



ANNUAL REPORT 2012





The year 2012 was crucial for us also from the perspective of enhancing our customer orientation. In cooperation with the Regulatory Office for Network Industries we have simplified the process of changing the gas supplier and adopted such rules for gas distribution for the follow-up local distribution networks, which will reinforce the choice of gas supplier also for the final gas consumers connected to a different distribution network. Last year, we increased the number of the points of contact from 5 to 19 and scaled up the number of managers for the contact with medium and large customers in order to improve and uprate the contact with customers. More than 10 thousand new users were connected to our distribution network. We managed to meet the quality standards in the field of connecting to the distribution network to 100%. We will further pursue uprating our processes while focusing vastly on simplifying the processes within connecting to the distribution network, sale of distribution capacities and implementation of the new gas market rules.

In the previous year, we have continued in the project "Performance Programme" aimed mainly at optimization of the processes, investment and maintenance management in accordance with best practices. We will continue in these initiatives with a view to increasing efficiency and productivity also in 2013.

In the area of economy, SPP - distribúcia achieved stable results with regard to the measures taken, whereas the profit before tax amounted to the level of EUR 139 million. Yet the company's net profit decreased substantially as a result of the introduction of the new tax legislation. Profit after tax represents EUR 38 million in 2012.

We assess the year 2012 as successful in spite of the above impact. However, our success would not have been possible was it not for the hard work and self-sacrifice of our employees. Therefore, we would like to take this opportunity and thank them for their great performance, which contributed to reaching the goals of our company in the previous year. We also want to give our thanks to our customers, for whom we will further uprate our services.

Our clear ambition for the year 2013 is to further develop SPP - distribúcia as one of the leading European companies in the area of gas distribution and to build a reliable, efficient and modern entity.

Ing. Martin Holý
General Director

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

COMPANY PROFILE

The main activity of SPP - distribúcia is the sale of distribution capacities, development activities, operation and maintenance of the gas distribution network, through which approximately 98% of the total distributed volume of natural gas in the Slovak Republic is distributed to more than 1.5 million off-take points.

The mission of SPP - distribúcia as the owner and operator of the distribution network is a technically safe, supplier-wise reliable and at the same time economically efficient distribution of natural gas. The focal point of SPP - distribúcia is to deepen know-how in the area of distribution of natural gas and to develop distribution assets. We provide for the distribution of natural gas as one of the most environmentally friendly and comfortable sources of energy by means of consistent care for the gas distribution network.

Thanks to the Slovak Gas Dispatching, we cover reliably a complex non-stop 24-hour dispatching activity. We guarantee the safety of supplies for households and secure balancing of the network. More than 94% of the Slovak citizens have access to natural gas.

SPP - distribúcia puts emphasis on the quality of services provided to 22 suppliers and customers to more than 1.5 million off-take points. Based on almost 33 thousand kilometres long network, the company distributed a total of 5.03 billion m³ of natural gas in 2012. We apply a dynamic, addressing and customer-satisfaction-oriented approach in our effort to accommodate the demands of our business partners. As the owner and operator of the gas distribution network, pursuant to the market rules, we actively support and contribute to a functioning open market environment in a transparent and non-discriminatory way, which is demonstrable by an increase in our customers.

In the interest of preserving energy safety in the Slovak Republic and safety in the distribution network, we make great effort at our workplaces for the congruous fulfilment of legislative requirements, performance of operational activities, consistent prevention against the occurrence of accidents and efficient measures for their elimination.

STRATEGY AND GOALS OF THE COMPANY

The vision of SPP - distribúcia is to continue in being a stable, trustworthy and efficient service provider in the area of natural gas distribution, to foresee future needs of our customers, to react flexibly to the identified needs as well as to the development on the energy market and hence to create values for our business partners, shareholders and employees. Our mission is to provide for a reliable, safe and efficient distribution of natural gas from the supplier to the customers.

In the past year, SPP - distribúcia went on with the performance of the key project "Performance Programme", which was launched in 2011 and which sets the constant development of growth of our company as its goal. The areas, which we consider main, are process optimization, activities streamlining, upgrading the services provided, increasing operational efficiency and last but not least the area of enhancing relationships with our business partners.

• Company Goals for the year 2013

We set ourselves ambitious objectives each year, while monitoring and assessing their performance regularly. The year 2013 is no exception. We have set up objectives stemming from the effort to use public resources as efficiently as possible, to manage the main asset of our company – the gas distribution network – safely and reliably and from the social responsibility, which arises to SPP - distribúcia from its position on the Slovak energy market.

• Guarantee of High-Level Safety of Operational Activities

SPP - distribúcia puts great emphasis on safety and continuity of natural gas distribution for the purpose of which it monitors the distribution network. We plan to finish the renewal of SCADA monitoring system in 2013. This began in the previous year with the aim to increase the efficiency of the dispatching activities. We are ready to make all the efforts in the interest of human lives, health and safety and citizens' property in case of the occurrence of any extraordinary events. The aspect of network safety is especially important for our company, therefore we plan to invest in the maintenance and renewal of the distribution network almost EUR 77.5 million also in 2013. Monitoring of quality standards for the year 2012 may be assessed as met by SPP - distribúcia to 100%. We want to continue in the same successful trend also in 2013.

• Constant Improvement of Operational Efficiency

We continued in the performance of the project "Performance Programme" launched in 2011 according to the approved schedule in the past year. Also in 2013, we will work on the operational costs optimization and we want to concentrate also on lowering the losses in the distribution network by installing gas meters with the temperature compensation for households and low off-take (annual natural gas off-take amounting to 60,000 m³). We will put increased emphasis on revealing the unauthorised off-takes in the interest of sustaining the safety level.



Long-term Investment Costs Optimization

A good technical condition of the distribution network, hence its safety is our priority and as a result our company expends significant investments in its renewal. We updated the technical condition assessment system for pipelines in city networks in 2012 with a view to enhancing the knowledge of our needs. This project will continue in 2013 in connection with the high-pressure pipelines. We will thus provide for an efficient identification of the necessary network reconstructions in the upcoming period.

Improving Customer Approach

Our company endeavoured to contribute actively to the development of Slovak gas market and to facilitate the access to the distribution network, the gas distribution to our direct customers – gas suppliers and connection to the distribution network for future final gas consumers also in 2012. For this purpose our company did the following in 2012:

1. substantially simplified the process of changing the gas supplier in co-operation with the Regulatory Office for Network Industries,
2. proposed and adopted transparent rules of gas distribution for several gas suppliers for the follow-up (local) distribution networks, reinforcing the choice of a gas supplier for the final gas consumers connected to a different distribution network,
3. increased the number of points of contact for applicants for connection to the distribution network from 5 to 19,
4. reinforced the unified communication channel for (future) medium to large customers by scaling up the number of managers for key customers,

5. fulfilled the quality standard in the area of connecting to the distribution network by 100%.

