IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE NON-U.S. PERSONS (AS DEFINED BELOW) LOCATED OUTSIDE OF THE UNITED STATES.

IMPORTANT: You must read the following before continuing. The following applies to the Prospectus following this page and you are therefore advised to read this page carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from the Issuer (as defined in the Prospectus), Citigroup Global Markets Limited, Raiffeisen Bank International AG, SIB (CYPRUS) LIMITED, Société Générale, The Royal Bank of Scotland plc, UniCredit Bank AG and VTB Capital plc (together, the "**Joint Lead Managers**") as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE NOTES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND THE NOTES MAY NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE ATTACHED PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER AND, IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. PERSON OR U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE NOTES DESCRIBED IN THE ATTACHED DOCUMENT.

Confirmation of your representation: In order to be eligible to view the attached Prospectus or make an investment decision with respect to the securities being offered, prospective investors must be non-U.S. persons (as defined in Regulation S under the Securities Act ("**Regulation S**")) located outside the United States. This Prospectus is being sent to you at your request, and by accessing this Prospectus you shall be deemed to have represented to the Issuer and the Joint Lead Managers that (1) you are purchasing the securities being offered in an offshore transaction (within the meaning of Regulation S) and the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the United States, its territories and possessions, any State of the United States or the District of Columbia and (2) you consent to delivery of such Prospectus by electronic transmission.

You are reminded that this Prospectus has been delivered to you on the basis that you are a person into whose possession this Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Prospectus to any other person.

The materials relating to this offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer, and the Joint Lead Manager(s) or any affiliate of the Joint Lead Manager(s) is a licensed broker or dealer in the relevant jurisdiction, the offering shall be deemed to be made by the Joint Lead Manager(s) or such affiliate on behalf of the Issuer in such jurisdiction.

The attached Prospectus may only be distributed to, and is directed at (a) persons who have professional experience in matters relating to investments falling within article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**") or (b) high net worth entities falling within article 49(2)(a) to (d) of the Order, and other persons to whom it may be lawfully communicated, falling within article 49(1) of the Order (all such persons together being referred to as "**relevant persons**"). Any person who is not a relevant person should not act or rely on this document or any of its contents.

The attached Prospectus has been sent to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer, the Joint Lead Managers, any person who controls them or any director, officer, employee or agent of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from the Issuer.

PROSPECTUS DATED 19 JUNE 2014

SPP — DISTRIBÚCIA , A.S.

(a joint-stock company incorporated under the laws of the Slovak Republic)

EUR 500,000,000 2.625 per cent. Notes due 2021

Issue Price: 99.314 per cent.

This Prospectus has been approved by the Central Bank of Ireland (the "**Central Bank**"), as competent authority under Directive 2003/71/EC, as amended (the "**Prospectus Directive**"). The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Such approval relates only to the EUR 500,000,000 2.625 per cent. Notes due 2021 (the "**Notes**") of SPP — distribúcia , a.s. (the "**Issuer**") which are to be admitted to trading on the regulated market (the "**Market**") of the Irish Stock Exchange plc (the "**Irish Stock Exchange**"). Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List of the Irish Stock Exchange (the "**Official List**") and trading on its regulated market.

Interest on the Notes is payable annually in arrear on 23 June in each year. Payments on the Notes will be made without deduction for or on account of taxes of the Slovak Republic to the extent described under "Terms and Conditions of the Notes—Taxation".

The Notes mature on 23 June 2021 but may be redeemed before then at the option of the Issuer in whole, but not in part, at any time in the event of certain changes affecting taxation in the Slovak Republic. In addition, the holder of a Note may, by the exercise of the relevant option, require the Issuer to redeem such Note at its principal amount in the circumstances described in Condition 5(c) (*Redemption at the option of the Noteholders (Put Option)*) herein. See "Terms and Conditions of the Notes—Redemption and Purchase".

The Notes will be offered and sold in offshore transactions outside the United States in reliance on Regulation S ("**Regulation S**") under the U.S. Securities Act of 1933, as amended (the "**Securities Act**").

THE NOTES HAVE NOT BEEN NOR WILL BE REGISTERED UNDER THE SECURITIES ACT, OR ANY STATE SECURITIES LAW, AND THE NOTES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY U.S. PERSON (AS SUCH TERMS ARE DEFINED IN REGULATION S), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

The Notes will be issued in registered form in the minimum denomination of EUR 100,000 and denominations which are integral multiples of EUR 1,000 in excess thereof. The Notes are intended to be held in a manner which would allow Eurosystem eligibility and will be represented by a global registered note certificate (the "**Global Certificate**") which will be registered in the name of a nominee for and deposited with a common safekeeper for Euroclear Bank SA/NV ("**Euroclear**"), and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**") on or around 23 June 2014 (the "**Closing Date**"). Definitive note certificates (the "**Definitive Note Certificates**") evidencing holdings of Notes will be available only in certain limited circumstances. See "Summary of Provisions Relating to the Notes in Global Form".

The Notes are expected to be rated A and Baa1 respectively by Fitch Ratings Limited ("**Fitch**") and Moody's Investors Service Limited ("**Moody's**"). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Each of Fitch and Moody's is established in the European Union (the "**EU**"), domiciled in the United Kingdom, and is included in the list of credit rating agencies registered in accordance with Regulation (EC) No. 1060/2009 on Credit Rating Agencies as amended by Regulation (EU) No. 513/2011 (the "**CRA Regulation**"). This list is available on the ESMA website (http://www.esma.europa.eu/page/list-registered-and-certified-CRAs).

INVESTING IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" BEGINNING ON PAGE 3.

Joint Lead Managers

CITIGROUP | **RAIFFEISEN BANK INTERNATIONAL AG**

SBERBANK CIB | **SOCIÉTÉ CORPORATE & INVESTMENT BANKING GÉNÉRALE**

THE ROYAL BANK OF SCOTLAND | **UNICREDIT BANK AG**

VTB CAPITAL

This Prospectus constitutes a prospectus for the purpose of Article 5 of the Prospectus Directive and for the purpose of giving information with regard to the Issuer and the Notes which, according to the particular nature of the Issuer and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer and of the rights attaching to the Notes. The Issuer (the "**Responsible Person**") having taken all reasonable care to ensure that such is the case, accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer, the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

Neither the Joint Lead Managers (as defined in "*Subscription and Sale*") nor any of their directors, affiliates, advisers or agents has made an independent verification of the information contained in this Prospectus in connection with the issue or offering of the Notes and no representation or warranty, express or implied, is made by the Joint Lead Managers or any of their directors, affiliates, advisers or agents with respect to the accuracy or completeness of such information. Nothing contained in this Prospectus is, is to be construed as, or shall be relied upon as, a promise, warranty or representation, whether to the past or the future, by the Joint Lead Managers or any of their respective directors, affiliates, advisers or agents in any respect. The contents of this Prospectus are not, are not to be construed as, and should not be relied on as, legal, business or tax advice and each prospective investor should consult its own legal and other advisers for any such advice relevant to it.

No person is authorised to give any information or make any representation not contained in this Prospectus in connection with the issue and offering of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by any of the Issuer or the Joint Lead Managers or any of their directors, affiliates, advisers or agents. The delivery of this Prospectus does not imply that there has been no change in the business and affairs of the Issuer since the date hereof or that the information herein is correct as of any time subsequent to its date.

This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy the Notes by any person in any jurisdiction where it is unlawful to make such an offer or solicitation. The distribution of this Prospectus and the offer or sale of the Notes in certain jurisdictions is restricted by law. This Prospectus may not be used for, or in connection with, and does not constitute, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstance in which such offer or solicitation is not authorised or is unlawful. In particular, this Prospectus does not constitute an offer of securities to the public in the United Kingdom. No prospectus has been or will be approved in the United Kingdom in respect of the Notes. Consequently this document is being distributed only to, and is directed at (a) persons who have professional experience in matters relating to investments falling within article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**") or (b) high net worth entities falling within article 49(2)(a) to (d) of the Order, and other persons to whom it may be lawfully communicated, falling within article 49(1) of the Order (all such persons together being referred to as "**relevant persons**"). Any person who is not a relevant person should not act or rely on this document or any of its contents. Persons into whose possession this Prospectus may come are required by the Issuer and the Joint Lead Managers to inform themselves about and to observe such restrictions. Further information with regard to restrictions on offers, sales and deliveries of the Notes and the distribution of this Prospectus and other offering material relating to the Notes is set out under "Subscription and Sale" and "Summary of Provisions Relating to the Notes in Global Form".

Unless otherwise specified or the context so requires, references to "**euro**", "**EUR**" and "**€**" are to the currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended.

The language of the prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

In connection with the issue of the Notes, Citigroup Global Markets Limited (the "**Stabilising Manager**") (or any person acting on behalf of any Stabilising Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager (or person(s) acting on behalf of any Stabilising Manager) in accordance with all applicable laws and rules.

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OVERVIEW

Issuer:	SPP — distribúcia , a.s. The Issuer is a joint-stock company incorporated under the laws of the Slovak Republic, with its registered seat at Mlynské nivy 44/b, 825 11 Bratislava, Slovak Republic, Identification No.: 35 910 739, registered with the Commercial Register maintained by the Bratislava I District Court, Section: Sa, Insert No.: 3481/B.
Fiscal Agent and Paying and Transfer Agent:	Citibank, N.A., London Branch.
Registrar:	Citigroup Global Markets Deutschland AG.
The Issue:	EUR 500,000,000 2.625 per cent. Notes due 2021.
Issue Price:	99.314 per cent. of the principal amount of the Notes.
Issue Date:	23 June 2014.
Maturity Date:	23 June 2021.
Interest Rate:	The Notes will bear interest at the rate of 2.625 per cent. per annum from and including 23 June 2014 to but excluding the Maturity Date (as defined in "Terms and Conditions of the Notes").
Yield:	2.734 per cent.
Interest Payment Dates:	Interest will be payable annually in arrear on 23 June in each year, commencing on 23 June 2015.
Withholding Taxes:	All payments of principal and interest in respect of the Notes will be made free and clear of withholding taxes of the Slovak Republic, unless the withholding is required by law. In that event, the Issuer will (subject to the exceptions in Condition 10 (*Taxation*)) pay such additional amounts as will result in the Noteholders receiving such amounts as they would have received in respect of such Notes had no such withholding been required.
Ranking:	The Notes constitute direct, general, unconditional, unsubordinated and (subject to Condition 5 (*Negative Pledge*)) unsecured obligations of the Issuer. The Notes will at all times rank pari passu among themselves and at least pari passu in right of payment with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.
Negative Pledge:	The Notes have the benefit of a Negative Pledge. See Condition 5 (*Negative Pledge*).
Events of Default	Events of Default include: Non-payment of principal on the due date or within seven days in the case of interest; breach of other obligations of the Issuer not remedied for 45 days; cross-default in excess of EUR 20,000,000 (or its equivalent in any other currency or currencies), whether individually or in the aggregate; unsatisfied judgments in excess of EUR 20,000,000 (or its equivalent in any other currency or currencies), whether individually or in the aggregate; enforcement of security over any part of the undertaking, assets and revenues of the Issuer which exceeds an amount of EUR 20,000,000 (or its equivalent in any other currency or currencies), whether individually or in the aggregate; insolvency and related events; and certain other events. See Condition 12 (*Events of Default*).

Optional Redemption:	Noteholders have the benefit of a put option in the event of a change of control of the Issuer in the circumstances described in Condition 9(c) (*Redemption at the option of the Noteholders (Put Option)*).
Tax Redemption:	The Issuer may at its option redeem the Notes, in whole but not in part, at their principal amount plus accrued interest in the event of certain changes affecting taxation in the Slovak Republic.
Use of Proceeds:	The net proceeds of the issue of the Notes, expected to amount to approximately EUR 496,565,060 after deduction of the total expenses related to the admission to trading, but prior to the other expenses incurred in connection with the issue of the Notes, will be upstreamed by a loan directly or indirectly to its ultimate shareholders, the Slovak Republic and Energetický průmyslový holding, a.s. It is intended that as part of this process a substantial part of the proceeds of the Notes that are upstreamed directly or indirectly to Slovak Gas Holding B.V. will be used to partially refinance a loan facility provided to Slovak Gas Holding B.V., the lenders in respect of which include, amongst other lenders, each of the Joint Lead Managers and/or their respective affiliates.
Form of the Notes:	The Notes will be issued in registered form in the minimum denomination of EUR 100,000 and denominations which are integral multiples of EUR 1,000 in excess thereof. The Notes will be represented by the Global Certificate which will be registered in the name of a nominee for and deposited with a common safekeeper for Euroclear and Clearstream, Luxembourg on or around the Closing Date. Definitive Note Certificates evidencing holdings of Notes will be available only in certain limited circumstances. See "Summary of Provisions Relating to the Notes in Global Form". It is intended that the Notes will be held in a manner which would allow Eurosystem eligibility.
Listing and Clearing:	Application has been made to list the Notes on the Irish Stock Exchange and to trading on the Market. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg with the following ISIN and Common Code: ISIN: XS1077088984 Common Code: 107708898
Governing Law:	The Notes will be governed by, and shall be construed in accordance with, English law.
Selling Restrictions:	The offering and sale of Notes is subject to applicable laws and regulations including, without limitation, those of the United States, the United Kingdom, the Slovak Republic and the Czech Republic. See "Subscription and Sale".
Ratings:	The Notes are expected to be rated A and Baa1 respectively by Fitch and Moody's. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.
Risk Factors:	Investing in the Notes involves a high degree of risk. See "Risk Factors" beginning on page 3.

RISK FACTORS

The following are certain risk factors of the offering of the Notes of which prospective investors should be aware. The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Notes. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring. Factors which the Issuer believes may be material for the purpose of assessing the market risks associated with the Notes are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with the Notes may occur for other reasons and the Issuer does not represent that the statements below regarding the risks of holding the Notes are exhaustive. Additional risks, which are either not currently known or not considered likely to materialise, as at the date of this Prospectus may also exist. Such additional risks could materially and adversely affect the Issuer's business, financial condition or the results of its operations. The occurrence of one or more of these risks could also have an adverse effect on the Issuer's situation.

Investors should make their own independent evaluations of all risk factors and should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

The terms defined in "Terms and Conditions of the Notes" shall have the same meaning where used below.

The Issuer's operations are focused on the Slovak Republic. As a public utility, its results of operations are significantly affected by economic conditions in the Slovak Republic which may be adversely affected by the global financial and European sovereign debt crises and remain vulnerable to further external shocks.

The Slovak Republic's economy is vulnerable to external shocks, including the recent global economic crisis. A significant decline in the economic growth of any of the Slovak Republic's major trading partners, in particular Germany, the Czech Republic and other Member States of the European Union (the "**EU**"), has had and could in the future have an adverse effect on the Slovak Republic's balance of trade and adversely affect the Slovak Republic's economic growth. As a result of the slowdown in the global economy caused by the financial crisis which started in 2008, the Slovak Republic suffered a decline in GDP of 4.9 per cent. in real terms in 2009. The economy has since grown in real terms, but the rate of growth has fallen from 4.4 per cent. in 2010, to 3.0 per cent. in 2011, 1.8 per cent. in 2012 and 0.9 per cent. in 2013 according to Eurostat. Any sustained slowdown in the growth of the Slovak economy could negatively impact consumer spending patterns in the Slovak Republic and thus have an adverse effect on the Issuer's revenues and profitability.

In addition, because international investors' reactions to the events occurring in one market may demonstrate a "contagion" effect, in which an entire region or class of investment is disfavoured by international investors, the Slovak Republic could be adversely affected by negative economic or financial developments in other European countries or countries with credit ratings similar to those of the Slovak Republic. The economy of the Slovak Republic, including GDP and employment levels, has been adversely affected by such contagion effects on a number of occasions, including following the recent global economic crisis, and similar developments may affect the Slovak economy in the future.

In the second half of 2011, the situation in the international financial markets deteriorated significantly and the credit ratings of several EU sovereigns were downgraded. In general, the instability has caused doubts over the sustainability of the Eurozone. Further sovereign downgrades occurred in January and February 2012, with the Slovak Republic being downgraded by S&P to A (with stable outlook) from A+ (with negative outlook) and by Moody's to A2 (with negative outlook, which was upgraded to stable outlook in October 2013) from A1 (with stable outlook). The resulting higher rates for sovereign debt have disrupted national economies and the risk of a further credit crisis and a lack of liquidity in the market has risen significantly. A further downgrade of sovereign debt ratings, including those of the Slovak Republic, or any continuation or recurrence of the Eurozone sovereign debt crisis for a prolonged period, may result in an enhanced risk of deleveraging and credit contraction and, in turn, could have an adverse impact on the Slovak economy. There can be no assurance that any crises such as those described above or similar events will not negatively affect investor confidence in markets such as the Slovak market. In addition, such events could have an adverse impact on the Slovak Republic's economy and its ability to raise capital in the external debt markets in the future.

The current crisis in Ukraine creates political and economic uncertainty which could adversely impact the Issuer's financial condition.

Heightened levels of tension between Russia and Ukraine, increased military activity on the border between Russia and Ukraine, the accession of Crimea to Russia and the imposition by the United States, the European Union and other countries of sanctions, asset freezes, travel limitations and certain other measures against specified Ukrainian and Russian individuals and a Russian bank have not had a direct impact on the Issuer's business to date but could in the future. These developments could also lead to fluctuations in gas prices if such tensions escalate, further sanctions that are imposed that affect the long-term sustainable availability of Russian gas or demand for gas is affected by any of the above factors.

There are no significant sources of gas in the Slovak Republic and there is no previous experience in the Slovak Republic with an extended period of disruption in gas supply. The Issuer holds gas on stock to continuously supply all households in the Slovak Republic for 30 days of average winter period consumption. In case of a prolonged crisis, such supply of stored gas would not cover demand and gas would have to be sourced from other state interconnectors such as Austria (the Baumgarten entry/exit point), the Czech Republic (by reverse flow) and/or gas stored by the shippers in underground gas storage facilities would have to be used.

The interruption of the flow of natural gas from Russia to Ukraine in 2009 resulted in an interruption of gas distribution in the Slovak Republic and the Czech Republic. The short time-span between the interruption and implementation of reverse-flow in the Czech Republic and the Slovak Republic and the level of natural gas held in storage by the Issuer resulted in only a slight decrease in the Issuer's revenues.

Although the previous disruption resulted only in limited decrease of revenues, should there be further deterioration in the current relationship between Russia and Ukraine which could lead to a sustained interruption of the flow of natural gas from Russia to Ukraine and ultimately to the Slovak Republic, the consequences might be much more severe and difficult to predict (see "*—An unexpected disruption to the supply of gas could materially and adversely affect the Issuer's results of operations and financial condition*"). In addition, should any of the remedial factors mentioned above differ in the case of future interruptions, such difference could lead to a material adverse effect on the Issuer's business, results of operations and financial condition.

The Issuer's future revenue from its gas distribution network will be derived from regulated tariffs, the level of which may have an impact on the Issuer's results.

Although the gas distribution sector in the Slovak Republic has been gradually liberalised over the past few years, the revenues of a distribution network operator are determined by regulated tariffs that are set by the Slovak Regulatory Office for Network Industries ("**RONI**"). According to Slovak law, such prices are determined so that the total expected revenues from the tariffs (for access to the distribution network and gas distribution in the respective regulation year) do not exceed the maximum price (for access to the distribution network and gas distribution for that year). The maximum price is calculated based on complex input parameters that cover only eligible costs of operation, eligible depreciation, fair (allowed) profit and expected distribution volume, and should protect customers from unreasonable fluctuations of prices (see "*Tariffs for using the gas distribution network*" in the "*Description of the Issuer*"). Non-eligible costs, such as certain employee benefits or cost incurred due to the negligence of the Issuer are not recovered as part of the tariff structure. As the calculation of tariffs includes several assumptions set by RONI and interest rate risk may influence the weighted average cost of capital (also set by RONI) in the calculations, there is also no guarantee that such regulated prices will be sufficient to cover the anticipated costs of any planned infrastructure developments and as a result, the Issuer may not be able to fulfil its intended strategies in the future.

The Issuer's regulated contracts incorporate regulated tariffs for the current regulatory period (2012-2016). The tariffs are fixed until the end of 2016. The Issuer cannot guarantee that future tariffs will be set at a level that would allow it to improve or maintain its current profitability margins or maintain or improve its infrastructure in line with current expectations or future potential needs. Should the level of eligible costs be materially higher than the expected level, this could impair the profitability level. The Issuer also cannot guarantee that the current regulated tariffs will not be subject to change by RONI during the current regulatory period. Future changes in the tariff structure applicable to the Issuer's gas distribution network could have a material adverse effect on the Issuer's business, results of operations and financial condition.

Recent or future changes to applicable regulations could create uncertainty in matters that are significant to the Issuer's business and have an adverse effect on its financial condition or results of operations.

The Issuer operates in a highly regulated industry. The laws, regulations, directives, decisions and policies of the EU and the Slovak Republic determine the scope of the Issuer's activities, and could substantially affect its revenues and the way the Issuer conducts its business. Additions and changes to law in the EU and the Slovak Republic may create risks within the legal environment in which the Issuer conducts its operations and affect the Issuer's business and remuneration in ways it cannot predict. Such legislation or regulation may be exerted on the Issuer directly in its role as gas distribution network operator, or indirectly (such as environmental regulations relating to carbon emissions, or otherwise, or competition regulation given the Issuer's monopolistic position in the market). Uncertainty regarding ensuring compliance with changes in law, and the potential for creation of greater costs, may adversely impact the Issuer's business, results of operations and financial condition.

The regulatory framework applicable to the Issuer's gas distribution activities has undergone significant changes as a result of the adoption in 2009 of Directives 2009/72/EC and 2009/73/EC comprising the third package on the internal electricity and gas markets. Directives 2009/72/EC and 2009/73/EC have been implemented in the Slovak Republic by Act. No. 251/2012 Coll. on Energy, as amended (the "**Act on Energy**") and Act No. 250/2012 Coll. on Regulation in Network Industries, as amended (the "**Act on Regulation**").

The Issuer's activities require various administrative authorisations and building permits that may be difficult to maintain or obtain or that may be subject to increasingly stringent conditions.

The Issuer's gas distribution activities require various administrative authorisations and building permits in the Slovak Republic. The procedures for obtaining and renewing these authorisations and building permits can be time consuming and complex. The Issuer may accordingly be required to pay significant amounts to comply with the requirements associated with obtaining or renewing these authorisations and building permits (for example, the associated external and internal costs of preparing the application for the authorisations or permits or investments associated with installing equipment required before such authorisation or permits can be issued or renewed). Authorisations or permits for building can be costly and can place significant burden on the Issuer. While the Issuer has not had problems obtaining administrative authorisations or building permits in the past, there can be no assurance that the Issuer may not have difficulty in the future if Slovak or EU regulation or interpretation changes to introduce new procedures for receiving such authorisations or permits (See "*Licences, Permits and Authorisations*" in the "*Description of the Issuer*" for the authorisations required and received to date). Any significant compliance costs which are incurred or difficulties encountered in obtaining requisite authorisations and/or permits could have a material adverse effect on the Issuer's business, financial condition and results of operations.

Health and safety incidents and breaches of, or changes in, any applicable environmental, health and safety laws and regulations may cause the Issuer to incur increased costs or liability or other damages.

Gas distribution involves the use of products and by-products that may be hazardous to human health and the environment. The Issuer's activities are subject to regulations for the protection of the environment and public health, which are increasingly numerous and restrictive and which may change over time.

Compliance with environmental regulations in the Slovak Republic and abroad may materially increase the Issuer's costs of operations. Recent EU legislation requires each distribution network operator such as the Issuer to secure reliable, safe, and efficient operation and development of the distribution network under economic conditions, with due regard for the environment and energy efficiency, and human health and safety (which may change over time).

In addition, any of the Issuer's operations may, in the future, become subject to stricter laws and regulations, and accordingly the Issuer will incur greater capital or operating expenditures. Compliance with current and future regulations in the environmental and health areas may have a material financial impact on the Issuer.

The Issuer may also be exposed to significant liabilities if it fails to comply with applicable environmental and health and safety laws and regulations. There can be no assurance that the Issuer will not incur substantial costs and liabilities, including the cost of clean-up operations and claims for damages to property and persons resulting from environmental or health and safety incidents. Any such costs and liabilities could adversely affect the Issuer's business, results of operations and financial condition and reputation.

Risk related to operating activities.

Risks related to natural disasters, equipment malfunction and human error

The Issuer's gas distribution operations are conducted on a basis of high-pressure pipelines. The distribution of natural gas carries high risks and is prone to increased costs as a result of damage from natural disasters, operational hazards, equipment malfunction, human error, failure to maintain the distribution network or other events that could cause gas leaks, explosions, fire, or equipment damage, which in turn could cause human injury or death and may cause damage to third parties or the environment. Any failure of the Issuer's gas distribution network may impair its operations and revenues and expose it to liability, each of which could have a material adverse effect on the Issuer's business, results of operations and financial condition and reputation.

Risks related to third-party action

The operations of the Issuer may be disrupted by unforeseen events such as third-party excavation works, terrorist attacks, sabotage, breaches of security or other intentional acts which may cause damage to the Issuer's or third-party assets or the Issuer's key employees. Such acts may adversely affect its business, its reputation, its financial condition or the results of its operations. Unforeseen events may also cause additional operating costs such as higher insurance premiums. They may also result in the Issuer's inability to obtain insurance protection against certain types of risk. These risks may have an adverse effect on the Issuer's business, results of operations and financial condition.

The operations of the Issuer may be disrupted by unauthorised off-takes which have been on the rise over the past few years. Such unauthorised off-takes may have a negative effect on the Issuer's gas distribution operations, result in gas leakage or safety incidents and negatively impact the operations, financial condition and results of the Issuer.

Risk related to changes in the demand for gas.

The Issuer is exposed to the risk of a reduction in demand for its gas distribution, in particular by its commercial and industrial customer base. The demand for the Issuer's gas distribution is principally driven by the level of economic activity in the Slovak Republic and the demand for natural gas fluctuates in accordance with the economic cycles and general economic conditions in Europe and lower availability of gas-fired plants or gas consumption in the Slovak Republic, Central and Western Europe. The Issuer is exposed to the global risks associated with the demand for gas, which depends on a number of factors outside of its control, including gas price, geopolitical developments, alternative sources of energy, the development of renewable energy sources and state subsidies for them, climate fluctuations and environmental laws (also see "*—Fluctuations in natural gas prices could lead to alternative sources of energy*").

Any economic slowdown typically leads to a reduction in gas consumption and this has an adverse effect on the Issuer's financial condition and results of operation. Distribution tariff calculation methodology includes assumptions of the gas distribution volume. If the actual distribution volume falls below the assumption, the Issuer's revenues from gas distribution will be negatively impacted through a smaller part of allowed revenues being allocated to the variable tariffs dependent on consumption.

Fluctuations in natural gas prices could lead to alternative sources of energy.

Natural gas prices are influenced by numerous external factors that have caused price fluctuations in the past. The Issuer cannot control fluctuations in gas in international markets. The prices for gas have historically been volatile and there is no guarantee that prices will remain within projected levels. The subsidies of renewable sources of energy by the EU could also have an adverse effect on the use of natural gas.

Quick and easy access to renewable energy sources or alternative energy sources, such as fuel oil, LPG, hard coal, electricity or heat generated by central combined heat and power plants or local or community heat plants, an increase in the price of natural gas relative to the prices of such alternative energy sources and the development of nuclear power engineering may weaken the position of the Issuer in the local energy markets. As with fluctuations in natural gas prices, this may adversely impact the operations, financial condition and results of the Issuer.

The Issuer's results of operations may be adversely affected by the arrival of competitors in gas distribution.

The Issuer is currently the natural monopoly distributor of gas in the Slovak Republic. However, the Issuer operates in an increasingly competitive gas market which may see the arrival of competitors in gas distribution which could have a material adverse effect on the Issuer's results of operations and financial condition.

The Act on Energy requires any applicant for a gas connection to request from the Issuer a connection. Such requirement safeguards the monopolistic position of the Issuer. However, any potential change of legislation is outside of the control of the Issuer. If legislation were to allow direct connections to transmission pipelines or cross-border connections, this could lead to major customers disconnecting from the Issuer's distribution network and thereby could have a material adverse effect on the Issuer's results of operations and financial condition.

The Issuer's revenues, costs and results of operations are influenced by weather conditions and seasonal variations that are not within its control.

Gas consumption is seasonal and is mainly affected by weather conditions. In Europe, gas consumption is generally higher during the autumn and winter months, and the Issuer generally experiences higher demand during the colder months of October through March and lower demand during the warmer months of April through September. As a result of these seasonal patterns, the Issuer's sales and results of operations are higher in the first and fourth quarters and lower in the second and third quarters. Sales and results of operations for all of the Issuer's energy operations can be negatively affected by periods of unseasonably warm weather during the autumn and winter months. The Issuer expects seasonal and weather-related fluctuations in its sales and results of operations to continue in the future.

An unexpected disruption to the supply of gas could materially and adversely affect the Issuer's results of operations and financial condition.

The Issuer does not operate any material gas generation or transmission facilities and has not entered into any long-term agreements for the supply of gas to the Issuer in excess of one year. The Issuer takes over all gas that belongs to shippers from the transmission pipeline operated by eustream, a.s. ("**Eustream**") for distribution to end-customers to whom the Issuer has liability. The Issuer is thus reliant on its ability to purchase virtually all of its gas requirements to cover losses in the distribution network, for ancillary activities and technical purposes and for a reserve for the supply of gas to households under short-term agreements with gas producers and traders. Natural gas purchase prices to cover losses are subject to tender for a period of one year in advance.

In addition, currently the Issuer has not experienced any difficulties with the macro-economic supply of gas, because there is sufficient gas capacity in the Slovak Republic and the consumption of gas is almost balanced. Slovak gas transmission grids are well connected to neighbouring countries (Ukraine, Czech Republic, Austria and Hungary) allowing for imports of large volumes of gas. However, an unexpected disruption to the supply of gas purchased from third parties including the possibility of sustained interruption of the flow of natural gas from Russia to Ukraine and ultimately to the Slovak Republic (see "*—The current crisis in Ukraine creates political and economic uncertainty which could adversely impact the Issuer's financial condition*"), or however caused, or any disruption to the cross-border transmission of gas, would have a material adverse effect on the Issuer's results of operations and financial condition.

National authorities may legislate to require the Issuer to make certain investments.

According to the Act on Energy, upon the request of the owner of a local distribution network, the Issuer shall be obliged to buy-out the local distribution network at the regulated price determined by RONI. Such regulated price should take into consideration the economic efficiency provided by such buy-out. According to RONI Decree no 193/2013 establishing the price regulation in the gas industry, the Issuer shall also be obliged to buy-out a gas facility upon the request of the gas facility's investor or owner. The maximum purchase price for a gas facility shall be determined by RONI and should take into consideration the economic efficiency provided by the buy-out of the gas facility. Although such purchases should take into account the economic efficiency of the local distribution network or gas facility, determination of the purchase price is still within the full power of RONI. The fair return on such purchases is therefore not guaranteed.

Furthermore, any future changes in the legislation by the Slovak Ministry of Economy, RONI or other authorities that require the Issuer to make investments may adversely affect the Issuer's business, results of operations and financial condition.

A default by any of the Issuer's suppliers may affect the Issuer's financial condition.

The Issuer is subject to the risk that a supplier will default on its contractual obligations and that any guarantee or performance bond in respect of such obligations will not be honoured. The Issuer's suppliers may default on their obligations for a number of reasons, including as a result of their bankruptcy, a lack of liquidity or operational failure. Any default may expose the Issuer to reputational risk, business continuity risk and the loss of important contracts. In addition, the Issuer may be required to pay contractual penalties or find alternative suppliers. Any such setbacks may result in unforeseen costs, which could have a material adverse effect on the Issuer's business, financial condition, results of operations and prospects.

The Issuer is exposed to risks relating to its reliance on service providers and subcontractors.

While the Issuer is solely responsible to carry out the gas distribution service, in several areas of its operation it is also exposed to risks relating to its reliance on service providers and subcontractors (such as contractual parties for the Issuer's capital expenditures). Although the Issuer is careful in the choice of its partners, it cannot guarantee the performance and quality of services carried out by external companies or their compliance with applicable regulations. Financial difficulties, including insolvency, of any such service provider or subcontractor, or a decrease in the quality of their services, budget overruns or completion delays, are likely to have a negative effect on the Issuer's business and results of operations. Although the Issuer has back-up service providers and subcontractors, it cannot guarantee the performance of such providers and subcontractors.

RONI has a wide regulatory scope.

The Issuer and its business operations are subject to the regulatory decisions of RONI. However, there is currently little guidance on the exact scope and limits of RONI's regulatory powers. It is out of the Issuer's control how RONI's scope of influence will develop and the impact it may have on the Issuer's operations.

The Issuer is dependent on licenses and permits to conduct its business and any failure to comply with applicable regulations could result in a range of administrative, civil and criminal penalties and other liabilities and could have a material adverse effect on the Issuer's business, financial condition, results of operations and reputation.

The industry in which the Issuer operates is regulated and its operations require the obtaining and maintaining of licenses and/or permits. The Issuer has managed to comply with the third European directive (Directive 2009/73/EC) concerning common rules for the internal market in natural gas (the "**Third Gas Directive**") and it continues to allocate adequate resources to achieve and maintain compliance with the Third Gas Directive. However, the relevant authorities in the Slovak Republic and the EU may enforce existing regulations more strictly than they have done in the past and may in the future impose stricter standards, or higher levels of fines and penalties for violations, than those which are in effect at present.

Any of the Issuer's licences could be suspended, terminated or not renewed by the relevant licensing authorities if the Issuer is deemed to have violated its terms or if there is a material breach of the Act on Energy or other regulations. The termination or modification of, or failure for any reason to renew these licenses in a timely manner could have a material adverse effect on the Issuer's business, results of operations or financial condition as the Issuer will not be able to carry on its current activities (See "*Licences, Permits and Authorisations*" in the "*Description of the Issuer*" for the licences required and received by the Issuer).

Inspections, litigation and regulatory proceedings.

This Issuer is subject to inspections by RONI, the antimonopoly office and the State Energy Inspection Office. Although the Issuer does not currently have any material inspection findings, litigation or regulatory proceedings to which it is a party, no assurance can be given that such litigation or regulatory proceedings may arise in the future and will not have a material adverse effect on its results of operations or financial condition.

The Issuer could incur unforeseen taxes, tax penalties and special levies which could adversely affect its results of operations and financial condition.

Tax rules, including those relating to the energy industry in the Slovak Republic, and their interpretation, may change, possibly with retrospective effect. Significant tax disputes with tax authorities, any change in the tax status of the Issuer and any change in Slovak taxation legislation or its scope or interpretation could also affect the Issuer's business, results of operations and financial condition.

Due to the global financial and economic crisis, the Slovak Republic experienced deterioration in its public finances. To reduce its public deficit, the Slovak Republic conducted fiscal consolidation under which it imposed measures such as a special levy on businesses in regulated industries, which includes the energy sector. The levy is payable if the revenues from regulated activities are at least 50 per cent. of the total revenues of the regulated entity for the respective accounting period. In 2013, the Issuer incurred costs of EUR 5.8 million in respect of this levy.

The special levy, which was originally planned to be in force until the end of 2013, has been prolonged until the end of 2016. Although not currently proposed by the government, it is possible that in the future the special levy will again be prolonged or similar taxes could be imposed in the Slovak Republic. The imposition of any such new taxes or the increase of the current taxes in the Slovak Republic could have an adverse effect on the Issuer's business, results of operations and financial condition.

The inability to attract, train or retain qualified personnel could have a material adverse effect on the Issuer's business, financial condition, results of operations and prospects.

