gas facilities by third parties in the last months of the year perfectly tested the readiness of our company to secure the safe and reliable operation of the network.

Internal models for evaluating the technical state of the gas facilities have been enhanced by the evaluation of the consequences of their possible failure. We laid the foundations for the implementation of a more efficient approach to planning preventive maintenance of pipes and regulation stations – Risk-Based Maintenance.

DAMAGE TO GAS FACILITIES CAUSED BY THIRD PARTIES

In the past year, in comparison with 2013 we recorded a trend of increased damage to gas facilities by third parties with a 50% increase in such cases. We mainly recorded damage in the implementation of earth works, which were the most frequent course and carry a real safety risk. We therefore propose effective measures in the form of a widespread information campaign, which we will implement during the course of 2015.

PROVIDING A STANDARD FOR SECURITY OF SUPPLY

SPP – distribúcia, as the operator of distribution network, continued in 2014 to secure for the purpose of a potential state of emergency and its prevention a standard of security of gas supply for household customers in accordance with applicable legislation. We provide security of supply primarily through the use of natural gas in underground storage meant also for balancing the system and further through contracted supplies of gas.

Reliable implementation of these measures over the past year suggests 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 in natural gas supply during the period defined by legislation.

DISCOVERING UNAUTHORIZED USAGE OF NATURAL GAS

Again in 2014 we actively worked on discovering unauthorized usage of natural gas with the aim of avoiding safety risks and achieve a reduction of gas losses from the process of operating the gas network. The worrying upward trend from previous years continued and the number of identified and documented incidents of illegal use rose to 2,545 cases in 2014, which is an increase of 4.5% compared to 2013.



In order to maintain the safety of persons, to prevent damage to property and threat to gas supply and to increase the operating safety of devices, the team for searching and documenting unauthorized usage performed dozens of wide-area controls in 2014 aimed at detecting these cases. For this purpose, during the past year they audited a total of 25,543 points of delivery, and detected 829 cases of proven interventions in meters or even directly into the pipe. On the basis of facts that indicated that the crime of theft of gas had been committed, they filed 433 crime reports information, which were subsequently investigated by law enforcement agencies.

GASIFICATION OF SLOVAKIA

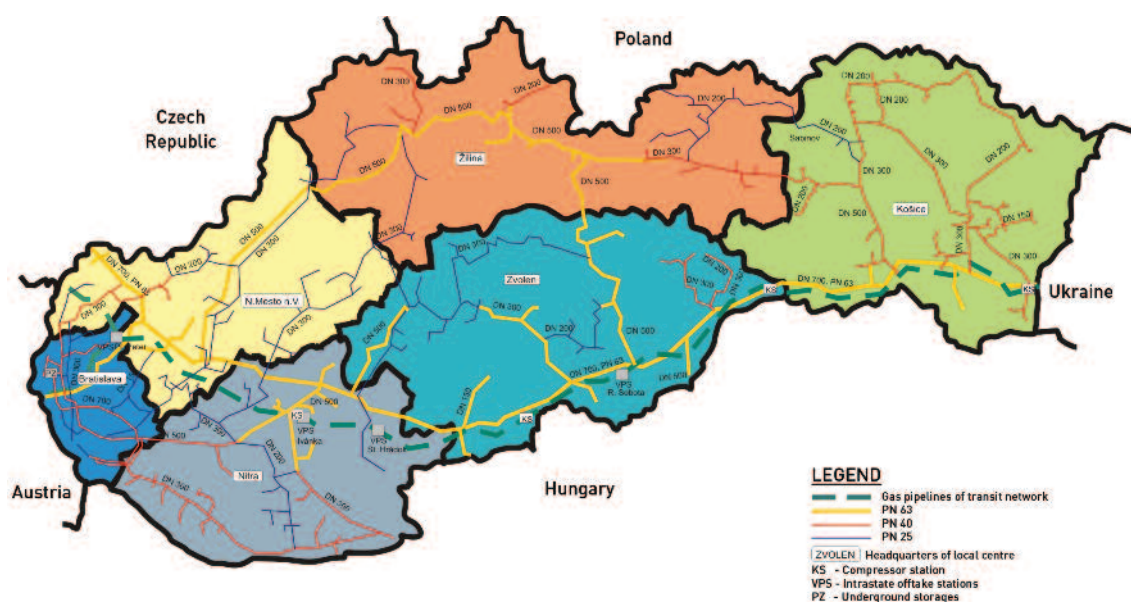
Gasification of new locations in Slovakia continues, however in comparison with the past it is much more moderate. In particular, it consists of the connection of new residential sites in already gasified municipalities. The reason for this is that 77% of municipalities in Slovakia are gasified, which are home for up to 94% of the country's population.

Distribution of natural gas in the SPP - distribúcia network in the years 2010 – 2014 (in billion m³ / 15°C)

	2010	2011	2012	2013	2014
Distributed volumes	5,32	5,33	5,03	5,03	4,24*

* The significant decline in distributed volume of natural gas in 2014 compared to previous periods is particularly due to the increased average temperature during the winter season.