We will focus on the implementation of new gas market rules in our processes in 2013. At the same time, we will further simplify the processes within the sale of distribution capacities (enhancing electronic communication) and increase awareness about the process of connection to the distribution network (a synoptic description of the connection process).

Motivating Qualified Employees and Job Applicants

We are aware that satisfied and qualified employees are an inevitable prerequisite of successful functioning of every company and we are therefore trying to create motivating and kindly working conditions. In 2012, we focused on improving communication with our employees, on performance of various development programmes for the successors on the level of top, medium and lower management and on the development of high-potential employees. We set up an employee reward system for extra work performance. University graduates are now offered an opportunity in the form of a new round of a Graduate Development Programme.

Financial Stability and Profitability

With the intention to achieve positive financial results, the company continues to introduce optimization measures aimed at streamlining our internal processes. We believe that the frugality of all the company's activities will further conduce to enhancing cost effectiveness and hence increasing profitability as well as to financial stability of our company.

BOARD OF DIRECTORS AS OF 31 DECEMBER 2012

Assessor jur. Sebastian Jochem *Chairman of the Board of Directors*



He studied law, history and political science in Cologne before completing his post-graduate studies between 1992 - 1996 as a lawyer in Cologne, Düsseldorf and Toronto. After graduation in 1996 he had been working in E.ON Ruhrgas AG. Until 2005, when sent to SPP in Bratislava, he had been

working as the Head of „Baden-Wuerttemberg“ Division at the Sales Department of E.ON Ruhrgas in Essen. He was the Chairman and Member of the Board of Directors of SPP - distribúcia, a.s. in the period from 18 May 2006 to 30 September 2009. In 2009, he became the Head of the „Marketing-Services“ Department in E.ON Ruhrgas. He had been appointed to the post of a Member of the Board of Directors of SPP - distribúcia, a.s. on 1 April 2012 and became the Chairman of the Board of Directors of SPP - distribúcia, a.s. as of 1 July 2012.

Assessor jur. Sebastian Jochem

became a Member of the Board of Directors on 1 April 2012 and the Chairman of the Board of Directors on 1 July 2012.

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



He graduated from the studies of Management of Industry and Food Enterprises at the Faculty of Chemical and Food Technology of the Slovak University of Technology in Bratislava in 1993. He started his career in 1991 as the Communication Manager in Solid, a.s. In 1992 - 1994, he worked for

an investment company, DIVIDEND, a.s. on the position of the Communication Manager and at the same time as the Portfolio Manager. He was appointed in 1995 the Chairman of the Supervisory Board of Záhorácke pekáre and cukráre, a.s. Between 1994 - 1998 he worked in the company DEAL, s.r.o. He was a Manager at DEAL & PRINT, s.r.o. between 1998 - 2004. In 2006 - 2007 he was the Investment and Acquisitions Office Director at the Ministry of Defence of the Slovak Republic. He became a Member of the Supervisory Board of Vojenský opravárenský podnik, a.s., in Trenčín in 2007. Since August 2007 he has been the Manager of Cleanlife, s.r.o. and at the same time of DEAL & PRINT, s.r.o. He became the Vice-Chairman of SPP - distribúcia, a.s. Board of Directors on 12 July 2012.

Ing. Peter Kamenický

was the Vice-Chairman of the Board of Directors until 11 July 2012.

Ing. Štefan Šebesta

became the Vice-Chairman of the Board of Directors on 12 July 2012.

Ing. Jean-Pierre Béringuier *Member of the Board of Directors*



He studied engineering at the University École Nationale Supérieure d'Arts et Métiers in Paris. In 1987 he started his professional career as Operations Manager in the Transmission Division - Ile de France Operations Center in Gaz de France SA. He held various positions in this division. Between 1990

- 1996 he worked as the Head of Gas compressors & Gas Turbines Repair and Technical Support Department. In 1996 - 2000 he worked as the Head of the Transmission Networks Expertise & Support Department and in 2000 - 2003 he led the Technical Operations Department in the Ile de France Operations Center. He was the Gas Infrastructures R&D Program Director in the Research & Development Division and at the same time was the Chairman of MARCOGAS Infrastructures Committee in Brussels, Belgium between 2003 - 2006. In September 2006 he became the Deputy CEO of Italcogim Reti (4th gas distribution operator in Italy) in GDF SUEZ Energy Europe & International, Milan, Italy. He became a Member of the Board of Directors of SPP - distribúcia, a.s. on 15 September 2010. He subsequently became the Chairman of the Board of Directors on 6 May 2011 and has been holding the position of SPP - distribúcia, a.s. a Member of the Board of Directors since 1 July 2012.

Ing. Martin Bartošovič

was a Member of the Board of Directors until 31 March 2012.

TOP MANAGEMENT AS OF 31 DECEMBER 2012

Ing. Martin Hollý *General Director*



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

Ing. Roman Filipoiu *Director of Economy and Regulation Section*



He completed his Financial Management studies at the Faculty of Business Management at the University of Economics in Bratislava. After graduating, he started working on the position of an Auditor and Consultant in Deloitte, where he participated in audits of several major banks, financial institutions and media companies in Slovakia. He started working in the energy sector after joining NAFTA a.s. in 2007. As the Head of Controlling Department, he was responsible for controlling, price regulation and relations with equity holdings and later as the Deputy Finance Director also for accounting, procurement and finance. In the same period he also worked as the Chairman of the Supervisory Board in Karotáž a cementace s.r.o. and Naftárska leasingová spoločnosť a.s. Since April 2009, he has been the Director of Economy and Regulation Section in SPP - distribúcia, a.s. He is responsible for regulation, energy legislation, relations with state administration bodies and also for matters relating to economic optimization and financial management of the company.