The Issuer's ability to implement its long-term strategy is dependent on the capabilities and performance of its personnel. Loss of key personnel or an inability to attract, train or retain appropriately qualified personnel for positions that require a technical background could temporarily affect the Issuer's ability to implement its long-term strategy and could have a material adverse effect on the Issuer's business, financial condition, results of operations and prospects.

The interests of the Issuer's indirect shareholders may conflict with those of the Noteholders.

The Issuer is 51 per cent. indirectly owned by the Slovak Republic and 49 per cent. indirectly owned by Energetický a průmyslový holding, a.s., a Czech based strategic investor ("**EPH**"). Situations may arise where the interests of the Slovak Republic and EPH may be different from the interests of Noteholders and such differences could have a material adverse effect on the Issuer's business, results of operations, financial condition, and prospects. The obligations of the Issuer under the Notes do not benefit from any direct or indirect form of guarantees from the Issuer's shareholders.

EU or national regulation on subsidies for renewable energy sources may have an adverse impact on the Issuer's profitability.

Any potential obligation to subsidise or work as an agent in the scheme of subsidies for renewable energy sources without proper compensation in tariffs could have a material adverse effect on the Issuer's results of operations and financial condition.

Decisions by the EU or the Slovak Republic to subsidise renewable energy sources may reduce the volume of natural gas distributed in the Slovak Republic and thereby reduce the Issuer's revenues and negatively affect the Issuer's results of operations and financial condition.

The Issuer may be limited in terms of capital expenditures.

The Issuer's business requires significant capital expenditure on technology development, renewal of the gas distribution network and maintenance of the distribution network to meet its obligations under environmental laws and regulations. Changes to environmental legislation may require new and/or additional capital expenditures which may be more costly or time consuming. The Issuer intends to continue to finance these capital expenditures from its operational cash-flow. See "*Infrastructure Investment and Capital Expenditures*" in the "*Description of the Issuer*".

Risk related to insurance.

The Issuer does not have the benefit of any insurance against damage for the pipelines it owns or for business interruption. As the Issuer's pipelines are a decentralised system of assets, insuring them would not prove economical. Any material damage to its pipelines could have a negative impact on the Issuer's investment plan, financial situation and results of operations. The Issuer is exposed to some operational risk that it will not be compensated for damage by a counter-party.

Risk related to bankruptcy proceedings.

The assets of the Issuer may be subject to attachment in the event of bankruptcy proceedings. Any such attachment could disrupt the operations of the Issuer, reduce efficiency and/or be costly and time consuming to defend and therefore could negatively affect the Issuer's business, results of operations and financial condition.

Risk relating to a malfunction or disruption of the Issuer's information systems.

Information and communication technology plays an important role in the Issuer's business operations. The Issuer operates highly complex and sophisticated information systems (such as servers, networks, applications and databases) which are essential for the everyday operations of its commercial and industrial business and are a key success factor for the Issuer. A malfunction or disruption of service with one of these systems may have material, negative consequences for the Issuer. There is a risk that there might be unauthorised access to the Issuer's sensitive data by third parties and improper use of such data, which may lead to the loss of company secrets and may result in a breach of applicable data protection regulations. As a result, any malfunction, breach or unauthorised use of the Issuer's information technology systems may have a material adverse effect on the Issuer's business, results of operations, financial condition and prospects.

Risk relating to the reorganisation of Slovenský plynárenský priemysel, a.s. ("SPP") and the reorganisation of information technology and other support systems.

The Issuer may be affected by the reorganisation of SPP and the reorganisation of information technology and other support systems. While all hardware and software components necessary for managing the network (remote controls, metering, dispatching activities) are already managed by the Issuer since 2006, the Issuer may experience delays in establishing and implementing its own independent information technology system, accounting software and back-office. Such delays may have a material adverse effect on the Issuer's business, results of operations, financial condition and prospects.

The Issuer's access to financing may be adversely affected by changes to its credit ratings.

Deteriorations in the Issuer's credit ratings may affect the Issuer's borrowing capacity and the cost of any future borrowing. The Issuer's business is financed as of the date of this Prospectus through cash generated from its ongoing operations. However, if the Issuer were to experience reduced credit ratings when it would need to refinance or is need of increased cash, the Issuer would be exposed to the risk of high costs to acquire such refinancing or cash. Failure by the Issuer to find financing may have a material adverse impact on the Issuer's business, results of operations or financial condition in periods where is needed.

The legal infrastructure and the law enforcement system in the Slovak Republic are less developed compared to western Europe.

The legal infrastructure and the law enforcement system in the Slovak Republic are less developed when compared to some western European countries. The average length of judicial proceedings in commercial matters in the Slovak Republic in 2013 (according to the statistics published on the official website of the Slovak Ministry of Justice) was 14 months and may be longer when taken together with appeals, extraordinary remedial procedures or proceedings before the Slovak Constitutional Court. In some circumstances, it may not be possible to obtain legal remedies to enforce contractual or other rights in a timely manner or at all. Although institutions and legal and regulatory systems characteristic of parliamentary democracies have begun to develop in the Slovak Republic, the lack of an institutional history remains a problem. As a result, shifts in government policies and regulations and fiscal measures tend to be less predictable than in countries with more developed democracies. A lack of legal certainty or the inability to obtain effective legal remedies in a timely manner or at all may have a material adverse effect on the Issuer's business, results of operations and financial condition.

Risks related to the Notes

Set out below is a brief description of certain risks relating to the Notes generally:

The Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Prospectus or any applicable supplement;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;

(iv) understand thoroughly the terms of the Notes; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

New Safekeeping Structure

The Issuer intends that the Notes will be registered on issue in the name of a nominee for Euroclear or Clearstream, Luxembourg (as defined below) as common safekeeper. This does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the European Central Bank being satisfied that Eurosystem eligibility criteria have been met.

Redemption prior to maturity for tax reasons

In the event that the Issuer would be obliged to increase the amounts payable in respect of the Notes due to any change in or amendment to the laws or regulations of the Slovak Republic or any political sub-division thereof or of any authority therein or thereof having the power to tax or in the interpretation or administration thereof, the Issuer may redeem all outstanding Notes in accordance with the Conditions of the Notes. It may not be possible to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes and this may only be possible at a significantly lower rate.

Modification and waivers

The Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

Independent Review and Advice

Each prospective investor in the Notes must determine, based on its own independent review and such professional advice as it deems appropriate under the circumstances, that its acquisition of the Notes is fully consistent with its financial needs, objectives and condition, complies and is fully consistent with all investment policies, guidelines and restrictions applicable to it and is a fit, proper and suitable investment for it, notwithstanding the clear and substantial risks inherent in investing in or holding the Notes. A prospective investor may not rely on the Issuer or the Joint Lead Managers or any of their respective affiliates in connection with its determination as to the legality of its acquisition of the Notes or as to the other matters referred to above.

Legality of Purchase

Neither the Issuer, the Joint Lead Managers nor any of their respective affiliates has or assumes responsibility for the lawfulness of the subscription or acquisition of the Notes by a prospective investor in the Notes, whether under the laws of the jurisdiction of its incorporation or the jurisdiction in which it operates (if different), or for compliance by that prospective investor with any law, regulation or regulatory policy applicable to it.

EU Savings Directive

Under Council Directive 2003/48/EC regarding the taxation of savings income (as amended by an EU Council Directive adopted by the European Council on 24 March 2014), Member States are required to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person to an individual in another Member State. These requirements will be broadened to expand the range of payments covered by the Directive to include (i) certain additional types of income and (ii) payments via certain entities or legal arrangements, or payments made via economic operations in certain circumstances, where the person regarded for the purposes of the Directive as the beneficial owner is an individual resident in that other Member State. Member States have until 1 January 2016 to implement national legislation giving effect to these additional requirements and the national legislation must apply from 1 January 2017. For a transitional period, Austria and Luxembourg are instead required (unless during such period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent on the conclusion of certain other agreements relating to information exchange with certain other countries). Luxembourg has announced that it will no longer apply the withholding tax system as from 1 January 2015 and will provide details of payments of interest (or similar income) as from this date. A number of non-EU countries and territories have adopted similar measures.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying and

Transfer Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying and Transfer Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive.

Taxation

Potential purchasers and sellers of the Notes should be aware that they may be required to pay taxes or other documentary charges or duties in accordance with the laws and practices of the country where the Notes are transferred or other jurisdictions. In some jurisdictions, no official statements of the tax authorities or court decisions may be available for innovative financial instruments such as the Notes.

Further, a Noteholder's effective yield on the Notes may be diminished by the tax impact on that Noteholder of its investment in the Notes. Potential investors are advised not to rely upon the taxation summary contained in this Prospectus but to ask for their own tax adviser's advice on their individual taxation with respect to the acquisition, holding, sale and redemption of the Notes. Only these advisors are in a position to duly consider the specific situation of each potential investor. This investment consideration has to be read in connection with the taxation sections of this Prospectus. See "*Taxation*".

Each prospective investor should consult its own advisers as to legal, tax and related aspects of an investment in the Notes.

Subordination of claims of Noteholders who are Related Parties in insolvency proceedings

If a creditor or any of its related parties holds directly or indirectly at least 5 per cent. of the shares or voting rights in a debtor or may exercise influence over the management of the debtor comparable to influence corresponding to such shares or voting rights or if the debtor or any of its related parties holds at least 5 per cent. of the shares or voting rights in the relevant creditor or may exercise influence over the management of the creditor comparable to influence corresponding to such shares or voting rights, such creditor would be treated as a related party under the Slovak Act No. 7/2005 Coll. on Bankruptcy and Restructuring, as amended (any such party, a "**Related Party**").

All claims which are or were owed by the debtor to any creditor which is or was a Related Party of the debtor are in insolvency and restructuring proceedings subordinated to claims of creditors who are not Related Parties and may only be satisfied after such claims of creditors who are not Related Parties have been fully satisfied. The subordination of claims that were at any time held by a Related Party may apply to such claims indefinitely irrespective of whether the claims are later transferred to a creditor that is not a Related Party.

Therefore, if any Noteholder is or becomes a Related Party of the Issuer, the claims of such Noteholder will be subordinated to the claims of all other creditors of the Issuer including claims under the Notes of Noteholders who are not Related Parties. Noteholders who acquire Notes that were at any time held by a Related Party of the Issuer may still be subordinated notwithstanding the fact that such Noteholders are not Related Parties of the Issuer.

The rule may also negatively affect the ability of the Issuer to recover claims against its subsidiaries or shareholders or their respective related parties in restructuring or insolvency proceedings.

Risks related to the market generally

Set out below is a brief description of certain market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

The secondary market generally

The Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes in the secondary market in which case the market or trading price and liquidity may be adversely affected or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market.

The trading market for debt securities may be volatile and may be adversely impacted by many events.

The market for debt securities issued by the Issuer is influenced by economic and market conditions and, to varying degrees, market conditions, interest rates, currency exchange rates and inflation rates in other European and other industrialised countries. There can be no assurance that events in the Slovak Republic, Europe or elsewhere will not cause market volatility or that such volatility will not adversely affect the price of Notes or that economic and market conditions will not have any other adverse effect.

Exchange rate risks

The Issuer will pay principal and interest on the Notes in Euro. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than Euro. These include the risk that exchange rates may change significantly (including changes due to devaluation of Euro or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Euro would decrease (i) the Investor's Currency-equivalent yield on the Notes, (ii) the Investor's Currency equivalent value of the principal payable on the Notes and (iii) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Notes.

Market value of the Notes

The value of the Notes depends on a number of interrelated factors, including economic, financial and political events in the Slovak Republic or elsewhere, including factors affecting capital markets generally and the stock exchanges on which the Notes are traded. The price at which a holder of Notes will be able to sell the Notes prior to maturity may be at a discount, which could be substantial, from the issue price or the purchase price paid by such purchaser.

Credit Rating may not reflect all risks

The Notes are expected to be A by Fitch and Baa1 by Moody's. The ratings assigned by Fitch and Moody's to the Notes may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Change of law

The Terms and Conditions of the Notes are based on the laws of England and Wales in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to the laws of England and Wales or administrative practice or the official application or interpretation of the law of England and Wales after the date of this Prospectus. Furthermore, the Issuer operates in a heavily regulated environment and has to comply with extensive regulations in the Slovak Republic and elsewhere. No assurance can be given as to the impact of any possible judicial decision or change to laws or administrative practices after the date of this Prospectus.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Notes are legal investments for it, (2) the Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of the Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions of the Notes which, subject to amendment and completion and except for the text in italics, will be endorsed on each Definitive Note Certificate (if issued):

The EUR 500,000,000 2.625 per cent. Notes due 2021 (the "**Notes**", which expression includes any further notes issued pursuant to Condition 16 (*Further Issues*) and forming a single series therewith) of SPP — distribúcia , a.s., with its registered seat at Mlynské nivy 44/b, 825 11 Bratislava, Slovak Republic, Identification No.: 35 910 739, registered with the Commercial Register maintained by the Bratislava I District Court, Section: Sa, Insert No.: 3481/B (the "**Issuer**"), are (a) constituted by and subject to, and have the benefit of, a deed of covenant dated 23 June 2014 (as amended or supplemented from time to time, the "**Deed of Covenant**") of the Issuer, and (b) are the subject of a fiscal agency agreement dated 23 June 2014 (as amended or supplemented from time to time, the "**Fiscal Agency Agreement**") between the Issuer, Citibank, N.A., London Branch as fiscal agent (the "**Fiscal Agent**", which expression includes any successor fiscal agent appointed from time to time in connection with the Notes), the other paying and transfer agents named therein (together with the Fiscal Agent, the "**Agents**", which expression includes any successor or additional paying and transfer agents appointed from time to time in connection with the Notes) and Citigroup Global Markets Deutschland AG, in its capacity as Registrar (the "**Registrar**", which expression shall include any successor registrar appointed from time to time in connection with the Notes).

Certain provisions of these Conditions are summaries of the Fiscal Agency Agreement and are subject to their detailed provisions. The Noteholders are bound by, and are deemed to have notice of all the provisions of the Fiscal Agency Agreement applicable to them. Copies of the Fiscal Agency Agreement are available for inspection during normal business hours at the Specified Offices (as defined in the Fiscal Agency Agreement) of the Agents. References to "**Conditions**" are, unless the context otherwise requires, to the numbered paragraphs of these terms and conditions.

1. FORM, DENOMINATION AND TITLE

(a) ***Form and denomination.*** The Notes are in registered form, serially numbered. The Notes will be issued in minimum denominations of EUR 100,000 or any amount in excess thereof which is an integral multiple of EUR 1,000 (each, an "**Authorised Holding**").

(b) ***Title.*** Title to the Notes will pass by transfer and registration as described in Conditions 2 (*Registration*) and 3 (*Transfer of Notes*). The holder (as defined below) of any Note will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or any other interest in it, any writing thereon by any Person (as defined below) (other than a duly executed transfer thereof in the form endorsed thereon) or any notice of any previous theft or loss thereof; and no Person will be liable for so treating the holder.

In these Conditions, "**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, unincorporated organisation, trust or other judicial entity, including, without limitation, any state or agency of a state or other entity, whether or not having separate legal personality, "**Noteholder**" or "**holder**" means the Person in whose name a Note is for the time being registered in the Register (as defined below) (or, in the case of joint holders, the first named thereof) and "**holders**" shall be construed accordingly.

*A certificate in definitive form (a "**Definitive Note Certificate**") will be issued to each Noteholder in respect of its registered holding.*

*The Notes are intended to be issued under the new safekeeping structure and will be represented by a global note (the "**Global Note**"), interests in which will be exchangeable for Definitive Note Certificates in the circumstances specified in the Global Note. The Global Note will be deposited with, and registered in the name of a nominee for, a common safekeeper for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**").*

(c) ***Third party rights***. No Person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

2. REGISTRATION

The Issuer will cause a register (the "**Register**") to be kept at the Specified Office of the Registrar in which will be entered the names and addresses of the holders of the Notes and the particulars of the Notes held by them and all transfers and redemptions of the Notes.

3. TRANSFER OF NOTES

(a) ***Transfer.*** Each Note may, subject to the terms of the Fiscal Agency Agreement and to Conditions 3(b) (*Formalities Free of Charge*), 3(c) (*Closed Periods*) and 3(e) (*Regulations Concerning Transfer and Registration*), be transferred in whole or in part in an Authorised Holding by lodging the relevant Definitive Note Certificate (with the endorsed form of application for transfer in respect thereof duly executed and duly stamped where applicable) at the Specified Office of the Registrar or any Paying and Transfer Agent. A Note may be registered only in the name of, and transferred only to, a named person or persons. No transfer of a Note will be valid unless and until entered on the Register.

The Registrar will within five Business Days (as defined below) of any duly made application for the transfer of a Note, register the transfer and deliver a new Definitive Note Certificate to the transferee (and, in the case of a transfer of part only of a Note, deliver a Definitive Note Certificate for the untransferred balance to the transferor), at the Specified Office of the Registrar, or (at the risk and, if mailed at the request of the transferee or, as the case may be, the transferor otherwise than by ordinary mail, at the expense of the transferee or, as the case may be, the transferor) mail the Definitive Note Certificate by uninsured mail to such address as the transferee or, as the case may be, the transferor may request.

(b) ***Formalities Free of Charge.*** Such transfer will be effected without charge subject to (i) the person making such application for transfer paying or procuring the payment of any taxes, duties and other governmental charges in connection therewith, (ii) the Registrar being satisfied with the documents of title and/or identity of the person making the application and (iii) such reasonable regulations as the Issuer may from time to time agree with the Registrar.

(c) ***Closed Periods.*** Neither the Issuer nor the Registrar will be required to register the transfer of any Note (or part thereof) during the period of 15 days immediately prior to the due date for any payment of principal or interest in respect of the Notes.

(d) ***Business Day.*** In these Conditions, "**Business Day**" means a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the "**TARGET2 System**") or any successor system is open.

(e) ***Regulations Concerning Transfer and Registration.*** All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfer of Notes in Schedule 1 to the Fiscal Agency Agreement. The regulations may be changed by the Issuer with the approval of the Registrar (such approval not to be unreasonably withheld or delayed). A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requested in writing a copy of such regulations.

(f) ***Authorised Holdings.*** No Note may be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a holder are being transferred) the principal amount of the balance of the Notes not transferred are Authorised Holdings.

4. STATUS

The Notes constitute direct, general, unconditional, unsubordinated and (subject to Condition 5 (*Negative Pledge*)) unsecured obligations of the Issuer. The Notes will at all times rank pari passu among themselves and at least pari passu in right of payment with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

5. NEGATIVE PLEDGE

So long as any Note remains outstanding (as defined in the Fiscal Agency Agreement) the Issuer shall not, and shall procure that none of its Subsidiaries will, create or permit to subsist any Security Interest upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure any Relevant Indebtedness or any Guarantee of any Relevant Indebtedness without at the same time or prior thereto securing the Notes equally and rateably therewith or providing such other security for the Notes as may be approved by an Extraordinary Resolution (as defined in the Fiscal Agency Agreement) of Noteholders.

6. DEFINITIONS

For the purposes of these Conditions:

"**Guarantee**" means, in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation):

(a) any obligation to purchase such Indebtedness;

(b) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;

(c) any indemnity against the consequences of a default in the payment of such Indebtedness; and

(d) any other agreement to be responsible for such Indebtedness;

"**Indebtedness**" means any indebtedness of any Person for money borrowed or raised including (without limitation) any indebtedness for or in respect of:

(a) amounts raised by acceptance under any acceptance credit facility;

(b) amounts raised under any note purchase facility;

(c) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with applicable law and generally accepted accounting principles, be treated as finance or capital leases;

(d) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of 60 days; and

(e) amounts raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having the commercial effect of a borrowing;

"**Relevant Indebtedness**" means any Indebtedness which is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument which is, or is capable of being, listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market);

"**Security Interest**" means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction; and

"**Subsidiary**" means, in relation to any company (the "**first Person**") at any particular time, any other company (the "**second Person**"):

(a) whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise; or

(b) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first Person.

7. INTEREST

(a) ***Interest Accrual.*** Each Note bears interest from 23 June 2014 (the "Issue Date") at the rate of 2.625 per cent per annum (the "**Rate of Interest**") payable annually in arrear on 23 June in each year (each, an "**Interest Payment Date**"), subject as provided in Condition 8 (*Payments*). Each period beginning on (and including) the Issue Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date is herein called an "**Interest Period**".

(b) ***Cessation of Interest.*** Each Note will cease to bear interest from the due date for final redemption unless, upon due surrender of the relevant Note, payment of principal is improperly withheld or refused. In such case it will continue to bear interest at such rate (after as well as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal

Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment) in accordance with Condition 15 (Notices).

(c) ***Calculation of Interest.*** The amount of interest payable on each Interest Payment Date shall be EUR 2,625 in respect of each Note of EUR 100,000 denomination and EUR 26.25 in respect of each Note of EUR 1,000 denomination. If interest is required to be paid in respect of a Note on any other date, it shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction and rounding the resulting figure to the nearest cent (half a cent being rounded upwards) and multiplying such rounded figure by a fraction equal to the denomination of such Note divided by the Calculation Amount where:

"**Calculation Amount**" means EUR 1,000; and

"**Day Count Fraction**" means, in respect of any period, the number of days in the relevant period (and including) the first day in such period to (but excluding) the last day in such period, divided by the number of days in the Interest Period in which the relevant period falls.

8. PAYMENTS

(a) ***Principal.*** Payment of principal in respect of each Note and payment of interest due other than on an Interest Payment Date will be made to the person shown in the Register at the close of business on the Record Date (as defined below) and subject to the surrender (or, in the case of part payment only, endorsement) of the relevant Definitive Note Certificate at the Specified Office of the Registrar or of the Paying and Transfer Agents.

(b) ***Interest and other Amounts.*** Payments of interest and other amounts due on an Interest Payment Date will be made to the persons shown in the Register at close of business on the Record Date.

(c) ***Record Date.*** "**Record Date**" means the fifteenth day before the due date for the relevant payment.

(d) ***Payments.*** Each payment in respect of the Notes pursuant to Conditions 8(a) (*Principal*) and 8(b) (*Interest and other Amounts*) will be made by Euro cheque drawn on a branch of a bank in the principal financial centre of any member of state of the European Union mailed to the holder of the relevant Note at his address appearing in the Register. However, upon application by the holder to the Specified Office of the Registrar or any Paying and Transfer Agent not less than 15 days before the due date for any payment in respect of a Note, such payment may be made by transfer to a Euro account maintained by the payee with a bank in the principal financial centre of any member of state of the European Union.

Where payment is to be made by cheque, the cheque will be mailed, on the business day preceding the due date for payment or, in the case of payments referred to in Condition 8(a) (*Principal*), if later, on the business day on which the relevant Definitive Note Certificate is surrendered (or endorsed as the case may be) as specified in Condition 8(a) (*Principal*) (at the risk and, if mailed at the request of the holder otherwise than by ordinary mail, expense of the holder).

Where payment is to be made by transfer to a Euro account, payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated, in the case of principal, on the later of the due date for payment and the day on which the relevant Definitive Note Certificate is surrendered (or, in the case of part payment only, endorsed) and, in the case of interest and other amounts on the due date for payment.

(e) ***Agents***. The names of the initial Paying and Transfer Agents and Registrar and their Specified Offices are set out below. The Issuer reserves the right under the Fiscal Agency Agreement by giving to the relevant Agent concerned at least 60 days' prior written notice, which notice shall expire at least 30 days before or after any due date for payment in respect of the Notes, to vary or terminate the appointment of any Agent or the Registrar and to appoint successor or additional Agents or another Registrar, provided that it will at all times maintain:

(i) a Fiscal Agent;

(ii) a Paying and Transfer Agent in at least one major European city;

(iii) a Paying and Transfer Agent with a Specified Office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Union Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments or any law implementing or complying with, or introduced in order to conform to, such Directive; and

(iv) a Registrar.

Notice of any such removal or appointment and of any change in the Specified Office of any Agent or Registrar will be given to Noteholders in accordance with Condition 15 (*Notices*) as soon as practicable.

(f) ***Payments subject to Fiscal Laws***. All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 10 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(g) ***Delay in Payment***. Noteholders will not be entitled to any interest or other payment in respect of any delay in payment resulting from (i) the due date for payment not being a business day or (ii) a cheque mailed in accordance with this Condition 8 (*Payments*) arriving after the due date for payment or being lost in the mail.

(h) ***Business Days***. In this Condition, "**business day**" means a day on which the TARGET2 System is open and, in the case of surrender of a Definitive Note Certificate, in the place of the Specified Office of the Registrar or relevant Paying and Transfer Agent, to whom the relevant Definitive Note Certificate is surrendered.

9. REDEMPTION AND PURCHASE

(a) ***Scheduled redemption***. Unless previously redeemed or purchased and cancelled as provided below, each Note will be redeemed at its principal amount on 23 June 2021, subject as provided in Condition 8 (*Payments*).

(b) ***Redemption for Taxation Reasons***. The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 15 (*Notices*) (which notice shall be irrevocable) at their principal amount, together with interest accrued to (but excluding) the date fixed for redemption, if, immediately before giving such notice, the Issuer:

(i) It has become or will become obliged to pay additional amounts as provided or referred to in Condition 10 (*Taxation*) obliged to pay such additional amounts as a result of any change in, or amendment to, the laws or regulations of the Slovak Republic or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date; and

(ii) cannot avoid such obligation by the Issuer taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due.

Upon the expiry of any such notice as is referred to in this Condition 9(b) (*Redemption for Taxation Reasons*), the Issuer shall be bound to redeem the Notes in accordance with this Condition 9(b) (*Redemption for Taxation Reasons*).

(c) ***Redemption at the option of Noteholders (Put Option)***. If at any time while any Note remains outstanding, either of the following events shall occur (each, as applicable, a "**Put Event**"):

(i) a Change of Control occurs and, if at the start of the Change of Control Period the Notes are rated by any Rating Agency, a Rating Downgrade in respect of that Change of Control occurs within such Change of Control Period; or

(ii) a Change of Control occurs and, on the occurrence of the Change of Control, the Notes are not rated by any Rating Agency;

then the Holder of each Note will have the option (the "**Put Option**") (unless, prior to the giving of the Put Event Notice (as defined below), the Issuer gives notice of its intention to redeem the Notes under Condition 9(b) (*Redemption for Taxation Reasons*) to require the Issuer to redeem or, at the Issuer's option, to purchase or procure the purchase of that Note on the Redemption Date (as defined below), at its principal amount together with (or, where purchased, together with an amount equal to) accrued interest up to but excluding the Redemption Date.

Promptly upon the Issuer becoming aware that a Put Event has occurred, the Issuer shall give notice (a "**Put Event Notice**") to the Noteholders in accordance with Condition 15 (*Notices*) specifying the nature of the Put Event and the circumstances giving rise to it and the procedure for exercising the Put Option contained in this Condition.

To exercise the Put Option pursuant to this Condition (c) (*Redemption at the option of Noteholders* (*Put Option*)), a holder must deposit the certificate representing the Note(s) to be redeemed with the Registrar or any Paying and Transfer Agent at its Specified Office, together with a duly completed Put Option exercise notice (a "**Put Notice**") in the form obtainable from any Paying and Transfer Agent or the Registrar within the Redemption Period. A Put Notice, once given, shall be irrevocable.

For the purposes of this Condition 9(c):

A "**Change of Control**" shall be deemed to have occurred if:

(i) the Slovak Republic ceases to hold, directly or indirectly at least 50 per cent. plus one share of the ordinary shares of the Issuer; or

(ii) any person or persons (other than the Slovak Republic or Energetický a průmyslový holding, a.s.) acting in concert or any person or persons acting on their behalf, at any time directly or indirectly come(s) to acquire control (whether through share-ownership, acquisition of voting rights, the ability to direct management, or otherwise) of the Issuer.

"**Change of Control Period**" means the period (i) commencing on the date that is the earlier of (A) the date of the first public announcement of the relevant Change of Control and (B) the date of the earliest Potential Change of Control Announcement (as defined below), if any, and (ii) ending on the date which is 120 days after the date of the relevant public announcement (such 120th day, the "**Initial Longstop Date**"); *provided that*, unless any other Rating Agency has on or prior to the Initial Longstop Date effected a Rating Downgrade in respect of its rating of the Notes, if a Rating Agency publicly announces, at any time during the period commencing on the date which is 60 days prior to the Initial Longstop Date and ending on the Initial Longstop Date, that it has placed its rating of the Notes under consideration for rating review either entirely or partially as a result of the relevant public announcement of the Change of Control or Potential Change of Control Announcement, the Change of Control Period shall be extended to the date which falls 60 days after the date of such public announcement by such Rating Agency;

"**Rating Agency**" means any of the following: (i) Fitch Ratings Limited or Moody's Investors Service Limited; or (ii) any other rating agency of equivalent international standing specified from time to time by the Issuer, and, in each case, their respective successors or affiliates;

a "**Rating Downgrade**" shall be deemed to have occurred in respect of a Change of Control if, within the Change of Control Period, the rating previously assigned to the Notes by any Rating Agency is (i) withdrawn or (ii) changed from an investment grade rating (BBB-/Baa3, or their respective equivalents for the time being, or better) to a non-investment grade rating (BB+/Ba1, or their respective equivalents for the time being, or worse) or (iii) if such rating previously assigned to the Notes by any Rating Agency was below an investment grade rating (as described above), lowered by at least one full rating notch (for example, from BB+ to BB or their respective equivalents); and

"**Potential Change of Control Announcement**" means any public announcement or statement by the Issuer, the Slovak Republic or any other, direct or indirect, shareholder of the Issuer or any actual or potential bidder or any designated adviser thereto relating to any specific and near-term potential Change of Control (where "**near-term**" shall mean that such potential Change of Control is reasonably likely to occur, or is publicly stated by the Issuer, any such actual or potential bidder or any such designated adviser to be intended to occur, within 120 days of the date of such announcement or statement);

"**Redemption Date**" means, in respect of any Note, the date which falls five days after the last day of the Redemption Period; and

"**Redemption Period**" means the period from and including the date on which a Change of Control Event occurs (whether or not the Issuer has given a Put Event Notice in respect of such event) to and including the date falling 30 days after the date on which such Put Event Notice is given, provided that if no Put Event Notice is given, the Redemption Period shall not terminate.

(d) ***No other Redemption.*** The Issuer shall not be entitled to redeem the Notes otherwise than as provided in Conditions 9(a) (*Scheduled Redemption*) and 9(b) (*Redemption for Taxation Reasons*) above.

(e) ***Purchase.*** The Issuer or any of its Subsidiaries may at any time purchase or procure others to purchase for its account Notes in the open market or otherwise and at any price. The Notes so purchased may be held or resold (provided that such resale is outside the United States and is otherwise in compliance with all applicable laws) or surrendered for cancellation at the option of the Issuer or otherwise, as the case may be in compliance with Condition 9(f) (*Cancellation of Notes*) below. The Notes so purchased, while held by or on behalf of the Issuer or any such Subsidiary, shall not entitle the holder to vote at any meeting of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Condition 14(a) (*Meetings of Noteholders*). Any purchase by tender shall be made available to all Noteholders alike.

(f) ***Cancellation of Notes.*** All Notes which are redeemed pursuant to Conditions 9(b) (*Redemption for Taxation Reasons*) to 9(c) (*Redemption at the option of the Noteholders (Put Option)*) or submitted for cancellation pursuant to Condition 9(e) (Purchase) will be cancelled and may not be reissued or resold. For so long as the Notes are admitted to trading on the Irish Stock Exchange (the "**Stock Exchange**") and the rules of such exchange so require, the Issuer shall promptly inform the Stock Exchange of the cancellation of any Notes under this Condition 9(f) (*Cancellation of Notes*).

10. TAXATION

(a) All payments of principal and interest in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by or within the Slovak Republic or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required, except that no such additional amounts shall be payable in respect of any Note:

(i) ***Other Connection:*** presented for payment by or on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of his having some connection with the Slovak Republic other than the mere holding of the Note;

(ii) ***Presentation more than 30 days after the Relevant Date:*** where (in the case of a payment of principal or interest on redemption) the relevant Definitive Note Certificate is surrendered for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder of it would have been entitled to such additional amounts on surrendering such Definitive Note Certificate for payment on the last day of such period of 30 days;

(iii) ***Payment to Individuals:*** where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Union Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive;

(iv) ***Payment by another Paying and Transfer Agent:*** where (in the case of a payment of principal or interest on redemption) the relevant Definitive Note Certificate is surrendered for payment by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by surrendering the relevant Definitive Note Certificate to another Paying and Transfer Agent in a Member State of the European Union; or

(v) ***Payment in the Slovak Republic:*** where (in the case of a payment of principal or interest on redemption) the relevant Definitive Note Certificate is surrendered for payment in the Slovak Republic.

(b) ***Taxing jurisdiction.*** If the Issuer becomes subject at any time to any taxing jurisdiction other than the Slovak Republic, references in this Condition 10 (Taxation) to the Slovak Republic shall be construed as references to the Slovak Republic and/or such other jurisdiction.

"***Relevant Date***" means whichever is the later of (i) the date on which such payment first becomes due and (ii) if the full amount payable has not been received in London by the Fiscal Agent on or prior to such due date, the date on which, the full amount plus any accrued interest having been so received, notice to that effect shall have been given to the Noteholders. Any reference in these Conditions to principal and/or interest shall be deemed to include any additional amounts which may be payable under this Condition or any undertaking given in addition to or substitution for it under the Fiscal Agency Agreement.

11. PRESCRIPTION

Claims in respect of principal and interest will become void unless the relevant Definitive Note Certificate is surrendered for payment as required by Condition 8 (Payments) within a period of 10 years in the case of principal and five years in the case of interest from the appropriate Relevant Date.

12. EVENTS OF DEFAULT

The Fiscal Agent shall upon receipt of written requests to the Issuer at the Specified Office of the Fiscal Agent from the holders of not less than one quarter in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution declare the Notes, without further formality, due and payable in each case at their principal amount together with accrued interest if any of the events listed in paragraphs (a) to (g) below (each, an "**Event of Default**") occurs.

(a) ***Non-payment***. The Issuer fails to pay any amount of principal in respect of the Notes on the due date for payment thereof or fails to pay any amount of interest in respect of the Notes within 7 days of the due date for payment thereof; or

(b) ***Breach of other obligations***. The Issuer defaults in the performance or observance of any of its other obligations under the Notes and such default is incapable of remedy or, if capable of remedy, remains unremedied for 45 days after notice of such default has been given to the Issuer at the Specified Office of the Fiscal Agent by any holder of Notes; or

(c) ***Cross-default***.

(i) Any Indebtedness of the Issuer or any of its Subsidiaries is not paid when due or (as the case may be) within any originally applicable grace period; or

(ii) any such Indebtedness becomes (or becomes capable of being declared) due and payable prior to its stated maturity otherwise than at the option of the Issuer or (as the case may be) the relevant Subsidiary or (provided that no event of default, howsoever described, has occurred) any Person entitled to such Indebtedness; or

(iii) the Issuer or any of its Subsidiaries fails to pay when due any amount payable by it under any Guarantee of the Indebtedness;

provided that the amount of Indebtedness referred to in Conditions 12(c)(i) and/or 12(c)(ii) above and/or the amount payable under any Guarantee referred to in Condition 12(c)(iii) above individually or in the aggregate exceeds EUR 20,000,000 (or its equivalent in any other currency or currencies); or

(d) ***Judgment default***. One or more judgments or orders or arbitration awards for the payment of any amount/an amount in excess of EUR 20,000,000 (or its equivalent in any other currency or currencies), whether individually or in aggregate, is rendered or granted against the Issuer or any of its Subsidiaries and continue(s) unsatisfied and unstayed for a period of 45 days after the date thereof or, if later, the date therein specified for payment; or

(e) ***Security Enforced***. A secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or any part of the undertaking, assets and revenues of the Issuer or any of its Subsidiaries, provided that the value of such undertaking, assets and revenues or the relevant part thereof exceeds EUR 20,000,000 (or its equivalent in any other currency or currencies), whether individually or in aggregate; or

(f) ***Bankruptcy***.