Map of SPP – distribúcia distribution network



Length of the distribution network in the years 2010 – 2014 (in km)

	2010	2011	2012	2013	2014
High pressure gas pipelines	6 302	6 307	6 294	6 291	6 291
Medium pressure and low pressure pipes	26 446	26 653	26 785	26 891	26 966
Total	32 748	32 960	33 079	33 182	33 263

Classification of gas pipes in local networks in the years 2010 – 2014 (in km)

	2010	2011	2012	2013	2014
Steel	12 819	12 822	12 733	12 623	12 559
Polyethylene	13 627	13 831	14 052	14 268	14 407

Investment into renewal/reconstruction of the network in the years 2010 – 2014 (in million EUR)

	2010	2011	2012	2013	2014
Investment in renewal	47	45	42	28	14
Number of km of reconstructed gas pipes in local networks (low pressure and medium pressure pipes)	57	110	134	136	90

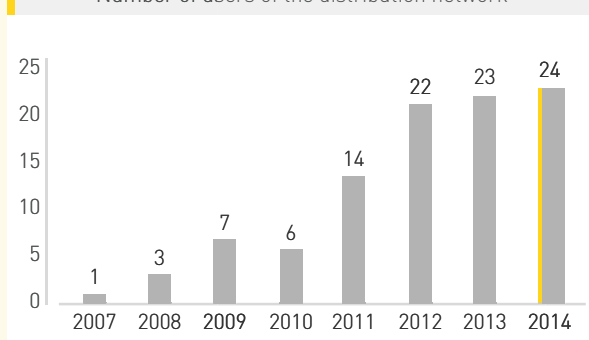
CUSTOMER ORIENTATION

OPENNESS OF THE GAS MARKET

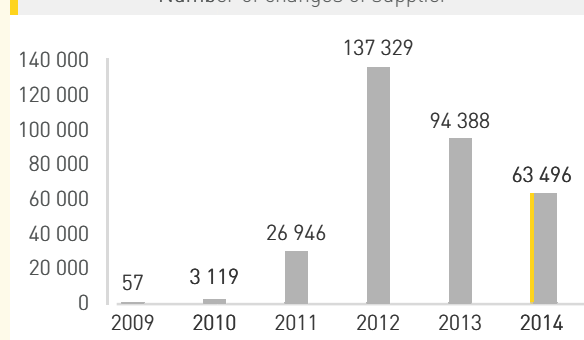
On 31.12.2014 we were providing access to the distribution network and distribution of gas for 24 users of the distribution network. The development of the number of customers confirms that in terms of business and technical conditions of our company, since the beginning of the liberalization of the gas market in Slovakia there have been no barriers to entry for new suppliers of gas to the market.

For 2014 we have recorded more than 63 000 changes of gas supplier. Although the process of switching supplier has been standardized and automated for several years, compared to 2013 we recorded a decline in the number changes of gas supplier of almost 33%, particularly in the category of households. The number of changes of gas supplier in other categories (small usage, medium usage, large usage) was stable over the past year. Since the beginning of the liberalization of the gas market in Slovakia we have created the conditions for a simple and transparent process of changing gas supplier and currently we are technically prepared to handle monthly a virtually unlimited number of applications for changes of gas supplier.

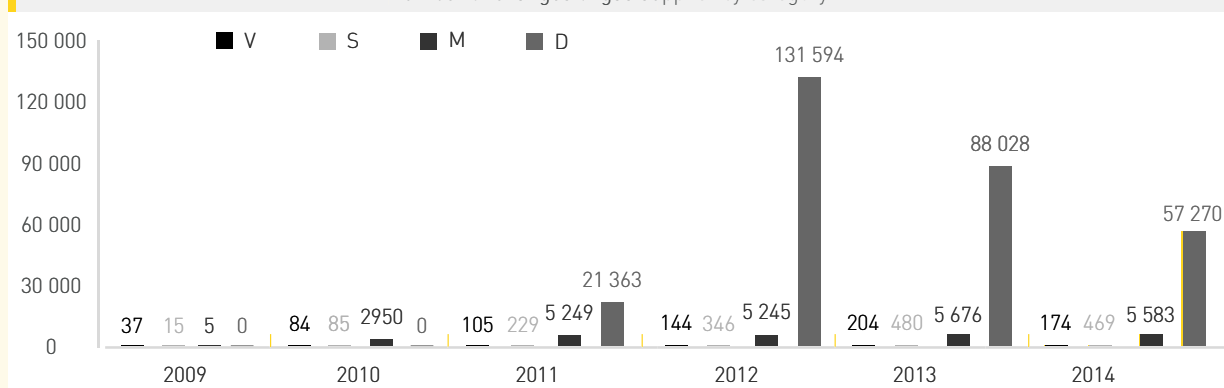
Number of users of the distribution network