Ing. Milan Mindek *Director of Network Operation and Asset Management Section*



He graduated from the Technical Operation of Telecommunications Department at the Faculty of Electrical Engineering at the University of Transport and Communications in Žilina. Beginning his professional career in 1980 as the Head of the Metering Group at the Regional Gas Company in Žilina, he gradually worked on various management positions. In 1994 he joined Slovenský plynárenský priemysel, a.s. as the Head of Slovak Gas Dispatching. Since 1996 he has been the Director of Slovak Gas Dispatching in SPP - distribúcia, a.s. He has been working as the Director of Network Operation and Assets Management Section since 1 August 2011. The Network Operation and Assets Management Section defines and provides for the development strategy and policy, network operation and maintenance, business metering, management systems and data administration, secures dispatching management of gas distribution pursuant to the agreed contracts and provides for balancing of the distribution network pursuant to the legislation in the Slovak Republic. The section fulfills within SPP - distribúcia, a.s. the tasks of the Gas Dispatching in the Slovak Republic at the same time.

Ing. Dušan Dobiaš

Director of Investment Section



After graduating from the Department of Transport and Manipulation Equipment at the Faculty of Mechanical Engineering of the Slovak University of Technology in Bratislava in 1985, he joined ČSAD Bratislava as a Purchaser. Between 1988 and 1992 he worked in this company at the post of the Director of Technical Section. A year later, he began working as a Purchaser at the Investment Department of Slovtransgas Division in Slovenský plynárenský priemysel, š.p. Between 1994 and 2001, he worked as the Head of Procurement Department and later, in 2001 - 2003, he managed the Coordination of Investments and Procurement Section. He worked in the position of the Director of Logistics Section from 2004 to September 2009. Since October 2009 he has been managing the Investment Section in SPP - distribúcia, a.s.

Ing. Rastislav Prelec

Director of Maintenance and Metering Section



In 1985 he graduated from the Faculty of Electrical Engineering at the Slovak University of Technology in Bratislava and in 2005 he completed his Masters studies in Industrial Engineering at Fachhochschule Ulm (Germany). After completing his 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 in the field of industrial automation. In 1995 he joined Slovenský plynárenský priemysel, a.s. as a Telemetric Equipment Technician. Later he worked as the Head of Control Systems Department. Since 1997 he had worked as a Project Manager and Co-Manager on the following projects: Reconstruction and Remote Control of Transfer Stations, Remote Monitoring of Regulation Stations, Dispatching Control Systems, Remote Monitoring of Large Customers, Mobile Workplaces and Distribution Information System. In 2009 he was appointed the Director of Maintenance and Metering Section in SPP - distribúcia, a.s.

Ing. Marek Paál

Director of Distribution Services Section



He started his professional career in 1994 - 1996 in the trade company Interlat, a.s. Specialising in the gas industry, he completed his studies at the Faculty of Mechanical Engineering of the University of Žilina in 2003. However, he had started working in this field already in 1996 when he joined Slovak Gas Dispatching of Slovenský plynárenský priemysel, a.s. (SPP), holding various posts. Since 2004 he worked in SPP as the Director of Distribution Capacities Sales Section. In 2006 he participated in the process of legal unbundling of SPP into three separate companies and led the project for the implementation of the distribution information system for liberalised gas trading. After the legal unbundling, he continued to work as the Director of Distribution Capacities Sales Section in the now separated company SPP - distribúcia, a.s. Since the restructuring of the company in 2009, he has held the position of the Director of Distribution Services Section. He is responsible for connecting customers to the distribution network, marketing and sales of distribution capabilities to gas suppliers in Slovakia.

Ing. Bohumil Kratochvíl

was the General Director of SPP - distribúcia, a.s. until 30 November 2012.

SUPERVISORY BOARD AS OF 31 DECEMBER 2012

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



After completing his university studies, he completed his internal postgraduate studies at the Faculty of Commerce of the University of Economics in Bratislava in the field World Economics. He started his professional career in 2004 as a Project Manager in the Slovak Investment and Trade Development Agency (SARIO) at the Direct Foreign Investments Section. Between 2006 – 2010, he worked on the the post of the Advisor of the Prime Minister of the Slovak Republic for Foreign Investments. In the period between February 2008 – January 2012, he worked as the Executive Director at Ceptra, s.r.o. He has been the President of the Italian-Slovak Consortium for the Energy Industry since 2009. He has been holding the post of a Director at Grandslam, s.r.o., dealing with economic, accounting and tax advisory. Since July 2012, he has been holding the post of the Advisor of the Prime Minister of the Slovak Republic for Foreign Investments again. He became a Member of the Supervisory Board of SPP - distribúcia, a.s. on 12 July 2012 and was elected to the function of this control body of the company on 23 August 2012.

Ekkehard Ludwig

Vice-Chairman of the Supervisory Board

Members:

Pavol Korienek

Ing. Robert Procházka

Ing. Miroslav Recký

Ing. Richard Vadkerty

Ing. Ján Rusnák

was the Chairman of the Supervisory Board until 11 July 2012.

Gilles Guegan

was the Vice-Chairman of the Supervisory Board until 30 June 2012.

Ekkehard Ludwig

became the Vice-Chairman of the Supervisory Board on 1 July 2012.