(i) (A) the Issuer or any of its Subsidiaries becomes insolvent, over indebted, or is unable to pay its debts as they fall due, (B) any corporate action, legal proceedings or other procedure or step is taken in relation to (1) bankruptcy of the Issuer or any its Subsidiaries or (2) restructuring of the Issuer or any its Subsidiaries or a similar arrangement with any creditor of the Issuer or any of its Subsidiaries, unless the petition to commence such proceedings or procedure is discharged, stayed or dismissed within 60 calendar days of such commencement; (C) an administrator or liquidator is appointed (or application for any such appointment is made) in respect of the Issuer or any of its Subsidiaries or the whole or any part of the undertaking, assets and revenues of the Issuer or any of its Subsidiaries, (D) the Issuer or any of its Subsidiaries takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its Indebtedness or any Guarantee of any Indebtedness given by it or (E) the Issuer or any of its Subsidiaries ceases or threatens to cease to carry on all or any substantial part of its business; or

(ii) an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer or any of its Subsidiaries; or

(iii) any event occurs which under the laws of the Slovak Republic has an analogous effect to any of the events referred to in Conditions 12(f)(i) and 12(f)(ii) above; or

(g) ***Invalidity or unenforceability.***

(i) Any action, condition or thing at any time required to be taken, fulfilled or done in order (A) to enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under and in respect of the Notes, (B) to ensure that those obligations are legal, binding and enforceable and (C) to make the Notes admissible as evidence in the courts of the Slovak Republic is not taken, fulfilled or done; or

(ii) it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Notes; or

(iii) the Deed of Covenant is not (or is claimed by the Issuer not to be) in full force and effect.

13. REPLACEMENT OF NOTES

If any Definitive Note Certificate is lost, stolen, mutilated, defaced or destroyed it may be replaced at the Specified Office of the Registrar or any Paying and Transfer Agent subject to all applicable laws and stock exchange or other relevant authority requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require (provided that the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Definitive Note Certificates must be surrendered before replacements will be issued.

14. MEETINGS OF NOTEHOLDERS; MODIFICATION

(a) ***Meetings of Noteholders***. The Fiscal Agency Agreement contains provisions for convening meetings of Noteholders to consider any matters relating to the Notes, including the modification of any provision of these Conditions or the Fiscal Agency Agreement. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer or by the Noteholders holding not less than one-tenth in principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing a clear majority of the aggregate principal amount of the Notes for the time being outstanding, or, at any adjourned meeting, one or more persons being or representing Noteholders (whatever the principal amount of the Notes for the time being outstanding so held or represented); provided, however, that any proposals relating to any Reserved Matter (as defined below) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one-third of the principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present at the meeting(s) or not.

(b) ***Reserved Matters***. In these Conditions, "Reserved Matter" means any proposal whereby:

(i) the principal amount of, or interest on, or other amounts in respect of the Notes is to be reduced or cancelled or the rate of interest on the Notes is to be reduced;

(ii) the status of the Notes under Condition 4 (*Status*) is to be amended;

(iii) the Events of Default set out in Condition 12 (*Events of Default*) are to be amended;

(iv) the currency of payment of the Notes or the due date or date for any payment in respect of the Notes is to be changed;

(v) any scheme or proposal for the exchange, substitution or sale of the Notes for or the conversion of the Notes into or the cancellation of the Notes in consideration of shares, stock, notes, debentures, debenture stock and/or other obligations and/or securities of the Issuer or any other body corporate formed or to be formed, or for or into or in consideration of cash, or partly for or into or in consideration of such shares, stock, notes, debentures, debenture stock and/or other obligations and/or securities as aforesaid and partly for or into or in consideration of cash is to be effected;

(vi) the provisions contained in Schedule 4 (*Provisions for Meetings of Noteholders*) to the Fiscal Agency Agreement concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution or the definition of "Extraordinary Resolution" or the definition of "outstanding" is to be modified;

(vii) this definition of Reserved Matter is to be amended; or

(viii) the Deed of Covenant is to be modified or cancelled.

(c) ***Written resolution***. A resolution in writing will take effect as if it were an Extraordinary Resolution if it is signed (i) by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders under the Fiscal Agency Agreement or (ii) if such Noteholders have been given at least 21 days' notice of such resolution, by or on behalf of persons holding three-quarters of the aggregate principal amount of the outstanding Notes. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(d) ***Modification without Noteholders' consent***. The Fiscal Agent may agree, without the consent of the Noteholders, to any modification of the Notes or the Fiscal Agency Agreement which is in its opinion of a formal, minor or technical nature or is made to correct a manifest error. Any such modification shall be binding on the Noteholders and, if the Fiscal Agent so requires, shall be notified to the Noteholders as soon as practicable thereafter.

15. NOTICES

Notices to Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. Notices to Noteholders will be valid if published, for so long as the Notes are admitted to trading on the Stock Exchange and the rules of such exchange so require, in a leading newspaper having general circulation in Ireland (which is expected to be the Irish Times) or, if, in the opinion of the Fiscal Agent, such publication is not practicable, in a leading English language daily newspaper of general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made.

So long as any of the Notes are represented by the Global Notes, notices required to be published in accordance with Condition 15 (Notices) may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg for communication by them to the relevant accountholders, provided: (i) that such notice is also delivered to the Stock Exchange; and (ii) so long as the Notes are admitted to trading on the Stock Exchange and the rules of the Stock Exchange so require, publication will also be made in a leading daily newspaper having general circulation in Dublin (which is expected to be the Irish Times).

16. FURTHER ISSUES

The Issuer may from time to time, without notice to or the consent of the Noteholders and in accordance with the Fiscal Agency Agreement, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the date for and amount of the first payment of interest) so as to be consolidated and form a single series with the Notes ("**Further Notes**").

17. CURRENCY INDEMNITY

The Fiscal Agency Agreement provides that if any Noteholder receives or recovers any amount in a currency other than the Contractual Currency (as defined in the Fiscal Agency Agreement) (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of the Issuer or otherwise), in respect of any sum expressed to be due to it from the Issuer that amount will only discharge the Issuer to the extent of the Contractual Currency amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so).

If that Contractual Currency amount is less than the Contractual Currency amount expressed to be due to the relevant Noteholder under the Notes, the Issuer will indemnify such Noteholder against any loss sustained by it as a result on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Registrar or any Paying and Transfer Agent with its Specified Office in London. In any event, the Issuer will indemnify the relevant Noteholder against the cost of making any such purchase.

18. GOVERNING LAW AND JURISDICTION

(a) ***Governing Law***. The Notes and any non-contractual obligations arising out of or in connection with the Notes are governed by English law.

(b) ***English Courts***. The courts of England have exclusive jurisdiction to settle any dispute (a "**Dispute**"), arising out of or in connection with the Notes (including a dispute relating to the existence, validity or cancellation of the Notes or any non-contractual obligation arising out of or in connection with the Notes) or the consequences of its nullity.

(c) ***Appropriate Forum***. The Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it not argue to the contrary.

(d) ***Rights of Noteholders to take Proceedings outside England***. Condition 18(b) (English Courts) is for the benefit of the Noteholders only. As a result, nothing in this Condition 18 (Governing Law and Jurisdiction) prevents the Noteholders from taking proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, the Noteholders may take concurrent Proceedings in any number of jurisdictions.

(e) ***Service of Process***. The Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Law Debenture Corporate Services Limited at Fifth Floor, 100 Wood Street, London EC2V 7EX, or to such other person with an address in England or Wales and/or at such other address in England or Wales as the Issuer may specify by notice in writing to the Noteholders. Nothing in this paragraph shall affect the right of any Noteholders to serve process in any other manner permitted by law. This clause applies to Proceedings in England and to Proceedings elsewhere.

(f) ***Consent to Enforcement etc***. The Issuer consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment which is made or given in such Proceedings.

(g) ***Waiver of Immunity***. To the extent that the Issuer may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgement or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer or its assets or revenues, the Issuer agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

USE OF PROCEEDS

The net proceeds of the issue of the Notes, expected to amount to approximately EUR 496,565,060 after deduction of the total expenses related to the admission to trading, but prior to the other expenses incurred (including the combined management and underwriting commission of the Joint Lead Managers) in connection with the issue of the Notes, will be upstreamed by a loan directly or indirectly to its ultimate shareholders, the Slovak Republic and Energetický průmyslový holding, a.s. It is intended that as part of this process a substantial part of the proceeds of the Notes that are upstreamed directly or indirectly to Slovak Gas Holding B.V. will be used to partially refinance a loan facility provided to Slovak Gas Holding B.V., the lenders in respect of which include, amongst other lenders, each of the Joint Lead Managers and/or their respective affiliates.

DESCRIPTION OF THE ISSUER

1. Introduction

SPP — distribúcia , a.s. ("**SPPD**" or the "**Issuer**") is engaged in the distribution of natural gas in the Slovak Republic. SPPD owns the gas distribution network in the Slovak Republic and is the lead distributor of natural gas in the Slovak Republic in terms of the number of customers and volume of gas distributed, which accounts for approximately 98 per cent. of the total natural gas volumes distributed in the Slovak Republic (source: National Report 2012, RONI).

SPPD is a joint stock company (*akciová spoločnost*), which is currently a wholly-owned subsidiary of SPP Infrastructure, a.s. ("**SPPI**"), and is indirectly owned by the Slovak Republic (51 per cent.) and indirectly owned by EPH (49 per cent., including management control), a Czech based strategic investor. Pursuant to a restructuring plan approved by the Slovak Republic on 4 September 2013, a restructuring of SPP and its subsidiaries was recently finalised whereby EPH and the Slovak Republic remained the ultimate shareholders of SPPD (see "—History and Development of SPPD").

SPPD operates approximately 6,294 kilometres of high-pressure pipelines and 26,826 kilometres of medium-pressure and low-pressure pipelines running across the Slovak Republic. In 2013, 5.046 billion cubic meters of natural gas were distributed through SPPD's distribution network to customers.

SPPD's annual total revenue for the years ended 31 December 2013 and 31 December 2012 was approximately €372 million and €390 million, respectively. SPPD's Adjusted EBITDA[1] for the years ended 31 December 2013 and 31 December 2012 was approximately €239 million and €253 million, respectively. The following table shows the reconciliation between operating profit and Adjusted EBITDA:

	Year ended 31 December	
	2012	2013
	(EUR in thousands)	
Operating Profit	139,844	132,234
Depreciation and amortisation	104,735	101,589
Provisions and impairment losses, net	8,302	4,874
Adjusted EBITDA	**252,881**	**238,697**

SPPD's net debt for the years ended 31 December 2013 and 31 December 2012 was approximately €92 million and €0, respectively.

SPPD's activities are exclusively focused on the Slovak market. The Slovak Republic is one of the stronger economies in the EU with sustainable public finance and a sound financial sector. The Slovak Republic joined the Eurozone in 2009. The global economic slowdown caused a 4.9 per cent decline in Slovak GDP in 2009. However, GDP grew in real terms by 4.4 per cent. in 2010 (EU27 average 2.0 per cent.), by 3.0 per cent. in 2011 (EU27 average 1.7 per cent.), by 1.8 per cent. in 2012 (EU27 average showed a decline of 0.4 per cent.) and by 0.9 per cent. in 2013 (EU27 average 0.1 per cent.). The main driver of the Slovak Republic's economy has been the expansion of its export capacity and milder fiscal consolidation. Slovak public debt reached 55.4 per cent. of GDP in 2013 (EU27 average 87.4 per cent.). The budget deficit was 4.5 per cent. in 2012 and 2.8 per cent. in 2013, slightly above and below the EU27 averages of 3.9 and 3.3 per cent., respectively. The budget deficit is expected to decrease below 2.8 per cent. in 2014.[2]

The Slovak Republic is rated A with a stable outlook by S&P, A2 with a stable outlook by Moody's and A+ with a stable outlook by Fitch.

As of the date of this Prospectus, SPPD has not issued any securities admitted to trading on any public market in the Slovak Republic or elsewhere.

1 Adjusted EBITDA = Operating profit + Depreciation and amortisation + Provisions and impairment losses, net.

2 All actual data in this paragraph are sourced from Eurostat. The deficit forecasts have been sourced from the European Commission (Spring 2014 forecast).

2. General information about SPPD

SPPD was incorporated in the Slovak Republic on 10 December 2004 and is registered in the Commercial Register of District Court Bratislava I, Section: Sa, under reference number 3481/B, with company identification number 35 910 739. SPPD is a joint stock company (akciová spoločnost) with a Board of Directors (predstavenstvo) governed by (i) the laws and regulations applicable to commercial companies in the Slovak Republic, in particular, the Slovak Commercial Code, as amended (Act No. 513/1991 Coll.), and (ii) specific provisions of Slovak law in relation to natural gas distribution, including the Act on Energy and the Act on Regulation implementing Directive 2009/73/EC. The registered office of SPPD is Mlynské nivy 44/b, 825 11 Bratislava, Slovak Republic, its telephone numbers are +421 (2) 6262 5031 and +421 (2) 6262 5001 and its website is http://www.spp-distribucia.sk.

a. History and Development of SPPD

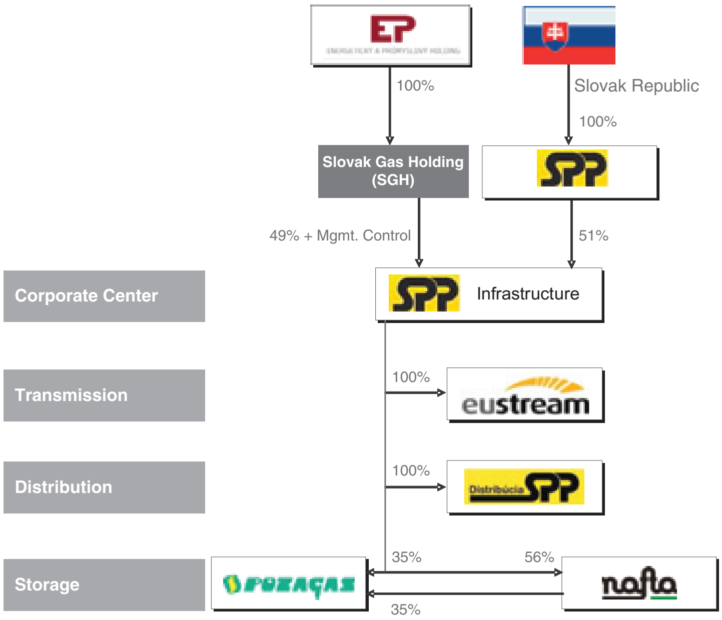
SPPD is the result of almost 47 years of history of national gas distribution within the Slovak Republic. The first pipeline began operations in 1967 with the opening of the International Gas Pipeline "Brotherhood". First volumes of gas for foreign customers were transported in 1968 via the Brotherhood pipeline, which SPPD continues to own and operate as a distribution high-pressure pipeline. This pipeline was used for transporting the first deliveries of gas from Russia to Austria in 1968 and is still a part of the Slovak gas distribution system. On 1 January 1993, Czechoslovakia was separated as a political union and the Czech Republic and the Slovak Republic emerged as independent states. As a consequence, the Czechoslovak gas transmission system was also split. Gas transmission services in the Slovak territory were incorporated into the business activities of Slovenský plynárenský priemysel, s.p., a fully state-owned enterprise ("**SPP s.p.**"). In 2001, SPP was established by converting SPP s.p. into a joint-stock company. In 2002, the Slovak Republic sold a 49 per cent. share of SPP and relinquished management control to the strategic investors German E.ON Ruhrgas and French GDF Suez (which had the right to appoint a majority of the Board of Directors).

Prior to 2006, SPP distributed natural gas via its gas distribution division. In response to the legislative requirements of "legal unbundling", the gas distribution division was carved out of SPP and established as a separate entity, SPPD, while the gas transmission business was carved out of SPP and established as a separate entity which is now named Eustream. SPPD commenced operations as a gas distribution network operator on 1 July 2006. Since then, the gas distribution network operated by SPPD has been continuously upgraded in line with the growing demands of the Slovak gas market. SPPD is not involved in the business of gas storage, supply or transmission. SPPD takes over all gas that belongs to shippers from the transmission pipeline operated by Eustream for distribution to end-customers.

On 23 January 2013, EPH acquired from German E.ON Ruhrgas and French GDF Suez (through its wholly-owned subsidiary Slovak Gas Holding) a 49 per cent. share (including management control) in SPP.

Pursuant to a restructuring plan approved by the Slovak Republic on 4 September 2013, on 20 May 2014 SPP contributed the shares in SPPD and the other SPP subsidiaries into a new holding company SPPI in which, after completion of the restructuring on 4 June 2014, SPP now holds a 51 per cent. share and EPH continues to indirectly hold a 49 per cent. share (including management control). The full ownership of SPP has been transferred to the Slovak Republic. Thus, EPH and the Slovak Republic continue to remain the ultimate shareholders, with the same respective shareholdings, of SPPD (see "—Major Shareholders and Organisational Structure of SPPD"). As the restructuring took place at the level of SPPD's shareholder, the completion of the restructuring has not had and is not expected to have a material financial impact on SPPD.

The following diagram shows the current ownership structure of the entities owned by SPP:



b. Strategy of SPPD

The corporate purpose of SPPD is to secure the reliable, safe and effective distribution of natural gas from suppliers from the transmission network exit point to end-customers in the Slovak Republic. SPPD's vision is to continue being a stable, trustworthy and efficient provider of quality services in the fields of natural gas distribution by foreseeing the future needs of customers and also creating value for its customers, shareholders and employees. SPPD is also responsible for securing connection to the distribution network and for meter-readings of consumed natural gas. SPPD is not involved in the business of gas storage, supply or transmission.

SPPD's long-term strategy focuses on the following goals: (i) continuing to provide reliable natural gas distribution services with a focus on high safety levels and uninterrupted distribution in the Slovak Republic; (ii) continuous improvement of operational efficiency with a focus on optimising technological and maintenance processes and reduction of gas lost during distribution; (iii) continuous investment in cost optimisation by redesigning SPPD's investment process and improving procurement activities by finding lower prices for goods and services to be purchased; (iv) improvement of customer relationship management, notably for strategic customers, and offering solutions tailored to customer needs; (v) motivating qualified employees and job-seekers by providing favourable work conditions; and (vi) continuous financial stability and profitability.

SPPD believes that the most important part of its strategy is to continue its track record of uninterrupted operations. In addition, SPPD continuously monitors the efficiency of its distribution network and continuously seeks to decrease the cost of gas distribution. SPPD places emphasis on the efficient development of the distribution network while maintaining its non-discriminatory approach to all of its customers.

c. Key Strengths of SPPD

- SPPD's revenues are considered by management to be stable and predictable due to its position as the natural monopoly distributor of gas in the Slovak Republic. SPPD's distribution network provides access to natural gas to approximately 94 per cent. of the Slovak population (source: National Report 2013, RONI).
- Regulation of gas distribution in the Slovak Republic is based on a clear and stable framework that provides a good degree of visibility of revenue generation. Regulation of natural gas distribution tariffs is based on a price cap methodology recently re-affirmed by the independent regulatory authority, RONI, by a price decree in 2013. Due to the regulated tariff structure, management considers almost 50 per cent. of SPPD's revenues as fixed.
- SPPD's business is cash generative which allows it to operate without relying on additional operational financing. The business has very limited non-discretionary capital expenditure requirements as SPPD carefully evaluates each individual capital expenditure investment above €100 thousand in a standardised and well-established process approved by SPPD's Board of Directors to evaluate legal/regulatory

requirements as well as economic and strategic rational. Only after carefully considering all operational and investment cash needs and future debt service, does SPPD distribute excess cash to its shareholders via dividends and/or intercompany debt.

- SPPD's credit risk is mitigated by collecting receivables from natural gas shippers and not from end-customers within 14 days from natural gas distribution. The receivables from natural gas shippers are secured by bank guarantees or cash collateral which allow for reliable cash collection.
- As of the date of this Prospectus, Slovak legislation requires each potential customer that seeks to consume gas to request in the first instance permission from SPPD to connect to SPPD's distribution network. The potential customer may seek alternative connection possibilities, such as a direct connection to transmission pipelines, only if SPPD rejects the initial connection request or if the existing or planned distribution capacities in the relevant area are not sufficient.
- SPPD's operation is considered by management to be cost effective and focused on the optimisation of opportunities. In recent years, SPPD has implemented changes that led to decreases of operating expenditures and investment costs without impacting the reliability and safety of operations.
- SPPD is by law, subject to certain statutory exceptions such as a state of emergency or its prevention, the risk of imminent threat to life, health or property, accidents or damage to gas facilities, released from any liabilities (unless the damage is due to the fault of SPPD) which it might otherwise have towards affected customers in the event that temporary crisis measures result in a restriction or interruption of gas distribution.
- SPPD believes that it will continue to be able to attract a high calibre of professionals, with solid experience of the energy industry.
- Since the Slovak gas market has liberalised, the sources of natural gas have increased. After the interruption of gas from Russia in 2009, liberalisation increased through the implementation of reverse flow in the Slovak Republic and in neighbouring countries, especially the Czech Republic. Thus, should there be any future interruption of gas from Russia, SPPD would be able to source gas from the Czech Republic, Austria or through a recently new interconnector to Hungary. In addition, SPPD holds gas on stock to continuously supply all households in the Slovak Republic for 30 days of average winter period consumption and for a substantially longer period during the summer.

3. Business Overview and Principal Activities of SPPD

a. Presentation of SPPD's business

SPPD is the owner and operator of the distribution network of natural gas starting from the exit point of the transmission networks through gas distribution systems and delivering the natural gas to end-customers, which accounts for approximately 98 per cent. of the total natural gas volumes distributed in the Slovak Republic and is therefore the largest natural gas distributor in the Slovak Republic (source: National Report 2012, RONI), with an effective monopoly. SPPD distributes annually more than 5.0 billion cubic meters of natural gas to approximately 1.5 million off-take points and operates approximately 6,294 kilometres of high-pressure pipelines and 26,826 kilometres of low and medium pressure pipelines. SPPD provides gas distribution to end-customers under standard framework distribution agreements entered into with natural gas suppliers. Currently, SPPD has standard framework distribution agreements in place with 22 natural gas suppliers with 5 major suppliers holding over 90 per cent. of the market share.

In addition to natural gas distribution, SPPD sells distribution capacities, operates and performs maintenance of the gas distribution network and is involved in gas balancing, dispatching and ensuring the security of supply for households. SPPD controls the dispatch of its distribution network and measures natural gas flow at the input and output points to ensure 24-hour access to natural gas for end-customers.

The following table shows the breakdown of total revenue for the years ended 31 December 2013 and 2012:

	Year ended 31 December	
	2012	**2013**
	(EUR in thousands)	
Natural gas distribution	387,179	369,375
Other[(1)]	2,761	3,066
Total revenues	**389,940**	**372,441**

(1) Includes revenue from sales of distribution capacities, development, operation and maintenance of gas network, gas balancing and dispatching.

b. Natural Gas Distribution

i. *General*

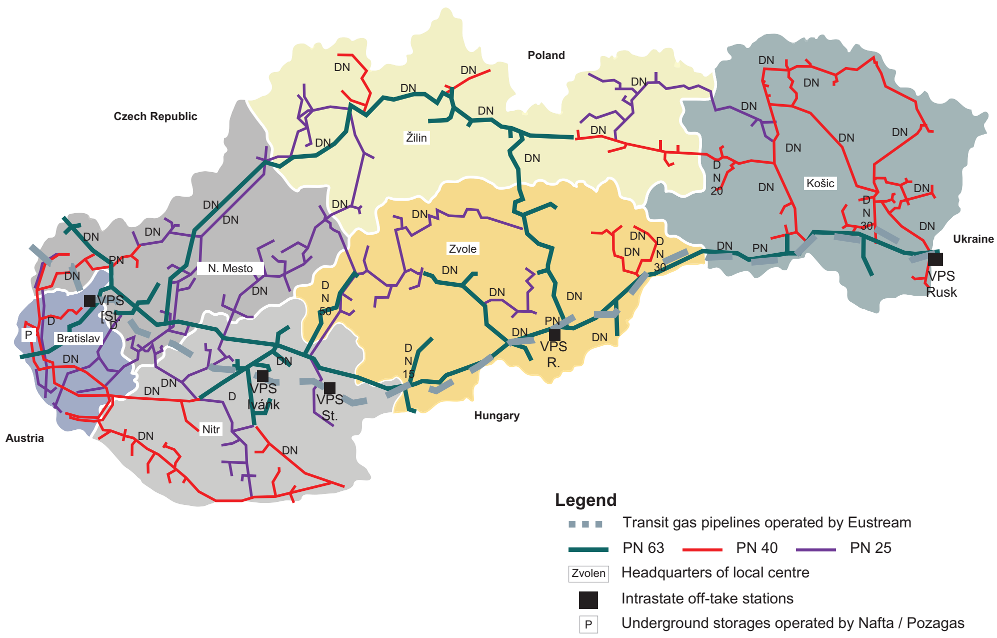
Natural gas distribution is the final stage in the delivery of natural gas whereby the natural gas from a supplier is carried from the transmission system and delivered to end-consumers through SPPD's distribution systems. In 2012 and 2013, SPPD distributed approximately 5.03 billion and 5.05 billion cubic meters of natural gas, respectively. Currently, SPPD's distribution network provides access to natural gas to approximately 94 per cent. of the Slovak population (source: National Report 2013, RONI).

The licence for providing distribution services is granted by RONI. The licenses for gas distribution have no time limit. All assets required for distribution of natural gas are owned by SPPD or rented from third parties (such as real-estate developers who built gas infrastructure for newly built real estates) and are not linked to the ownership of the licence.

As required by law, SPPD allows access to the gas distribution network and offers its customers distribution services on a transparent and non-discriminatory basis (see "—*Third party access to the distribution network*"). Contracts entered into until 2016 are subject to the current regulatory period for tariff determination. The next regulatory period will begin in 2017 and the tariff applicable for such period will apply to services provided in such period, both for contracts continuing in 2017 (and onwards) and for contracts commencing in 2017 or later in the such regulatory period. Prices for gas distribution are regulated by a formula for calculating average tariffs (see "—Tariffs for using the gas distribution network" and "—Third party access to the distribution network").

ii. *SPPD's gas distribution network*

Currently, SPPD holds a natural monopoly of gas distribution in the Slovak Republic. Its main assets consist of (i) high-pressure pipelines and (ii) medium-pressure and low-pressure pipelines running across the Slovak Republic with a total length of approximately 6,294 kilometres and 26,826 kilometres, respectively. SPPD's distribution network is organised around six local centres. The map below shows the span of SPPD's distribution network across the Slovak Republic:



As a distribution network operator, SPPD is required to prepare a five-year plan for development of its distribution network and to submit the development plan annually to the Ministry of Economy of the Slovak Republic, together with detailing compliance with the development plan.

iii. *Third party access to the distribution network*

The European and Slovak regulatory framework in the gas sector is intended to ensure competitive and efficient European gas markets. An important element of that framework is the principle of transparent and non-discriminatory access to gas distribution networks. Accordingly, the Act on Energy requires gas distribution network operators such as SPPD to guarantee a right to access the distribution network, ancillary services and accumulation of gas in the network to all gas market participants. In setting the conditions under which SPPD and other gas distribution network operators are required to grant access to their networks, they are required to grant such access on a transparent and non-discriminatory basis. Subject to limited exceptions, such as lack of capacity of the distribution network or a need to give priority to public service obligations, SPPD therefore may not refuse access to its gas distribution networks. By law, a gas supplier with a take-or-pay contract may request for RONI to grant a temporary exemption from SPPD's obligation to provide third party access to the distribution network if there is a threat of serious economic and financial difficulties in connection with such gas supplier fulfilling its commitments in take-or-pay contracts. However, such exemption is in practice not applicable to SPPD as the gas supply at the entry points will always match the gas distributed at the off-take points.

iv. Operation of SPPD Network

SPPD's distribution service consists of taking over the gas delivered to it by the transmission network at one or more entry points and delivering it to network users. SPPD's distribution network is supported by 1,728 gate stations and regulation stations. The gate stations are the points through which the natural gas transported through the transmission system flows of Eustream enter into SPPD's distribution system. Natural gas can be transported to the Slovak Republic from Ukraine, the Czech Republic, Austria and recently also through Hungary. The gate stations (i) reduce the pressure in the line from transmission levels to distribution levels, (ii) add odorant to the natural gas (see "—*Maintenance and safety*" below), and (iii) measure the flow rate of the gas to determine the amount being received by the utility. The gate stations then move the natural gas to SPPD's pipelines, through which it is delivered to off-take points. As gas flows through the pipelines, regulator stations control the flow from high to low pressures. Whenever pressure drops below a set point, a regulator station opens accordingly to allow more gas to flow. Conversely, when pressure rises above a set point, a regulator station closes to allow for adjustment.

SPPD continuously monitors the gas flow and pressure rates in different parts of the distribution network via monitoring centres. Currently, SPPD has four monitoring centres. The monitoring centres use sophisticated computer software to monitor and assess the distribution network's performance.

v. SPPD as Slovak Gas Dispatching Centre

In accordance with the decision of the Ministry of Economy of the Slovak Republic, SPPD fulfils the tasks of the gas dispatching centre for the territory of the Slovak Republic. SPPD is responsible for, among other things, balancing the gas distribution network in the Slovak Republic which is treated as one balancing zone and crisis management unit (see also "—Crisis management in the gas sector").

In order to ensure the balancing of the distribution system, SPPD utilises an underground gas storage facility operated by SPP Storage, s.r.o. The gas storage facility is located in Dolní Bojanovice, which is situated in the Czech Republic and connected to the Slovak gas network, and is used for the balancing of the distribution network in the Slovak Republic and for the technical needs of SPPD.

vi. Tariffs for using the gas distribution network

SPPD generates revenue by charging regulated prices for the distribution of gas through its pipelines to shippers who then forward the prices to their end-customers. The shippers are required to secure their payments by bank guarantees or cash collaterals. The initial distribution tariff for the first year of the current regulatory period, which is from 2012 through 2016, was calculated in accordance with the formula approved by RONI. This formula stipulates that the tariff is equal to the total of operating expenses, depreciation, fair (allowed) profit divided by the average distribution volume. Operating expenses include eligible costs (all costs necessary for providing safe and reliable distribution), gas for losses and security of supply; depreciation is calculated based on the regulatory asset base ("**RAB**") with reference to the technical lifetime (as set by RONI) and used for the entire regulatory period; fair (allowed) profit was calculated by multiplying RAB by the weighted average cost of capital (as also set by RONI); and the average distribution volume is equal to the average of the distributed volumes in the past three years and the expected volumes for the next two years.

The distribution tariff for the subsequent year of the regulatory period was calculated in accordance with the formula set by RONI in the price decree for such year. The distribution tariff was adjusted by the change in costs for gas losses, depreciation from assets put in use, index of reinvestment and deductions for revenues from connections and overshooting of the daily capacity. The distribution tariff was calculated using the expected distribution volume. In 2013, RONI issued a price decree setting the tariffs to be used for the remainder of the regulatory period (2014-2016). The regulatory weighted average cost of capital was set at 6.0 per cent. based on the following set parameters: 4.01 per cent. for risk free investments, 5.13 per cent. for the cost of debt, unleveraged beta at 0.30, leverage ratio at 60 per cent. and market risk premium at 3 per cent.

The next regulatory period will commence in 2017. Prior to the beginning of the new regulatory period, the regulator will hold a series of negotiation meetings in order to reasonably determine the key parameters for the regulatory period. Afterwards, RONI will issue the next price decree. It is expected that by half-year end of 2016, all parameters will be publicly available and the tariffs for 2017 can be calculated.

vii. Compliance programme relating to distribution network access

In accordance with the Act on Energy, SPPD has established a compliance programme setting out its internal organisational measures designed to prevent discriminatory practices in relation to third party access to SPPD's distribution network and specifying the duties of SPPD's employees to achieve this purpose. The compliance programme applies to all SPPD personnel. SPPD has appointed a compliance officer whose task is to ensure SPPD's compliance with non-discriminatory principles. The compliance officer reports annually to RONI in relation to SPPD's measures taken to implement the compliance programme and notifies RONI of any serious breach of the compliance programme.

viii. Crisis management in the gas sector

SPPD strives to ensure uninterrupted supplies to households in emergency situations, such as restricted natural gas supplies or harsh weather conditions. As the Slovak dispatching centre, SPPD is responsible for (i) declaring the existence of and the end of a crisis situation (including a state of emergency) in the gas sector, (ii) managing interconnected transmission and distribution networks during the crisis situation and (iii) declaring and determining the end of or terminating restrictive measures in the gas sector and measures aimed at ending the crisis situation. If such temporary crisis measures result in a restriction or interruption of gas distribution, SPPD is, by law and subject to certain statutory exceptions, released from any liabilities it might otherwise have towards the affected customers.

SPPD and other market participants may be also required to comply with public service obligations in the general economic interest as may be determined and approved by the Ministry of Economy of the Slovak Republic and approved by the Slovak government.

ix. Technical and quality standards for the gas distribution network

SPPD's operation and maintenance activities reflect relevant European and Slovak Technical Standards. The following standards are among the most important:

STN EN 1594	Gas supply systems
STN 38 6405	Gas equipment. Principles for operation
STN 38 6410	Gas pipings and gas service pipes of high pressure
STN 38 6417	Gas regulating station
STN 73 3050	Earth works. General requirements
STN EN 12583	Gas supply systems. Compressor stations. Functional requirement
STN EN 14505	Cathodic protection of complex structures
STN EN 60079-17	Explosive atmospheres. Part 17: Electrical installations inspection and maintenance
STN EN ISO 9712	Non-destructive testing. Qualification and certification of NDT personnel
STN EN 12954	Cathodic protection of buried or immersed structures. General principles and application for pipelines

(see also "—*Environmental and Safety Policies*").

In addition, RONI sets quality standards regarding connection to the distribution network, restoring gas distribution after a failure and observing the continuity of gas distribution. According to §4 of RONI Decree No. 278/2012 Coll., the following quality standards are among the most important:

a) written determination of the technical and business conditions for the particular request for the connection of a gas facility to the distribution network (on the basis of technical parameters of gas installation and in accordance with access conditions to the distribution network in accordance with law and SPPD's internal standards) within 30 days after receiving a request for such connection;

b) facilitating gas distribution after the connection of a gas facility to the distribution network within five working days for a household or within 30 days for other customers from the day on which the respective customer proves compliance with the determined technical and business conditions for the connection of the off-take gas facility to the distribution network;

c) restoring distribution of gas (i) within 24 hours from notification of the disruption or (ii) within two working days from receiving a request by a distribution network user for the restoration of gas distribution in the event that the interruption or restriction of gas distribution was undertaken by a physical disconnection from the off-take gas facility;

d) arranging for the testing of a designated meter within 15 days of receiving such request from a gas supplier or gas end-customer; and

e) sending written notification to the distribution network user at least 15 days prior to the planned interruption or restriction of gas distribution and at the beginning and end of such planned interruption or restriction (the notification period shall not include the time needed for replacement of the meter).

Due to the consistent monitoring of quality standards and adherence to RONI regulations, SPPD has not recorded any significant complaints and no material fines have been imposed on SPPD in this respect.

x. Property and equipment

SPPD owns all of its pipelines and distribution assets, and it holds the title to or has the right to use, by virtue of leases, all of the land underlying its regulation and gas stations and administrative buildings. SPPD's primary assets are the pipelines, regulation stations, and other distribution equipment.