Number of changes of supplier



Number of changes of gas supplier by category



NEW LEGISLATION IN THE ENERGY SECTOR

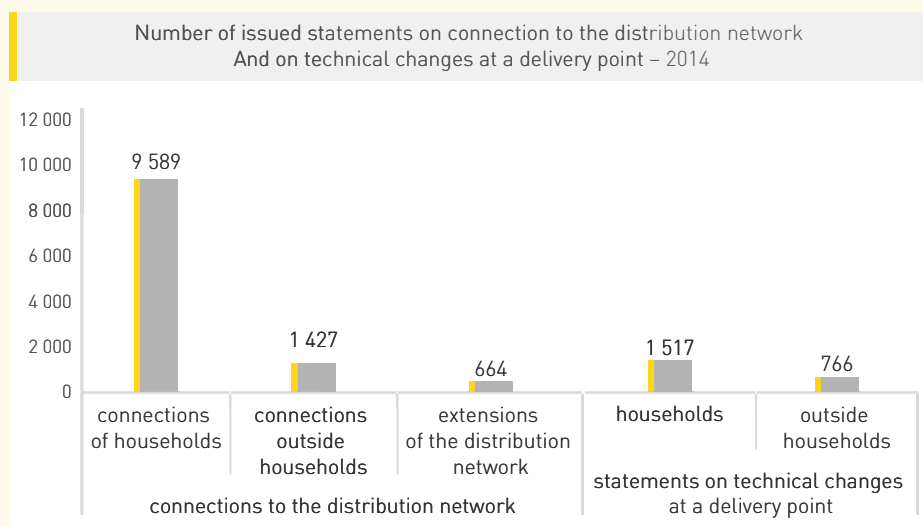
As part of the implementation of the 3rd energy liberalization package, in 2014 our company continued to apply selected provisions of the Gas Market Rules (Utility Regulator Decree no. 24/2013 Coll.). As part of the unification of the gas market in our region, from 01.01.2014 our company introduced the use of a gas day from 6:00 to 06:00 and from 05.01.2014 it changed the business unit for the distributed quantity of gas from volume units (m³) to energy units (kWh).

CONNECTING TO THE DISTRIBUTION NETWORK

During 2014 our company provided applicants for connection with the possibility of personal contact in three customer offices in Bratislava, Žilina and Košice. Applicants for connection could also use postal and e-mail contact.

In 2014 our company joined 9432 new points of delivery to the distribution network. We have successfully continued to improve the connection process and we are taking steps to shorten the process of connecting to households to less than 75 days.

SPP - distribúcia fulfils the quality standards for determining the business and technical conditions for connection at a 100% level (Utility Regulator Decree no. 278/2012 Coll.)



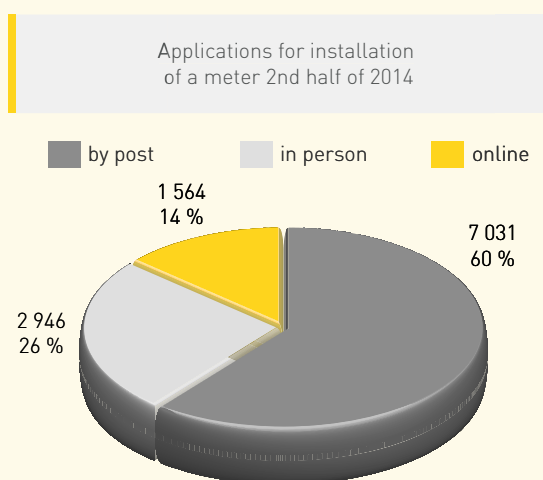
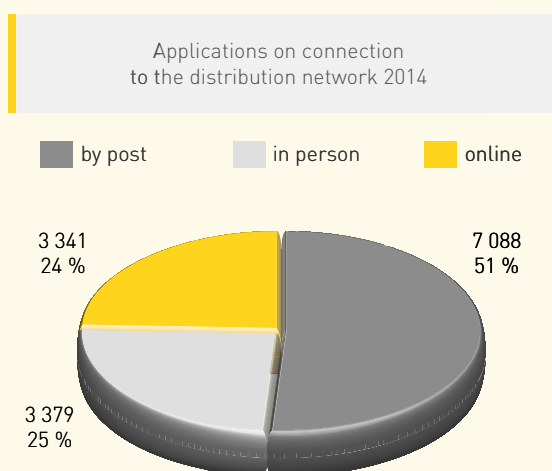
SERVICES FOR MEDIUM AND LARGE CUSTOMERS

SPP - distribúcia uses its key account managers to strive constantly to improve its individual approach to customers with annual consumption of natural gas over 60 000 m³. Managers provide customers with advice and propose appropriate technical and business solutions before making a connection or before implementing technical changes to an existing sampling point, so that the gasification project runs as smoothly as possible.

DIGITIZATION OF SERVICES

During 2014 we place and electronic forms on spp-distribucia.sk with which our customers can make applications for connection, applications for technical change at an existing delivery point or request the installation of a meter from the comfort of home. The electronic form, due to its transparency, rapid completion and availability 24 hours a day was used in 2014 by 24% of applicants for connection.

Submitting an online form will save the customer from 3 to 10 calendar days in comparison with submitting an application by mail or personal submission with a gas supplier. The implementation of electronic forms was the next natural step to ensure the maximum convenience of service for current and future customers



CORPORATE CULTURE AND DEVELOPMENT OF HUMAN RESOURCES

Our company highly values the expertise and loyalty of its employees. In the gas sector, in which operate, a responsible attitude, reliability and interest in the activities performed are of crucial importance for safe and reliable operation. In 2014, we continued to focus on the development of skills and motivation to support our employees in order to fulfil the company's vision and our common goals. We have actively promoted personal initiative and commitment, good ideas and effective solutions.

As part of the activities for the development and strengthening of corporate culture, last year we implemented an employee satisfaction survey to gather information about the current level of engagement, satisfaction and employee loyalty. We focused on the identification of space and obtained suggestions for the future development of the company as well as to monitor trends in the perception of employees. As of 31.12.2014, SPP - distribution employed 1,444 employees.

SUPPORT FOR INDIVIDUAL PERFORMANCE AND INITIATIVE

The year 2014 was the first year of independent management and development of human resources after the end of the contractual provision of services by SPP. With a high level of process quality and the most efficient management of human capital, we focused on continually increasing the efficiency of our operations in order to improve the awareness and personal interest of employees in fulfilling the strategy and development of the company.