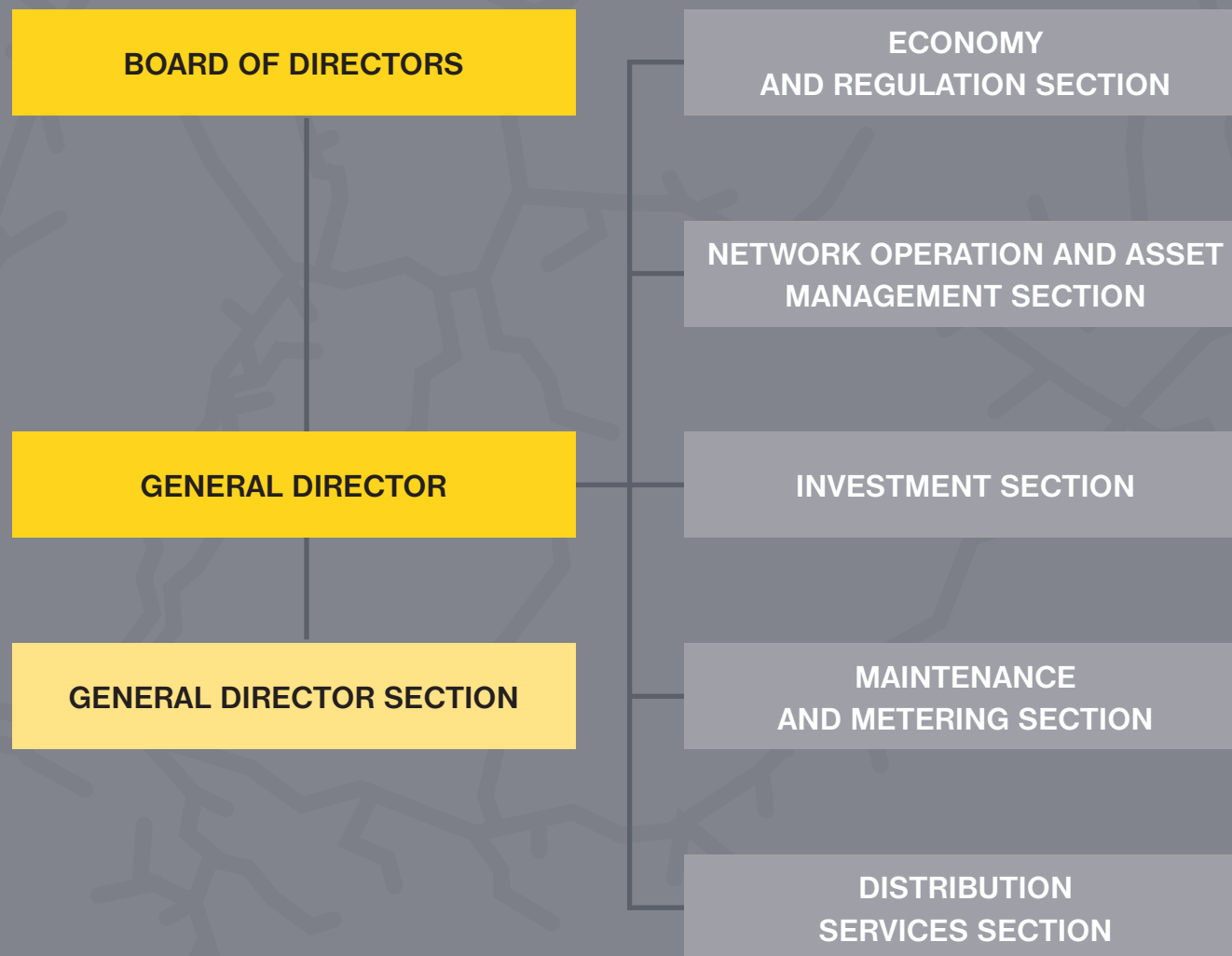
Ing. Dalibor Černička

was a Member of the Supervisory Board until 11 July 2012.

Mgr. Michal Novota

was a Member of the Supervisory Board until 11 July 2012.

ORGANISATIONAL CHART AS OF 31 DECEMBER 2012



SAFE AND RELIABLE DISTRIBUTION

Safety of the Distribution Network

The basic prerequisite for the assignment of sustainable security and reliability of our gas facilities is the best possible knowledge of their technical condition. Thanks to the everyday, consistent work of our qualified and experienced professionals, we contribute to improving the condition and functioning of the operated distribution network with a view to eliminating the unwanted events occurrence risk.

We were working on increasing the quality and reliability in 2012 by means of targeting a model for the technical condition assessment mainly at pipelines of local networks, which are located in the Slovak cities and municipalities. The newly-targeted model based on objective factors is the basic tool for the efficient management and reconstruction of our distribution network.

Operation, Maintenance and Investments in the Distribution Network

To operate a distribution network means a day-to-day care for the various gas facilities. SPP - distribúcia is within the European context the administrator of one of the most developed, wide-ranging and most complex systems determined for the distribution of natural gas. In connection with this, we expended EUR 82.21 million on maintenance and renewal of the gas distribution network for the purpose of increasing its safety and reliability.

Increasing the efficiency of the distribution network further remains the aim of SPP - distribúcia, hence concurrently when securing high safety and reliability on the level of the leading European companies in the area of natural gas distribution.

We managed to perform all the planned maintenance activities, reparations and revisions for 2012 on time and in the due quality. While performing the internal inspection, 190 km of high-pressure pipelines were examined and cleaned. Based on a special external inspection, based on magnetic shape memory of the material, 20 km of high-pressure pipelines were checked. Thanks to building further eleven central odourisation systems at the high-pressure pipeline, we provided for a more efficient natural gas odourisation in the distribution network (odourisation is a process of adding a reeking chemical, a so called odourant, to the natural gas with the intention to identify the gas by human olfactory sense).

Providing for a Safety of Supplies Standard

SPP - distribúcia as the distribution network operator provided for the safety of gas supplies standard for households in 2012 with a view to solving a potential state of emergency and to avoiding the state of emergency. We met this obligation pursuant to the valid gas legislation in full scope. Meeting the safety of supplies standard was provided for mainly by means of reserves in the underground gas storage facility, which is determined for distribution network balancing. At the same time, the network safety was secured also by means of contractually agreed auxiliary gas supplies.

The stated measures have proved that SPP - distribúcia was and is ready to provide for a constant and reliable gas distribution for all households in the Slovak Republic, thus also in case an extraordinary event takes place.

Distribution Network Length in 2008 – 2012 (in km)

	2008	2009	2010	2011	2012
High-pressure pipelines	6,327	6,298	6,302	6,307	6,294
Medium and to low-pressure pipelines	25,667	26,208	26,446	26,653	26,785
Total	31,994	32,506	32,748	32,960	33,079

Local Pipeline Network Structure in 2008 – 2012 (in km)

	2008	2009	2010	2011	2012
Steel	12,734	12,848	12,819	12,822	12,733
Polyethylene	12,933	13,360	13,627	13,831	14,052

Investments in Network Renovation/Reconstruction in 2008 – 2012 (in EUR million)

	2008	2009	2010	2011	2012
Investments in network renovation	59	42	47	45	42

Revealing Unauthorised Natural Gas Off-Takes

We continued in monitoring and regular assessment of losses when distributing natural gas with the aim to achieve their decline in 2012. Losses caused by unauthorised off-takes of natural gas form an individual category. The number of the identified and documented unauthorised off-takes has been on the rise over the past years. Based on a conceptional and systematic

activity, we managed to reveal 1,727 cases in 2012. It is very often the case that the gas facilities are interfered into by third-party and unauthorised persons in a way which severely puts not only the safety of natural gas supplies in danger in the particular area, but most of all their immediate surroundings and co-inhabitants. Cases when our employees revealed an unauthorised off-take have only confirmed this after gas leakage was reported by fire brigades and rescue service or by the police department. Therefore, we will further develop this preventive activity also in the future.

In the interest of increasing safety of the operated facilities, we did tens of blanket screening controls aimed at revealing and documenting the unauthorised off-takes. In this way a total number of 16,464 off-take points were examined last year, whereas 346 cases of verifiable interferences in gas meters of directly to the gas pipeline were documented. Some of them were so dangerous that they imposed a direct risk not only on property, but also on health and lives of citizens. Based on the findings, which suggested that a criminal offence had been committed, 683 pieces of information on commission of crime were presented, which were subsequently verified by the investigating, prosecuting and adjudicating bodies.