The following table shows the net book value of SPPD's various assets as at the date indicated:

	As at 31 December	
	2012	**2013**
	(EUR in thousands)	
Gas pipelines	2,448,157	2,400,019
Regulation stations	120,883	116,654
Land, buildings and structures	208	181
Plant, machinery and equipment	8,079	6,424
Other non-current tangible assets	294	233
Assets in the course of construction	57,542	41,997
Total	**2,635,163**	**2,565,508**

xi. Borrowings

SPPD currently has no debt securities in issue and had no debt securities in issue as at 31 December 2012 and 31 December 2013.

SPPD has an investment loan of €55 million from the European Investment Bank and a mid-term loan of €50 million with Komerční banka, a.s.

Cash in hand and cash balances on cash pooling accounts as at 31 December 2013 and 31 December 2012 amounted to €82 million and €101 million, respectively.

xii. Infrastructure Investments and Capital Expenditures

Most investments in SPPD's distribution network involve the reconstruction of old low and medium pressure steel pipelines. SPPD uses the technical condition assessment ("**TCA**") methodology for its gas facilities to determine the appropriate amount of time and resources to invest in the reconstruction and modernisation of the distribution network. The application of the TCA methodology is necessary for the safe, reliable and efficient operation of SPPD's gas facilities. SPPD aims to strengthen the systemic management of the TCA process, namely the transparent, objective and efficient assessment of the technical condition of the gas facilities. The assessment uses technical criteria based on risks and technical and economic factors affecting the serviceable life of gas facilities, with the goal of optimising costs of network renovation and operation.

In 2012 and 2013, investment expenditure amounted to approximately €55 million and €35 million, respectively. The investments are recovered as part of the adjustments in the distribution tariff calculation through the increase in allowed depreciation for next year.

Approximately 80 per cent. of all investments are investments in reconstruction of the existing network. The primary reason for these investments is to improve safety of the network as they are the result of the TCA assessment. The remaining investments include replacement of gas meters, information technology and other investments.

RONI does not review any capital expenditure plans, nor is it entitled to enter into the decision process concerning reconstruction projects that SPPD undertakes. RONI is however entitled to review the reason and nature of the investments after they have been completed in order to determine whether it is entitled to be part of the RAB. In the past, RONI has performed several such inspections without any findings.

xiii. Maintenance and safety

1. General

Safe and reliable gas distribution goes hand-in-hand with the continuous effort to invest in new technologies and regular maintenance and renewal of distribution facilities. In 2012 and 2013, SPPD invested €82.71 million and €62.82 million, respectively, in the maintenance and renewal of its distribution network.

2. Distribution network safety and intelligent pigging

In 2009, SPPD implemented the NET project, an asset management system, in response to the changing conditions and trends in the distribution network operations. The new asset management system enhanced the safety of SPPD's operations and boosted the effectiveness of its network management.

High-pressure pipelines are inspected (i.e. "in line inspections" ("**ILI**") also known as "intelligent pigging") regularly by SPPD. The results of ILI report the real technical condition of the pipelines. After delivering the results, the inspection findings are analysed and assessed, and maintenance activities are planned accordingly. Assessment of the inspection results are based on international codes and are evidenced by maintenance certificates. Intervals between ILI are determined according to technical standards and are adjusted to take several factors into account such as the age of the pipeline, number of the defects from previous inspection, type of coating and aggressiveness of the soil. The entire cycle—planning, ILI, assessment, and repairs contributes to the safe and reliable operation of the high-pressure pipelines.

For medium-pressure and low-pressure pipelines, SPPD performs internal diagnostic procedures to identify any gas leakages. The results of the diagnostic procedures are analysed and input into the management maintenance system where maintenance activities are planned accordingly. The frequency of the diagnostic procedures is based on the technical standards approved by the technical authority in the Slovak Republic.

Significant components of the infrastructure are inspected by additional diagnostic procedures such as "Material Magnetic Memory", which can discover variations in metal properties, such as corrosion, fatigue, creep, in stress concentration zones.

Regulation stations are remotely monitored by the system "SCADA" and internal preventive maintenance is carried out according to the technical standards. Any failure of the regulation station is mitigated by auxiliary backups in the regulation station.

All of the foregoing network safety activities are governed by SPPD's internal guidelines.

Natural gas is odourless. As a safety measure, SPPD adds an odorant, the distinctive sour scent associated with natural gas, so that end-customers can smell even small quantities of gas, at the gate stations and at other odorisation points.

SPPD's pipelines are interconnected into various grid patterns with strategically located shutoff valves, so that maintenance works can be performed without shutting off the gas supply to end-customers. As discussed in "—*SPPD's natural gas distribution network*", SPPD continuously monitors the pressure levels in different parts of its distribution network. As an additional safety feature, relief valves are installed on the pipelines to vent gas harmlessly, if a distribution line is subject to excessive pressure or the regulation station malfunctions.

3. Unauthorised off-take prevention

Unauthorised off-takes pose a threat to the health and safety of its employees and customers and of decreasing revenues. In 2012 and 2013, SPPD identified a total of 1,727 and 2,435 cases respectively of unauthorised off-takes from the distribution network. To prevent unauthorised off-takes, SPPD uses a variety of measures and controls, including blanket screenings, analyses of the variation in consumption and inspection of the gas meters. Whenever SPPD identifies a case of unauthorised off-take, it carefully documents all the underlying circumstances and works closely with the investigating, prosecuting and adjudicated bodies in respect of the investigations. The increase in the number of identified unauthorised off-takes between 2012 and 2013 is due to the establishment of a new investigation team.

4. Gas distribution interruptions caused by third parties

From time to time, SPPD faces temporary interruptions in the gas distribution due to damage of the distribution facilities by third parties. The primary cause of such damage are excavation works held in proximity to the distribution pipelines. SPPD uses various measures aimed to minimise the effect of such interruptions. SPPD believes that the most efficient measure is providing customers with alternative free pipeline localisation. In addition, SPPD works closely with the authorities responsible for the excavation permit issue, to ensure that these permits are restricted as necessary to avoid exposure and damaging of the gas distribution pipelines. SPPD also aims to raise awareness in the proposed excavation works areas by distributing information leaflets to the respective contractors and posting updates on its corporate website. Finally, since 2012, SPPD has been cooperating with the State Energy Inspection Office, and reports all cases of possible damages. The State Energy Inspection Office is authorised to impose fines, ranging from €300 to €150,000, on persons who damage gas facilities. SPPD believes that the measures described above have resulted in a significant reduction of interruptions caused by third parties damaging the distribution networks.

c. Customers and contracts

SPPD distributes gas to the following tariff groups of end-customers: households, small enterprises, medium enterprises and large customers. SPPD does not have direct contractual relationships with end-customers. Instead, SPPD's natural gas distribution and related services are provided under standard framework distribution agreements entered into with natural gas suppliers. The natural gas suppliers have direct contractual relationships with the end-customers. The top 20 end-customers of the natural gas suppliers account for approximately ten per cent. of SPPD's revenue.

In 2012 and 2013, SPPD entered into framework distribution agreements with 20 and 22 natural gas suppliers, respectively. In 2013, five natural gas suppliers (SPP, RWE Gas Slovensko, ČEZ, ZSE and Energetické Centrum) contributed 93 per cent. of SPPD's annual total revenue. In 2012, five natural gas suppliers (SPP, RWE Gas Slovensko, US Steel Kosice, ČEZ and SHELL) contributed 96.5 per cent. of SPPD's annual total revenue. Pursuant to the distribution agreements, the natural gas suppliers are required to pay the distribution tariffs notwithstanding whether and when they collect payment from the end-customers. Payments from the natural gas suppliers must be secured by bank guarantees or cash collateral covering two months of the distribution fees. According to SPPD's standard practice, the framework distribution agreements usually have a term of one year but shorter and longer terms can also be agreed upon. The distribution tariffs consist of fixed fees (such as charges to reserve capacity) as well as variable fees (such as fee for distributed gas). If distribution volumes are higher or lower than expected, revenue from variable fees is thus higher or lower. The fixed fees are based on contractual terms determined at the beginning of each contract and are not dependent on the actual off-take. Approximately 50 per cent. of revenues is from fixed fees that provides a sufficient base for levelling the revenues in warmer years (when distribution is lower) as well as in colder years (when distribution is higher).

In 2012, SPPD established front offices and back offices specifically designated to manage relationships with the natural gas suppliers. To enter into a distribution agreement with SPPD, a natural gas supplier is required to apply to a front office, who processes the application. Once the application is processed, it is transferred to the back office which acts as specialised technical department. The main function of the back offices is to determine the technical and business terms of the new connection, assessment of the capacity levels at the existing off-take points and deciding whether the existing distribution network needs to be enhanced to accommodate the demand. The back offices also render technical support to the existing connections. SPPD believes that separating the customer relationships functions between its front offices and back offices allows it to enhance operational efficiency and offer solutions tailored to particular customer's needs. SPPD has also established a customer support line that can answer the customers' questions both by phone and via email exchange.

SPPD takes a pro-active approach in its customer relationships and searches for potential end-customers who are likely to require a natural gas supply. In addition, SPPD plans to establish a customer advisory service to advise end-customers on connecting to the distribution network, technical changes at the off-take points, setting distribution tariffs and other aspects relating to the gas distribution.

d. Competition

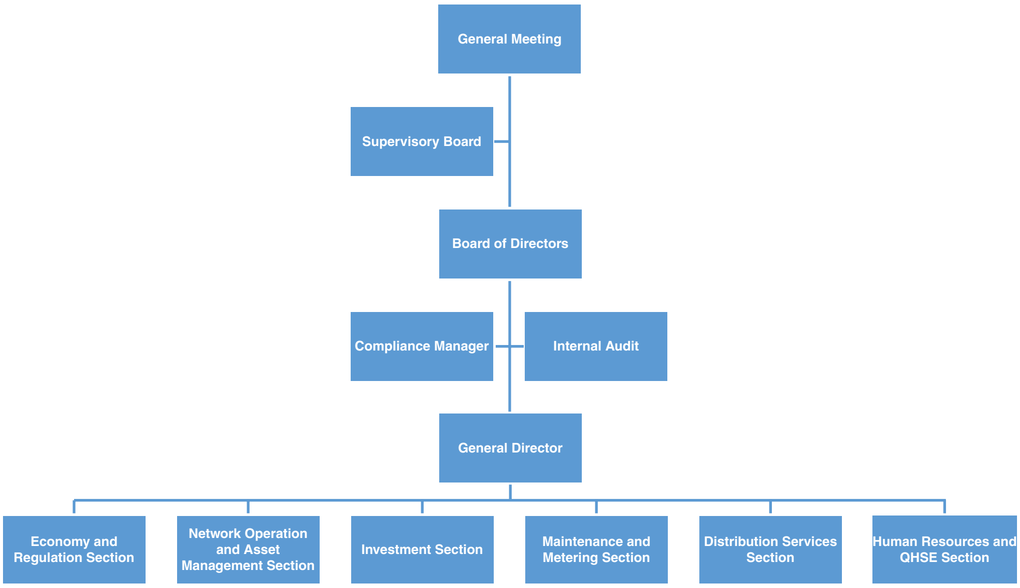
SPPD is currently the natural monopoly distributor of gas in the Slovak Republic and operates under a licence with no time limit. Current Slovak legislation does not allow the building of any new distribution network while there is available distribution capacity provided by SPPD. If a third party wishes to build a distribution network, it is required to apply for approval, "Compliance with the State Energy Policy", from the Slovak Ministry of Economy. One prerequisite of compliance is the confirmation by SPPD that SPPD has no network in the area and is not willing to build one. This allows SPPD to maintain its monopoly status and prevents the building of parallel networks.

e. Organisation

SPPD is internally organised as follows:

- the economy and regulation section, holding legal title to SPPD's assets and in charge of finance, accounting, regulation, controlling and procurement services;
- network operation and asset management section, in charge of managing SPPD's assets, strategic development, planning of the distribution network, setting the asset maintenance strategy and monitoring and balancing of the network;
- investment section, an internal service provider, in charge of asset development and construction of facilities;
- maintenance and metering section, an internal service provider, in charge of maintenance and metering activities and production of regulation stations;
- distribution services section, in charge of customer services; and
- human resources and QHSE (Quality, Health, Safety and Environment) section, in charge of human resources and quality and safety management.

The following chart shows the internal organisation of SPPD:



SPPD has two subsidiaries, both of which are wholly-owned: SPP — distribúcia Servis, s.r.o. and Plynárenská metrológia, s.r.o. SPPD discontinued operations of SPP — distribúcia Servis, s.r.o. as of 31 December 2013 and intends to shut down the entity by the end of 2014. As Slovak legislation no longer allows for the same legal entity to both (i) install and repair gas meters and (ii) certify their accuracy of measurement, the business activities of certifying the accuracy of gas meters were carved out of SPPD and established as a separate entity, Plynárenská metrológia, s.r.o., which started operations as of 1 January 2014.

f. Environmental and Safety Policies

One of the main focuses of SPPD is to ensure the safe, reliable and efficient operation of its gas distribution system. Environmental protection, sustainable development and safety are key considerations. Accordingly, SPPD has set up an integrated management system comprised of the following objectives:

- achieving levels of reliability and safety that match the highest standards of the profession;
- developing gas infrastructure so as to optimise the distribution of natural gas;
- educating, promoting and ensuring compliance among employees of safety and environmental policies;
- continuous assessment of the gas distribution system, focusing on meeting the requirements of Slovak and EU legislation;
- regular auditing (both internal and external audits) of the gas distribution system; and
- regular reporting on the gas distribution system performance by employees to management officers.

Regarding environmental protection, SPPD concentrates on:

- waste management in order to reduce the volume of produced waste;
- water management optimisation;
- intensive supervision of the technical condition of gas facilities in order to cut down emissions of greenhouse gases; and
- reducing noise emissions especially at the regulation stations.

SPPD has not experienced a single accident or incident of damage to the pipeline system resulting in serious environmental impact because of its careful handling of the operation of the distribution system and compliance with safety standards in the workplace.

g. Licences, Permits and Authorisations

SPPD holds the energy licence with no time limit, "License to conduct business in the energy sector no. 2006P 0070", which allows for it to engage in gas distribution. In addition, SPPD holds licences to allow for its ordinary business activities such as installation, repair, maintenance, professional inspections and tests of gas and pressure facilities and technical testing, metering and analysing.

h. Regulatory Background

The gas industry sector in Europe has been governed mainly by three liberalisation directives. The first European liberalisation directive (Directive 98/30/EC) concerning common rules for the internal market in natural gas (the "**First Gas Directive**") came into force on 10 August 1998 and constituted the first step towards the creation of an open and integrated internal market in the EU. The First Gas Directive established common rules regarding the storage, transmission, supply and distribution of natural gas. The aim of the First Gas Directive was to promote full, fair competition in the market, while maintaining a structural framework favourable to the funding of large international natural gas and liquefied natural gas projects.

The First Gas Directive set out the following principles:

i. *The separation of internal accounts for gas transmission, distribution and storage businesses*. This was the first move in an effort to bring an end to integrated business models that had combined transmission, storage and supply of natural gas within a single company. The First Gas Directive created a regulated economic environment in which natural gas transmission and storage businesses are required, among other things, to grant access to their networks and facilities to all gas suppliers on a transparent basis;

ii. *Third party access to networks and third party access to storage*. Access conditions, including pricing conditions, must be non-discriminatory and are subject to approval by RONI.;

iii. *The gradual opening up of the energy markets, with the possibility in the long term for end-users to choose their gas supplier*. This possibility was limited, in the First Gas Directive, among others to industrial customers with consumption of more than 25 million cubic meters of gas per year; and

iv. *Strict confidentiality of data*. Operators of gas distribution networks and storage facilities are required to preserve the confidentiality of commercially sensitive information obtained in the context of their business. Distribution network operators are not permitted to abuse commercially sensitive information in the context of providing or negotiating access to their systems.

The First Gas Directive was replaced by European Directive 2003/55/EC (the "**Second Gas Directive**") adopted on 26 June 2003. The Second Gas Directive was intended to accelerate the process of liberalisation of the gas markets with a view to achieving a fully operational internal market. In particular, it provided for the separation of accounts between the activities of transmission, storage, distribution and the sale of gas. Legal separation of gas transmission and distribution activities had to take place by 1 July 2004, although combined operators were permitted subject to complying with a number of conditions intended to ensure their independence. The Second Gas Directive also set out a timetable for the liberalisation of the markets, with eligibility for non-domestic customers from 1 July 2004, and the complete liberalisation of the markets (including eligibility for individuals) by 1 July 2007. The Second Gas Directive was implemented in the Slovak Republic through enactment of the former energy act, Act no. 656/2004 Coll. on Energy, as amended. In the Slovak Republic, the legal separation of distribution from other gas industry activities took place on 1 July 2006, when SPPD as a new legally separated company started its operations as a gas distribution network operator.

The final in the series of the liberalisation directives of the EU was Directive 2009/73/EC of the European Parliament and of the Council concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC (the "**Third Gas Directive**"). The Third Gas Directive was published in the EU's Official Journal on 14 August 2009. It was implemented into Slovak law by the Act on Energy and subject to certain exceptions took effect in the Slovak Republic on 1 September 2012.

The Third Gas Directive generally seeks to achieve greater transparency and independence of distribution system operators such as SPPD. As a gas distribution network operator belonging to a vertically integrated group of companies, SPPD falls directly within the scope of the provisions of the Third Gas Directive in relation to distribution network operators. The Third Gas Directive sets out principles that will apply, among other things:

- to relations between SPPD and its parent company;
- to the corporate governance of SPPD;

- to the independent ethical conduct of SPPD's directors, officers and employees; and
- to SPPD's relationship with other parts of the vertically integrated companies, particularly with regard to the planning of investments.

i. Regulatory Authorities

RONI, as an independent regulatory authority in the Slovak Republic, is responsible for monitoring and enforcing compliance by market participants with the laws and regulations applicable to the energy markets. RONI also intervenes in any disputes that may arise between participants in the markets. As a regulated entity, SPPD is not only subject to the authority of RONI, but also the Slovak Ministry of Economy, State Energy Inspection Office and the Anti-Monopoly Office. The Slovak Ministry of Economy is responsible for formulating the national energy policy, promulgating the unbundling rules and setting the emergency response standards aimed to ensure security of natural gas supply. The State Energy Inspection Office perform supervision of compliance with the obligations under the Act on Energy and is authorised to inspect the natural gas distributors' activities following complaints from end-customers. Lastly, the Anti-monopoly Office, inspects the activities of natural gas distributors where the suspicion of dominant market position abuse exists.

4. Major Shareholders and Organisational Structure of SPPD

SPPD is currently indirectly 51 per cent. owned by the Slovak Republic and 49 per cent. owned (including management control) by EPH.

Pursuant to the Third Gas Directive, operators of gas distribution networks such as SPPD must meet a certain number of requirements intended to ensure their independence from the vertically integrated undertaking of which they form a part (see "—*Regulatory Background*"). In order to demonstrate its compliance with the requirements of the Third Gas Directive in respect of its gas distribution activities and in connection with the restructuring of the group of entities held by SPP, SPPD has begun a complex process of unbundling from SPP. This includes the effective unbundling of corporate and support functions by implementing its own organisational structure and separating finances, human resources, and head office, from the parent company. This major step in legal unbundling was achieved even before the Third Gas Directive was transposed into the Slovak legal system. The process of unbundling SPPD from SPP will be concluded by the separation of information technology which is expected to occur in 2015.

5. Employees

As an employer, SPPD attracts highly qualified professionals and supports a diverse workforce. As at 31 December 2013, SPPD has 1,386 employees, of whom 146 were women, which represents 10.53 per cent. of the total workforce. Regarding the qualification structure, almost 24 per cent. of the employees have a university degree. SPPD focuses its personnel policy at retaining and motivating highly qualified employees, as well as creating opportunities for their professional development. To achieve this, SPPD offers its employees a variety of benefits, including a bonus scheme and a collective agreement. Strong emphasis is put on the accurate, timely and transparent communication of all changes, opportunities and key information to its employees.

6. Administrative, Management and Supervisory Bodies

SPPD is managed by a Board of Directors whose term of office is fixed at four years by SPPD's Articles of Association. The applicable legal regulation requires and provides for the independence of the Board of Directors in performing its executive powers and separation of the Board of Directors from the shareholders, including decisions on the matters related to day-to-day activities of the distribution system operator and the management of the distribution network. Two of three directors are nominated by EPH and one director is nominated by the Slovak Republic.

The Supervisory Board, as the supreme supervisory body of the company, is in charge of supervising the execution of powers by the Board of Directors and the performance of the company's business activities. The Supervisory Board submits its reports (mostly on the proposals of the Board of Directors) to the General Meeting. Out of the 6 members of the Supervisory Board, 4 are elected by the General Meeting for a three-year term and 2 are elected by the employees of the company, as required by mandatory provisions of Slovak law.

The following tables set forth the names of the members of SPPD's Board of Directors and Supervisory Board, their current functions within SPPD and their principal business activities outside SPPD as at the date of this Prospectus:

a. Board of Directors

Name and surname	*Date of Appointment*	*Current function within SPPD*	*Principal outside business activities, where these are significant*
Ing. František Čupr	2 February 2013	Chairman of the Board of Directors	Member of the Supervisory Board, Pražská teplárenská a.s. Chairman of the Board of Directors, Stredoslovenská energetika—Distribúcia, a.s.
Ing. Štefan Šebesta	19 June 2012	Vice-Chairman of the Board of Directors	Manager, Cleanlife, s.r.o. Manager, DEAL & PRINT, s.r.o.
Mgr. Petr Hájek	2 February 2013	Member of the Board of Directors	Chairman of the Board of Directors, United Energy, a.s. Chairman of the Board of Directors, První Mostecká, a.s. Statutory representative, SOR Libchavy spol. s.r.o.
Ing. Miroslav Haško	14 May 2014	Member of the Board of Directors	Member of the Board of Directors, SPP Infrastructure, a.s. Member of the Board of Directors, PROBUGAS a.s.

As at the date of this Prospectus, the business addresses of the members of the Board of Directors of SPPD are Mlynské nivy 44/b, 825 11 Bratislava, Slovak Republic.

b. Biographies of the Board of Directors

Ing. František Čupr—Chairman of the Board of Directors

Ing. František Čupr completed his undergraduate studies at the Faculty of Business and Economics at Mendel University, located in Brno. After graduation, he worked at Jihomoravská Energetika, A.S. in Brno for 7 years, holding various managerial positions including Deputy Sales Division Director and Strategy Director. In 2005, Ing. František Čupr joined J&T, focusing on energy sector projects. That same year, he founded EP Energy Trading, A.S. (former United Energy Trading, A.S.), an electricity and gas trading company, in which he served as the Chairman of the Board of Directors and Director General until 2012. During this time, Ing. František Čupr completed his master's degree in business administration and remained actively involved in projects concerning renewables in the Czech Republic and the Slovak Republic. He is also a member of a number of Supervisory Boards, such as Pražská Energetika, A.S. (from 2006 to 2010) and Pražská Teplárenská A.S. (from 2009 to date). Ing. František Čupr has been Chairman of the Board of Directors of SPPD since 24 January 2013.

Ing. Štefan Šebesta—Vice-Chairman of the Board of Directors

Ing. Štefan Šebesta graduated from the Faculty of Chemical and Food Technology at the Slovak University of Technology Management of Industry and Food Enterprises in Bratislava in 1993. He began his career in 1991 as a manager for communications company, Solid, A.S. From 1992 to 1994, he worked for investment company, DIVIDEND, A.S. and held positions as the Communications Manager and Portfolio Manager. Ing. Štefan Šebesta also held other managerial positions, including being appointed as Chairman of the Supervisory Board of Záhorácke Pekárne and Cukrárne, A.S. in 1995 and as Manager of DEAL & PRINT from 2004 to 2008. Notably, he served as the Investment and Acquisitions Office Director in the Ministry of Defence (Slovak Republic) from 2006 to 2007 and later became a Member of the Supervisory Board of Military Repair Plant, A.S., in Trenčín. Since August 2007, he continues to hold managerial roles in both Cleanlife s.r.o and DEAL & PRINT s.r.o. Ing. Štefan Šebesta has been Vice-Chairman of the Board of Directors since 12 July 2012.

Mgr. Petr Hájek—Member of the Board of Directors

Mgr. Petr Hájek graduated from the Faculty of Mathematics and Physics at Charles University in Prague. He began his professional career in 1994 at Živnostěnská Banka as a securities analyst. In 1997, he worked for HSBC Prague (a leading global institution providing banking and financial services). In 1998, he joined J&T/EPH as an analyst and has remained there since. Mgr. Petr Hájek now holds the position of Senior Project Manager and specialises in the field of M&A. He has worked on a significant number of acquisitions and restructurings involving companies owned by J&T/EPH and has also served on the boards of many of such companies. Since 2011, he has served as Chairman of the Board of Directors of United Energy, A.S., and První Mostecká, A.S. Presently he is a statutory representative of SOR Libchavy Spol. s.r.o. Mgr. Petr Hájek has been the Member of the Board of Directors since 24 January 2013.

Ing. Miroslav Haško—Member of the Board of Directors

Ing. Miroslav Haško completed his graduate studies at the Faculty of Finance and Accounting, University of Economics in Prague. He spent part of his studies at the University of North Carolina Chapel Hill. He started his professional career in 2009 with Deloitte in financial advisory working for top corporates in the Central European region. During his studies he completed consultancy internships with London Economics and Citibank. Since 2010 he has worked for the investment group EPH on mergers and acquisitions mainly in the energy sector. Currently, he also serves as a member of the Board of Directors of SPP Infrastructure. Ing. Miroslav Haško has been a Member of the Board of Directors of SPPD since 13 May 2014.

c. Biographies of Senior Management

Ing. Martin Hollý—General Director

Ing. Martin Hollý graduated from the Faculty of Commerce at the College of Economics in Bratislava and specialises in foreign trade. He also holds a degree from the Universidad de Grenada in Spain. After graduation, he worked as a senior auditor and consultant at Arthur Andersen for several years. Later, in 2003, he took up a position as the Director of the Economics Department in NAFRA a.s., where he contributed significantly in the restructuring of the company. From July 2008 to September 2012, he served as the general director of NAFTA, a.s. and was also appointed as a member of the Board of Pozagas, a.s Ing. Martin Hollý has been the General Director at SPPD since 1 December 2012.

Ing. Roman Filipoiu—Head of Economics and Regulation Section

Ing. Roman Filipoiu completed his financial management studies at the Faculty of Business Management in the University of Economics in Bratislava. He also holds an MBA from the University of Oxford in Great Britain. After graduating, he began his career as an auditor and consultant at Deloitte, where he was involved in the audits of several major banks, financial institutions and media companies in the Slovak Republic. In 2007, he joined NAFTA a.s. and worked in the energy sector. In NAFTA a.s., Ing. Roman Filipoiu's responsibilities included price control and regulation, accounting, procurement and finance. During this time, he also served as the Chairman of the Supervisory Board in Karotáž a Cementace s.r.o. and Naftárska Leasingová Spoločnost' a.s. In addition, he has previously served as Chairman of the Supervisory Board in SPP — Distribúcia Servis, s.r.o. and as a Member of the Supervisory Board in Plynárenská Metrológia, s.r.o. He has been the Head of Economics and Regulation at SPPD since April 2009.

Ing. Rastislav Prelec—Head of Network Operation and Assets Management Section

Ing. Rastislav Prelec graduated from the Faculty of Electrical Engineering at the Slovak University of Technology Management of Industry and Food Enterprises in Bratislava in 1985. After completing his undergraduate studies, he worked in the Chemical Technology Research Institute as the Head of Automation Department until 1991. Between 1991 and 1995, he was self-employed and practised in the field of industrial automation. In 1995, he joined Slovenský Plynárenský Priemysel, A.S. as a Telemetric Equipment Technician and later served as the Head of Control Systems. From 1997, he 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 Distribution Information System. In 2005, Ing. Rastislav Prelec completed his masters in industrial engineering at Fachhochschule Ulm (Germany). In 2009, he was appointed as the Director of Maintenance and Metering in SPPD and has held the position of Head of Network Operation and Assets Management since 1 July 2013.

Ing. Marek Paál—Head of Distribution Services Section

Ing. Marek Paál completed his studies of the gas industry at the Faculty of Mechanical Engineering in the University of Žilina in 2003. He began his professional career before entering university and worked at trading company Interal, A.S from 1994 to 1996. He then joined the Slovak Gas Dispatching arm of SPP, where he held various posts. From 2004, he worked in SPP as the Director of Distribution Capacities Sales Section. In 2006 he was actively involved in the restructuring of SPP into three separate companies. He also led and oversaw SPP's implementation of a distribution information system for liberalised gas trading. Following the completion of SPP's restructuring, Ing Marek Paál has served as the Director of Distribution Capacities and Sales in one of three newly formed SPPD entities from 2009. His primary areas of responsibilities include connecting customers to the distribution network and sales and marketing of the company's distribution capabilities to gas suppliers in the Slovak Republic.

Ing. Dušan Dobiaš—Head of Investments Section

After graduating from the Department of Transport and Manipulation Equipment (part of the Faculty of Mechanical Engineering) at the Slovak University in Bratislava in 1985, Ing. Dušan Dobiaš joined ČSAD Bratislava. He continued his employment there till 1992, at which point he was the Director of Technical Section. A year later, he began working as a purchaser at the Investment Department of Slovtransgas Division at SPP. Since then, he has served as Head of Procurement Department and as Director of Logistics. He has been the Head of Investments in SPPD since October 2009.

Ing. Miroslav Horváth—Head of Maintenance and Metering Section

Ing. Miroslav Horváth graduated from the Faculty of Mechanical Engineering at the University of Žilina, specialising in the gas industry. After graduating, he started working for SPP as a Technician of Gasification in 1999. Subsequently, he held several other positions, including Head of Centre District Gasworks in Považská Bystrica. In July 2004, he became the Head of Local Unit in Prievidza. Following the company's legal restructuring. As of 2007, he joined SPPD in 2007 as the Head of Regional Centre East in Košice. As of 2009, he has served as the Head of Maintenance in the Maintenance and Metering Section and subsequently, as Deputy to the Section Head. He has been the Director of Maintenance and Metering Section in SPPD since July 2013.

Mgr. Ing. František Kajánek—Head of Human Resources and QHSE Section

František Kajánek graduated from the mining and geology faculty at the Mining College of Ostrava with a specialisation in economics and management of mines. Afterwards, he studied law at the University of Comenius. Since 1995, he has worked in the human resources sector. He has worked at NCHZ Nováky, a.s., in the Office for State Service of the Slovak Republic and for the Ministry of Labour, Social Affairs and Family of the Slovak Republic. Since 2007, he has worked at NAFTA, a.s., where he also held the position of Human Resources Department Director since 1 January 2008. He is also responsible for company culture and the development of internal communication.

d. Supervisory Board

Name and surname	*Current function within SPPD*	*Principal outside business activities, where these are significant*
Rastislav Chovanec	Chairman of Supervisory Board	None
Ing. Robert Ševela	Vice-Chairman of the Supervisory Board	Member of Supervisory Board, Energetický a prumyslový holding, a.s.
Pavol Korienek	Member of Supervisory Board	None
Robert Procházka	Member of Supervisory Board	None
Richard Vadkerty	Member of Supervisory Board	None
Miroslav Recký	Member of Supervisory Board	None

There are no material contracts with or loans to members of the Board of Directors, Senior Management or Supervisory Board. There are no conflict of interests between the duties owed by members of the Board of Directors and their private interests and/or other duties.

7. Recent Development

In June 2014, SPPD's sole shareholder adopted a decision on declaration of dividends in an amount equal to SPPD's net profit for 2013, which amounted to EUR 113 million. Pursuant to the decision of the sole shareholder the dividend will be paid within 100 days following the date of the decision.

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

1. Global Notes

The Notes will be evidenced on issue by the Global Note (deposited with, and registered in the name of a nominee for, a common safekeeper for Euroclear and Clearstream, Luxembourg).

Interests in the Global Note may be held only through Euroclear or Clearstream, Luxembourg at any time. See "*—Book-Entry Procedures*".

Except in the limited circumstances described below, owners of interests in the Global Note will not be entitled to receive physical delivery of certificated Notes in definitive form (the "**Definitive Note Certificates**"). The Notes are not issuable in bearer form.

2. Amendments to the Conditions

The Global Note contains provisions that apply to the Notes that it represents, some of which modify the effect of the above Conditions of the Notes. The following is a summary of those provisions:

Payments. Payments of principal and interest in respect of Notes evidenced by the Global Note will be made against presentation for endorsement by the Paying and Transfer Agent and, if no further payment falls to be made in respect of the relevant Notes, surrender of the Global Note to or to the order of the Paying and Transfer Agent or such other Paying and Transfer Agent as shall have been notified to the relevant Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the relevant Notes. The record date for the purposes of making payments in respect of interests in the Global Note held through Euroclear or Clearstream, Luxembourg shall be the close of the business day immediately prior to the relevant payment date.

Notices. So long as any Notes are represented by the Global Note and the Global Note is held on behalf of one or more clearing systems, notices to Noteholders required to be published in the Irish Times may be given by delivery of the relevant notice to such clearing systems for communication by it to entitled accountholders in substitution for delivery thereof as required by the Conditions of such Notes provided that for so long as the Notes are listed on the Official List and admitted to trading on the Market and the rules of that Exchange so require, notices shall also be published in a leading newspaper having general circulation in the Republic of Ireland (which is expected to be the Irish Times).

Meetings. The holder of the Global Note will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and, at any such meeting, as having one vote in respect of each EUR 1,000 in principal amount of Notes for which the Global Note may be exchangeable.

Prescription. Claims against the Issuer in respect of principal and interest on the Notes while the Notes are represented by the Global Note will become void unless it is presented for payment within a period of ten years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 10 (Taxation) of the Notes).

Put Option. The Noteholders' put option in Condition 9(c) (*Redemption at the option of the Noteholders (Put Option)*) of the Notes may be exercised by the holder of the Global Note giving notice to the Paying and Transfer Agent of the principal amount of Notes in respect of which the option is exercised and presenting the Global Note for endorsement of exercise within the time limits specified in such Condition.

Purchase and Cancellation. Cancellation of any Note required by the Conditions to be cancelled following its purchase will be effected by reduction in the principal amount of the Global Note.

3. Exchange for and Transfers of Definitive Note Certificates

The Global Note will become exchangeable, free of charge to the holder, in whole but not in part, for Definitive Note Certificates if Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or does in fact do so, or an Event of Default (as defined in Condition 12 (*Events of Default*) of the Notes) occurs. In such circumstances, the Issuer will procure that the Registrar notifies the Noteholders as soon as practicable after the occurrence of the relevant event and that such Definitive Note Certificates will be registered in such names as Euroclear and Clearstream, Luxembourg shall direct in writing.

In such circumstances, the Global Note shall be exchanged in full for Definitive Note Certificates and the Issuer will, without charge to the holder or holders thereof, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange, cause sufficient Definitive Note Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in the Global Note must provide the Registrar with a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Notes.

The holder of a Definitive Note Certificate may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Paying and Transfer Agent, together with the completed form of transfer thereon. The Registrar will not register the transfer of any Notes or exchange of interests in a Global Note for Definitive Note Certificates for a period of 15 calendar days ending on the due date for any payment of principal or interest in respect of the Notes.

4. Book-Entry Procedures

Custodial and depositary links are expected to be established between Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading. See "*Book-Entry Ownership*" and "*Settlement and Transfer of Interests in Notes held in the Clearing Systems*" below.

Investors may hold their interests in the Global Note directly through Euroclear or Clearstream, Luxembourg if they are accountholders ("**Direct Participants**") or indirectly ("**Indirect Participants**" and together with Direct Participants, "**Participants**") through organisations which are accountholders therein.

5. Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations.

6. Book-Entry Ownership

Euroclear and Clearstream, Luxembourg

A Global Note representing the Notes will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with a common safekeeper on behalf of, Euroclear and Clearstream, Luxembourg.