The system of evaluating performance introduced from 1.1.2014, founded on the effective linking of pay to individual performance was supported by a number of provisions of the Collective Labour Agreement of SPP - Distribution, as amended by Amendment No. 1 for the years 2015 - 2018.

The provisions were adopted with effect from 1.1.2015 in order to enhance individual performance, initiative and motivation to participate in the best financial performance of the Company. In this area, as part of the development program we focused on intensive enhancement of the skills of middle and lower management especially in filling managerial roles and performance management.

At the end of the year, we implemented project preparation for the introduction of feedback in the form of development interviews, which will be implemented in the new standardized form for the first time in March 2015. We believe that development interviews are an opportunity for open communication aimed primarily at strengthening mutual cooperation and personal-working development of our employees.

SAFETY IS OUR PRIORITY

Occupational safety and health in our company is focused on everyday work safety, safety of technical equipment, safe working conditions and occupational health. We attach significant importance to safety at work in creating good working conditions and labour relations. In the management system we put particular emphasis on prevention and anticipation of potential risk situations.

In 2014 we secured safety and health at work through the full compliance with legislative requirements and precise sets of rules for controls. Attention was also paid to the workplaces that external contractors prepared for our employees. Other activities focused on analysis of risks, dangers, hazards at work and taking measures to eliminate them. We also continued activities for the identification and assessment of health factors in the working environment.



With the aim of reducing the number of missed work days for accidents and increasing awareness of safety and health at work, we constantly educate our own staff as well as service providers.

In the field of fire protection in 2014 a substantial part of our activities have been focused on prevention activity and ensuring the functionality of fire-fighting equipment, fire safety of buildings and technical facilities.

At SPP - distribúcia we consider care for the environment to be an important pillar of our long-term operation. In order to contribute to the improvement of the environment, our company before destroying waste produced favours recycling it. We are continuously reducing emissions. In order to protect groundwater we regularly perform emergency drills. Great attention is paid to the overall protection of the landscape and nature.

SOCIAL RESPONSIBILITY

SPP - distribúcia is aware of the needs and values of responsible behaviour towards society. In conjunction with the SPP Foundation, we implement a grant program, Cooperation with municipalities, which is designed to support community projects aimed at supporting and enhancing villages, cities and regions of Slovakia. We appreciate the proactive attitude of our employees in the organization of charitable collections and donations of blood, which was manifested in collections for children's homes and the Union of Blind and Partially Sighted of Slovakia – "the white crayon" as well as multiple voluntary blood donations. They also confirmed the same approach with their participation in the events of Day of Family and Friends as well as Angelic Christmas.

On the basis of partnership with sheltered workshops SPP - distribúcia won the award Očko do siete – for a company friendly to people with disabilities in 2014 on the basis of criteria which were volunteering a share of tax paid, giving business to sheltered workshops, replacement fulfilment. The award was given to our company awarded by the association to help people with intellectual disabilities - PSČ Impulz and the civic association WellGiving as part of the campaign Together for Acceptance - For a life without disadvantage.

NATURAL GAS – A CONVENIENT AND ECOLOGICAL SOLUTION FOR EVERYONE

In Slovakia, 94% of households and firms have access to natural gas. Easy availability, reliability of use, easy control of gas appliances and environmental friendliness are key reasons for long-term use of natural gas for Slovak customers.

NATURAL GAS PROTECTS THE ENVIRONMENT

Natural gas, compared with other fossil fuels and firewood, is a significantly more environmentally friendly energy source. Compared to other, solid, substances, during combustion of natural gas there are formed significantly less pollutants and a negligible amount of the dust particles which in higher concentrations can endanger the health of the population. When using natural gas for heating once can save up to 50% of CO₂ emissions compared with coal.

In burning natural gas, there are no oxides of sulphur and equally negligible are the emissions of carbon monoxide and hydrocarbons in the flue gases. By modifying the design of burners and combustion chambers manufacturers of gas appliances have managed to reduce emissions of nitrogen oxides (NO_x) to as little as 10% of initial values.

ECONOMIC ADVANTAGES OF NATURAL GAS TECHNOLOGY

Natural gas offers a wide range of uses both at home and in business and industry. Modern gas appliances are intelligent, fully automated and easily adjustable to the specific needs of the user. They provide responsive performance and require minimal warm-up time. The supply of natural gas is stable in Slovakia due to differentiation of transport routes and sufficient inventory in underground storage, which guarantees permanent and stable performance of gas equipment, without the need to install backup power.



MODERNIZATION – COMBINED PRODUCTION OF HEAT AND ELECTRICAL ENERGY

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 and reducing emissions of pollutants. With availability of cogeneration in many power classes, it has a wide range of uses in industry, in the municipal sector, in health or social care services.

To those interested in cogeneration we offer a free analysis of the use of cogeneration in their facility. In addition, we work with selected companies that offer customers a wide range of services for the design, installation and financing of technology for natural gas, including their operation. The customer can implement their project literally on a "turn-key" basis.

CONDENSING BOILERS FOR HOUSES

Warm comfort, safety, user convenience and energy efficiency with gas - all this is provided by the progressive technology of condensing boilers. Compared with conventional, classic or low-temperature boilers, condensing boilers use more of the energy contained in the gas, thereby reducing the energy cost.