45 years of Bratstvo Interstate Pipeline

We remembered the 45th anniversary since the interstate gas pipeline Bratstvo was set in operation. When built (1967), the Bratstvo pipeline had a transmission-distributional nature, which means that aside from providing for the requirements of gas distribution for consumers within the territory of the former Czechoslovakia, it secured also transmission of gas to Austria. With the development of the pipeline transmission network and building interconnections between the transmission and distribution network, its transferring nature had been gradually declining.

With regard to its dimension (DN 700), pressure level (PN 55) and length (438 km) the Bratstvo pipeline has become and remains the cornerstone distribution pipeline of high-pressure distribution network of our company and of the whole Slovak Republic. Throughout its existence, over 100 billion m³ of natural gas has been transmitted via this pipeline, thus mainly to meet the needs of the Slovak Republic.



Gas Distribution Interruptions Incurred by Third Parties

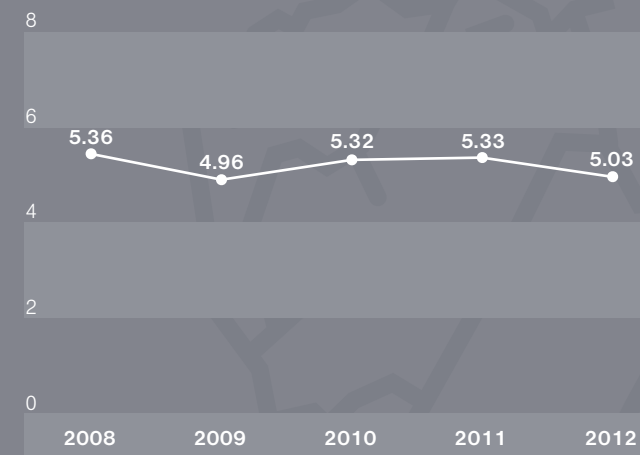
Gas distribution interruptions by third parties are caused by damaging the gas facilities, especially during excavation works, which are performed in proximity of the gas facilities. We intensified measures taken in order to improve the negative trend of damages on gas facilities incurred by third parties in the past year.

A measure, by means of which we introduced the performance of a free of charge pipeline location for third-party entities, where the limit of one hour was not exceeded or where the length of the pipeline location did not exceed 100 m, may be evaluated as one of the most effective measures taken. SPP - distribúcia introduced free pipeline location on 1 April 2011. Since then, we have registered an increase in requests of free pipeline location and this trend continued in 2012 as well.

Another measure taken was sending letters to the mayors of cities and municipalities within the Slovak Republic, where we requested collaboration and consistent fulfilment of obligations resulting from the legislation when issuing the so called permissions to dig up. We have approached our contractual suppliers of ground works requesting compliance with the given provisions of the technical rules, and hence avoiding damages on gas facilities. We have successfully supported awareness raising in this area by means of a leaflet campaign and information on the company's website.

The measures mentioned above helped decrease the number of distribution interruptions caused by third parties by more than one third in 2012. Furthermore, we have approached to co-operation with the State Energy Inspection at the end of 2012. They are authorised to impose a sanction amounting from EUR 300 to EUR 150,000 on a person, who infringed the obligations applicable to the gas facility protection area. We expect an even more consistent approach of the third parties to the activities performed in proximity of our facilities in the future.

Distributed Volumes of Natural Gas in 2008 – 2012 (in billion m³)



SPP - distribúcia, a.s. Distribution Network



Legend

- PN 55
- PN 40, PN 25

VPS - Intrastate delivery stations

PZ - Underground gas storages

Gasification of Slovakia

The gasification continues in Slovakia even though at a much slower rate in comparison with the past. This typically covers gasification of new residential areas in the already gasified municipalities. It is chiefly caused by the fact that we have gasified 77% of municipalities in Slovakia, hosting 94% of the population which hence have access to natural gas.

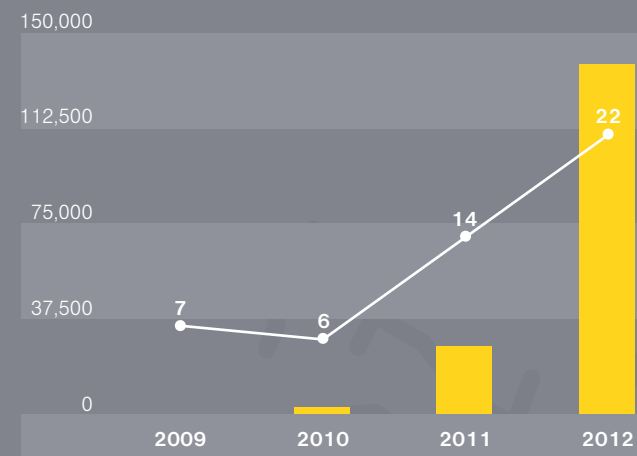
CUSTOMER ORIENTATION

Increase in the Number of Distribution Network Users

SPP - distribúcia as the distribution network operator recorded 14 distribution network users (natural gas suppliers) towards the end of 2011. Their number increased to 22 in 2012. We provide distribution services to all our customers on a transparent and non-discriminatory basis and in line with the Operational Order of our company, which was approved of by the Regulatory Office for Network Industries. Thanks to consistent monitoring of the quality standards and a strict fulfilment of the non-discriminatory principle and transparency, SPP - distribúcia did not record any complaint from gas traders.

A significant increase in the number of the changed gas suppliers is also related to the substantial scaling up of the number of distribution network users. Whereas in 2011 almost 27 thousand of changes in suppliers were performed, in 2012 this number grew to more than 151 thousand. This means that the gas market liberalisation has progressed significantly in all categories.

Number of Changes in Supplier



Legend

- Development of the number of distribution network users
- Number of changes in supplier



New Energy Legislation

The year 2012 will enter into history of the Slovak energy sector as the year of implementing the third liberalisation package – by the adoption of the new Energy Act and new Act on Regulation and implementing regulations to these acts, which transpose all together the respective EU legislation. This new legislation creates prerequisites for further gas market development in Slovakia. Conditions concerning the set rules will be harmonised with the gas networks conditions in the surrounding countries especially with the adoption of the new gas market rules. New gas market rules brought mainly the following key changes:

1. change in the beginning of a gas day to 06:00 a.m.,
2. introduction of the use of energy units also for gas transmission, storage and distribution,
3. shift in the time of gas distribution renomination to 04:00 p.m. of the relevant day,
4. introduction of the institute of system deviation etc.