The address of Euroclear is 1 Boulevard du Roi Albert 11, B-1210 Brussels, Belgium, and the address of Clearstream, Luxembourg is 42 Avenue J.F. Kennedy, L-1855 Luxembourg.

7. Relationship of Participants with Clearing Systems

Each of the persons shown in the records of Euroclear and Clearstream, Luxembourg as the holder of a Note evidenced by the Global Note must look solely to Euroclear or Clearstream, Luxembourg (as the case may be) for his share of each payment made by the Issuer to the holder of the Global Note and in relation to all other rights arising under the Global Note, subject to and in accordance with the respective rules and procedures of Euroclear or Clearstream, Luxembourg (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by the Global Note, the common safekeeper by whom such Note is held, or nominee in whose name it is registered, will immediately credit the relevant Participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective interests in the principal amount of the Global Note as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of interests in the Global Note held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by the Global Note and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of the Global Note in respect of each amount so paid. None of the Issuer, the Fiscal Agent, the Registrar or any Paying and Transfer Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in the Global Note or for maintaining, supervising or reviewing any records relating to such ownership interests.

8. Settlement and Transfer of Interests in Notes held in the Clearing Systems

Subject to the rules and procedures of the applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such Note (the "**Beneficial Owner**") will in turn be recorded on the Direct and Indirect Participants' records.

Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the clearing system will be affected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in the Global Note are exchanged for Definitive Note Certificates.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Note to such persons may be limited.

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional eurobonds.

9. Notices

Notwithstanding Condition 15 (Notices), while all the Notes are represented by a Global Note and the Global Note is deposited with a common safekeeper for Euroclear and Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 15 (*Notices*) on the date of delivery to Euroclear and Clearstream, Luxembourg.

TAXATION

The following is a general description of certain tax considerations in the Slovak Republic relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes in the Slovak Republic or elsewhere. Prospective purchasers of the Notes should consult their own tax advisers as to the consequences under the tax laws of the country in which they are resident for tax purposes and the tax laws of the Slovak Republic for acquiring, holding and disposing of the Notes and receiving payments of interest, principal and/or other amounts under the Notes.

This summary is based on the law in effect on the date of this Prospectus and its prevailing interpretations available on or before this date. It is subject to any change in the law or interpretations that may take effect after such date, which could apply retroactively and therefore affect the continued validity of this summary, which will not be updated to reflect any such change. This summary assumes that each transaction with respect to the Notes is conducted at arm's length.

Investors should also bear in mind that the appointment of a custodian, collection agent or similar person in relation to such Notes in any jurisdiction by an investor in the Notes or any person through which an investor holds the Notes may have tax implications. Investors should consult their own tax advisers regarding the tax consequences related to any such appointment.

In the event that the Global Note is exchanged for Definitive Note Certificates as described in "Summary of Provisions Relating to the Notes in Global Form", the Issuer may require a tax residency certificate from a person that has an interest in the Definitive Note Certificate for the purposes of assessing the applicability of any relevant tax or obligation to withhold payments to fulfil the tax liability of such person.

The Slovak Republic

This taxation summary solely addresses the principal Slovak tax consequences of the acquisition, ownership and disposition of the Notes issued by the Issuer after the date hereof and held by a Noteholder. It does not consider every aspect of taxation that may be relevant to a particular Noteholder under special circumstances or persons subject to special treatment under applicable law. Where English terms and expressions are used in this summary to refer to Slovak concepts, the meaning to be attributed to such terms and expressions shall be the meaning to be attributed to the equivalent Slovak concepts under Slovak tax law.

Income Tax

Withholding Tax

Interest payments from the Notes made by the Issuer that is treated as a resident of the Slovak Republic for tax purposes ("**Slovak Tax Resident**") are not subject to withholding tax unless they are paid to

(a) an individual treated as a resident of the Slovak Republic for tax purposes ("**Slovak Individual**"), where the payer of withholding tax is generally an investment firm (in Slovak: *obchodník s cennými papiermi*) holding the Notes of the Slovak Individual; or

(b) a non-profit organization deemed to be a tax resident of the Slovak Republic, the Slovak National Property Fund or the Slovak National Bank ("**Specific Entity**"), where the payer of the withholding tax is the Specific Entity that is the recipient of the income.

Capital gains are only subject to withholding tax in Slovakia if they are made by a Slovak Tax Resident or a Slovak permanent establishment of an entity or individual not treated as a resident of the Slovak Republic for tax purposes and paid to a Specific Entity.

Interest payments under (i) and (ii) and capital gains described above are subject to 19per cent. withholding tax (the 35per cent. rate applies if the recipient of the payment has a registered seat or permanent residence in a state which is not on the "whitelist" maintained and published online by the Slovak Ministry of Finance (generally a state with which the Slovak Republic has not concluded a Double Tax Treaty or Tax Information Exchange Agreement (the "**Non-Treaty State**").

Non-Slovak Tax Resident

<u>Interest payments</u>

An entity or individual not treated as a resident of the Slovak Republic for tax purposes ("**Non-Slovak Tax Resident**") is not subject to Slovak income tax on interest payments from the Notes unless such payments are attributable to a Slovak permanent establishment of the Non-Slovak Tax Resident.

Capital gains

A Non-Slovak Tax Resident is only subject to Slovak income tax on capital gains earned from the sale of the Notes (i.e., the difference between the sales price and the accounting value of the Notes) issued by the Issuer if the entity/individual paying the income (i.e., the buyer) is a Slovak Tax Resident or a Slovak permanent establishment of a Non-Slovak Tax Resident.

Permanent establishment of a Non-Slovak Tax Resident in Slovakia

Interest income from the Notes and capital gains earned from the sale of the Notes attributable to a Slovak permanent establishment of a Non-Slovak Tax Resident company are subject to the standard 22per cent. corporate income tax in the Slovak Republic. Such income is included in the tax base of the Slovak permanent establishment as a result of its business activities performed in the Slovak Republic and taxed in its income tax return. Any loss incurred upon the sale of the Notes should generally be tax non-deductible with some exceptions, for example (i) in the event of a loss up to the amount of the income from the Notes already included in the tax base, or (ii) if the Slovak permanent establishment is conducting business in the Slovak Republic as a professional securities trader.

If these payments are attributable to a permanent establishment of a Non-Slovak Tax Resident that is not a tax resident of an EU/EEA Member State and this Non-Slovak Tax Resident does not make regular tax prepayments in Slovakia, they may be subject to securing tax of 19per cent. or 35per cent., if the recipient has a registered seat or permanent residence in the Non-Treaty State. If it is withheld by the payer to secure the Slovak tax obligation of the recipient of the income (i.e., the Noteholder) and is considered to be a tax prepayment, it may be offset against the overall tax payable by the Slovak permanent establishment on the basis of an annual income tax return filed in the Slovak Republic by such non-EU/EEA tax resident recipient.

Interest payments from the Notes made by the Issuer that is a Slovak Tax Resident may be subject to withholding tax if they are paid to:

(a) a Slovak permanent establishment of an individual treated as a Non-Slovak Tax Resident; or

(b) a Slovak permanent establishment of a non-profit organization treated as a Non-Slovak Tax Resident.

Slovak Individuals

Capital gains earned by a Slovak Individual upon the sale of the Notes (i.e., the difference between the Notes' sales price and acquisition price increased by related fees for trading on the capital market and costs connected with the sale) are subject to personal income tax and must be included in the Slovak Individual's personal income tax base.

The personal income of a Slovak Individual is subject to progressive taxation with rates ranging from 19per cent. to 25per cent..

Depending on the Slovak Individual's overall tax position, he/she may be entitled to a tax exemption of up to EUR 500 from income earned from the sale of the Notes in one tax period. Except for some specific exemptions defined in Slovak tax law, in general, any loss incurred by the Slovak Individual is tax non-deductible.

Slovak Businesses

A legal entity regarded as Slovak resident for tax purposes ("**Slovak Business**") is subject to corporate income tax on interest from the Notes and on capital gains earned from the sale of the Notes (i.e., the difference between the sales price and the accounting value of the Notes).

In general, income derived from the Notes would be included in the tax base of the Slovak Business and taxed at a corporate income tax rate of 22per cent.. Any loss incurred by the Slovak Business upon the sale of the Notes should generally be tax non-deductible, with some exceptions; for example (i) in the event of a loss of up to the amount of the income from the Notes already included in the tax base, or (ii) if the Slovak Business is a professional securities trader.

Tax gross-up

In the event that a payment of interest in respect of the Notes is subject to withholding or deduction for any taxation of the Slovak Republic pursuant to Condition 10 (Taxation) of the Notes, the Issuer has agreed to pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required, subject only to certain exceptions set out in the relevant Condition. One such exception is that if a Noteholder is subject to Slovak taxation by reason of his having some connection with the Slovak Republic other than the mere holding of the Note, that Noteholder would not be entitled to payment of any additional amounts under the relevant Condition.

Accounting Aspects

Slovak tax residents that are subject to Slovak accounting standards are required to recognize interest income on an accrual basis for accounting purposes and, accordingly, include this income in their general tax base for Slovak income tax purposes in the given period.

Slovak tax residents that prepare their financial statements under Slovak Accounting Standards for Entrepreneurs or under International Financial Reporting Standards may be required to revaluate the Notes to fair value for accounting purposes, whereby the revaluation would be accounted for as a revenue or expense. Such revenue is generally taxable and the corresponding expense should generally be tax deductible for Slovak tax purposes.

Gift, Estate or Inheritance Taxes

No gift or inheritance taxes apply in the Slovak Republic. No estate tax applies in the Slovak Republic with respect to the Notes.

Other applicable taxes

No Slovak stamp duty, registration, transfer or similar taxes will be payable in connection with the acquisition, ownership, sale or disposal of the Notes by Slovak tax residents.

EU Directive on the Taxation of Savings Income (Directive 2003/48/EC)

Under Council Directive 2003/48/EC regarding the taxation of savings income (as amended by an EU Council Directive adopted by the European Council on 24 March 2014), Member States are required to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person to an individual in another Member State. These requirements will be broadened to expand the range of payments covered by the Directive to include (i) certain additional types of income and (ii) payments via certain entities or legal arrangements, or payments made via economic operations in certain circumstances, where the person regarded for the purposes of the Directive as the beneficial owner is an individual resident in that other Member State. Member States have until 1 January 2016 to implement national legislation giving effect to these additional requirements and the national legislation must apply from 1 January 2017. For a transitional period, Austria and Luxembourg are instead required (unless during such period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent on the conclusion of certain other agreements relating to information exchange with certain other countries). Luxembourg has announced that it will no longer apply the withholding tax system as from 1 January 2015 and will provide details of payments of interest (or similar income) as from this date. A number of non-EU countries and territories have adopted similar measures.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying and Transfer Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying and Transfer Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive.

SUBSCRIPTION AND SALE

Citigroup Global Markets Limited, Raiffeisen Bank International AG, SIB (CYPRUS) LIMITED, Société Générale, The Royal Bank of Scotland plc, UniCredit Bank AG and VTB Capital plc (the "**Joint Lead Managers**") have, pursuant to a Subscription Agreement dated 19 June 2014, jointly and severally agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe the Notes at 99.314 per cent. of their principal amount less any applicable commissions and expenses as agreed between the Issuer and Joint Lead Managers. In addition, the Issuer has agreed to reimburse the Joint Lead Managers for certain of their expenses in connection with the issue of the Notes. The Subscription Agreement entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Issuer.

Certain of the Joint Lead Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for the Issuer and its affiliates in the ordinary course of business. In addition, in the ordinary course of their business activities, the Joint Lead Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers; such investments and securities activities may involve securities and/or instruments of the Issuer or Issuer's affiliates. Certain of the Joint Lead Managers or their affiliates that have a lending relationship with the Issuer, routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Joint Lead Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes. Any such short positions could adversely affect future trading prices of the Notes. The Joint Lead Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

United States of America

The Notes have not been and will not be registered under the Securities Act and the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from, or in a transaction not subject to the registration requirements of, the Securities Act.

Each Joint Lead Manager has agreed that:

(a) it has not solicited and will not solicit offers for, or offer or sell, Notes by means of any general solicitation or advertising in the United States or otherwise in any manner involving a public offerings within the meaning of Section 4(2) of the Securities Act;

(b) none of it, its affiliates or any person acting on its or their behalf, has engaged or will engage in any directed selling efforts (within the meaning of Regulation S) with respect to the Notes;

(c) such Joint Lead Manager, or any person acting on its behalf, will offer or sell or solicit offers for the Notes as part of their initial distribution only in offshore transactions within the meaning and meeting the requirements of Rule 903 under the Securities Act.

Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

United Kingdom

Each Joint Lead Manager has represented, warranted and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Slovak Republic

No public offering of the Notes has been made or will be made within the meaning of the Slovak Act No. 566/2001 Coll. on Securities and Investment Services, as amended (the "**Slovak Securities Act**") and no application for an approval of a prospectus for any of the Notes has been filed with the National Bank of

Slovakia. Under the Slovak Securities Act, "public offering" means any communication to a wider group of persons containing information on the securities to be offered and the terms of their acquisition, which is sufficient for an investor to make a decision to purchase or subscribe to such securities.

None of the Notes have been or will be, based on an application by the Issuer, admitted to trading on any regulated market in the Slovak Republic. The Notes are intended to be issued as bonds issued abroad within the meaning of the Slovak Act No. 530/1990 Coll. on bonds, as amended.

Each Joint Lead Manager has represented, warranted and agreed that it has taken and will take no action which would result in an approval of the National Bank of the Slovakia (or any organiser of a regulated market in the Slovak Republic) being required in respect of the Notes in accordance with the Slovak Securities Act and it has complied and will comply with all other applicable provisions (if any) of the Slovak Securities Act and other laws of the Slovak Republic (as they may be further amended or superseded from time to time) with respect to anything done by it in relation to the Notes in, from or otherwise involving the Slovak Republic.

The Czech Republic

None of the Notes have been issued or will be issued as a bond within the meaning of the Czech Act No. 190/2004 Coll., on bonds, as amended. No public offering of the Notes has been made or will be made within the meaning of Czech Act No. 256/2004 Coll., on conducting business on the capital market, as amended (the "**Czech Capital Market Act**") and no application for an approval of a prospectus for any of the Notes has been filed with the Czech National Bank. Under the Czech Capital Market Act, "public offering" means any communication to a wider group of persons containing information on the investment securities (such as the Notes) to be offered and the terms of their acquisition, which is sufficient for an investor to make a decision to purchase or subscribe to these investment securities.

None of the Notes have been or will be, based on an application by the Issuer, admitted to trading on any regulated market in the Czech Republic.

Each Joint Lead Manager has represented, warranted and agreed that (i) it has taken and will take no action which would result in an approval of the Czech National Bank (or any organiser of a regulated market in the Czech Republic) being required in respect of the Notes pursuant to the Czech Capital Market Act and (ii) it has complied and will comply with all other applicable provisions (if any) of the Czech Capital Market Act and other laws of the Czech Republic (as they may be further amended or superseded from time to time) with respect to anything done by it in relation to the Notes in, from or otherwise involving the Czech Republic.

General

Persons into whose possession this Prospectus comes are required by the Issuer and the Joint Lead Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

No action has been taken in any jurisdiction that would permit a public offering of any of the Notes, or the possession or distribution of the Prospectus or any other offering material, in any country or jurisdiction in which an action for that purpose is required.

The Issuer and the Joint Lead Managers do not represent that this Prospectus may be lawfully distributed or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering.

Each Joint Lead Manager has represented, warranted and agreed to the Issuer that it complies with and will comply with all applicable laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers Notes or possesses, distributes or publishes the Prospectus or any other offering material relating to the Notes.

GENERAL INFORMATION

1. Clearing Systems

The Notes have been accepted for clearance through the Clearstream, Luxembourg and Euroclear systems with a Common Code of 107708898. The International Securities Identification Number for the Notes is XS1077088984.

2. Authorisations

The Issuer has obtained all necessary consents, approvals and authorisations in the Slovak Republic in connection with the issue and performance of the Notes. The issue of the Notes was authorised by a resolution of the General Meeting of the Issuer passed on 3 June 2014 and by a resolution of the Board of Directors of the Issuer passed on 10 April 2014.

3. Material Adverse Change

There has been no significant change in the financial or trading position of the Issuer since 31 December 2013 and no material adverse change in the financial position or prospects of the Issuer since 31 December 2013.

4. Litigation

Neither the Issuer nor any of its subsidiaries is involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened) which may have, or have had during the 12 months preceding the date of this Prospectus, a significant effect on the financial position or profitability of the Issuer.

5. Documents on Display

For so long as any of the Notes are outstanding, copies of the following documents may be inspected in electronic format at the specified offices of each of the Issuer and the Fiscal Agent during normal business hours:

(a) the constitutive documents of the Issuer;

(b) the Fiscal Agency Agreement;

(c) the Deed of Covenant; and

(d) the financial statements of the Issuer as at and for the financial years ended 31 December 2013 and 31 December 2012 including, in each case, the audit report relating to such financial statements.

English translations of any of the documents listed above which are not in English are also available for inspection as described above.

6. Auditors

The financial statements of the Issuer for the financial years ended 31 December 2013 and 31 December 2012 contained in this Prospectus have been audited by Deloitte Audit s.r.o, a company incorporated and existing under the laws of the Slovak Republic, with its registered seat at Digital Park II, Einsteinova 23, Bratislava 851 01, Slovak Republic, in accordance with International Financial Reporting Standards and have been audited in line with the International Standards on Auditing without qualification. Deloitte Audit s.r.o has an Identification No. (IČO): 31 343 414, recorded in the Commercial Register of District Court Bratislava I, Section: Sro, Insert No. 4444/B, is a member of the Slovak Chamber of Auditors and is registered in the List of Audit Companies maintained by the Audit Oversight Office with audit licence No. 14. The auditors of the Issuer have no material interest in the Issuer.

7. Yield

On the basis of the issue price of the Notes of 99.314 per cent. of their principal amount, the yield-to-maturity of the Notes is 2.734 per cent. on an annual basis.

8. Expenses

The Issuer estimates the amount of expenses related to the admission of the Notes to trading on the Irish Stock Exchange to be approximately EUR 4,940.

9. Websites

Any website mentioned in this document does not form part of the Prospectus.

10. Availability of Prospectus

This Prospectus is available on the Central Bank's website at www.centralbank.ie.

11. Listing Agent

Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in relation to the Notes and is not itself seeking admission of the Notes to the Official List or to trading on the Market.

FINANCIAL STATEMENTS AND AUDITORS' REPORTS OF THE ISSUER AS AT AND FOR THE YEARS ENDED 31 DECEMBER 2013 AND 31 DECEMBER 2012

Contents

SPP - distribúcia, a.s.

INDEPENDENT AUDITOR'S REPORT AND SEPARATE FINANCIAL STATEMENTS (PREPARED IN ACCORDANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS, AS ADOPTED BY THE EU)

For the year ended 31 December 2013

Deloitte.

Deloitte Audit s.r.o.
Digital Park II
Einsteinova 23
Bratislava 851 01
Slovak Republic

Tel: +421 2 582 49 111
Fax: +421 2 582 49 222
deloitteSK@deloitteCE.com
www.deloitte.sk

Registered in the Commercial
Register of the District Court Bratislava I
Section Sro, File 4444/B
Id. Nr.: 31 343 414
VAT Id. Nr.: SK2020325516

SPP - distribúcia, a.s.

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 2013, 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.

Bratislava, 20 February 2014

Deloitte

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

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

CONTENTS

(EUR '000)

	Note	31 December 2013	31 December 2012
ASSETS:			
NON-CURRENT ASSETS			
Property, plant and equipment	6	2 565 508	2 635 163
Investments in subsidiaries	7	1 005	1 000
Non-current intangible assets and other assets	8	7 911	7 565
Other non-current assets	10	225 026	-
Total non-current assets		2 799 450	2 643 728
CURRENT ASSETS			
Inventories	9	156 769	157 918
Receivables and prepayments	10	119 937	108 748
Income tax asset		3 474	-
Cash and cash equivalents		13 408	62 237
Total current assets		293 588	328 903
Assets classified as held for sale		-	-
TOTAL ASSETS		**3 093 038**	**2 972 631**
EQUITY AND LIABILITIES:			
CAPITAL AND RESERVES			
Registered capital	15	1 957 418	1 957 418
Legal reserve fund and other funds	16	391 484	391 484
Retained earnings	16	113 150	38 069
Total equity		2 462 052	2 386 971
NON-CURRENT LIABILITIES			
Deferred income	11	8 309	8 317
Retirement and other long-term employee benefits	12	4 107	3 240
Deferred tax liability	20.2	386 973	412 384
Loans	13	105 000	-
Total non-current liabilities		504 389	423 941
CURRENT LIABILITIES			
Trade and other payables	14	126 597	129 122
Current income tax		-	2 589
Provisions and other current liabilities		-	-
Loans	13	-	30 008
Total current liabilities		126 597	161 719
Total liabilities		630 986	585 660
TOTAL EQUITY AND LIABILITIES		**3 093 038**	**2 972 631**

The financial statements on pages 3 to 33 were signed on 20 February 2014 on behalf of the Board of Directors:

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

Ing. Štefan Šebesta
Vice-Chairman of the Board of Directors

(EUR '000)

	Note	*Year ended 31 December 2013*	*Year ended 31 December 2012*
REVENUES FROM SALES OF SERVICES:			
Natural gas distribution		369 375	387 179
Other revenues		3 066	2 761
Total revenues		372 441	389 940
OPERATING EXPENSES:			
Own work capitalised		4 877	5 650
Purchases of natural gas and consumables and services		(11 314)	(9 269)
Depreciation and amortisation	6, 8	(101 589)	(104 735)
Storage of natural gas and other services		(85 896)	(93 581)
Staff costs	17	(45 462)	(46 197)
Provision for bad and doubtful debts, obsolete and slow-moving inventory, net	9, 10	(2 091)	(5 238)
Provisions and impairment losses, net	6, 8, 12	(2 783)	(3 064)
Other, net		4 051	6 338
Total operating costs		(240 207)	(250 096)
OPERATING PROFIT		132 234	139 844
Financial revenues		934	405
Financial costs	19	(970)	(1 186)
PROFIT BEFORE INCOME TAXES		132 198	139 063
INCOME TAX	20.1	(19 048)	(100 994)
NET PROFIT FOR THE PERIOD		**113 150**	**38 069**

(EUR '000)

	Note	Year ended 31 December 2013	Year ended 31 December 2012
NET PROFIT FOR THE PERIOD		113 150	38 069
OTHER COMPREHENSIVE INCOME/(LOSS) (may be reclassified to profit or loss in the future):	21		
Hedging derivatives (cash flow hedging)		-	(91)
Deferred tax related to items of other comprehensive income for the period		-	-
OTHER NET COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		-	(91)
TOTAL NET COMPREHENSIVE INCOME FOR THE PERIOD		**113 150**	**37 978**

STATEMENTS OF CHANGES IN EQUITY
Years ended 31 December 2013 and 31 December 2012
(EUR '000)

	Registered capital	*Legal reserve fund*	*Hedging reserve*	*Retained earnings*	*Total*
Balance at 31 December 2011	1 957 418	391 484	91	112 428	2 461 421
Net profit for the period	-	-	-	38 069	38 069
Other net comprehensive income for the period	-	-	(91)	-	(91)
Dividends paid	-	-	-	(112 428)	(112 428)
Transfer to retained earnings	-	-	-	-	-
Balance at 31 December 2012	**1 957 418**	**391 484**	**-**	**38 069**	**2 386 971**
Net profit for the period	-	-	-	113 150	113 150
Other net comprehensive income for the period	-	-	-	-	-
Dividends paid	-	-	-	(38 069)	(38 069)
Transfer to retained earnings	-	-	-	-	-
Balance at 31 December 2013	**1 957 418**	**391 484**	**-**	**113 150**	**2 462 052**

(EUR ‘000)

	Note	***Year ended 31 December 2013***	***Year ended 31 December 2012***
OPERATING ACTIVITIES			
Cash flows from operating activities	22	225 069	263 017
Interest paid		(724)	(1 153)
Interest received		784	405
Income tax paid		(50 522)	(34 486)
Net cash flows from operating activities		174 607	227 783
INVESTING ACTIVITIES			
Expenditures on the acquisition of shares in other entities		(5)	(1 000)
Expenditures for provision of non-current loans		(225 000)	-
Acquisition of property, plant and equipment		(35 397)	(53 172)
Proceeds from sale of property, plant and equipment and intangible assets		51	3
Net cash inflow/(outflow) from investing activities		(260 351)	(54 169)
FINANCING ACTIVITIES			
Dividends paid		(38 069)	(112 428)
Proceeds from received loans and borrowings		105 000	-
Expenditures on the repayment of loans and borrowings		(30 008)	-
Other proceeds and payments from financial activities, net		(8)	(20)
Net cash flows from financing activities		(36 915)	(112 448)
NET INCREASE IN CASH AND CASH EQUIVALENTS		(48 829)	61 166
EFFECTS OF FOREIGN EXCHANGE FLUCTUATIONS		-	-
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		62 237	1 071
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**13 408**	**62 237**

(EUR '000)

1. GENERAL

1.1. General Information

In accordance with Act No. 431/2002 Coll. on Accounting as amended, SPP - distribúcia, a.s., (hereinafter also the "Company") is required to prepare separate financial statements as at 1 January 2008 in accordance with the International Financial Reporting Standards ("IFRS"), as adopted by the European Union ("EU").

The financial statements are statutory financial statements intended for general use and information; they are not intended for the purposes of any specific user or consideration of any specific transactions. Accordingly, users should not rely exclusively on these financial statements when making decisions.

The Company was founded on 26 November 2004 and incorporated in the Commercial Register on 10 December 2004. Slovenský plynárenský priemysel, a.s. is the 100% owner of the Company.

On 1 July 2006, Slovenský plynárenský priemysel, a.s. (hereinafter also "SPP") contributed to SPP - distribúcia, a.s. a part of its business, including assets and liabilities of the original Distribution Division.

Since 1 July 2006, the Company has assumed the performance of activities related to natural gas distribution, as well as assets and liabilities related to the gas distribution business.

On 16 May 2013, the Annual General Meeting approved the Company's 2012 financial statements.

Company Identification No. (IČO)	35 910 739
Tax Registration No. (DIČ)	2021931109

1.2. Principal Activities

Since 1 July 2006, following the legal unbundling process, the Company has been responsible for natural gas distribution in the Slovak Republic.

The Company is required by law to provide non-discriminatory access to the distribution network. Prices are subject to the review and approval of the Regulatory Office for Network Industries (RONI).

1.3. Employees

The average number of employees of SPP – distribúcia, a.s. for the year ended 31 December 2013 was 1 403, of which executive management: 7 (for the year ended 31 December 2012: 1 496, of which executive management: 6).

As at 31 December 2013, the actual headcount was 1 386 (31 December 2012: 1 442).

1.4. Registered Address

Mlynské nivy 44/b
825 11 Bratislava
Slovak Republic

2. NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS AND CHANGES IN ESTIMATES

2.1. Adoption of New and Revised International Financial Reporting Standards

The Company has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and that were adopted by the EU effective for accounting periods beginning on 1 January 2013.

The following new rules issued by the International Accounting Standards Board and adopted by the EU are effective for the current accounting period:

- **IFRS 13 "Fair Value Measurement"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),

- **Amendments to IFRS 1 "First-time Adoption of IFRS"** – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),

- **Amendments to IFRS 1 "First-time Adoption of IFRS"** – Government Loans, adopted by the EU on 4 March 2013 (effective for annual periods beginning on or after 1 January 2013),

- **Amendments to IFRS 7 "Financial Instruments: Disclosures"** – Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2013),

- **Amendments to IAS 1 "Presentation of Financial Statements"** – Presentation of Items of Other Comprehensive Income, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 July 2012),

- **Amendments to IAS 12 "Income Taxes"** – Deferred Tax: Recovery of Underlying Assets, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),

- **Amendments to IAS 19 "Employee Benefits"** – Improvements to the Accounting for Post-employment Benefits, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 January 2013),

- **Amendments to various standards "Improvements to IFRSs (cycle 2009-2011)"** resulting from the annual improvement project of IFRS (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 27 March 2013 (effective for annual periods beginning on or after 1 January 2013), and

- **IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).

The adoption of these new rules has not led to any changes in the Group's accounting policies.

At the date of authorisation of these financial statements the following standards, revisions, and interpretations adopted by the EU were in issue but not yet effective:

- **IFRS 10 "Consolidated Financial Statements"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),

- **IFRS 11 "Joint Arrangements",** adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),

- **IFRS 12 "Disclosures of Interests in Other Entities"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),

- **IAS 27 (revised in 2011) "Separate Financial Statements"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),

- **IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures**", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),

- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosures of Interests in Other Entities"** – Transition Guidance, adopted by the EU on 4 April 2013 (effective for annual periods beginning on or after 1 January 2014),

- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosures of Interests in Other Entities" and IAS 27 (revised in 2011) "Separate Financial Statements"** – Investment Entities, adopted by the EU on 20 November 2013 (effective for annual periods beginning on or after 1 January 2014),

- **Amendments to IAS 32 "Financial Instruments: Presentation"** – Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014),

- **Amendments to IAS 36 "Impairment of Assets"** - Recoverable Amount Disclosures for Non-Financial Assets, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014), and

- **Amendments to IAS 39 "Financial Instruments: Recognition and Measurement"** – Novation of Derivatives and Continuation of Hedge Accounting, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014).

The Company has elected not to adopt these standards, revisions and interpretations in advance of their effective dates.

The Company anticipates that the adoption of these standards, revisions, and interpretations will have no material impact on the Company's financial statements in the period of initial application.

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB), except for the following standards, amendments to the existing standards and interpretations, which were not endorsed for use as at 31 December 2013:

- **IFRS 9 "Financial Instruments" and subsequent amendments** (effective date was not yet determined),

- **Amendments to IAS 19 "Employee Benefits"** - Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 July 2014),

- **Amendments to various standards "Improvements to IFRSs (cycle 2010-2012)"** resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014),

- **Amendments to various standards "Improvements to IFRSs (cycle 2011-2013)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 July 2014), and

- **IFRIC 21 "Levies"** (effective for annual periods beginning on or after 1 January 2014).

The Company anticipates that the adoption of these standards, amendments to the existing standards, and interpretations will have no material impact on the Company's financial statements in the period of initial application.

At the same time, hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated. Based on the Company's estimates, the application of hedge accounting for the portfolio of financial assets or liabilities pursuant to IAS 39: "Financial Instruments: Recognition and Measurement" would not significantly impact the financial statements, if applied as at the balance sheet date.

(EUR '000)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Accounting

These separate financial statements have been prepared in accordance with IFRS as adopted by the EU. IFRS as adopted by the EU do not currently differ from IFRS as issued by the International Accounting Standards Board (IASB).

The financial statements have been prepared under the historical cost convention, with the exceptions detailed below. Information on the applied principal accounting policies is provided below. The reporting currency and functional currency of the Company is the euro (EUR). These separate financial statements were prepared under the going concern assumption.

b) Research and Development

Research and development costs are recognised as expenses except for costs incurred for development projects, which are recognised as non-current intangible assets to the extent of the expected economic benefits. However, development costs initially recognised as expenses are not recognised as assets in a subsequent period.

c) Property, Plant and Equipment and Intangible Assets

Property, plant and equipment and intangible assets are stated in the balance sheet at historical cost less accumulated depreciation and impairment losses. In the case of assets contributed in the form of a contribution in kind as at 1 July 2006, historical cost was determined by an independent expert as at this date.

Acquisition cost comprises any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Items of property, plant and equipment and intangible assets that are retired or otherwise disposed of are eliminated from the balance sheet at net book value. Any gain or loss resulting from such retirement or disposal is included in the income statement.

Other items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. Depreciation charges are recognised in the income statement computed so as to amortise the cost of the assets to their estimated net book value over their residual useful lives. The useful lives of property, plant and equipment and intangible assets are as follows:

Type of assets	*Useful life from 2013*	*Useful life until 2012*
Regulation stations	15 – 50 years	15 – 50 years
Gas pipelines	40 – 60 years	40 – 60 years
Structures	15 – 60 years	15 – 60 years
Machines, tools and equipment	4 – 40 years	4 – 40 years
Other non-current assets	3 – 8 years	3 – 8 years

As at 1 August 2011, for the purposes of their inclusion in the consolidation, the Company carried out a new revaluation of the buildings, plant, machinery and other equipment used in the distribution of natural gas under IAS 16, based on findings of significant changes in the assumptions, which were used in the revaluation model performed by independent appraisers. Based on an independent valuation report, the Company changed the economic useful lives of buildings, machinery and equipment used for natural gas distribution with effect from 1 January 2011. As at 31 December 2013 and 2012, the Company concluded that there was no significant change in the estimated useful lives of the buildings, machinery and equipment.

Land is not depreciated as it is deemed to have an indefinite useful life.

Intangible assets with limited useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. The estimated useful lives are reviewed at the end of each reporting period. Costs of connection to the distribution network are capitalised and amortised over the estimated remaining useful life of the related equipment used for natural gas distribution.

At each reporting date an assessment is made as to whether there is any indication that the recoverable amount of the Company’s property, plant and equipment and intangible assets is less than the carrying amount. Where there is such an indication, the recoverable amount of the asset, being whichever is the higher of the fair value less costs of sale and the present value of future cash flows, is estimated. The resulting provision for an impairment loss is recognised fully in the income statement in the year in which the impairment occurs. The discount rates used to calculate the net present value of future cash flows reflect current market assessments of the time value of money and the risks specific to the asset. In the event that a decision is made to abandon a construction project in progress or significantly to postpone the planned completion date, the carrying amount of the asset is reviewed for potential impairment and a provision is recorded, if appropriate. In 2012, the Company prepared an analysis of the expected value-in-use of assets based on which no impairment of non-current assets was identified.

Expenditures relating to an item of property, plant and equipment and intangible assets are added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the original assessed standard of performance of the existing asset, will flow to the Company. All other subsequent expenditures are treated as repairs and maintenance and are expensed in the period in which they are incurred.

d) Government Grants

Free-of-charge transfers of gas facilities by municipalities to the Company’s assets are deemed to be non-monetary grants. They are recognised at the fair value of the assets received and are included in non-current liabilities as deferred income. This deferred income is recognised in the income statement on a straight-line basis over the useful lives of the assets transferred.

Free-of-charge transfers of gas facilities from customers relating to the connection of customers to the distribution network are charged to revenues for the relevant period and are recognised at the fair value of the received assets in accordance with IFRIC 18.

e) Inventories

Inventories are stated at the lower of the cost and the net realisable value. The cost of natural gas stored in underground storage facilities and raw materials and other inventories is calculated using the weighted arithmetic average method. The cost of raw materials and other inventories includes the cost of acquisition and related costs and the cost of inventories developed internally includes materials, other direct costs and production overheads. Appropriate provisions are made for obsolete and slow-moving inventories. Natural gas in acquisition is valued at cost. Other costs related to the acquisition of natural gas are immaterial.

f) Financial Assets

Financial assets are classified into the following categories: financial assets “at fair value through profit or loss” (FVTPL), “held-to-maturity investments”, “available-for-sale (AFS) financial assets” and “loans and receivables”.

The Company only recognises financial assets in the “loans and receivables” category.

<u>Loans and Receivables</u>

Loans and receivables are non-derivative financial assets with fixed or variable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, bank balances and cash) are measured at amortised cost using the effective interest rate method less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables for which the recognition of interest is immaterial.

<u>Impairment of Financial Assets</u>

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows from the investment have been reduced.

For trade receivables assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced for the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of a provisions account. When a trade receivable is considered uncollectible, it is written off against the provisions account. Subsequent recoveries of amounts previously written off are recognised as a release of provisions. Changes in the carrying amount of the provisions account are recognised in profit or loss.

Derecognition of Financial Assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

g) Financial Liabilities

Financial liabilities are classified as financial liabilities "at fair value through profit or loss" (FVTPL) or as "other financial liabilities".