COMPRESSED NATURAL GAS – ECOLOGICAL FUEL FOR AUTOMOBILES

Natural gas is finding an increasingly important application as an organic fuel to propel motor vehicles. With almost zero particulate emissions, significantly lower levels of CO₂ (a greenhouse gas), lower engine noise and lower fuel costs make it ideal

as a replacement for vehicles using conventional fuels. It is most suitable for companies operating larger fleets of cars, vans and trucks, but also in the segment of buses, vehicles carrying waste removal and vehicles for storage and handling. The key to growth in the use of CNG in transport is expanding the network of CNG filling stations in Slovakia.



REPORT ON THE BUSINESS ACTIVITIES OF THE COMPANY

ECONOMIC AND FINANCIAL PERFORMANCE

DEVELOPMENT OF THE BUSINESS ENVIRONMENT

The year 2014 was the hottest ever measured from 1880, which resulted in reduced consumption of natural gas. Despite this impact, the company managed to maintain financial stability through the established trend of optimization measures, which in 2014 were fulfilled in full.

At the beginning of 2014 there was a removal of support activities provided by SPP, a.s.. Bringing these activities into the internal environment had no negative effect on the operation of the company, on the other hand it allowed for further optimization of internal processes.

In June 2014 the company successfully issued bonds totalling 500 million EUR. The issue was listed on the exchange in Ireland. The purpose of this transaction was to optimize the capital structure of the company and to meet regulatory requirements to increase the use of outside capital in the energy sector.

The Utility Regulator adopted an amendment to Regulation no. 24/2013 Coll., Laying down the rules for the functioning of the internal market in electricity and rules for the functioning of the internal gas market. It introduced the need for a number of

changes in the processes of SPP - distribúcia, such as the change of the gas day or shift to energy-based units. At the same time the regulator adopted Decree no. 193/2013 Coll., Establishing price regulation in the gas industry. In 2014 there was a minor amendment to this decree and the regulator adopted Decree no. 187/2014 Coll.

ECONOMIC RESULTS OF SPP - DISTRIBÚCIA, A.S.

In 2014 SPP - distribúcia achieved proceeds from the sales of services totalling 343.60 million EUR. The main source of these proceeds was revenue from providing distribution capacity, which represented 99 % of proceeds.

Operating costs were 211.74 million EUR. The main components of operating expenses were depreciation and amortization and personnel costs.

For the financial year 2014 the company recorded profits before tax of 130.09 million EUR. Corporate income tax was 32.58 million EUR creating payable tax of 33.82 million EUR, special contribution from business in utilities of 5.09 million EUR and a deferred tax liability of 6.33 million EUR. Profits after tax were 97.51 million EUR.

Comparison of profit structure after tax (in million EUR):

	2014	2013
Proceeds from sale of services	343,60	372,44
Operational expenses	-211,74	-240,21
Profit/lost from financial activity	-1,76	-0,03
Profit before tax	130,09	132,20
Income tax	-32,58	-19,05
Profit after tax	97,51	113,15

ASSET AND CAPITAL STRUCTURE

ASSETS

Total assets of the company on the balance sheet date amounted to 3657.47 million EUR and compared to the previous period had increased by 564.43 million EUR.

Fixed assets were 2 489.57 million EUR, representing 68.07 % of total assets. The decisive items were particularly the distribution network, buildings, structures, machines and facilities of the distribution network.

Capital expenditures for the acquisition of fixed assets amounted to 17.29 million EUR and were directed mainly to renewal of the network. Current assets at the balance sheet date amounted to 1 167.90 million EUR and their significant inter-year growth determined the development of the total assets figure. Their structure was dominated by accounts receivable and prepayments as well as cash and cash equivalents.

EQUITY AND LIABILITIES

The year 2014 brought significant changes in the capital structure of the company. While in 2013 the company was primarily funded by its own resources, in 2014 the share of outside funds in financing increased.

Equity reached 1 681.72 million EUR, representing 45.98 % of the value of the sources of coverage of the assets of the company. Apart from the share capital there is particularly the statutory reserve fund created and the financial performance of the current period.

The share capital of SPP – distribúcia during 2014 was reduced by 757.42 million EUR to its current level of 1 200 million EUR recorded in the commercial registry. It consists of one share with the nominal value of 1 200 million EUR.

The level of statutory reserve fund of the company is created from capital deposit; on the balance sheet day it was 391.48 million EUR.

Total liabilities accounted for 54.02 % of the coverage of assets; on the balance sheet day they had reached 1 975.74 million EUR. The decisive liabilities were bonds with a nominal value of 500 million EUR issued in June 2014 a deferred tax liability of 378.59 million EUR, loans of 135 million EUR and short term liabilities of 953.79 million EUR. Compared to the beginning of the period liabilities had grown by 1 344.75 million EUR, which was caused particularly by a reduction of the share capital and optimization of the capital structure.

Comparison of asset structure (in million EUR):

	2014	2013	2014	2013
Fixed assets	2 489,57	2 799,45	68,07 %	90,51 %
Liquid assets	1 167,90	293,59	31,93 %	9,49 %

Comparison of equity and liability structure (in million EUR):

	2014	2013	2014	2013
Equity	1 681,72	2 462,05	45,98 %	79,60 %
Liabilities	1 975,74	630,99	54,02 %	20,40 %

The shareholder structure as of 31.12.2014 was as follows:

SPP Infrastructure, a.s.	1 share	100 %
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SUMMARY RESULTS

Progress of the assets and results of SPP - distribúcia, a.s., for the years ended 31 December 2014 and 2013, according to the individual financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU.