The implementation of the above stated rules will therefore constitute our priority in 2013.

Connecting to the Distribution Network

Over 2012, our company implemented successfully a project of scaling up the points of personal contact – front offices – within the process of increasing comfort of its customers. Concurrently, specialised technical departments for the determination of technical and business terms of connection to the distribution network, of the technical changes at the off-take gas facility and of the technical conditions of scaling up the distribution network

– back offices – were created. We have registered 10,431 connections to the distribution network of our company in 2012.

Main Front Office Activities:

- personal, telephone and e-mail contact with the applicants,
- adoption and control of applications delivered by the postal service, in person, by e-mail and their records in the relevant systems,
- communication with the applicants when removing deficiencies of the presented applications.

Main Back Office Activities:

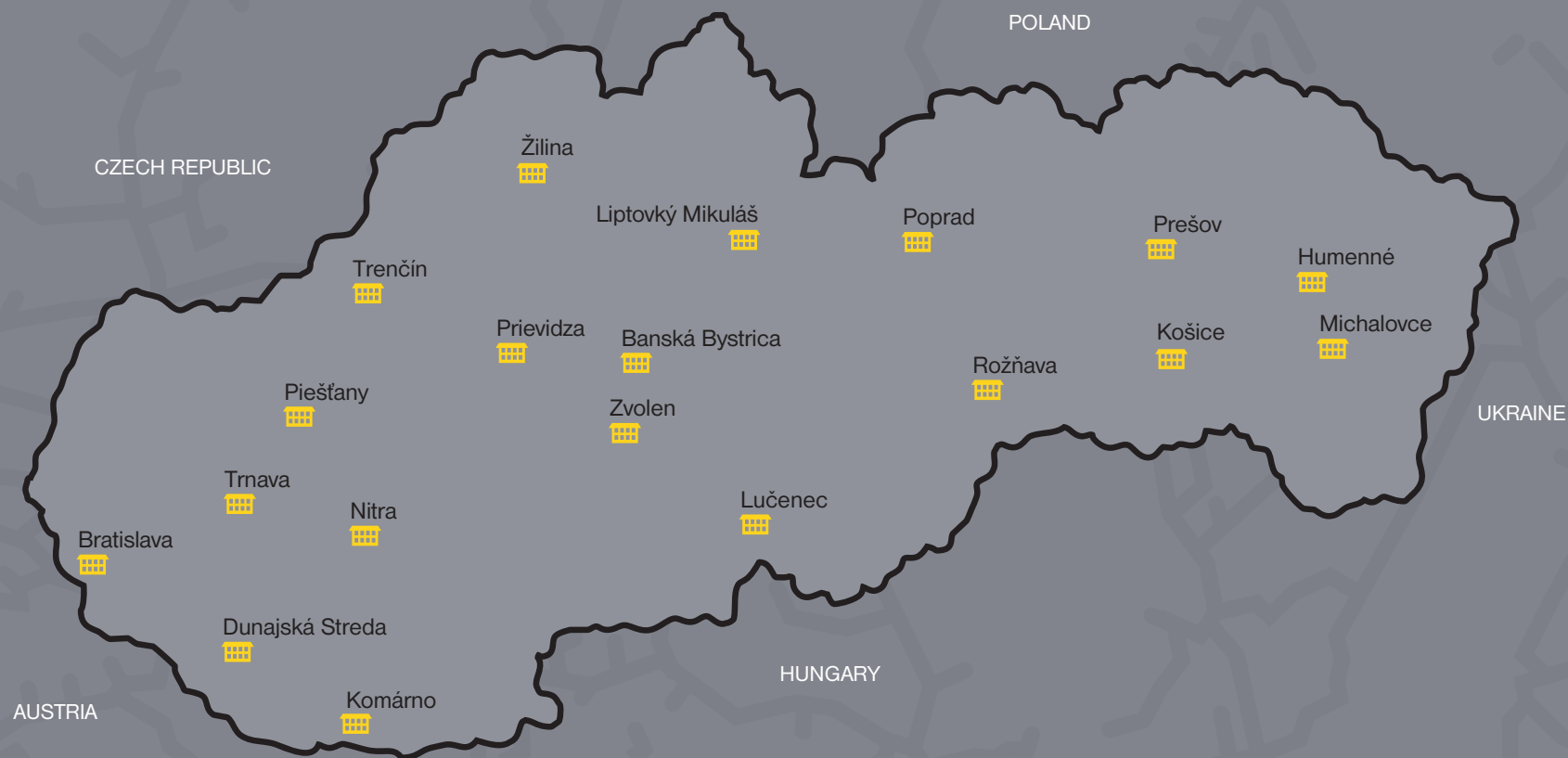
- determination of technical and business terms of connection and conditions of the technical changes performance at the existing off-take points,
- determination of technical conditions of scaling up the existing distribution network,
- conclusion of Contracts of Connection,
- technical support to the operators at the Customer Line for Connection.

The main objective of this project was the increase in the number of points of contact, which provide for personal communication with the customer. Our company provided for the increase in the number of points of contact from the five points of contact, which were key from the perspective of the new connections to the distribution network, so that we would enhance the comfort and availability for personal contact for our customers. Our customer has now 19 points of contact available at the moment, which are mainly used by customers, who do not prefer telephone or e-mail contact for whatever reason.

SPP - distribúcia, a.s. Points of Contact for Connection to Distribution Network

For those customers, who prefer telephone contact, there is Customer Line for Connection 0850 269 269, available on business days from 07:00 a.m. to 08:00 p.m. or alternatively an e-mail address ripajanie@distribuciaplynu.sk.

SPP - distribúcia, a.s. determined business and technical conditions within the deadlines as determined by the Ordinance of the Regulatory Office for Network Industries based on the presented applications, whereby it fulfilled the relevant standard of quality to 100%.





Number of Issued Statements on the Connection to the Distribution network



Communication via Managers of Key Customers

We have been successfully providing care for the existing and new customers in the category medium and large commercial customers since 2011 thanks to the Managers of Key Customers. One of our priorities is to search for and actively approach new key customers, who have decided or are still deciding on the use of natural gas in projects that are under preparation. Our basic objective for the upcoming period is the creation of appropriate conditions, which will comply with the needs of all our customers. The primary effort of SPP - distribúcia in the area of customer orientation will not only be to uprate the exiting services provided, but also to create new, complex advisory services through a unified communication channel – key customers management. This advisory includes supporting key customers when connecting to the distribution network, technical changes at the off-take points, setting distribution tariffs and advisory concerning the provision of personal distribution services (test operation etc.).