The Company only recognises financial liabilities in the "other financial liabilities" category.

Other Financial Liabilities

Other financial liabilities (including borrowings) are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected economic life of the financial liability, or a shorter period, to the net carrying amount on initial recognition.

h) Subsidiaries

Investments in subsidiaries are measured at cost. The costs of an investment in a subsidiary are based on the expenses related to the acquisition of an investment representing the fair value of the consideration, including direct incidental transaction costs.

i) Cash and Cash Equivalents

Cash and cash equivalents consist of cash in hand and cash in bank with insignificant risk of changes in value.

j) Provisions for Liabilities

A provision is recognised when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. The amount of the provision is the present value of the risk-adjusted expenditures expected to be required to settle the obligation, determined using the estimated risk-free interest rate as a discount rate. Where discounting is used, the carrying amount of the provision increases in each period to reflect the unwinding of the discount by the passage of time.

k) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are recognised as part of the cost of the related asset. Other borrowing costs are recognised as an expense in the period in which they are incurred.

l) Revenue Recognition

Sales are recorded upon the delivery of products or the performance of services, net of value added tax and discounts. The Company records revenues from distribution and other activities on an accrual basis.

Moment of revenue recognition: revenues are recognised when the delivery terms are fulfilled, since at that moment significant risks and rights of ownership are transferred to the customer. The date of delivery fulfilment is the last day of the relevant calendar month.

m) Social Security and Pension Schemes

The Company is required to make contributions to various mandatory government insurance schemes, together with contributions by employees. The cost of social security payments is charged to the income statement in the same period as the related salary cost.

n) Retirement and Other Long-Term Employee Benefits

The Company has a long-term employee benefit program comprising a lump-sum retirement benefit, social assistance benefit in material deprivation and life and work jubilee benefits, for which no individual financial funds were earmarked. In accordance with IAS 19, the employee benefits costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the income statement so as to spread the regular cost over the service period of employees. The benefit obligation is measured at the present value of the estimated future cash flows discounted by market yields on Slovak government bonds, which have terms to maturity approximating the terms of the related liability. All actuarial gains and losses are recognised in the comprehensive income statement. Past service costs are recognised when incurred and are directly expensed.

o) Leasing

Finance lease
A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset (economic substance of the arrangement). Accounting treatment of leases is not dependent on which party is the legal owner of the leased asset. An operating lease is a lease other than a finance lease.

Operating lease
The lessee under an operating lease arrangement does not present assets subject to an operating lease in its balance sheet nor does it recognise operating lease obligations for future periods. Lease payments under an operating lease shall be recognised as an expense on a straight-line basis over the lease term.

p) Taxation

Income tax is calculated from the profit/loss before tax recognised pursuant to International Accounting Standards adjusted to the profit/loss recognised pursuant to the accounting procedures valid in the Slovak Republic reflecting individual items increasing or decreasing the tax base pursuant to Act No. 595/2003 Coll. on Income Tax, as amended, using the effective income tax rate of 23%.

Deferred tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Deferred tax is calculated at the tax rates that are expected to apply for the period when the asset is realised or the liability is settled. Deferred tax is recognised in the income statement, except when it relates to items directly credited or charged directly to equity, in which case the deferred tax is also recognised in equity. The income tax rate valid from 1 January 2004 to 31 December 2012 is 19%. The income tax rate valid as of 1 January 2013 is 23%. The income tax rate valid as of 1 January 2014 is 22%.

The principal temporary differences arise from the depreciation of non-current assets and various provisions. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is recognised in the case of temporary differences arising from financial investments in subsidiaries, associates and joint ventures, except when the settlement of temporary differences can be controlled and temporary differences will not be realised in the foreseeable future.

Current and Deferred Tax for the Year
Current and deferred tax are recognised through profit and loss, except when they relate to items recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity.

Special Levy on Businesses in Regulated Industries
Pursuant to the requirements of International Accounting Standards, the Company's income tax also includes a special levy pursuant to Act No. 235/2012 Coll. on a Special Levy on Businesses in Regulated Industries and on the Amendment to and Supplementation of Certain Acts. The special levy is recognised through profit and loss.

The Company is a regulated entity with the obligation to pay a special levy during the period of the effectiveness of the Act, ie from September 2012 to December 2016. The levy is calculated per calendar month and the levy rate is 0.00363. The levy is based on the profit/loss before tax recognised pursuant to International Accounting Standards, adjusted to the profit/loss recognised pursuant to the accounting procedures valid in the Slovak Republic, and further adjusted pursuant to the Act on a Special Levy. The special levy is recognised as part of income taxes.

q) Foreign Currencies

Transactions in foreign currencies are initially recorded at the rates of the European Central Bank (ECB) pertaining on the dates of the transactions. Monetary assets, receivables and payables denominated in foreign currencies are translated as at the reporting date at the ECB exchange rates valid on the reporting date. Gains and losses arising on exchange as at the reporting date are included in the income statement.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

<u>Impairment of Property, Plant and Equipment</u>

The Company re-assessed the provision for the impairment of property, plant and equipment on the basis of an evaluation of their planned disposal or sale. When assessing the recoverable amount of property, plant, and equipment, certain assumptions and estimates were considered that may be subject to changes in the future. The recoverable amount of property, plant, and equipment for non-current assets used for natural gas distribution depends, inter alia, on the future development of gas consumption in Slovakia and on future tariffs for individual distribution services, which are subject to regulation. Refer to Note 6 and 23 for details on the impairment of property, plant and equipment.

<u>Useful Life of Property, Plant and Equipment</u>

In 2011, the Company engaged an expert to reassess the estimated remaining useful lives of the items of property, plant and equipment used for natural gas distribution. The estimated remaining useful life depends, inter alia, on various assumptions regarding the future use of the assets, their wear and tear and moral obsolescence, and potential changes in the legislation.

5. FINANCIAL INSTRUMENTS

a) Financial risk management

The Company is not exposed to severe financial risks that would include the effects of changes in foreign currency exchange rates. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial position.

The main risks arising from the Company's financial instruments are liquidity risk and credit risk.

(1) Foreign currency risk

The Company is not exposed to severe foreign currency risk arising from foreign currency transactions since it does not recognise significant financial assets and liabilities denominated in a foreign currency as at 31 December 2013. As at 31 December 2012, the Company did not recognise significant financial assets and liabilities denominated in a foreign currency.

(EUR '000)

Sensitivity to foreign exchange changes

The impact of sensitivity to foreign exchange changes was not significant in the current or previous reporting periods.

(2) Commodity price volatility risk

The Company has entered into contracts for natural gas storage and natural gas purchases to cover losses in the distribution network. The contract for natural gas storage is concluded for 20 years and is at a fixed price. Natural gas purchase prices to cover losses are subject to tender for one year in advance. Currently, a fixed unit price for natural gas purchases is agreed for 2014; the same trend is expected also in the future. The current effective legislation of the Regulatory Office for Network Industries allows one to transfer the effect of natural gas price changes to cover losses to the price for natural gas distribution; thus, the Company does not consider the commodity price volatility risk significant.

(3) Interest rate risk

The Company is not exposed to significant concentration of interest rate risk.

As at 31 December 2012, the Company recognised a received loan bearing a fixed interest rate that was provided by the parent company. The loan was repaid on 2 May 2013. The interest rate of this short-term loan was 3.65% p. a.

As at 31 December 2013, the Company recognised a received loan with a variable interest rate. The interest rate of this long-term loan amounts to 3M EURIBOR + margin in % p.a.

Furthermore, the Company also recognises a received medium-term bank loan. It is a bullet loan falling due in 2016 and the interest rate amounts to 1M EURIBOR + margin in % p.a.

Considering the planned restructuring of the SPP Group (one of the loans is currently provided with the parent company's guarantee; after the completion of the SPP Group restructuring, the loan will be provided based on an independent rating of SPP-distribúcia), as well as the current level of interest rates and their forecast for the nearest future, the risk is not hedged by credit swaps.

(4) Credit risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in a financial loss to the Company. The Company has adopted a policy of only dealing with credit-worthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

The Company sells its services to customers, SPP being the major customer, which means that the risk that receivables will remain unpaid is considerably eliminated.

(5) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash with adequate maturity, availability of funding through an adequate amount of committed credit lines and the ability to close open market positions. The Company, as a member of the SPP core group, is part of the cash-pooling system. In the system flexibility is maintained by keeping committed credit lines available and synchronising the maturity of financial assets with financial needs.

The table below summarises the maturity of the financial liabilities as at 31 December 2013 and 31 December 2012, based on contractual undiscounted payments:

As at 31 December 2013	***On demand***	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***> 5 years***	***Total***
Loans	-	-	-	50 000	55 000	105 000
Other liabilities	-	11 760	-	-	-	11 760
Trade payables	-	114 837	-	-	-	114 837

As at 31 December 2012	***On demand***	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***> 5 years***	***Total***
Loans	-	8	30 000	-	-	30 008
Other liabilities	-	10 510	-	-	-	10 510
Trade payables	-	118 612	-	-	-	118 612

(EUR '000)

b) Capital risk management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity ratio.

The Company's capital structure consists of equity attributable to the Company's owners, comprising registered capital, the legal reserve fund and retained earnings as disclosed in Notes 15 and 16 and interest-bearing borrowings as disclosed in Note 13. The gearing ratio at the 2013 year-end was 4% (2012: 0%).

The gearing ratio at the year-end was as follows:

	31 December 2013	*31 December 2012*
Debt (i)	105 000	30 008
Cash and cash equivalents	13 408	62 237
Net debt	91 592	-
Equity (ii)	2 462 052	2 386 971
Net debt to equity ratio	**4%**	**0%**

(i) Debt is defined as long- and short-term borrowings.
(ii) Page 6

c) Categories of financial instruments

	31 December 2013	*31 December 2012*
Financial assets		
Loans and receivables (including cash and cash equivalents)	357 705	168 931
Financial derivatives recognised as hedges	-	-
Financial derivatives held for trading	-	-
Financial liabilities		
Financial liabilities carried at amortised costs	231 597	159 130
Financial derivatives recognised as hedges	-	-
Financial derivatives held for trading	-	-

d) Estimated fair value of financial instruments

The fair value of commodity swaps is determined using forward commodity prices as at the reporting date.

The estimated fair values of other instruments, mainly current financial assets and liabilities, approximate their carrying amounts.

The following table provides an analysis of financial instruments that, upon initial measurement, are subsequently recognised at fair value, in accordance with the fair value hierarchy.

Level 1 of the fair value measurement represents those fair values that are deduced from the prices of similar assets or liabilities listed on active markets.

Level 2 of the fair value measurement represents those fair values that are deduced from input data other than listed prices included in Level 1, which are observable on the market for assets or liabilities directly (eg prices) or indirectly (eg deduced from prices).

Level 3 of the fair value measurement represents those fair values that are deduced from valuation models including subjective input data for assets or liabilities not based on market data.

As at 31 December 2013, the Company has no financial instruments measured at fair value.

Embedded derivative instruments

The Company assessed all significant contracts and agreements for embedded derivatives that should be recorded and concluded that there are no embedded derivatives in these contracts and agreements that are required to be measured and separately recognised as at 31 December 2013 and 31 December 2012 under the requirements of IAS 39 (as revised in 2009).

(EUR '000)

6. PROPERTY, PLANT AND EQUIPMENT

	Regulation stations	*Gas pipelines*	*Land, buildings and structures*	*Plant, machinery and equipment*	*Other non-current tangible assets*	*Assets in the course of construction*	*Total*
Year ended 31 December 2012							
Opening net book value	126 693	2 489 600	212	9 536	360	62 411	2 688 812
Additions	-	122	-	-	-	53 151	53 273
Placed into service	3 486	52 833	-	1 095	11	(57 425)	-
Reclassifications	30	42	1	6	(4)	(58)	17
Disposals	-	(4)	-	(16)	-	-	(20)
Depreciation charge	(9 239)	(94 204)	(5)	(2 495)	(70)	-	(106 013)
Change in provisions	(87)	(232)	-	(47)	(3)	(537)	(906)
Closing net book value	**120 883**	**2 448 157**	**208**	**8 079**	**294**	**57 542**	**2 635 163**
Year ended 31 December 2012							
Cost	169 426	2 808 641	226	19 681	1 233	59 401	3 058 608
Provisions and accumulated depreciation	(48 543)	(360 484)	(18)	(11 602)	(939)	(1 859)	(423 445)
Net book value	**120 883**	**2 448 157**	**208**	**8 079**	**294**	**57 542**	**2 635 163**
Year ended 31 December 2013							
Opening net book value	120 883	2 448 157	208	8 079	294	57 542	2 635 163
Additions	-	208	-	-	-	34 621	34 829
Placed into service	4 905	42 598	-	702	6	(48 211)	-
Reclassifications	-	-	-	-	-	(206)	(206)
Disposals	(51)	(4)	(4)	(29)	(1)	(158)	(247)
Depreciation charge	(9 298)	(91 221)	(23)	(2 347)	(65)	-	(102 954)
Change in provisions	215	281	-	19	(1)	(1 591)	(1 077)
Closing net book value	**116 654**	**2 400 019**	**181**	**6 424**	**233**	**41 997**	**2 565 508**
Year ended 31 December 2013							
Cost	172 468	2 841 317	202	20 316	1 104	45 447	3 080 854
Provisions and accumulated depreciation	(55 814)	(441 298)	(21)	(13 892)	(871)	(3 450)	(515 346)
Net book value	**116 654**	**2 400 019**	**181**	**6 424**	**233**	**41 997**	**2 565 508**

(EUR '000)

As at 31 December 2013, the Company uses tangible assets related to gas pipelines and regulation stations with cost in the amount of EUR 5 460 thousand, which is presented as assets in the course of construction. Depreciation charge in the amount of EUR 70 thousand was recorded in 2013 in this respect.

Type and amount of insurance for property, plant and equipment and intangible assets:

Insured object	***Type of insurance***	***Cost of insured assets 2013***	***Cost of insured assets 2012***	***Name and seat of the insurance company***
Buildings, halls, structures (except for gas pipelines), machinery, equipment, fixtures & fittings, low-value non-current TA, other non-current TA, works of art, inventories	Insurance of assets	178 500	170 483	Allianz-Slovenská poisťovňa, a.s. Kooperativa, a.s., ČSOB Poisťovňa, a.s.
Motor vehicles	MTPL insurance, motor vehicle insurance against damage, destruction, theft	-	784	Allianz-Slovenská poisťovňa, a.s.

The cost of fully depreciated non-current assets (includes also non-current intangible assets), which were in use as at 31 December 2013, amounts to EUR 40 786 thousand (31 December 2012: EUR 28 481 thousand).

7. INVESTMENTS IN SUBSIDIARIES

At 31 December 2013	***Subsidiaries***
Opening balance, net	1 000
Additions	5
Reclassification	-
Disposals	-
Impairment	-
Closing balance, net	**1 005**
Cost	1 005
Impairment	-
Closing balance, net	**1 005**

SPP – distribúcia Servis, s.r.o. was established on 27 August 2012 by a Memorandum of Association as a 100% subsidiary of SPP – distribúcia, a.s. The company was registered in the Commercial Register of the District Court Bratislava I on 18 September 2012.

Plynárenská metrológia, s.r.o. was established on 11 September 2013 by a Memorandum of Association as a 100% subsidiary of SPP – distribúcia. The company was registered in the Commercial Register of the District Court Bratislava I on 1 October 2013.

Information on the subsidiaries of SPP - distribúcia as at 31 December 2013 can be summarised as follows:

Name	***Country of Registration***	***Ownership Interest in %***	***Principal Activity***
SPP – distribúcia Servis, s.r.o.	Slovakia	100.00	Production and servicing of gas equipment
Plynárenská metrológia, s.r.o.	Slovakia	100.00	Brokerage of services

Additional information on the subsidiaries:

Business name and seat of the entity	***Equity 2013***	***Equity 2012***	***Profit/loss 2013***	***Profit/loss 2012***
SPP – distribúcia Servis, s.r.o. Seat: Oslobodenia 1068/50, Malacky	1 069	941	128	(59)
Plynárenská metrológia, s.r.o. Seat: Oslobodenia 1068/50, Malacky	3	n/a	(2)	n/a

(EUR '000)

8. NON-CURRENT INTANGIBLE ASSETS AND OTHER ASSETS

	Software	***Other non-current intangible assets***	***Assets in the course of construction***	***Total***
Year ended 31 December 2012				
Opening net book value	1	6 076	2 130	8 207
Additions	-	-	21	21
Placed into service	-	2 005	(2 005)	-
Reclassifications	-	-	(34)	(34)
Disposals	-	-	(68)	(68)
Amortisation	(1)	(550)	-	(551)
Change of provisions	-	1	(11)	(10)
Closing net book value	**-**	**7 532**	**33**	**7 565**
At 31 December 2012				
Cost	43	10 428	44	10 515
Provision and impairment loss	(43)	(2 896)	(11)	(2 950)
Net book value	**-**	**7 532**	**33**	**7 565**
Year ended 31 December 2013				
Opening net book value	-	7 532	33	7 565
Additions	-	-	776	776
Placed into service	-	39	(39)	-
Reclassifications	-	-	-	-
Disposals	-	-	-	-
Amortisation	-	(430)	-	(430)
Change of provisions	-	-	-	-
Closing net book value	**-**	**7 141**	**770**	**7 911**
At 31 December 2013				
Cost	42	10 464	781	11 287
Provision and impairment loss	(42)	(3 323)	(11)	(3 376)
Net book value	**-**	**7 141**	**770**	**7 911**

9. INVENTORIES

	31 December 2013	***31 December 2012***
Natural gas	155 824	156 622
Raw materials and other inventories	1 021	1 341
Provision	(76)	(45)
Total	**156 769**	**157 918**

The balance of natural gas represents natural gas used to balance the distribution network and natural gas for own consumption, as well as losses in the distribution network.

As at 31 December 2013 and 31 December 2012, no provision was required or recognised in respect of an adjustment to reduce the cost of natural gas to its net realisable value.

The Company created provisions for slow-moving inventories of raw materials in the amount of EUR 76 thousand (31 December 2012: EUR 45 thousand).

(EUR '000)

10. RECEIVABLES AND PREPAYMENTS

	31 December 2013	*31 December 2012*
Receivables from distribution activities	44 941	56 758
Prepayments and other receivables	74 330	49 936
Receivables from provided borrowings	225 026	-
Other tax assets	666	2 054
Total	**344 963**	**108 748**

Receivables fall due as follows

	31 December 2013	*31 December 2012*
Within one year	119 937	108 748
From 1 year to 2 years	-	-
From 2 to 5 years	-	-
More than 5 years	225 026	-
Total receivables	**344 963**	**108 748**

As at 31 December 2013, the Company recorded receivables due and overdue in the amount of EUR 343 708 thousand and EUR 12 273 thousand, respectively, excluding an impairment provision. As at 31 December 2012, the Company recorded receivables due and overdue in the amount of EUR 106 221 thousand and EUR 11 507 thousand, respectively, excluding an impairment provision.

Out of the Company's total receivables and prepayments as at 31 December 2013 the most significant amounts represent a receivable from unbilled outputs from the distribution activities, which amounts to EUR 44 704 thousand, and a receivable from cash pooling transactions from the parent company, which amounts to EUR 68 324 thousand and a receivable from a provided loan from a fellow subsidiary, which amounts to EUR 225 026 thousand (in 2012, the most significant amounts represented a receivable from unbilled outputs from the distribution activities (EUR 51 880 thousand) and a receivable from cash pooling transactions from the parent company (EUR 38 996 thousand)).

As at 31 December 2013, receivables and prepayments are shown net of provisions for bad and doubtful debts in the amount of EUR 11 018 thousand (31 December 2012: EUR 8 980 thousand).

As at 31 December 2013, receivables and prepayments do not include receivables from eustream, a. s. (31 December 2012: EUR 9 095 thousand), but include receivables from SPP a. s. and SPP-Infrastructure in the amount of EUR 100 968 thousand (31 December 2012: EUR 81 422 thousand) and EUR 225 026 thousand, respectively. In December 2013, SPP – distribúcia, a.s. has provided a loan to company SPP Infrastructure, a.s., due 30 December 2020, bearing fixed interest rate of 4,245%.

Movements in the provision for receivables were as follows:

	31 December 2013	*31 December 2012*
Opening value	(8 980)	(3 772)
Creation	(2 613)	(5 388)
Use	565	168
Reversal	10	12
Closing value	**(11 018)**	**(8 980)**

Collateralisation of receivables

Certain receivables that are under execution proceedings are pledged by an execution lien. Several bank guarantees totalling EUR 20 075 thousand (31 December 2012: EUR 11 805 thousand) were established to secure the Company's receivables from natural gas distribution. In addition, financial funds in the amount of EUR 3 292 thousand (31 December 2012: EUR 2 120 thousand) were deposited in the Company's bank account.

(EUR '000)

Overdue receivables that were not provided for:

	2013	*2012*
Less than 2 months	853	2 069
2 to 3 months	-	-
3 to 6 months	-	-
6 to 9 months	-	-
9 to 12 months	-	-
More than 12 months	-	-
Total	**853**	**2 069**

Overdue receivables that were provided for:

	2013	*2012*
Less than 2 months	-	-
2 to 3 months	310	112
3 to 6 months	783	1 174
6 to 9 months	680	1 512
9 to 12 months	633	1 156
More than 12 months	9 014	5 484
Total	**11 420**	**9 438**

11. DEFERRED INCOME

	31 December 2013	*31 December 2012*
Opening balance, net	8 317	8 191
Assets acquired during the reporting period	222	346
Amortisation during the reporting period	(230)	(220)
Other deferred income	-	-
Closing balance, net	**8 309**	**8 317**

Some gas facilities were obtained "free of charge" from municipal and local authorities. This deferred income is released in the income statement on a straight-line basis in the amount of depreciation charges of non-current tangible assets acquired free of charge.

12. RETIREMENT AND OTHER LONG-TERM EMPLOYEE BENEFITS

The long-term employee benefits program at the Company was launched in 2006. This is a defined benefit program, under which the employees are entitled to a lump-sum payment upon old age or disability retirement and, subject to vesting conditions, life and work jubilee payments.

In 2010, the Company signed a collective agreement that was valid until the end of 2013; in October 2013, a new collective agreement was signed, which is valid for 2014 and 2015 and under which employees are entitled to a retirement benefit based on the number of years worked with the SPP core group companies at the date of retirement. The retirement benefits range from three months to five months of the employee's average salary. As at 31 December 2013 and 31 December 2012, the obligation relating to retirement and other long-term employee benefits was calculated on the basis of valid collective agreements in the given years.

As at 31 December 2013, there were 1 386 (31 December 2012: 1 442) employees covered by this program. As of that date, it was an un-funded program, with no separately allocated assets to cover the program's liabilities.

(EUR '000)

Movements in the net liability recognised in the balance sheet for the year ended 31 December 2013 are as follows:

	Long-term benefits	*Post-employment benefits*	*Total benefits at 31 December 2013*	*Total benefits at 31 December 2012*
Net liability at 1 January	737	2 664	3 381	3 050
Net expense recognised	(69)	1 083	1 014	450
Benefits paid	(78)	(21)	(99)	(119)
Net liabilities	**590**	**3 706**	**4 296**	**3 381**

	Current liabilities (included in other current liabilities)	*Non-current liabilities*	*Total*
At 31 December 2013	189	4 107	4 296
At 31 December 2012	141	3 240	3 381

Key assumptions used in actuarial valuation:

	At 31 December 2013	*At 31 December 2012*
Market yield on government bonds	3.057%	3.680%
Annual future real rate of salary increases	2.00%	2.00%
Annual employee turnover	1.44%	1.44%
Retirement ages (male and female)	62 for male and 60 for female	62 for male and 60 for female

13. INTEREST-BEARING BORROWINGS

	31 December 2013 Secured	*31 December 2013 Unsecured*	*31 December 2013 Total*	*31 December 2012 Secured*	*31 December 2012 Unsecured*	*31 December 2012 Total*
Loans	-	105 000	105 000	-	30 008	30 008
Bonds	-	-	-	-	-	-
Total	**-**	**105 000**	**105 000**	**-**	**30 008**	**30 008**
Loans by currency						
EUR						
– with a fixed interest rate	-	-	-	-	30 008	30 008
– with a floating interest rate	-	105 000	105 000	-	-	-
Total loans	**-**	**105 000**	**105 000**	**-**	**30 008**	**30 008**
Loans are due as follows:						
Within one year	-	-	-	-	30 008	30 008
From 1 to 2 years	-	-	-	-	-	-
From 2 to 5 years	-	50 000	50 000	-	-	-
More than 5 years	-	55 000	55 000	-	-	-
Total loans	**-**	**105 000**	**105 000**	**-**	**30 008**	**30 008**

As at 31 December 2012, the Company drew a loan denominated in euros in the amount of EUR 30 million, which was provided by the parent company at a fixed interest rate of 3.65% per annum. The loan was not secured by any assets and was repaid in 2013.

As at 31 December 2013, the Company drew a loan denominated in euros in the amount of EUR 55 million at an interest rate consisting of a variable portion of 3M EURIBOR and a fixed margin in % p.a. The loan falls due in 2020 and is not secured by any assets.

Furthermore, the Company also drew a medium-term bank loan in the amount of EUR 50 million. The loan is payable in 2016 on an one-off basis ('bullet loan'); the interest rate consists of a variable portion (1M EURIBOR) + a fixed margin in % p.a.

The average interest rate of loans drawn as at 31 December 2013 was 0.938%.

(EUR '000)

Interest rates of the loans:

Loans	
EUR	
– with a fixed interest rate	-
– with a floating interest rate	1M/3M EURIBOR + margin

The carrying amount and face value of loans and bonds:

	Carrying Amount		*Face Value*	
	31 December 2013	***31 December 2012***	***31 December 2013***	***31 December 2012***
Loans	105 000	30 008	105 000	30 000
Bonds	-	-	-	-
Total	**105 000**	**30 008**	**105 000**	**30 000**

SPP – distribúcia, a.s. has the following unused lines of credit:

	At 31 December 2013	***At 31 December 2012***
Floating interest rate:		
- due within one year	-	-
- due after more than one year	-	105 000
Total	**-**	**105 000**

Based on a loan agreement, SPP-distribúcia is required to comply with the agreed financial covenants, ie on each relevant day of each calendar year over the term of the agreement, the net debt of the Company on such relevant day of the relevant calendar year against the Company's EBITDA achieved for the previous 12 months prior to such relevant day may not be higher than 2.

Another loan agreement does not stipulate any financial covenants but it defines the minimum rating of the parent company (Moodys: Baa1, Fitch: BBB+), which provides a guarantee for SPP-distribúcia's loan. If the rating falls below the defined level in either of the two agencies by one grade (while remaining unchanged with the other agency), the interest margin will slightly increase (by 0.15%); if the rating falls by more than one grade below the defined level or if it falls by one grade with both agencies simultaneously, SPP-distribúcia is required to provide additional collateral in the form of a guarantee, cash collateral or any other form of collateral accepted by the bank. As at 31 December 2013, the parent company's rating was at Baa1 (Moodys) and A- (Fitch), ie all the conditions were met.

In relation to the SPP Group's reorganisation under preparation, negotiations with the bank are currently held regarding the change in the existing structure of the loan so that the loan is provided without the parent company's guarantee based on a separate rating of SPP-distribúcia, with the expected date by the end of the first half-year of 2014.

14. TRADE AND OTHER PAYABLES

	At 31 December 2013	***At 31 December 2012***
Trade payables for gas purchases	533	768
Trade payables for electricity purchases	482	-
Trade payables	30 788	43 274
Payables from distribution activities	83 034	69 720
Payables from financial derivatives	-	-
Other payables	3 554	7 378
Employee liabilities	5 639	5 279
Social security and other taxes	2 567	2 703
Total	**126 597**	**129 122**

As at 31 December 2013, total trade and other payables included payables to SPP in the amount of EUR 85 620 thousand (31 December 2012: EUR 74 368 thousand). Total trade and other payables as at 31 December 2013 included no payables to eustream, a. s. (31 December 2012: EUR 960 thousand).

(EUR '000)

Of the Company's payables resulting from distribution activities as at 31 December 2013 and 31 December 2012, the major portion is represented by a prepayment received from the parent company for natural gas distribution.

As at 31 December 2013, the Company recorded payables within maturity in the amount of EUR 126 597 thousand; no overdue payables were recognised. As at 31 December 2012, the Company recorded payables within maturity in the amount of EUR 129 122 thousand; no overdue payables were recognised.

Social fund payables:

	Amount
Opening balance as at 1 January 2013	277
Total creation:	325
from expenses	*324*
non-mandatory allotment	*1*
Total drawing:	(502)
monetary rewards and gifts	*(62)*
life jubilee benefits	*(30)*
work jubilee benefits	*(49)*
catering allowance	*(107)*
other drawing as per CA	*(254)*
Closing balance as at 31 December 2013	**50**

Liabilities secured by pledge or other form of collateral

A bank guarantee was established in Tatra banka, a. s., totalling EUR 33 thousand for other payables to the Customs Office (2012: EUR 33 thousand).

15. REGISTERED CAPITAL

The registered capital consists of 10 ordinary certificate-form shares at the face value of EUR 3 319.39 per share, and 1 ordinary certificate-form share at the face value of EUR 1 957 384 402.17. The SPP is the 100% owner of the shares referred to above. The registered capital was incorporated in the Commercial Register in the full amount.

16. LEGAL RESERVE FUND AND RETAINED EARNINGS

Since 1 January 2008 the Company has been required to prepare separate financial statements in accordance with IFRS as adopted by the EU. Retained earnings represent amounts based on the separate financial statements.

The legal reserve fund in the amount of EUR 391 484 thousand (31 December 2012: EUR 391 484 thousand) is created in accordance with Slovak law and is not distributable to shareholders. The reserve is created from retained earnings to cover possible future losses or increases of the registered capital. Transfers of at least 10% of the current year's profit are required to be made until the reserve is equal to at least 20% of the registered capital. The legal reserve fund in the Company has already attained 20% of the registered capital.

Distribution of profit:

Allotment	***Profit allotment for 2012***	***Profit allotment for 2011***
To cover losses from previous years	-	-
Dividends	38 069	112 428
Total profit to be distributed	**38 069**	**112 428**

(EUR '000)

17. STAFF COSTS

	Year ended 31 December 2013	*Year ended 31 December 2012*
Wages, salaries and bonuses	28 249	28 762
Social security costs	10 701	10 360
Other social security costs and severance pay	6 512	7 075
Total staff costs	**45 462**	**46 197**

The Company is required to make social security contributions, amounting to 35.2% of salary bases as determined by law, up to a maximum amount ranging from EUR 3.93 thousand (except for accident insurance). The employees contribute an additional 13.4% of the relevant base up to the above limits.

18. COSTS OF AUDIT SERVICES

	Year ended 31 December 2013	*Year ended 31 December 2012*
Audit of financial statements	25	20
Other assurance services	-	-
Tax advisory services	-	-
Other related services provided by the auditor	-	-
Total	**25**	**20**

19. FINANCIAL EXPENSE

	Year ended 31 December 2013	*Year ended 31 December 2012*
Interest expense	747	1 153
Other	223	33
Total financial expense/(income)	**970**	**1 186**

20. TAXATION

20.1. Income Tax

Income tax comprises the following:

	Year ended 31 December 2013	*Year ended 31 December 2012*
Current tax related to the current year	38 611	34 499
Special levy	5 848	1 939
Deferred income tax (Note 20.2)		
– Current year	(7 821)	(7 163)
Adjustment of deferred tax due to the tax rate change	(17 590)	71 719
Total	**19 048**	**100 994**

(EUR '000)

The reconciliation between the reported income tax expense and the theoretical amount that would arise using the standard tax rates is as follows:

	Year ended 31 December 2013	*Year ended 31 December 2012*
Profit before taxation	132 197	139 063
Income tax at 19%		26 422
Income tax at 23%	30 405	
Effect of adjustments from permanent differences between carrying amount and tax value of assets and liabilities	275	993
Correction of deferred tax	-	-
Tax impact due to the tax rate change from 19% to 23%		71 719
Tax impact due to the tax rate change from 23% to 22%	(17 590)	
Special levy on business in regulated industries	5 848	1 939
Other adjustments	110	(79)
Income tax for the current year	**19 048**	**100 994**

The effective tax rate differs from the standard tax rate stipulated by law in the amount of 23% (2012: 19%) mainly due to the change in the tax rate for deferred income tax to 22% from 1 January 2014 (2012: from 19% to 23%) and due to adjustments of the current tax base for items increasing and decreasing the tax base pursuant to the valid tax legislation.

Pursuant to the requirements of International Accounting Standards, the income tax also includes a special levy on businesses in regulated industries pursuant to a special regulation. *(Note 3, paragraph p)*

20.2. Deferred Income Tax

The following are the major deferred tax liabilities and assets recognised by the Company and movements therein, during the current and prior reporting periods:

	At 1 January 2013	*(Charge)/Credit to other comprehensive income/loss*	*(Charge)/credit to profit for the period*	*At 31 December 2013*
Difference in NBV of non-current assets	(415 926)	-	24 644	(391 282)
Items adjusting tax base only when paid	7	-	12	19
Provisions for receivables	1 534	-	(70)	1 464
Impairment loss	684	-	232	916
Other	1 317	-	593	1 910
Total	**(412 384)**	-	**(25 411)**	**(386 973)**

	At 1 January 2012	*(Charge)/Credit to other comprehensive income/loss*	*(Charge)/credit to profit for the period*	*At 31 December 2012*
Difference in NBV of non-current assets	(349 958)	-	(65 968)	(415 926)
Items adjusting tax base only when paid	9	-	(2)	7
Provisions for receivables	461	-	1 073	1 534
Impairment loss	403	-	281	684
Other	1 257	-	60	1 317
Total	**(347 828)**	-	**(64 556)**	**(412 384)**

(EUR '000)

In accordance with the Company's accounting policy, certain deferred tax assets and liabilities were mutually offset. The following table shows the balances (after offsetting) of deferred tax for the purposes of recognition in the balance sheet:

	31 December 2013	***31 December 2012***
Deferred tax liability	(386 973)	(412 384)
Total	**(386 973)**	**(412 384)**

21. TAX EFFECTS IN THE STATEMENT OF OTHER COMPREHENSIVE INCOME

Disclosure of tax effects relating to each component of other comprehensive income:

31 December 2013	***Before tax***	***Tax***	***After tax***
Cash flow hedging	-	-	-
Other comprehensive loss for the period	**-**	**-**	**-**

31 December 2012	***Before tax***	***Tax***	***After tax***
Cash flow hedging	(91)	-	(91)
Other comprehensive income/(loss) for the period	**(91)**	**-**	**(91)**

22. CASH FLOWS FROM OPERATING ACTIVITIES

	Year ended 31 December 2013	***Year ended 31 December 2012***
Profit before tax	132 198	139 063
Adjustments:		
Depreciation and amortisation	103 151	106 346
Interest income, net	(187)	748
Foreign exchange gains/losses	1	1
Derivatives	-	(91)
Provisions and other non-cash items	3 383	7 911
Loss from sale of non-current assets	3	77
(Increase)/decrease in receivables and prepayments	(13 278)	28 428
(Increase)/decrease in inventories	1 115	(15 782)
Increase/(decrease) in trade and other payables	(1 317)	(3 684)
Cash flows from operating activities	**225 069**	**263 017**

23. COMMITMENTS AND CONTINGENCIES

Capital Expenditure Commitments

As at 31 December 2013, capital expenditures of EUR 42 008 thousand (31 December 2012: EUR 76 453 thousand) had been committed under contractual arrangements for the acquisition of non-current assets, but were not recognised in the financial statements.