Balance sheet (selected data in thousands of EUR)

	Year ending 31 December 2014	Year ending 31 December 2013
ASSETS:		
LONG-TERM ASSETS		
Buildings, structures, machines and facilities	2 480 711	2 565 508
Investments in subsidiaries	1 005	1 005
Intangible long-term assets and other assets	7 850	7 911
Other long-term assets	-	225 026
Long-term assets total	2 489 566	2 799 450
CURRENT ASSETS		
Stock	153 032	156 769
Receivables and prepayments made	650 980	119 937
Tax receivables and income tax	3 785	3 474
Cash and cash equivalents	323 046	13 408
Loans provided	37 058	13 408
Current assets total	1 167 901	293 588
ASSETS TOTAL	3 657 467	3 093 038
EQUITY AND LIABILITIES:		
CAPITAL AND RESERVES		
Share capital	1 200 000	1 957 418
Statutory reserve fund and other funds	384 212	391 484
Undistributed profit	97 512	113 150
Equity total	1 681 724	2 462 052
LONG-TERM LIABILITIES	1 021 950	504 389
SHORT-TERM LIABILITIES	953 793	126 597
Liabilities total	1 975 743	630 986
EQUITY AND LIABILITIES TOTAL	3 657 467	3 093 038



Statement of profit and loss (selected data in thousands of EUR)
For the year ending on 31 December 2014 and 31 December 2013

	Year ending 31 December 2014	Year ending 31 December 2013
Proceeds from sale of services	343 597	372 441
Operational expenses	-211 743	-240 209
Operating profit	131 854	132 232
Proceeds from finance	6 955	936
Financing costs	-8 719	-970
PROFIT BEFORE TAX	130 090	132 198
Corporate income tax	-32 578	-19 048
PROFIT FOR PERIOD	97 512	113 150

Cash flow statement (selected data in thousands of EUR)

	Year ending 31 December 2014	Year ending 31 December 2013
OPERATING ACTIVITIES		
Cash flows from operating activities	234 135	225 069
Interest paid	-1 014	-724
Interest received	5 538	784
Corporate income tax paid	-39 222	-50 522
Cash flows from operating activities, net	199 437	174 607
INVESTMENT ACTIVITIES		
Costs for acquiring shares in other accounting entities	0	-5
Costs for long-term loans	0	-225 000
Acquiring long-term assets	-15 779	-35 397
Income/payments of loans taken from companies in the group	-527 541	0
Long-term loans provided	75 622	0
Income from sales of buildings, machines and facilities and intangible assets	5 093	51
Cash flows received/(used) from investment activity, net	-462 605	-260 351
FINANCIAL ACTIVITIES		
Dividends paid	-38 069	-38 069
Receipts and costs connected with loans taken	74 992	74 992
Costs for payment of loans	0	-30 008
Receipts connected with issued bonds	495 320	0
Ending of derivative operations	-2 514	0
Other receipts and costs from financial activities, net	0	-8
Cash flows from financial activities, net	572 806	36 915
Net increase in cash on hand	309 638	-48 829
Effects of exchange rate changes	0	0
State of cash on hand at beginning of period	13 408	62 237
State of cash on hand at end of period	323 046	13 408

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:

The General Assembly

The General Assembly 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 share in the management of the company, of the profit and liquidation balance of the company if it is wound up and liquidated. A shareholder exercises the right to participate in the management of the company by voting at the general meeting. A shareholder must respect organizational measures valid for the course of the general meeting. At the general meeting a shareholder is entitled to request information, explanations concerning the company issues or issues concerning controlled entities; submit proposals with respect to the negotiated program, and be elected to the company bodies,
- b. A shareholder is entitled to a share of the profits of the company (a dividend) that the General Assembly has designated for distribution. A shareholder is not obliged to return a dividend to the company received in good faith,
- c. To the extent permitted by applicable legislation (including the Energy Act no. 251/2012 Coll.) a shareholder is entitled to inspect the minutes of meetings of the Supervisory Board, being obliged to maintain confidentiality of information thus obtained,
- d. The right to vote at general meetings – 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 Assembly. The General Assembly may refuse the transfer of shares, if it is in conflict with the company's statutes or the shareholders agreement.

The scope of the General Assembly includes:

- a. election and dismissal of members of the Supervisory Board,

- b. election and dismissal of members of the Board of Directors,
- c. amendments of the statutes, status of the Supervisory Board or the status of the Board of Directors,
- d. change in share capital,
- e. merger, consolidation, division, change of legal form, winding-up proceedings or other significant change in the corporate structure of the company,
- f. decision on the appointment of a liquidator of the company and on the determination of the liquidator's remuneration,
- g. decision on the distribution of any dividends by the company or distribution of other payments arising from shares,
- h. decisions on the increase or reduction of the company share capital,
- i. approval of the individual, extraordinary individual, ordinary consolidated or extraordinary consolidated financial statements of the company,
- j. decisions on the allocation of the company profit, including the determination of the amount of dividends and any royalties and on the manner of payment of any company loss,
- k. decisions on changes to the rights associated with shares of any kind,
- l. decisions on conversion of registered shares into bearer shares and vice versa,
- m. decisions on restriction or exclusion of the preferential right of a shareholder to subscribe for newly issued shares of the company in accordance with and subject to the conditions laid down by law,
- n. approval of the agreement on the transfer of the company's business and the agreement on the 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 performs its core business,
- p. approval of the commencement of any court or arbitration proceedings against persons who were direct or indirect shareholders of SPP before January 23, 2013 and ceased to be shareholders no later than on January 23, 2013,
- q. appointment of an auditor.