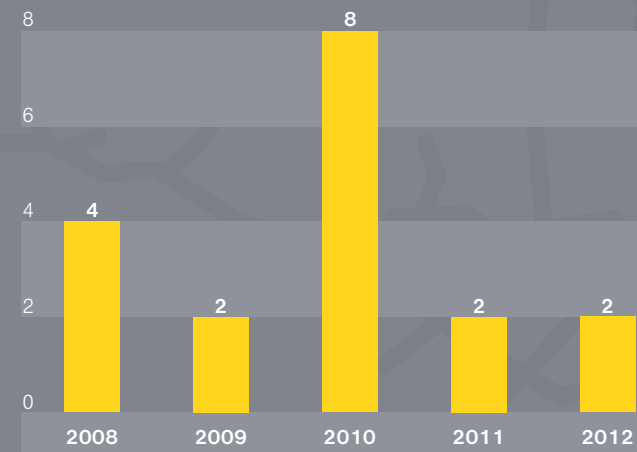


Responsibility for Safety and Health Protection at Work

Care for safety and health at work and for the improvement of working conditions constitutes an inseparable part of working tasks in our company. In this area, we prefer planning and preventive approach, and therefore we concentrate on the introduction of safe work instruments, technologies and methods of labour organization. By taking social measures, we uprate work conditions, hence also concerning the factors of work environment. It is our objective to create such work conditions, which will guarantee protection of their safety and health at work. All risks, which put influence on working safety, are regularly analysed. We take measures for their elimination, whereas one good example is the elimination of noise impacting the employees.

Attention is given to education as well as vocational training in the QHSE area and provision of personal work protection instruments. We are also trying to affect our suppliers and contractual partners by auditing and awareness-raising. Identification of employees with the measures focused on the elimination of accidents at work in the company, which is supported by regular communication of the issues related to health protection and safety at work, are considered primary.

Number of Registered Accidents



Social Responsibility

SPP - distribúcia realizes its social responsibility and through the foundation Nadácia SPP performs a grant programme called Co-operation with self-governing regions focusing on supporting public service project aimed at supporting and developing municipalities, cities and regions in Slovakia. Concurrently, we not only intensify the co-operation with protected workshops and support them not only by the purchase of products from their offer, but also by making them more visible at informal and out-of-work events taking place in our company. We raise awareness about the importance of the whole societal responsibility in the eyes of our employees. It was the second time already that we participated in the Slovakia-wide Volunteering Days, when our employees and their acquaintances generously, without claiming any financial reward, helped those ones, who need it.

ECONOMIC AND FINANCIAL PERFORMANCE

Development of Business Environment

In 2012, new Regulatory Policy came into force for the period 2012 – 2016 and new legislation setting forth the energy business was adopted. With effectiveness as of 1 September 2012, the National Council of the Slovak Republic endorsed a new Act on Energy and Act on Regulation in Network Industries, by means of which it transposed the requisites of the so called third energy package into the Slovak legislation. The adoption of new acts reinforced especially the tasks and powers of the Regulatory Office for Network Industries, and at the same time introduced new obligations for SPP - distribúcia, a.s.

From the perspective of the economic situation, 2012 mirrored the continuous economic crisis in the euro area, which influenced the fluctuation of EUR exchange rate and the prices of commodities on commodity markets. The price of light heating oils grew in the interim period by 2.35% and the price of heavy heating oils grew by 4.56%. As opposed to the US dollar, EUR weakened by 7.62%. For the purpose of the elimination of the negative effects of exchange rate and financial risk, SPP - distribúcia introduced fixation of the natural gas purchase prices in 2013.

The total volume of the distributed gas reached 5.02 billion m³, in 2012, which is 320 million m³ less than last year. The decline in the distributed volume was related mainly to higher temperatures during the coldest winter months.

SPP - distribúcia, a.s. Economic Results

SPP - distribúcia, a.s. achieved revenues from sale of services amounting to EUR 389.94 million in 2012. The main source

of the revenues were proceeds for the provision of distribution capacity.

Operating expenses reached EUR 250.10 million. The main compounds of the operating expenses represented write-offs and amortisation, natural gas storage, other services and personal costs. In comparison with 2011, operating expenses increased by EUR 11.70 million. The increase was caused mainly by the increase in costs for reserves and losses from depreciation, creation of provisions, purchase of natural gas for loss coverage, by the increase in personal costs and write-offs.

The company reached **profit before tax** amounting to EUR 139.06 million, which is an increase in comparison with the previous year by EUR 6.27 million. The total income tax amounting to EUR 100.99 million was created by due tax amounting to EUR 34.50 million, special levy from business in the regulated industries amounting to EUR 1.94 million and a deferred tax liability of EUR 64.56 million. **Profit after tax** represents EUR 38.07 million.

Comparison of the Profit Structure After Tax (in EUR million)

	2012	2011
Revenues from sales of services	389.94	371.86
Operating expenses	(250.10)	(238.40)
Profit/loss from financial operations	(0.78)	(0.67)
Profit before tax	139.06	132.79
Income tax	(100.99)	(20.37)
Profit after tax	38.07	112.43

CAPITAL STRUCTURE

Assets

Total assets of the company reached by the date of the balance sheet an amount of EUR 2,972.63 million, and fell as compared to the previous period by EUR 10.11 million.

Non-current assets represented EUR 2,643.73 million and created a share on the total assets of 88.94%. Distribution networks, buildings, construction sites, machines and distribution network equipment were especially the decisive items.



Comparison of the Assets Structure (in EUR million)

	2012	2011	2012	2011
Non-current assets	2,643.73	2,697.02	88.94 %	90.42%
Current assets	328.90	285.72	11.06 %	9.58%

Investment expenditures for the procurement of property, plant and equipment reached EUR 53.58 million and are aimed at reconstruction and development of the distribution network, as well as at purchase of technologies and equipment. Investment expenditures in the amount of EUR 1 million represented the capital fund invested in daughter company SPP - distribúcia Servis, s.r.o.

Current assets composed of reserves, receivables and financial accounts amounted to EUR 328.90 million as of the date of the balance sheet. Compared to 2011, they rose by EUR 43.19 million, the decisive increase was in the items cash and cash equivalents.

Equity and liabilities

Equity amounted to EUR 2,386.97 million, representing 80.30% of the value of the company assets coverage sources. In addition to share capital, equity consisted of the statutory reserve fund, retained earnings and income from the current period.