Operating Lease Arrangements

The Company leases means of transport under an operating lease agreement made in 2010. The contract is made for four years and the Company has no pre-emptive right to purchase the assets after the expiry of the lease term. The lease payments amounted to EUR 5 273 thousand in the year ended 31 December 2013 (31 December 2012: EUR 5 331 thousand).

(EUR '000)

Non-cancellable operating lease payables amount to:

Period	***2013***	***2012***
Within 1 year	3 076	5 331
From 1 to 5 years	-	3 110
More than 5 years	-	-
Total	**3 076**	**8 441**

Liberalisation of the Slovak energy sector and possible regulation risks

Regulation framework on the natural gas market in the Slovak Republic

On the basis of the current energy legislation, the natural gas market in the Slovak Republic is fully liberalised. Effective from 1 July 2007, all customers are allowed to freely select a natural gas supplier. The Company, as the gas distribution network operator, is obliged to provide all participants with non-discriminatory treatment and allow access to the distribution network on a transparent and non-discriminatory basis. Moreover, the Company is also obliged to enter into a contract for connection and gas distribution with all customers that fulfils the business and technical conditions.

Distribution of gas, as well as access and connection to the distribution network, are subject to regulation by the Regulatory Office of Network Industries (RONI).

Tariffs for regulated activities

The RONI approves tariffs for access to the distribution network and gas distribution, and for the provision of auxiliary services, as well as for connection to the distribution network. These tariffs are proposed so that the total planned revenues from the tariffs for access to the distribution network and gas distribution in the regulation year in Euros per gas volume unit do not exceed the maximum price for the year, calculated under Decree of the RONI No. 193/2013 Coll., which stipulates price regulation in the gas industry. Maximum allowed revenues are determined based on the eligible costs, including depreciation derived from the regulated assets base as determined by RONI and a margin. The regulated assets base and useful lives of these assets as determined by RONI differ from the carrying amounts and useful lives of the related property, plant and equipment as recorded by the Company. The management of the Company believes that property, plant and equipment of the Company is not impaired on the basis of current indicators. There are inherent uncertainties that could impact the determination of future tariffs by RONI, and the future realisable value of property, plant and equipment.

The maximum price for connection to the distribution network in the relevant year of the regulation period, ie for 2012, for gas consumers was determined on the basis of the planned average costs related to the issue of technical conditions for the connection and the planned average costs related to the processing of the application for connecting the gas delivery equipment to the distribution network and installation of the meter incurred by the distribution network operator as part of the standard-scope activities necessary for connecting the gas delivery equipment. The price for connection to the distribution network is determined separately for household customers and separately for gas customers other than household customers.

In accordance with Decree of the RONI No. 193/2013 Coll., the maximum price for connection to the distribution network for the years following the relevant year of the regulation period is calculated by indexing the price for the year preceding the year for which the price proposal is submitted, taking into account the effects of inflation.

The calculation of the maximum price for access to the distribution network and for gas distribution for the years following the relevant year of the regulation period is partially based on the indexation of the basis parameters.

Buy-out of gas facilities is also subject to price regulation in the gas industry; it will be subject to regulation for the first time in 2014.

Under Act No. 250/2012 Coll. on Regulation in Network Industries as amended, the price decision for 2014 shall also apply to 2015 and 2016, unless the RONI approves a change of the price decision.

Changes in the regulatory laws

In terms of regulation, the most significant event in 2013 was the adoption of a new RONI Decree No. 193/2013 Coll., which stipulates price regulation in the gas industry. The new price decree did not stipulate any change in the basic principles of price regulation, but introduced certain partial changes. The fixed component of tariffs can be increased year-on-year by up to the average rate of inflation only.

Taxation

The Company has significant transactions with the shareholder and other related parties. The tax environment in which the Company operates in the Slovak Republic is dependent on the prevailing tax legislation and practice. As the tax authorities are reluctant to provide official interpretations in respect of the tax legislation, there is an inherent risk that the tax authorities may require, for example, transfer pricing or other adjustments to the corporate income tax base. The tax authorities in the Slovak Republic have broad powers of interpretation of tax laws, which could result in unexpected results from tax inspections. The amount of any potential tax liabilities related to these risks cannot be estimated.

(EUR ‘000)

24. RELATED PARTY TRANSACTIONS

Slovenský plynárenský priemysel, a.s. is the owner of 100% of the Company’s shares and is also owner of 100% shares of SPP Infrastructure, a.s..

During the current year, the Company entered into the following transactions with related parties:

	Year ended 31 December 2013					*31 December 2013*		
	Revenues	***Creation/ (reversal) of provisions for receivables***	***Expenses***	***Dividends***	***Other***	***Receivables***	***Provisions for receivables***	***Payables***
SPP, a.s.	290 352	-	38 550	38 069	8 581	100 968	-	85 620
SPP Infrastructure, a.s.	26	-		-		225 026	-	-
Other related parties	296	-	36 601	-	13 530	155	-	6 371

Management considers that the transactions with related parties have been made on an arm’s length basis.

Transactions with related parties mainly represented services related to the distribution, purchases, transit and storage of natural gas, as well as other services.

	Year ended 31 December 2012					*31 December 2012*		
	Revenues	***Creation/ (reversal) of provisions for receivables***	***Expenses***	***Dividends***	***Other***	***Receivables***	***Provisions for receivables***	***Payables***
SPP, a.s.	343 264	-	40 186	112 428	30 697	81 422	-	104 369
Other related parties	21	-	36 556	-	19 514	9 096	-	8 795

Since 2013, the Company has applied an exemption from IAS 24 on the non-disclosure of information about related parties through the National Property Fund. The same also applied for the restatement of the 2012 comparatives.

(EUR '000)

The compensation of the members of the Company's bodies and executive management during the year was as follows:

	Year ended 31 December 2013	***Year ended 31 December 2012***
Remuneration to members of the Board of Directors, Supervisory Board, executive management and former members of the bodies - total	1 081	1 298
Of which:		
Board of Directors and executive management	*950*	*1 167*
Supervisory Board	*131*	*131*
Benefits after termination of employment to members of the Board of Directors, Supervisory Board, executive management and former members of the bodies – total	268	22
Of which:		
Board of Directors and executive management	*268*	*22*
Other long-term benefits to members of the Board of Directors, Supervisory Board, executive management and former members of the bodies – total	1	-
Of which:		
Board of Directors and executive management	1	-
Benefits after termination of employment of members of the Board of Directors, Supervisory Board, executive management and former members of the bodies – total	-	-
Benefits in kind to members of the Board of Directors and executive management – total	65	52
Of which:		
Board of Directors and executive management	*64*	*52*
Supervisory Board	*1*	
Other payments to members of the Board of Directors, Supervisory Board, executive management and former members - total	1	1
Of which:		
Board of Directors and executive management	*1*	*1*
Supervisory Board	-	-

25. SUPPLEMENTARY INFORMATION TO COMPLY WITH OTHER STATUTORY REQUIREMENTS FOR SEPARATE FINANCIAL STATEMENTS

a) Members of the Company's bodies

Body	***Function***	***Name***
Board of Directors	Chairman	Ing. František Čupr, MBA – since 24 Jan 2013
	Chairman	Assessor. jur. Sebastian Jochem – until 23 Jan 2013
	Vice-Chairman	Ing. Štefan Šebesta
	Member	Mgr. Petr Hájek– since 24 Jan 2013
	Member	Jean-Pierre Béringuier – until 23 Jan 2013
Supervisory Board	Chairman	Ing. Rastislav Chovanec, PhD.
	Vice-Chairman	Ing. Robert Ševela, PhD. – since 21 Feb 2013
	Vice-Chairman	Ekkehard Ludwig – until 20 Feb 2013
	Member	Ing. Miroslav Recký
	Member	Ing. Róbert Procházka
	Member	Ing. Richard Vadkerty
	Member	Pavol Korienek
	Member	Ing. Róbert Ševela, PhD. – until 20 Feb 2013
Executive management	General Director	Ing. Martin Hollý
	Director of the Economy and Regulation	Ing. Roman Filipoiu
	Director of the Network Operation and Asset Management	Ing. Rastislav Prelec – since 1 Jul 2013 Ing. Milan Mindek - until 30 Jun 2013
	Director of Investments	Ing. Dušan Dobiaš
	Director of Maintenance and Measurement	Ing. Miroslav Horváth – since 1 Jul 2013 Ing. Rastislav Prelec – until 30 June 2013
	Director of Distribution Services	Ing. Marek Paál
	Director of Human Resources, Quality, Occupational Health and Safety, and Environment	Mgr. Ing. František Kajánek – since 1 Dec 2013

(EUR '000)

b) Consolidated financial statements

The Company and its subsidiaries (the "sub-group") are included in the SPP Group (the "Group").

The Company applied an exemption set out in IAS 27 paragraph 10 and did not prepare consolidated financial statements as at 31 December 2013. Consolidated financial statements presented in accordance with the International Financial Reporting Standards will be prepared by SPP, a.s. with its seat at Mlynské nivy 44/b, 825 11 Bratislava (address of the court of record: District Court Bratislava 1, Záhradnícka 10, 812 44 Bratislava).

SPP – distribúcia, a.s. provides information disclosed in the separate financial statements for the higher consolidation by Slovenský plynárenský priemysel, a.s. SPP prepares consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS).

In the consolidated financial statements, subsidiaries in which the Group owns directly or indirectly more than one half of voting rights or has the right to perform control over the operations of subsidiaries in other manner will be fully consolidated.

To obtain full information about the financial position, financial performance and cash flow of the Group as a whole by the users of these separate financial statements, the separate financial statements should be read and understood in the context of the information disclosed in the consolidated financial statements prepared as at 31 December 2013 by SPP, immediately once these consolidated financial statements are published. As at 31 December 2013, the ultimate consolidating entity of SPP – distribúcia, a.s. is Energetický a průmyslový holding, a.s., with its seat at Příkop 843/4, 602 00 Brno, Czech Republic.

Separate financial statements of SPP – distribúcia, a.s. and SPP's consolidated financial statements are deposited with the Commercial Register of Bratislava 1 District Court (Záhradnícka 10, 812 44 Bratislava) published in the Commercial Journal, available at the registered office of SPP, and published at www.spp-distribucia.sk.

26. POST-BALANCE SHEET EVENTS

As of 1 January 2014, SPP will not provide services in respect of bookkeeping, finance, human resources and other activities of the central office ("shared services") for SPP-distribúcia. The unbundling of services related to information technologies will be completed during 2014.

No other events occurred subsequent to 31 December 2013 that might have a material effect on the financial statements of the Company.

Prepared on:	***Signature of a member of the statutory body of the reporting entity or a natural person acting as a reporting entity:***	***Signature of the person responsible for the preparation of the financial statements:***	***Signature of the person responsible for bookkeeping:***
20 February 2014			
Approved on:	Ing. František Čupr, MBA Chairman of the Board of Directors	Ing. Roman Filipoiu	Ing. Peter Duračka
	Ing. Štefan Šebesta Vice-Chairman of the Board of Directors		

SPP - distribúcia, a.s.

INDEPENDENT AUDITOR'S REPORT AND SEPARATE FINANCIAL STATEMENTS (PREPARED IN ACCORDANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS, AS ADOPTED BY THE EU)

For the year ended 31 December 2012

Deloitte.

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Register of the District Court Bratislava I
Section Sro, File 4444/B
Id. Nr.: 31 343 414
VAT Id. Nr.: SK2020325516

SPP - distribúcia, a.s.

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 2012, 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 2012, 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.

Emphasis of Matter

We draw attention to Note 26 of the financial statements, which describes a change in the ownership of the parent company and of the Board of Directors and the Supervisory Board of the Company after the balance sheet date. Our opinion is not modified in respect of this matter.

Bratislava, 28 February 2013

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

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

CONTENTS

SPP - distribúcia, a.s.
BALANCE SHEETS
As at 31 December 2012 and 31 December 2011
(EUR '000)

ASSETS:	Note	31 December 2012	31 December 2011
NON-CURRENT ASSETS			
Property, plant and equipment	6	2 635 163	2 688 812
Investments in subsidiaries	7	1 000	-
Non-current intangible assets and other assets	8	7 565	8 207
Other non-current assets		-	-
Total non-current assets		2 643 728	2 697 019
CURRENT ASSETS			
Inventories	9	157 918	142 161
Receivables and prepayments	10	108 748	142 485
Income tax asset		-	-
Cash and cash equivalents		62 237	1 071
Total current assets		328 903	285 717
Assets classified as held for sale		-	1
TOTAL ASSETS		**2 972 631**	**2 982 737**
EQUITY AND LIABILITIES:			
CAPITAL AND RESERVES			
Registered capital	15	1 957 418	1 957 418
Legal reserve fund and other funds	16	391 484	391 575
Retained earnings	16	38 069	112 428
Total equity		2 386 971	2 461 421
NON-CURRENT LIABILITIES			
Deferred income	11	8 317	8 191
Retirement and other long-term employee benefits	12	3 240	2 896
Deferred tax liability	20.2	412 384	347 828
Loans	13	-	30 000
Total non-current liabilities		423 941	388 915
CURRENT LIABILITIES			
Trade and other payables	14	129 122	131 764
Current income tax		2 589	637
Provisions and other current liabilities		-	-
Loans	13	30 008	-
Total current liabilities		161 719	132 401
Total liabilities		585 660	521 316
TOTAL EQUITY AND LIABILITIES		**2 972 631**	**2 982 737**

The financial statements on pages 3 to 30 were signed on 28 February 2013 on behalf of the Board of Directors:

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

Ing. Štefan Šebesta
Vice-Chairman of the Board of Directors

The accompanying notes are integral part of the separate financial statements.

(EUR '000)

	Note	***Year ended 31 December 2012***	***Year ended 31 December 2011***
REVENUES FROM SALES OF SERVICES:			
Natural gas distribution		387 179	367 802
Other revenues		2 761	4 056
Total revenues		389 940	371 858
OPERATING EXPENSES:			
Own work capitalised		5 650	5 359
Purchases of natural gas and consumables and services		(9 269)	(7 077)
Depreciation and amortisation	6, 8	(104 735)	(102 682)
Storage of natural gas and other services		(93 581)	(95 265)
Staff costs	17	(46 197)	(43 135)
Provision for bad and doubtful debts, obsolete and slow-moving inventory, net	9, 10	(5 238)	(1 634)
Provisions and impairment losses, net	6, 8, 12	(3 064)	2 158
Other, net		6 338	3 881
Total operating costs		(250 096)	(238 395)
OPERATING PROFIT		139 844	133 463
Financial revenues		405	620
Financial costs	19	(1 186)	(1 290)
PROFIT BEFORE INCOME TAXES		139 063	132 793
INCOME TAX	20.1	(100 994)	(20 365)
NET PROFIT FOR THE PERIOD		**38 069**	**112 428**

(EUR '000)

	Note	Year ended 31 December 2012	Year ended 31 December 2011
NET PROFIT FOR THE PERIOD		38 069	112 428
OTHER COMPREHENSIVE INCOME/(LOSS)	21		
Hedging derivatives (cash flow hedging)		(91)	116
Deferred tax related to items of other comprehensive income for the period		-	-
OTHER NET COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		(91)	116
TOTAL NET COMPREHENSIVE INCOME FOR THE PERIOD		**37 978**	**112 544**

STATEMENTS OF CHANGES IN EQUITY
Years ended 31 December 2012 and 31 December 2011
(EUR '000)

	Registered capital	***Legal reserve fund***	***Hedging reserve***	***Retained earnings***	***Total***
Balance at 31 December 2010	1 957 418	391 484	(25)	107 031	2 455 908
Net profit for the period	-	-	-	112 428	112 428
Other comprehensive income for the period	-	-	116	-	116
Dividends paid	-	-	-	(107 031)	(107 031)
Transfer to retained earnings	-	-	-	-	-
Balance at 31 December 2011	**1 957 418**	**391 484**	**91**	**112 428**	**2 461 421**
Net profit for the period	-	-	-	38 069	38 069
Other comprehensive income for the period	-	-	(91)	-	(91)
Dividends paid	-	-	-	(112 428)	(112 428)
Transfer to retained earnings	-	-	-	-	-
Balance at 31 December 2012	**1 957 418**	**391 484**	**-**	**38 069**	**2 386 971**

The accompanying notes are integral part of the separate financial statements.

(EUR '000)

	Note	*Year ended 31 December 2012*	*Year ended 31 December 2011*
OPERATING ACTIVITIES			
Cash flows from operating activities	22	263 017	210 892
Interest paid		(1 153)	(1 285)
Interest received		405	578
Income tax paid		(34 486)	(31 577)
Net cash flows from operating activities		227 783	178 608
INVESTING ACTIVITIES			
Expenditures on the acquisition of shares in other entities		(1 000)	-
Acquisition of property, plant and equipment		(53 172)	(70 202)
Proceeds from sale of property, plant and equipment and intangible assets		3	11
Net cash inflow/(outflow) from investing activities		(54 169)	(70 191)
FINANCING ACTIVITIES			
Dividends paid		(112 428)	(107 031)
Proceeds and expenditures related to interest-bearing borrowings		-	-
Other proceeds and payments from financial activities, net		(20)	(554)
Net cash flows from financing activities		(112 448)	(107 585)
NET INCREASE IN CASH AND CASH EQUIVALENTS		61 166	832
EFFECTS OF FOREIGN EXCHANGE FLUCTUATIONS		-	-
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		1 071	239
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**62 237**	**1 071**

(EUR ‘000)

1. GENERAL

1.1. General Information

In accordance with Act No. 431/2002 Coll. on Accounting as amended, SPP - distribúcia, a.s., (hereinafter also the “Company”) is required to prepare separate financial statements as at 1 January 2008 in accordance with the International Financial Reporting Standards (“IFRS”), as adopted by the European Union (“EU”).

The financial statements are statutory financial statements intended for general use and information; they are not intended for the purposes of any specific user or consideration of any specific transactions. Accordingly, users should not rely exclusively on these financial statements when making decisions.

The Company was founded on 26 November 2004 and incorporated in the Commercial Register on 10 December 2004. Slovenský plynárenský priemysel, a.s. is the 100% owner of the Company.

On 1 July 2006, Slovenský plynárenský priemysel, a.s. (hereinafter also “SPP”) contributed to SPP - distribúcia, a.s. a part of its business, including assets and liabilities of the original Distribution Division.

Since 1 July 2006, the Company has assumed the performance of activities related to natural gas distribution, as well as assets and liabilities related to the gas distribution business.

On 23 April 2012, the Annual General Meeting approved the Company’s 2011 financial statements.

Company Identification No. (IČO)	35 910 739
Tax Registration No. (DIČ)	2021931109

1.2. Principal Activities

Since 1 July 2006, following the legal unbundling process, the Company has been responsible for natural gas distribution in the Slovak Republic.

The Company is required by law to provide non-discriminatory access to the distribution network. Prices are subject to the review and approval of the Regulatory Office for Network Industries (RONI).

1.3. Employees

The average number of employees of SPP – distribúcia, a.s. for the year ended 31 December 2012 was 1 496, of which executive management: 6 (for the year ended 31 December 2011: 1 578, of which executive management: 6).

As at 31 December 2012, the actual headcount was 1 442 (31 December 2011: 1 539).

1.4. Registered Address

Mlynské nivy 44/b
825 11 Bratislava
Slovak Republic

2. NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS AND CHANGES IN ESTIMATES

2.1. Adoption of New and Revised International Financial Reporting Standards

The Company has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and that were adopted by the EU effective for accounting periods beginning on 1 January 2012.

The following amendments to the existing standards issued by the International Accounting Standards Board and adopted by the EU are effective for the current accounting period:

- **Amendments to IFRS 7 “Financial Instruments: Disclosures”** - Transfers of Financial Assets, adopted by the EU on 22 November 2011 (effective for annual periods beginning on or after 1 July 2011).

The adoption of these amendments to the existing standards has not led to any changes in the Group's accounting policies.

At the date of authorisation of these financial statements the following standards, revisions, and interpretations adopted by the EU were in issue but not yet effective:

- **IFRS 10 "Consolidated Financial Statements"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014);

- **IFRS 11 "Joint Arrangements"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014);

- **IFRS 12 "Disclosures of Interests in Other Entities"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014);

- **IFRS 13 "Fair Value Measurement"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013);

- **IAS 27 (revised in 2011) "Separate Financial Statements"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014);

- **IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014);

- **Amendments to IFRS 1 "First-time Adoption of IFRS"** - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013);

- **Amendments to IFRS 7 "Financial Instruments: Disclosures"** - Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2013);

- **Amendments to IAS 1 "Presentation of Financial Statements"** - Presentation of Items of Other Comprehensive Income, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 July 2012);

- **Amendments to IAS 12 "Income Taxes"** - Deferred Tax: Recovery of Underlying Assets, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013);

- **Amendments to IAS 19 "Employee Benefits"** - Improvements to the Accounting for Post-employment Benefits, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 January 2013);

- **Amendments to IAS 32 "Financial Instruments: Presentation"** - Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014); and

- **IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).

The Company has elected not to adopt these standards, revisions and interpretations in advance of their effective dates.

The Company anticipates that the adoption of these standards, revisions, and interpretations will have no material impact on the Company's financial statements in the period of initial application.

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB), except for the following standards, amendments to the existing standards and interpretations, which were not endorsed for use as at 31 December 2012:

- **IFRS 9 "Financial Instruments"** (effective for annual periods beginning on or after 1 January 2015);

- **Amendments to IFRS 1 "First-time Adoption of IFRS"** - Government Loans (effective for annual periods beginning on or after 1 January 2013);

- **Amendments to IFRS 9 "Financial Instruments" and IFRS 7 "Financial Instruments: Disclosures"** – Mandatory Effective Date and Transition Disclosures;
- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosures of Interests in Other Entities"** - Transition Guidance (effective for annual periods beginning on or after 1 January 2013);
- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosures of Interests in Other Entities" and IAS 27 "Separate Financial Statements"** - Investment Entities (effective for annual periods beginning on or after 1 January 2014); and
- **Amendments to various standards "Improvements to IFRSs (2012)"** resulting from the annual improvement project of IFRS published on 17 May 2012 (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2013).

The Company anticipates that the adoption of these standards, amendments to the existing standards, and interpretations will have no material impact on the Company's financial statements in the period of initial application.

At the same time, hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated. Based on the Company's estimates, the application of hedge accounting for the portfolio of financial assets or liabilities pursuant to IAS 39: "Financial Instruments: Recognition and Measurement" would not significantly impact the financial statements, if applied as at the balance sheet date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Accounting

These separate financial statements have been prepared in accordance with IFRS as adopted by the EU. IFRS as adopted by the EU do not currently differ from IFRS as issued by the International Accounting Standards Board (IASB).

The financial statements have been prepared under the historical cost convention, with the exceptions detailed below. Information on the applied principal accounting policies is provided below. The reporting currency and functional currency of the Company is the euro (EUR). These separate financial statements were prepared under the going concern assumption.

b) Research and Development

Research and development costs are recognised as expenses except for costs incurred for development projects, which are recognised as non-current intangible assets to the extent of the expected economic benefits. However, development costs initially recognised as expenses are not recognised as assets in a subsequent period.

c) Property, Plant and Equipment and Intangible Assets

Property, plant and equipment and intangible assets are stated in the balance sheet at historical cost less accumulated depreciation and impairment losses. In the case of assets contributed in the form of a contribution in kind as at 1 July 2006, historical cost was determined by an independent expert as at this date.

Acquisition cost comprises any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Items of property, plant and equipment and intangible assets that are retired or otherwise disposed of are eliminated from the balance sheet at net book value. Any gain or loss resulting from such retirement or disposal is included in the income statement.

(EUR '000)

Other items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. Depreciation charges are recognised in the income statement computed so as to amortise the cost of the assets to their estimated net book value over their residual useful lives. The useful lives of property, plant and equipment and intangible assets are as follows:

Type of assets	***Useful life from 2012***	***Useful life until 2011***
Regulation stations	15 – 50 years	15 – 50 years
Gas pipelines	40 – 60 years	40 – 60 years
Structures	15 – 60 years	15 – 60 years
Machines, tools and equipment	4 – 40 years	4 – 40 years
Other non-current assets	3 – 8 years	3 – 8 years

As at 1 August 2011, for the purposes of their inclusion in the consolidation, the Company carried out a new revaluation of the buildings, plant, machinery and other equipment used in the distribution of natural gas under IAS 16, based on findings of significant changes in the assumptions, which were used in the revaluation model performed by independent appraisers. Based on an independent valuation report, the Company changed the economic useful lives of buildings, machinery and equipment used for natural gas distribution with effect from 1 January 2011. The depreciation of these assets was adjusted in the separate financial statements to reflect their adjusted economic useful life. Change of economic useful life did not have material impact on depreciation charged in 2011.

Land is not depreciated as it is deemed to have an indefinite useful life.

At each reporting date an assessment is made as to whether there is any indication that the recoverable amount of the Company's property, plant and equipment and intangible assets is less than the carrying amount. Where there is such an indication, the recoverable amount of the asset, being whichever is the higher of the fair value less costs of sale and the present value of future cash flows, is estimated. The resulting provision for an impairment loss is recognised fully in the income statement in the year in which the impairment occurs. The discount rates used to calculate the net present value of future cash flows reflect current market assessments of the time value of money and the risks specific to the asset. In the event that a decision is made to abandon a construction project in progress or significantly to postpone the planned completion date, the carrying amount of the asset is reviewed for potential impairment and a provision is recorded, if appropriate. In 2012, the Company prepared an analysis of the expected value-in-use of assets based on which no impairment of non-current assets was identified.

Expenditures relating to an item of property, plant and equipment and intangible assets are added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the original assessed standard of performance of the existing asset, will flow to the Company. All other subsequent expenditures are treated as repairs and maintenance and are expensed in the period in which they are incurred.

d) Government Grants

Free-of-charge transfers of gas facilities by municipalities to the Company's assets are deemed to be non-monetary grants. They are recognised at the fair value of the assets received and are included in non-current liabilities as deferred income. This deferred income is recognised in the income statement on a straight-line basis over the useful lives of the assets transferred.

Free-of-charge transfers of gas facilities from customers relating to the connection of customers to the distribution network are charged to revenues for the relevant period and are recognised at the fair value of the received assets in accordance with IFRIC 18.

e) Inventories

Inventories are stated at the lower of the cost and the net realisable value. The cost of natural gas stored in underground storage facilities and raw materials and other inventories is calculated using the weighted arithmetic average method. The cost of raw materials and other inventories includes the cost of acquisition and related costs and the cost of inventories developed internally includes materials, other direct costs and production overheads. Appropriate provisions are made for obsolete and slow-moving inventories. Natural gas in acquisition is valued at cost. Other costs related to the acquisition of natural gas are immaterial.

f) Trade Receivables

Trade receivables are stated at their expected realisable value, net of provisions for debtors in bankruptcy or restructuring proceedings and net of provisions for overdue bad and doubtful receivables where risk exists that they will not be fully or partially settled.

g) Subsidiaries

Investments in subsidiaries are measured at cost. The costs of an investment in a subsidiary are based on the expenses related to the acquisition of an investment representing the fair value of the consideration, including direct incidental transaction costs.

h) Financial Instruments

Financial assets and liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the related instrument.

i) Derivative Financial Instruments

Derivative financial instruments are initially recognised at fair value and are re-measured to fair value at subsequent reporting dates. Derivative financial instruments are contracts: (i) whose value changes in response to a change in one or more identifiable variables; (ii) that require no significant net initial investment; and (iii) that are settled at a certain future date. Derivative financial instruments, therefore, include swaps and firm commitments or options to sell non-financial assets that include the physical delivery of the underlying assets.

Changes in the fair value of derivative financial instruments that are determined and effective as cash flow hedges are recognised directly in equity. As a hedging relationship arises, the Company documents the relationship between the hedging instrument and the hedged item, risk management objectives, and the strategy for realising various hedging transactions. As of the hedging origination, the Company continuously monitors whether the hedging instrument used in the hedging relationship is effective in compensating for cash flow changes in the hedged item. The amounts recognised in equity are recognised in the income statement in the same period when the hedged fixed liability is incurred or when the anticipated transaction affects the profit or loss.

Changes in the fair value of derivative financial instruments that do not meet the requirements of effective cash flow hedging recognised in equity are recognised in the income statement.

These items are mainly related to derivative financial instruments used for business hedging, which were not or are not recorded as hedging relationships for accounting purposes. In the case that a financial derivate does not or meet or no longer meets the requirements for hedge accounting, changes in the fair value are directly recognised in the income statement as "*Mark-to-market"* in financial revenues or expenses.

j) Cash and Cash Equivalents

Cash and cash equivalents consist of cash in hand and cash in bank with insignificant risk of changes in value.

k) Provisions for Liabilities

A provision is recognised when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. The amount of the provision is the present value of the risk-adjusted expenditures expected to be required to settle the obligation, determined using the estimated risk-free interest rate as a discount rate. Where discounting is used, the carrying amount of the provision increases in each period to reflect the unwinding of the discount by the passage of time.

l) Interest-Bearing Borrowings

Loans are initially recognised at fair value after deducting incurred transaction costs. They are subsequently recognised at amortised cost using the effective interest rate method.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are recognised as part of the cost of the related asset. Other borrowing costs are recognised as an expense in the period in which they are incurred.

m) Revenue Recognition

Sales are recorded upon the delivery of products or the performance of services, net of value added tax and discounts. The Company records revenues from distribution and other activities on an accrual basis.

Moment of revenue recognition: revenues are recognised when the delivery terms are fulfilled, since at that moment significant risks and rights of ownership are transferred to the customer. The date of delivery fulfilment is the last day of the relevant calendar month.

n) Social Security and Pension Schemes

The Company is required to make contributions to various mandatory government insurance schemes, together with contributions by employees. The cost of social security payments is charged to the income statement in the same period as the related salary cost.

o) Retirement and Other Long-Term Employee Benefits

The Company has a long-term employee benefit program comprising a lump-sum retirement benefit, social assistance benefit in material deprivation and life and work jubilee benefits, for which no individual financial funds were earmarked. In accordance with IAS 19, the employee benefits costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the income statement so as to spread the regular cost over the service period of employees. The benefit obligation is measured at the present value of the estimated future cash flows discounted by market yields on Slovak government bonds, which have terms to maturity approximating the terms of the related liability. All actuarial gains and losses are recognised in the income statement. Past service costs are recognised when incurred up to the benefits already vested and the remaining portion is directly expensed.

p) Leasing

Finance lease
A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset (economic substance of the arrangement). Accounting treatment of leases is not dependent on which party is the legal owner of the leased asset. An operating lease is a lease other than a finance lease.

Operating lease
The lessee under an operating lease arrangement does not present assets subject to an operating lease in its balance sheet nor does it recognise operating lease obligations for future periods. Lease payments under an operating lease shall be recognised as an expense on a straight-line basis over the lease term.

q) Taxation

Income tax is calculated from the profit/loss before tax recognised pursuant to International Accounting Standards adjusted to the profit/loss recognised pursuant to the accounting procedures valid in the Slovak Republic reflecting individual items increasing or decreasing the tax base pursuant to Act No. 595/2003 Coll. on Income Tax, as amended, using the effective income tax rate of 19%.

Deferred tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Deferred tax is calculated at the tax rates that are expected to apply for the period when the asset is realised or the liability is settled. Deferred tax is recognised in the income statement, except when it relates to items directly credited or charged directly to equity, in which case the deferred tax is also recognised in equity. The income tax rate valid from 1 January 2004 to 31 December 2012 is 19%. The income tax rate valid as of 1 January 2013 is 23%.

The principal temporary differences arise from the depreciation of non-current assets and various provisions. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is recognised in the case of temporary differences arising from financial investments in subsidiaries, associates and joint ventures, except when the settlement of temporary differences can be controlled and temporary differences will not be realised in the foreseeable future.

Current and Deferred Tax for the Year
Current and deferred tax are recognised through profit and loss, except when they relate to items recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity.

Special Levy on Businesses in Regulated Industries
Pursuant to the requirements of International Accounting Standards, the Company’s income tax also includes a special levy pursuant to Act No. 235/2012 Coll. on a Special Levy on Businesses in Regulated Industries and on the Amendment to and Supplementation of Certain Acts. The special levy is recognised through profit and loss.

The Company is a regulated entity with the obligation to pay a special levy during the period of the effectiveness of the Act, ie from September 2012 to December 2013. The levy is calculated per calendar month and the levy rate is 0.00363. The levy is based on the profit/loss before tax recognised pursuant to International Accounting Standards, adjusted to the profit/loss recognised pursuant to the accounting procedures valid in the Slovak Republic, and further adjusted pursuant to the Act on a Special Levy.

r) Foreign Currencies

Transactions in foreign currencies are initially recorded at the rates of the European Central Bank (ECB) pertaining on the dates of the transactions. Monetary assets, receivables and payables denominated in foreign currencies are translated as at the reporting date at the ECB exchange rates valid on the reporting date. Gains and losses arising on exchange as at the reporting date are included in the income statement.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Impairment of Property, Plant and Equipment

The Company re-assessed the provision for the impairment of property, plant and equipment on the basis of an evaluation of their planned disposal or sale. Refer to Note 6 for details on the impairment of property, plant and equipment.

5. FINANCIAL INSTRUMENTS

a) Financial risk management

The Company is not exposed to severe financial risks that would include the effects of changes in foreign currency exchange rates. The Company’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company’s financial position.

The main risks arising from the Company’s financial instruments are liquidity risk and credit risk.

(1) Foreign currency risk

The Company is not exposed to severe foreign currency risk arising from foreign currency transactions since it does not recognise significant financial assets and liabilities denominated in a foreign currency as at 31 December 2012. As at 31 December 2011, the Company did not recognise significant financial assets and liabilities denominated in a foreign currency.

Sensitivity to foreign exchange changes

The impact of sensitivity to foreign exchange changes was not significant in the current or previous reporting periods.

(2) Commodity price volatility risk

The Company is a party to framework agreements for the purchase of natural gas, other services and raw materials. The Company also enters into contracts for natural gas sales and storage. Contracts for natural gas storage are at fixed prices. As at 31 December 2011, the Company used hedging derivative contracts to manage commodity price volatility risk; changes in the fair value are recognised in the balance sheet through equity (effective portion) and through profit or loss (ineffective portion).

(EUR '000)

The following table details the swap commodity contracts outstanding at the reporting date.

Open swap commodity contracts	***2012***		***2012***	
	Fair value		***Nominal amount***	
	Fair value hedging	***Held for trading***	***Fair value hedging***	***Held for trading***
Sell gas				
Less than 3 months	-	-	-	-
3 to 12 months	-	-	-	-
Over 12 months	-	-	-	-

Open commodity swap contracts	***2011***		***2011***	
	Fair value		***Nominal amount***	
	Fair value hedging	***Held for trading***	***Fair value hedging***	***Held for trading***
Sell gas				
Less than 3 months	91	-	634	-
3 to 12 months	-	-	-	-
Over 12 months	-	-	-	-

Sensitivity to commodity price volatility

Sensitivity to changes in commodity prices depends on changes in the price of heavy and light oils and in the USD/EUR exchange rate.

(3) Interest rate risk

The Company is not exposed to significant concentration of interest rate risk.

As at 31 December 2012 and 31 December 2011, the Company recognised a received loan bearing a fixed interest rate that was provided by the parent company. Given the loan's final maturity as at 5 August 2013, the loan was reclassified to current loans. This current loan bears interest at 3.65% p. a.

(4) Credit risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in a financial loss to the Company. The Company has adopted a policy of only dealing with credit-worthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

The Company sells its services to customers, SPP being the major customer, which means that the risk that receivables will remain unpaid is considerably eliminated.

(5) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash with adequate maturity, availability of funding through an adequate amount of committed credit lines and the ability to close open market positions. The Company, as a member of the SPP core group, is part of the cash-pooling system. In the system flexibility is maintained by keeping committed credit lines available and synchronising the maturity of financial assets with financial needs.