The Board of Directors

The Board is a statutory body of the company, acting on behalf of the company. The Board 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 Assembly for the period of four years. When electing or dismissing a member of the Board, the General Assembly may determine that his/her election to or dismissal from office is effective at a later date than a date when the decision of the General Assembly was taken.

The scope of the Board includes:

- a. manages the business of the company and ensures all of its operational and organizational issues,
- b. convenes the General Assembly,
- c. exercises employer rights,
- d. implements resolutions of the General Assembly, 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 Assembly,
- g. submits materials to the Supervisory Board for consideration,
- h. prepares an annual budget and business plan of the company.

The Supervisory Board

The Supervisory Board is the supreme audit body of the company. The Supervisory Board supervises the activities of the Board and 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 Assembly. One-third (1/3) of the members of the Supervisory Board are elected by the employees of the company for the period of five years, if so required within that scope by mandatory provisions of Slovak law at the time of the election of members of the Supervisory Board. A meeting of the Supervisory Board shall be convened by its chairman at least once 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 establish the state of the company. The Supervisory Board also

checks and – to the extent permitted by law (in particular, the Energy Act) – submits to the General Assembly the conclusions and recommendations resulting from its monitoring activities related to:

- a. fulfilment of tasks assigned by the General Assembly to the Board of Directors,
- b. compliance with the statutes of the company and the 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 Assembly the 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.

The Committees

The company has an established Audit Committee, whose activities are in accordance with the approved statutes. The Audit Committee performs inspections within the external and internal audit of the company. The Audit Committee has two members: a member of the Supervisory Board and an independent auditor. At least one member of the Audit Committee must have five years of professional experience in accounting or auditing, and must be independent.

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 to achieve the objectives of the project.

System of internal controls and risk management

The internal control system of the SPP - distribúcia was implemented through the adoption of internal management acts governing the exercise of internal control and internal audits by the company's own employees.

The internal control system is a system of controls covering all levels of the organizational structure. It includes all forms of continuous control measures, procedures and mechanisms in individual units. Inspections are conducted by employees who are directly involved in the specific processes, managers of individual departments responsible for controls of the processes and the results of the inspection, their authorized employees or internal auditors. The results of the inspections are presented on a regular basis to the competent bodies.

Within its risk management framework, SPP - distribúcia monitors, evaluates and manages primarily the following types of risk: regulatory, market, financial, operational, environmental, personal, media. To reduce the impact of risks, action plans are evaluated and presented to the company management on a regular basis .

Share capital

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

Issue number (ČEM): LP0001508566

Nominal value: EUR 1,200,000,000

Number: 1 pc

Type: ordinary share

Version: certified

Form: registered share

Percentage share in share capital: 100%

Accepted for trading: 0 pc

The structure of the share capital does not include shares whose owners would have special rights of inspection. The company has no knowledge of agreements between holders of securities which may result in restrictions on the transferability of securities and limitation of voting rights.

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

The company has not entered into any agreements with the 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, their dismissal, notice of the dismissal by the employer without indication of the cause, or if employment ends as a result of the takeover bid.

ADMINISTRATION OF THE COMPLIANCE PROGRAMME OF THE OPERATOR OF THE DISTRIBUTION NETWORK FOR 2014

REPORT ON THE IMPLEMENTATION OF MEASURES ADOPTED AS PART OF THE COMPLIANCE PROGRAMME FOR 2014

1. The compliance programme is an internal regulation of the distribution network operator, SPP - distribúcia, a.s., which, pursuant to the provisions of Law no. 251/2012 Coll, on energy and on amendments to certain laws (the "Law") defines measures to ensure non-discriminatory administration of the distribution network, which is part of a vertically integrated business and determines the specific duties of employees aimed at eliminating potential discriminatory administration of the distribution network. In 2014, there were two updates to the compliance program in effect. The first, coded D.RM.04.05.06, entered into force on 1 April 2013 and the second, the currently valid update of the compliance programme, with the code D.RM.04.06.06, came into force from 1 April 2014.
2. The compliance programme includes the following measures:
 - (a) the obligation to ensure the independence of the distribution network from other activities not related to distribution,
 - (b) the obligation to ensure non-discriminatory behaviour of the distribution network for the provision of information,
 - (c) the obligation to ensure non-discriminatory conditions of service of the distribution network for gas market participants,
 - (d) the conditions of legislation relating to the manager of the compliance program and the process of his appointment or determination and his removal,
 - (e) activity of the manager of the compliance program including training of distribution network staff about the compliance program and activities of staff designed to maintain the compliance program,
 - (f) obligations ensuring publicity about the compliance program, control and execution of the annual report on the implementation of the compliance program.
3. In 2014, 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 in accordance with the compliance program,
 - (c) the internal procedures of the distribution network include measures implemented to ensure non-discriminatory behaviour in accordance with the compliance program,
 - (d) publicising 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 web site of the distribution network operator,
 - (e) carrying out checks of keeping to compliance program.
4. On 14.5.2014 on the basis of a decision of the shareholder, SPP Infrastructure, a.s. became the sole shareholder of SPP - distribúcia, a.s. On the basis of this change, the gas supplier Slovenský plynárenský priemysel, a.s., is no longer part of the vertically integrated company that includes SPP - distribúcia, a.s.. The result is strengthening the independence of SPP - distribúcia as the operator of the distribution network.
5. The manager of the compliance programme of the operator found no breach of obligations set by the compliance programme during the period 1.1.2014 to 31.12.2014.

In Bratislava, dated 9.2.2015

Ing. Milan Kachút,
manager of the compliance programme for the operator of the distribution network, SPP - distribúcia, a.s.

REPORT OF THE INDEPENDENT AUDITOR



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VAT Id. Nr.: SK2020325516

SUPPLEMENT TO THE AUDITOR'S REPORT on the Consistency of the Annual Report with the Financial Statements Pursuant to Act No. 540/2007 Coll., Article 23 (5)

To the Shareholders and Board of Directors of SPP - distribúcia, a.s.:

- I. We have audited the financial statements of SPP - distribúcia, a.s. (the „Company“) as at 31 December 2014 presented attachment to the annual report. We issued an Auditor's Report on these financial statements dated 13 March 2015 in the wording as follows:

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of SPP - distribúcia, a.s.:

We have audited the accompanying financial statements of SPP - distribúcia, a.s. (the „Company“), which comprise the balance sheet as at 31 December 2014, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Statutory Body's Responsibility for the Financial Statements

The Company's statutory body is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as the statutory body determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of SPP - distribúcia, a.s. as of 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

- II. We have also audited the consistency of the Annual Report with the aforementioned financial statement. The accuracy of the Annual Report's presentation is the responsibility of the Company's statutory body. Our responsibility is to issue an opinion on the consistency of the Annual Report with the financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that the Auditor plan and perform the audit to obtain reasonable assurance that the information disclosed in the Annual Report and presented in the financial statements is consistent, in all material respects, with the relevant financial statements. We assessed the consistency of the information presented in the Annual Report in part Report on the business activities of the company with the information presented in the financial statements as at 31 December 2014. We have not audited any data or information other than the financial information obtained from the financial statements and accounting ledgers. We believe that the performed audit provides a reasonable basis for our audit opinion.

In our opinion, the financial information presented in the Annual Report is consistent, in all material aspects, with the aforementioned financial statements as of 31 December 2014.

Bratislava, 13 March 2015

Deloitte Audit s.r.o.
Licence SKAu No. 014

Ing. Wolda K. Grant, FCCA
Responsible Auditor
Licence SKAu No. 921



PROSPECTS OF THE COMPANY FOR 2015

The vision of SPP - distribúcia is to continue as a stable, trustworthy and efficient service provider for the distribution of natural gas, to anticipate the future needs of our customers, to respond flexibly to identified needs and developments in the energy market and thereby create value for our business partners, shareholders and employees. We will achieve our goals for 2015 with a high level of safety of our operating activities, continuously improving operational efficiency and investment, improving our approach to customers and increasing the involvement of our employees.

We will ensure the safe operation of the distribution system in the next year with a transparent and objective assessment of the technical condition of all our gas facilities through principles based on risk assessment. On the basis of analysis of probability as well as causes and effects together with consequences, we will set the parameters for appropriate maintenance, intensify maintenance for risky assets and limit interventions in functioning or risk-free facilities.

The centre of our attention will therefore be on the material fulfilment of the maintenance plan and investment in upgrading our networks as well as focus on solving illegal usage. Cooperation with police forces and other public institutions intensifies our action against the perpetrators and organizers of illegal gas usage, who in addition to fraud their illegal actions also jeopardize the safety and reliability of natural gas distribution and the general public.

We will continue to streamline the performance of our operating activities, specifically in the areas of procurement, increasing productivity and cost optimization for property management and vehicle fleet. In addition, we will focus on completing the process of decoupling known as unbundling from the previous parent company, SPP, as required by the regulator, by building a new IT system for our company. We will thereby reach the highest level of unbundling, corresponding to the separation of ownership.

We are constantly raising the level of customer service and communication with customers will be one of the key tasks for SPP – distribúcia, also in 2015. We wish to continue the digitization of services for our customers to ensure the most comfortable and most flexible operation 24 hours a day, 7 days a week.

We will also actively promote natural gas as an attractive energy source. For promotion we will utilize the new microsite www.oplyne.info. The microsite offers a lot of information on natural gas, the possibilities of its use, about traditional and new technologies based on natural gas, as well as various comparative and case studies.

We will also focus on actively addressing customers who are interested in building and effectively operating their energy system and refurbishing gas appliances. At the same time we will promote the use of compressed natural gas - CNG (Compressed Natural Gas) in transport and in particular actively promoting its economic and environmental benefits.

SPP – distribúcia, a.s.

Mlynské nivy 44/b
825 11 Bratislava 26
Slovak Republic
www.spp-distribucia.sk

Emergency line – gas:

Tel.: 0850 111 727 (charged as a local call)

Customer line for connection to the distribution network:

Tel.: 0850 269 269 (charged as a local call)
The customer line is in operation every working day from 7.00 to 20.00 h.
E-mail: pripajanie@distribuciaplynu.sk

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

Tel.: +421 2 62 62 59 61 secretariat of the distribution services section
Fax: +421 2 62 62 85 48 section of distribution services
E-mail: distribucia@spp-distribucia.sk

Microsite on natural gas:

www.oplyne.info

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

E-mail: reklamacie@spp-distribucia.sk

Contact with the media:

Milan Vanga, manager of external communication

Tel.: +421 2 62 62 60 29
E-mail: milan.vanga@spp-distribucia.sk



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