The table below summarises the maturity of the financial liabilities as at 31 December 2012 and 31 December 2011, based on contractual undiscounted payments:

As at 31 December 2012	***On demand***	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***> 5 years***	***Total***
Loans	-	8	30 000	-	-	30 008
Other liabilities	-	10 510	-	-	-	10 510
Trade payables	-	118 612	-	-	-	118 612

As at 31 December 2011	***On demand***	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***> 5 years***	***Total***
Loans	-	-	-	30 000	-	30 000
Other liabilities	-	8 661	-	-	-	8 661
Trade payables	-	123 103	-	-	-	123 103

(EUR '000)

b) Capital risk management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity ratio.

The Company's capital structure consists of equity attributable to the Company's owners, comprising registered capital, the legal reserve fund and retained earnings as disclosed in Notes 15 and 16 and interest-bearing borrowings as disclosed in Note 13. The gearing ratio at the 2012 year-end was 0% (2011: 1%).

The gearing ratio at the year-end was as follows:

	31 December 2012	*31 December 2011*
Debt (i)	30 008	30 000
Cash and cash equivalents	62 237	1 071
Net debt	-	28 929
Equity (ii)	2 386 971	2 461 421
Net debt to equity ratio	**0%**	**1%**

(i) Debt is defined as long- and short-term borrowings.
(ii) Page 6

c) Categories of financial instruments

	31 December 2012	*31 December 2011*
Financial assets		
Loans and receivables (including cash and cash equivalents)	168 931	141 185
Financial derivatives recognised as hedges	-	91
Financial derivatives held for trading	-	-
Financial liabilities		
Financial liabilities carried at amortised costs	159 130	161 764
Financial derivatives recognised as hedges	-	-
Financial derivatives held for trading	-	-

d) Estimated fair value of financial instruments

The fair value of commodity swaps is determined using forward commodity prices as at the reporting date.

The estimated fair values of other instruments, mainly current financial assets and liabilities, approximate their carrying amounts.

The following table provides an analysis of financial instruments that, upon initial measurement, are subsequently recognised at fair value, in accordance with the fair value hierarchy.

Level 1 of the fair value measurement represents those fair values that are deduced from the prices of similar assets or liabilities listed on active markets.

Level 2 of the fair value measurement represents those fair values that are deduced from input data other than listed prices included in Level 1, which are observable on the market for assets or liabilities directly (eg prices) or indirectly (eg deduced from prices).

Level 3 of the fair value measurement represents those fair values that are deduced from valuation models including subjective input data for assets or liabilities not based on market data.

As at 31 December 2012, the Company has no financial instruments measured at fair value.

Embedded derivative instruments

The Company assessed all significant contracts and agreements for embedded derivatives that should be recorded and concluded that there are no embedded derivatives in these contracts and agreements that are required to be measured and separately recognised as at 31 December 2012 and 31 December 2011 under the requirements of IAS 39 (as revised in 2009).

(EUR '000)

6. PROPERTY, PLANT AND EQUIPMENT

	Regulation stations	*Gas pipelines*	*Land, buildings and structures*	*Plant, machinery and equipment*	*Other non-current tangible assets*	*Assets in the course of construction*	*Total*
Year ended 31 December 2011							
Opening net book value	130 336	2 535 068	217	11 111	450	63 035	2 740 217
Additions	-	29	-	-	-	68 124	68 153
Placed into service	5 286	61 823	-	1 106	9	(68 224)	-
Reclassifications	4	(2 122)	(5)	(11)	-	(594)	(2 728)
Disposals	-	(18 242)	-	(11)	(2)	-	(18 255)
Depreciation charge	(9 227)	(91 978)	-	(2 787)	(105)	-	(104 097)
Change in provisions	294	5 022	-	128	8	70	5 522
Closing net book value	**126 693**	**2 489 600**	**212**	**9 536**	**360**	**62 411**	**2 688 812**
Year ended 31 December 2011							
Cost	166 541	2 764 253	227	19 120	1 257	63 733	3 015 131
Provisions and accumulated depreciation	(39 848)	(274 653)	(15)	(9 584)	(897)	(1 322)	(326 319)
Net book value	**126 693**	**2 489 600**	**212**	**9 536**	**360**	**62 411**	**2 688 812**
Year ended 31 December 2012							
Opening net book value	126 693	2 489 600	212	9 536	360	62 411	2 688 812
Additions	-	122	-	-	-	53 151	53 273
Placed into service	3 486	52 833	-	1 095	11	(57 425)	-
Reclassifications	30	42	1	6	(4)	(58)	17
Disposals	-	(4)	-	(16)	-	-	(20)
Depreciation charge	(9 239)	(94 204)	(5)	(2 495)	(70)	-	(106 013)
Change in provisions	(87)	(232)	-	(47)	(3)	(537)	(906)
Closing net book value	**120 883**	**2 448 157**	**208**	**8 079**	**294**	**57 542**	**2 635 163**
Year ended 31 December 2012							
Cost	169 426	2 808 641	226	19 681	1 233	59 401	3 058 608
Provisions and accumulated depreciation	(48 543)	(360 484)	(18)	(11 602)	(939)	(1 859)	(423 445)
Net book value	**120 883**	**2 448 157**	**208**	**8 079**	**294**	**57 542**	**2 635 163**

(EUR '000)

As at 31 December 2012, the Company uses tangible assets related to gas pipelines and regulation stations with cost in the amount of EUR 21 667 thousand, which is presented as assets in the course of construction. Depreciation charge in the amount of EUR 224 thousand was recorded in 2012 in this respect.

Type and amount of insurance for property, plant and equipment and intangible assets:

Insured object	***Type of insurance***	***Cost of insured assets***		***Name and seat of the insurance company***
		2012	***2011***	
Buildings, halls, structures (except for gas pipelines), machinery, equipment, fixtures & fittings, low-value non-current TA, other non-current TA, works of art, inventories	Insurance of assets	170 483	158 219	Allianz-Slovenská poisťovňa, a.s. Kooperativa, a.s., ČSOB Poisťovňa, a.s.
Motor vehicles	MTPL insurance, motor vehicle insurance against damage, destruction, theft	784	1 548	Allianz-Slovenská poisťovňa, a.s.

The cost of fully depreciated non-current assets (includes also non-current intangible assets), which were in use as at 31 December 2012, amounts to EUR 28 481 thousand (31 December 2011: EUR 13 010 thousand).

7. INVESTMENTS IN SUBSIDIARIES

At 31 December 2012	***Subsidiaries***
Opening balance, net	-
Additions	1 000
Reclassification	-
Disposals	-
Impairment	-
Closing balance, net	**1 000**
Cost	1 000
Impairment	-
Closing balance, net	**1 000**

SPP – distribúcia Servis, s.r.o. was established on 27 August 2012 by a Memorandum of Association as a 100% subsidiary of SPP – distribúcia, a.s. The Company was registered in the Commercial Register of the District Court Bratislava I on 18 September 2012.

Information on the subsidiaries of SPP - distribúcia as at 31 December 2012 can be summarised as follows:

Name	***Country of Registration***	***Ownership Interest in %***	***Principal Activity***
SPP – distribúcia Servis, s.r.o.	Slovakia	100.00	Production and servicing of gas equipment

Additional information on the subsidiaries:

Business name and seat of the entity	***Equity***		***Profit/loss***	
	2012	***2011***	***2012***	***2011***
SPP – distribúcia Servis, s.r.o. Seat: Oslobodenia 1068/50, Malacky	941	n/a	(59)	n/a

(EUR '000)

8. NON-CURRENT INTANGIBLE ASSETS AND OTHER ASSETS

	Software	*Other non-current intangible assets*	*Assets in the course of construction*	*Total*
Year ended 31 December 2011				
Opening net book value	4	1 059	570	1 633
Additions	-	-	2 049	2 049
Placed into service	-	489	(489)	-
Reclassifications	-	5 224	-	5 224
Disposals	-	-	-	-
Amortisation	(3)	(696)	-	(699)
Change of provisions	-	-	-	-
Closing net book value	**1**	**6 076**	**2 130**	**8 207**
At 31 December 2011				
Cost	43	8 423	2 130	10 596
Provision and impairment loss	(42)	(2 347)	-	(2 389)
Net book value	**1**	**6 076**	**2 130**	**8 207**
Year ended 31 December 2012				
Opening net book value	1	6 076	2 130	8 207
Additions	-	-	21	21
Placed into service	-	2 005	(2 005)	-
Reclassifications	-	-	(34)	(34)
Disposals	-	-	(68)	(68)
Amortisation	(1)	(550)	-	(551)
Change of provisions	-	1	(11)	(10)
Closing net book value	**-**	**7 532**	**33**	**7 565**
At 31 December 2012				
Cost	43	10 428	44	10 515
Provision and impairment loss	(43)	(2 896)	(11)	(2 950)
Net book value	**-**	**7 532**	**33**	**7 565**

In 2011, the Company placed into service an intangible asset in the amount of EUR 5 224 thousand in relation to connecting to a new distribution network and classified in the previous year as other non-current assets.

9. INVENTORIES

	31 December 2012	*31 December 2011*
Natural gas	156 622	140 481
Raw materials and other inventories	1 341	1 774
Provision	(45)	(94)
Total	**157 918**	**142 161**

The balance of natural gas represents natural gas used to balance the distribution network and natural gas for own consumption, as well as losses in the distribution network.

As at 31 December 2012 and 31 December 2011, no provision was required or recognised in respect of an adjustment to reduce the cost of natural gas to its net realisable value.

The Company created provisions for slow-moving inventories of raw materials in the amount of EUR 45 thousand (31 December 2011: EUR 94 thousand).

(EUR '000)

10. RECEIVABLES AND PREPAYMENTS

	31 December 2012	*31 December 2011*
Receivables from distribution activities	56 758	51 627
Prepayments and other receivables	49 936	88 487
Receivables from financial derivatives	-	91
Other tax assets	2 054	2 280
Total	**108 748**	**142 485**

As at 31 December 2012, the Company recorded receivables due and overdue in the amount of EUR 106 221 thousand and EUR 11 507 thousand, respectively, excluding an impairment provision. As at 31 December 2011, the Company recorded receivables due and overdue in the amount of EUR 140 235 thousand and EUR 6 022 thousand, respectively, excluding an impairment provision.

Out of the Company's total receivables and prepayments as at 31 December 2012 the most significant amounts represent a receivable from unbilled outputs from the distribution activities, which amounts to EUR 51 880 thousand, and a receivable from cash pooling transactions from the parent company, which amounts to EUR 38 996 thousand (in 2011, the most significant amounts represented a receivable from unbilled outputs from the distribution activities (EUR 47 531 thousand) and a receivable from cash pooling transactions from the parent company (EUR 79 242 thousand)).

As at 31 December 2012, receivables and prepayments are shown net of provisions for bad and doubtful debts in the amount of EUR 8 980 thousand (31 December 2011: EUR 3 772 thousand).

As at 31 December 2012, receivables and prepayments include receivables from eustream, a. s., in the amount of EUR 9 095 thousand (31 December 2011: EUR 6 426 thousand) and SPP in the amount of EUR 81 422 thousand (31 December 2011: EUR 133 611 thousand).

Movements in the provision for receivables were as follows:

	31 December 2012	*31 December 2011*
Opening value	(3 772)	(2 166)
Creation	(5 388)	(1 693)
Use	168	1
Reversal	12	86
Closing value	**(8 980)**	**(3 772)**

Collateralisation of receivables

Certain receivables that are under execution proceedings are pledged by an execution lien. Several bank guarantees totalling EUR 11 805 thousand (31 December 2011: EUR 5 478 thousand) were established to secure the Company's receivables from natural gas distribution. In addition, financial funds in the amount of EUR 22 thousand (31 December 2011: EUR 232 thousand) were deposited in the Company's bank account.

Overdue receivables that were not provided for:

	2012	*2011*
Less than 2 months	2 069	918
2 to 3 months	-	-
3 to 6 months	-	-
6 to 9 months	-	-
9 to 12 months	-	-
More than 12 months	-	-
Total	**2 069**	**918**

(EUR '000)

Overdue receivables that were provided for:

	2012	*2011*
Less than 2 months	-	-
2 to 3 months	112	158
3 to 6 months	1 174	848
6 to 9 months	1 512	1 039
9 to 12 months	1 156	504
More than 12 months	5 484	2 555
Total	**9 438**	**5 104**

11. DEFERRED INCOME

	31 December 2012	*31 December 2011*
Opening balance, net	8 191	27 544
Assets acquired during the reporting period	346	1 474
Amortisation during the reporting period	(220)	(471)
Other deferred income	-	(20 356)
Closing balance, net	**8 317**	**8 191**

Some gas facilities were obtained "free of charge" from municipal and local authorities. This deferred income is released in the income statement on a straight-line basis in the amount of depreciation charges of non-current tangible assets acquired free of charge.

12. RETIREMENT AND OTHER LONG-TERM EMPLOYEE BENEFITS

The long-term employee benefits program at the Company was launched in 2006. This is a defined benefit program, under which the employees are entitled to a lump-sum payment upon old age or disability retirement and, subject to vesting conditions, life and work jubilee payments.

In 2010, the Company signed a new collective agreement under which employees are entitled to a retirement benefit based on the number of years with the SPP core group companies at the date of retirement. The retirement benefits range from one month to five months of the employee's average salary. As at 31 December 2012 and 31 December 2011, the obligation relating to retirement and other long-term employee benefits was calculated on the basis of valid collective agreements in the given years.

As at 31 December 2012, there were 1 442 (31 December 2011: 1 575) employees covered by this program. As of that date, it was an un-funded program, with no separately allocated assets to cover the program's liabilities.

Movements in the net liability recognised in the balance sheet for the year ended 31 December 2012 are as follows:

	Long-term benefits	*Post-employment benefits*	*Total benefits at 31 December 2012*	*Total benefits at 31 December 2011*
Net liability at 1 January	682	2 368	3 050	3 336
Net expense recognised	141	309	450	(134)
Benefits paid	(86)	(33)	(119)	(152)
Net liabilities	**737**	**2 644**	**3 381**	**3 050**

	Current liabilities (included in other current liabilities)	*Non-current liabilities*	*Total*
At 31 December 2012	141	3 240	3 381
At 31 December 2011	154	2 896	3 050

(EUR ‘000)

Key assumptions used in actuarial valuation:

	At 31 December 2012	***At 31 December 2011***
Market yield on government bonds	3.680%	5.175%
Annual future real rate of salary increases	2.00%	2.00%
Annual employee turnover	1.44%	1.44%
Retirement ages (male and female)	62 for male and 60 for female	62 for male and 60 for female

13. INTEREST-BEARING BORROWINGS

	31 December 2012 Secured	***31 December 2012 Unsecured***	***31 December 2012 Total***	***31 December 2011 Secured***	***31 December 2011 Unsecured***	***31 December 2011 Total***
Loans	-	30 008	30 008	-	30 000	30 000
Bonds	-	-	-	-	-	-
Total	**-**	**30 008**	**30 008**	**-**	**30 000**	**30 000**
Loans by currency						
EUR						
– with a fixed interest rate	-	30 008	30 008	-	30 000	30 000
– with a floating interest rate	-	-	-	-	-	-
Total loans	**-**	**30 008**	**30 008**	**-**	**30 000**	**30 000**
Loans are due as follows:						
Within one year	-	30 008	30 008	-	-	-
From 1 to 2 years	-	-	-	-	30 000	30 000
From 2 to 5 years	-	-	-	-	-	-
More than 5 years	-	-	-	-	-	-
Total loans	**-**	**30 008**	**30 008**	**-**	**30 000**	**30 000**

As at 31 December 2012 and 31 December 2011, the Company drew a loan denominated in Euros in the amount of EUR 30 million, which was provided by the parent company at a fixed interest rate of 3.65% per annum (2011: 3.65% per annum). The loan falls due in 2013 and is not secured against any assets.

Interest rates of the loans:

Loans	
EUR	
– with a fixed interest rate	3.65% p.a.
– with a floating interest rate	-

Carrying amount and face value of loans and bonds:

	Carrying Amount		***Face Value***	
	31 December 2012	***31 December 2011***	***31 December 2012***	***31 December 2011***
Loans	30 008	30 000	30 000	30 000
Bonds	-	-	-	-
Total	**30 008**	**30 000**	**30 000**	**30 000**

SPP – distribúcia, a.s. has the following unused lines of credit:

	At 31 December 2012	***At 31 December 2011***
Floating interest rate:		
- due within one year	-	-
- due after more than one year	105 000	-
Total	**105 000**	**-**

In 2012, the company signed loan agreements with banks, enabling to draw loans in total amount of EUR 105 million. In case of drawing loans of EUR 50 million or EUR 55 million, the company will pay variable rate interest and the maturity of the loans will be at the end of the credit period in 2016 and 2020.

(EUR '000)

14. TRADE AND OTHER PAYABLES

	At 31 December 2012	*At 31 December 2011*
Trade payables for gas purchases	768	54
Trade payables	43 274	52 525
Payables from distribution activities	69 720	70 524
Payables from financial derivatives	-	-
Other payables	7 378	1 360
Employee liabilities	5 279	4 658
Social security and other taxes	2 703	2 643
Total	**129 122**	**131 764**

As at 31 December 2012, total trade and other payables included payables to SPP in the amount of EUR 74 368 thousand (31 December 2011: EUR 73 251 thousand) and eustream, a. s. in the amount of EUR 960 thousand (31 December 2011: EUR 3 566 thousand).

Of the Company's payables resulting from distribution activities as at 31 December 2012 and 31 December 2011, the major portion is represented by a prepayment received from the parent company for natural gas distribution.

As at 31 December 2012, the Company recorded payables within maturity in the amount of EUR 129 122 thousand; no overdue payables were recognised. As at 31 December 2011, the Company recorded payables within maturity in the amount of EUR 131 764 thousand; no overdue payables were recognised.

Social fund payables:

	Amount
Opening balance as at 1 January 2012	168
Total creation:	350
from expenses	*348*
non-mandatory allotment	*2*
Total drawing:	(291)
monetary rewards and gifts	*(63)*
life jubilee benefits	*(26)*
work jubilee benefits	*(60)*
catering allowance	*(115)*
other drawing as per CA	*(27)*
Closing balance as at 31 December 2012	**227**

Liabilities secured by pledge or other form of collateral

A bank guarantee was established in Tatra banka, a. s., totalling EUR 33 thousand for other payables to the Customs Office (2011: EUR 33 thousand).

15. REGISTERED CAPITAL

The registered capital consists of 10 ordinary certificate-form shares at the face value of EUR 3 319.39 per share, and 1 ordinary certificate-form share at the face value of EUR 1 957 384 402.17. The SPP is the 100% owner of the shares referred to above. The registered capital was incorporated in the Commercial Register in the full amount.

16. LEGAL RESERVE FUND AND RETAINED EARNINGS

Since 1 January 2008 the Company has been required to prepare separate financial statements in accordance with IFRS as adopted by the EU. Retained earnings represent amounts based on the separate financial statements.

The legal reserve fund in the amount of EUR 391 484 thousand (31 December 2011: EUR 391 484 thousand) is created in accordance with Slovak law and is not distributable to shareholders. The reserve is created from retained earnings to cover possible future losses or increases of the registered capital. Transfers of at least 10% of the current year's profit are required to be made until the reserve is equal to at least 20% of the registered capital. The legal reserve fund in the Company has already attained 20% of the registered capital.

(EUR '000)

Distribution of profit:

Allotment	***Profit allotment for 2011***	***Profit allotment for 2010***
To cover losses from previous years	-	-
Dividends	112 428	107 031
Total profit to be distributed	**112 428**	**107 031**

17. STAFF COSTS

	Year ended 31 December 2012	***Year ended 31 December 2011***
Wages, salaries and bonuses	28 762	28 253
Social security costs	10 360	10 223
Other social security costs and severance pay	7 075	4 659
Total staff costs	**46 197**	**43 135**

The Company is required to make social security contributions, amounting to 35.2% of salary bases as determined by law, up to a maximum amount ranging from EUR 1.15 – 3.08 thousand per employee depending on the type of insurance. The employees contribute an additional 13.4% of the relevant base up to the above limits.

18. COSTS OF AUDIT SERVICES

	Year ended 31 December 2012	***Year ended 31 December 2011***
Audit of financial statements	20	20
Other assurance services	-	-
Tax advisory services	-	-
Other related services provided by the auditor	-	-
Total	**20**	**20**

19. FINANCIAL EXPENSE

	Year ended 31 December 2012	***Year ended 31 December 2011***
Interest expense	1 153	1 286
Other	33	4
Total financial expense/(income)	**1 186**	**1 290**

20. TAXATION

20.1. Income Tax

Income tax comprises the following:

	Year ended 31 December 2012	***Year ended 31 December 2011***
Current tax related to the current year	34 499	32 107
Special levy	1 939	-
Deferred income tax (Note 20.2)		
– Current year	(7 163)	(11 742)
Adjustment of deferred tax due to the tax rate change	71 719	-
Total	**100 994**	**20 365**

(EUR '000)

The reconciliation between the reported income tax expense and the theoretical amount that would arise using the standard tax rates is as follows:

	Year ended 31 December 2012	*Year ended 31 December 2011*
Profit before taxation	139 063	132 793
Income tax at 19%	26 422	25 231
Effect of adjustments from permanent differences between carrying amount and tax value of assets and liabilities	993	614
Correction of deferred tax	-	(5 438)
Tax impact due to the tax rate change from 19% to 23%	71 719	-
Special levy on business in regulated industries	1 939	-
Other adjustments	(79)	(41)
Income tax for the current year	**100 994**	**20 365**

The effective tax rate differs from the standard tax rate stipulated by law in the amount of 19% mainly due to the change in the tax rate for deferred income tax to 23% from 1 January 2013 and due to adjustments of the current tax base for items increasing and decreasing the tax base pursuant to the valid tax legislation.

Pursuant to the requirements of International Accounting Standards, the income tax also includes a special levy on businesses in regulated industries pursuant to a special regulation. *(Note 3, paragraph q)*

20.2. Deferred Income Tax

The following are the major deferred tax liabilities and assets recognised by the Company and movements therein, during the current and prior reporting periods:

	At 1 January 2012	*Charge to equity for the period*	*(Charge)/credit to profit for the period*	*At 31 December 2012*
Difference in NBV of non-current assets	(349 958)	-	(65 968)	(415 926)
Items adjusting tax base only when paid	9	-	(2)	7
Provisions for receivables	461	-	1 073	1 534
Impairment loss	403	-	281	684
Other	1 257	-	60	1 317
Total	**(347 828)**	-	**(64 556)**	**(412 384)**

	At 1 January 2011	*Charge to equity for the period*	*(Charge)/credit to profit for the period*	*At 31 December 2011*
Difference in NBV of non-current assets	(362 485)	-	12 527	(349 958)
Items adjusting tax base only when paid	1	-	8	9
Provisions for receivables	244	-	217	461
Impairment loss	1 464	-	(1 061)	403
Other	1 206	-	51	1 257
Total	**(359 570)**	-	**11 742**	**(347 828)**

In accordance with the Company's accounting policy, certain deferred tax assets and liabilities were mutually offset. The following table shows the balances (after offsetting) of deferred tax for the purposes of recognition in the balance sheet:

	31 December 2012	*31 December 2011*
Deferred tax liability	(412 384)	(347 828)
Total	**(412 384)**	**(347 828)**

(EUR '000)

21. TAX EFFECTS IN THE STATEMENT OF OTHER COMPREHENSIVE INCOME

Disclosure of tax effects relating to each component of other comprehensive income:

31 December 2012	***Before tax***	***Tax***	***After tax***
Cash flow hedging	(91)	-	(91)
Other comprehensive loss for the period	**(91)**	**-**	**(91)**

31 December 2011	***Before tax***	***Tax***	***After tax***
Cash flow hedging	116	-	116
Other comprehensive income/loss for the period	**116**	**-**	**116**

22. CASH FLOWS FROM OPERATING ACTIVITIES

	Year ended 31 December 2012	***Year ended 31 December 2011***
Profit before tax	139 063	132 793
Adjustments:		
Depreciation and amortisation	106 346	104 325
Interest income, net	748	663
Foreign exchange gains/losses	1	-
Derivatives	(91)	477
Provisions and other non-cash items	7 911	(2 866)
Loss from sale of non-current assets	77	(7)
(Increase)/decrease in receivables and prepayments	28 428	(25 255)
(Increase)/decrease in inventories	(15 782)	(4 472)
Increase/(decrease) in trade and other payables	(3 684)	5 234
Cash flows from operating activities	**263 017**	**210 892**

23. COMMITMENTS AND CONTINGENCIES

Capital Expenditure Commitments

As at 31 December 2012, capital expenditures of EUR 76 453 thousand (31 December 2011: EUR 88 242 thousand) had been committed under contractual arrangements for the acquisition of non-current assets, but were not recognised in the financial statements.

Operating Lease Arrangements

The Company leases means of transport under an operating lease agreement made in 2010. The contract is made for four years and the Company has no pre-emptive right to purchase the assets after the expiry of the lease term. The lease payments amounted to EUR 5 331 thousand in the year ended 31 December 2012 (31 December 2011: EUR 5 659 thousand).

Non-cancellable operating lease payables amount to:

Period	***2012***	***2011***
Within 1 year	5 331	5 659
From 1 to 5 years	3 110	8 960
More than 5 years	-	-
Total	**8 441**	**14 619**

Liberalisation of the Slovak energy sector and possible regulation risks

Regulation framework on the natural gas market in the Slovak Republic

On the basis of the current energy legislation, the natural gas market in the Slovak Republic is fully liberalised. Effective from 1 July 2007, all customers are allowed to freely select a natural gas supplier. The Company, as the gas distribution network operator, is obliged to provide all participants with non-discriminatory treatment and allow access to the distribution network on a transparent and non-discriminatory basis. Moreover, the Company is also obliged to enter into a contract for connection and gas distribution with all customers that fulfils the business and technical conditions.

Distribution of gas, as well as access and connection to the distribution network, are subject to regulation by the Regulatory Office of Network Industries (RONI).

Tariffs for regulated activities

Every year, the RONI approves tariffs for access to the distribution network and gas distribution, and for the provision of auxiliary services, as well as for connection to the distribution network. These tariffs are proposed so that the total planned revenues from the tariffs for access to the distribution network and gas distribution in the regulation year in Euros per gas volume unit do not exceed the maximum price for the year, calculated under Decree of the RONI No. 216/2011 Coll., which stipulates price regulation in the gas industry. Maximum allowed revenues are determined based on the eligible costs, including depreciation derived from regulated assets base as determined by RONI and a margin. Regulated assets base and useful lives of these assets as determined by RONI differ from the carrying values and useful lives of the related property, plant and equipment as recorded by the Company. The management of the Company believes that property, plant and equipment of the Company is not impaired on the basis of current indicators. There are inherent uncertainties that could impact the determination of future tariffs by RONI, and future realizable value of property, plant and equipment.

The maximum price for connection to the distribution network in the relevant year of the regulation period, ie for 2012, for gas consumers was determined on the basis of the planned average costs related to the issue of technical conditions for the connection, for the processing of the application for connection and for the planned average costs related to the processing of the application for connecting the gas delivery equipment to the distribution network incurred by the distribution network operator as part of the standard-scope activities necessary for connecting the gas delivery equipment.

Under Decree of the RONI No. 216/2011 Coll., the maximum price for connection to the distribution network for the 2013 regulation period and beyond is calculated by indexation of the basic price for 2012 reflecting the effect of inflation. The calculation of the maximum price for connection to the distribution network and gas distribution for the 2013 regulation period and beyond is also partly based on the basic parameter indexation.

Changes in the regulatory laws and policy

In respect of regulation, the most significant event of 2011 was the adoption of a new Regulation Policy for the upcoming regulation period, ie for 2012 to 2016. With effect from 1 September 2012, the National Council of the Slovak Republic adopted Act No. 251/2012 Coll. on Energy and on Amendment to and Supplementation of Certain Acts and Act No. 250/2012 Coll. on Regulation in Network Industries, through which the requirements of the so-called "3rd Energy Package" adopted by the relevant EU authorities in 2009 were transposed. In terms of gas distribution, the most important legal act of the 3rd Energy Package is Directive 2009/73/EC of the European Parliament and of the Council concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC. The adoption of new acts strengthened the role and powers of the Regulatory Office for Network Industries.

Taxation

The Company has significant transactions with the shareholder and other related parties. The tax environment in which the Company operates in the Slovak Republic is dependent on the prevailing tax legislation and practice. As the tax authorities are reluctant to provide official interpretations in respect of the tax legislation, there is an inherent risk that the tax authorities may require, for example, transfer pricing or other adjustments to the corporate income tax base. The tax authorities in the Slovak Republic have broad powers of interpretation of tax laws, which could result in unexpected results from tax inspections. The amount of any potential tax liabilities related to these risks cannot be estimated.

(EUR '000)

24. RELATED PARTY TRANSACTIONS

Slovenský plynárenský priemysel, a.s. is the owner of 100% of the Company's shares.

During the current year, the Company entered into the following transactions with related parties:

	Year ended 31 December 2012					*31 December 2012*		
	Revenues	***Creation/ (reversal) of provisions for receivables***	***Expenses***	***Dividends***	***Other***	***Receivables***	***Provisions for receivables***	***Payables***
SPP, a.s.	343 264	-	40 186	112 428	30 697	81 422	-	104 369
Other related parties	540	-	38 632	-	19 516	9 338	-	10 078

Management considers that the transactions with related parties have been made on an arm's length basis.

Transactions with related parties mainly represented services related to the distribution, purchases, transit and storage of natural gas, as well as other services.

	Year ended 31 December 2011					*31 December 2011*		
	Revenues	***Creation/ (reversal) of provisions for receivables***	***Expenses***	***Dividends***	***Other***	***Receivables***	***Provisions for receivables***	***Payables***
SPP, a.s.	359 981	-	41 400	107 031	49 522	123 451	-	103 291
Other related parties	60	-	26 143	-	17 585	6 431	-	5 002

(EUR '000)

The compensation of the members of the Company's bodies and executive management during the year was as follows:

	Year ended 31 December 2012	***Year ended 31 December 2011***
Remuneration to members of the Board of Directors, Supervisory Board, executive management and former members of the bodies - total	1 298	1 056
Of which:		
Board of Directors and executive management	*1 167*	*925*
Supervisory Board	*131*	*131*
Benefits after termination of employment to members of the Board of Directors, Supervisory Board, executive management and former members of the bodies – total	22	-
Of which:		
Board of Directors and executive management	*22*	-
Other long-term benefits to members of the Board of Directors, Supervisory Board, executive management and former members of the bodies – total	-	-
Benefits after termination of employment of members of the Board of Directors, Supervisory Board, executive management and former members of the bodies – total	-	-
Benefits in kind to members of the Board of Directors and executive management – total	52	46
Of which:		
Board of Directors and executive management	*52*	*46*
Other payments to members of the Board of Directors, Supervisory Board, executive management and former members - total	1	2
Of which:		
Board of Directors and executive management	*1*	*1*
Supervisory Board	-	*1*

25. SUPPLEMENTARY INFORMATION TO COMPLY WITH OTHER STATUTORY REQUIREMENTS FOR SEPARATE FINANCIAL STATEMENTS

a) Members of the Company's bodies

Body	***Function***	***Name***
Board of Directors	Chairman	Assessor. jur. Sebastian Jochem – since 12 Jul 2012
	Chairman	Jean-Pierre Beringuier – until 30 Jun 2012
	Vice-Chairman	Ing. Štefan Šebesta – since 12 Jul 2012
	Vice-Chairman	Ing. Peter Kamenický – until 11 Jul 2012
	Member	Jean-Pierre Beringuier – since 11 Jul 2012
	Member	Ing. Martin Bartošovič – until 31 Mar 2012
	Member	Assessor. jur. Sebastian Jochem – from 1 Apr 2012 until 30 Jun 2012
Supervisory Board	Chairman	Ing. Rastislav Chovanec – since 12 Jul 2012
	Chairman	Ing. Ján Rusnák – until 11 Jul 2012
	Vice-Chairman	Ekkehard Ludwig – since 1 Jul 2012
	Vice-Chairman	Gilles Guegan – until 30 Jun 2012
	Member	Ing. Miroslav Recký – since 12 Jul 2012
	Member	Ing. Róbert Procházka – since 12 Jul 2012
	Member	Ing. Dalibor Černička – until 11 Jul 2012
	Member	Mgr. Michal Novota – until 11 Jul 2012
	Member	Ing. Richard Vadkerty
	Member	Pavol Korienek
Executive management	General Director	Ing. Bohumil Kratochvíl – until 30 Nov 2012
	General Director	Ing. Martin Hollý – since 1 Dec 2012
	Director of the Economy and Regulation	Ing. Roman Filipoiu
	Director of the Network Operation and Asset Management	Ing. Milan Mindek
	Director of Investments	Ing. Dušan Dobiaš
	Director of Maintenance and Measurement	Ing. Rastislav Prelec
	Director of Distribution Services	Ing. Marek Paál

(EUR '000)

b) Consolidated financial statements

SPP – distribúcia, a.s.provides the data contained in the separate financial statements to the higher consolidation of Slovenský plynárenský priemysel, a.s. (SPP), which prepares the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS).

The ultimate reporting entities that consolidate SPP – distribúcia, a.s. as at 31 December 2012 are GDF SUEZ SA and E.ON AG.

Separate financial statements of SPP – distribúcia, a.s. and SPP's consolidated financial statements are deposited with the Commercial Register of Bratislava 1 District Court (Záhradnícka 10, 811 07 Bratislava) and published in the Commercial Journal and at www.spp.sk.

26. POST-BALANCE SHEET EVENTS

On 15 January 2013, GDF International SAS, E.ON Ruhrgas International GmbH and E.ON SE signed an agreement with Energetický a Průmyslový Holding ("EPH"), a key player on the heat, coal and electricity market in Central Europe, on the sale of their shares in Slovak Gas Holding, B.V. ("SGH"), which owns a 49% share in SPP (the parent company) and also carries out operating and management control. The transaction was completed on 23 January 2013.

In the Contract on the SPP Group Restructuring between the National Property Fund (hereinafter the "FNM") and the Ministry of Economy of the SR (hereinafter the "MH SR") and EPH dated 14 December 2012 and in the Shareholders Agreement signed by the FNM, the MH SR, EPH and Slovak Gas Holding B.V. dated 14 December 2012, the parties agreed on the terms and conditions of the SPP Group's restructuring. The restructuring will be carried out in 2013 and will be completed by 31 December 2013.

Following the change in the shareholder structure of the parent company, SPP, the Extraordinary General Meeting of the Shareholders adopted personnel changes in the senior management boards of SPP-distribúcia, a.s., with effect from 24 January 2013. The representatives of the former shareholders, E.ON Ruhrgas AG and GDF SUEZ, were replaced by representatives of the new indirect shareholder, Energetický a průmyslový holding, a.s.

On 24 January 2013, there were the following changes in the Company's Board of Directors and Supervisory Board:

- Ing. František Čupr, MBA, replaced Mr Assessor jur. Sebastian Jochem in the office of the Chairman of the Board of Directors;
- Mgr. Peter Hájek became a Member of the Board of Directors instead of Mr Jean-Pierre Beringuier; and
- Ing. Robert Ševela became a member of the Supervisory Board instead of Mr Ekkehard Ludwig.

No other events occurred subsequent to 31 December 2012 that might have a material effect on the financial statements of the Company.

Prepared on:	***Signature of a member of the statutory body of the reporting entity or a natural person acting as a reporting entity:***	***Signature of the person responsible for the preparation of the financial statements:***	***Signature of the person responsible for bookkeeping:***
28 February 2013			
Approved on:	Ing. František Čupr, MBA Chairman of the Board of Directors	Ing. Libor Briška	Ing. Miroslav Jankovič
	Ing. Štefan Šebesta Vice-Chairman of the Board of Directors		

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