Share capital of the company represented the share capital as registered in the Commercial Register amounting to EUR 1,957.42 million. It comprises of 11 ordinary shares (10 shares with a par value of EUR 3,319 and one share with a par value of EUR 1,957,384,402).



Comparison of the Liabilities Structure (in EUR million)

	2012	2011	2012	2011
Equity	2,386.97	2,461.42	80.30%	82.52%
Liabilities	585.66	521.32	19.70%	17.48%

Shareholder Structure as of 31 December 2012:

Slovenský plynárenský priemysel, a.s.	11 shares	100%
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State of the **statutory reserve fund** of the company composed of the capital funds amounted to EUR 391.48 million as of the date of the balance sheet.

The total amount of **liabilities** constituted 19.70% of asset coverage, with liabilities as of the balance sheet date reaching EUR 585.66 million. Key liabilities entries were non-current liabilities (deferred tax liability of EUR 412.38 million, other non-current liabilities, retained earnings worth EUR 8.32 million) and current liabilities of EUR 161.72 million. Compared to the initial balance, liabilities rose by EUR 64.34 million, which was caused in particular by a lower deferred tax liability resulting from the change in income tax rate of legal entities.

SUMMARY RESULTS

The development of SPP - distribúcia assets and economic results for the year ending 31 December 2012 and 2011 according to the individual financial statements prepared in line with International Financial Reporting Standards as endorsed by the EU.

Balance Sheet (Selected Data in EUR thousand) As at 31 December 2012 and 31 December 2011

ASSETS:	31 December 2012	31 December 2011
NON-CURRENT ASSETS		
Property, plant and equipment	2,635,163	2,688,812
Investments in daughter companies	1,000	-
Non-current intangible assets and other assets	7,565	8,207
Other non-current assets	-	-
Total non-current assets	2,643,728	2,697,019
CURRENT ASSETS		
Reserves	157,918	142,161
Receivables and cash advances provided	108,748	142,485
Tax receivables from the income tax	-	-
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:	31 December 2012	31 December 2011
CAPITAL AND RESERVES		
Registered capital	1,957,418	1,957,418
Legal reserve fund and other funds	391,484	391,575
Retained earnings	38,069	112,428
Total equity	2,386,971	2,461,421
Non-current liabilities	423,941	388,915
Current liabilities	161,719	132,401
Total liabilities	585,660	521,316
TOTAL EQUITY AND LIABILITIES	2,972,631	2,982,737



Profit and Loss
(Selected Data in EUR thousand)

Years ended 31 December 2012 and 31 December 2011

	Year ended 31 December 2012	Year ended 31 December 2011
Revenues from sales of services	389,940	371,858
Operating expenses	(250,096)	(238,395)
Operating profit	139,844	133,463
Financial revenues	405	620
Financial costs	(1,186)	(1,290)
PROFIT BEFORE TAX	139,063	132,793
Income tax	(100,994)	(20,365)
PROFIT FOR THE PERIOD	38,069	112,428



Cash Flow

(Selected Data in EUR thousand)

Years ended 31 December 2012 and 31 December 2011

	Year ended 31 December 2012	Year ended 31 December 2011
OPERATING ACTIVITIES		
Cash flows from operating activities	263,017	210,892
Interest paid	(1,153)	(1,285)
Interest received	405	578
Income tax paid	(34,486)	(31,577)
Net cash inflow from operating activities	227,783	178,608
INVESTING ACTIVITIES		
Payments for procurement of shares in other accounting units	(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/(decrease) 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

REPORT ON THE COMPLIANCE PROGRAMME OF THE DISTRIBUTION NETWORK FOR THE YEAR 2012

1. In 2012, the Distribution Network Operator applied the Compliance Programme in accordance with the requisites of the Act No. 656/2004 Coll. on Energy and on changes to certain acts and as of 1 September 2012 in accordance with the requisites of the Act No. 251/2012 Coll. on Energy and on changes and amendments to certain acts (hereinafter as the "Act"). "The Distribution Network Operator Compliance Programme", with the last update marked as D.RM.04.02.06, came into effect on 1 January 2010 (hereinafter as "Compliance Programme").
2. The Compliance Programme sets forth the following measures:
 - (a) obligations ensuring the independence of the Distribution Network Operator from other activities not related to distribution;
 - (b) obligations ensuring a non-discriminatory approach in providing information;
 - (c) obligations ensuring non-discriminatory conditions in the provision of services of the Distribution Network Operator to gas market participants;
 - (d) activities of Compliance Programme Officer, inclusive of training employees about the Compliance Programme;
 - (e) activities of employees aimed at following the Compliance Programme;
 - (f) obligations securing the publishing of the Compliance Programme, control and elaboration of the Annual Report on the Compliance Programme fulfilment.
3. Fulfilment of measures adopted within the Compliance Programme in 2012 was mainly ensured by the following means:
 - (a) SPP - distribúcia, a.s. as the Distribution Network Operator is established as an independent company with its organizational structure arranged in such a way that all

operations of the Distribution Network Operator related to gas distribution are independent from other operations not related to gas distribution;

- (b) by implementing measures aimed at ensuring a non-discriminatory approach to internal processes of the Distribution Network Operator in accordance with the Compliance Programme;
 - (c) by following a non-discriminatory approach by providing information meant for gas market participants and by the provision of services of the Distribution Network Operator in line with the Compliance Programme;
 - (d) by publishing the Compliance Programme for employees of the Distribution Network Operator and by carrying out the training of all employees about measures of the Compliance Programme;
 - (e) by execution of control with respect to adherence to the Compliance Programme.
4. The Compliance Programme Officer of the Distribution Network Operator did not find any breach of obligations as set in the Compliance Programme in the period between 1 January 2012 – 31 December 2012.

In Bratislava, on 11 January 2013



Ing. Milan Kachút

*Compliance Programme Officer
of the Distribution Network Operator*

INDEPENDENT AUDITOR'S REPORT



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VAT Id. Nr.: SK2020325516

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

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

- I. We have audited the financial statements of SPP-distribúcia, a.s. (the "Company") as at 31 December 2012 presented attachment to the annual report. We issued an Auditor's Report on these financial statements dated 28 February 2013 in the wording as follows:

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of SPP - distribúcia, a.s. (the "Company"), which comprise the balance sheet as at 31 December 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.

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

We conducted our audit in accordance with International Standards on Auditing. Those standards require that the Auditor plan and perform the audit to obtain reasonable assurance that the information disclosed in the Annual Report and presented in the financial statements is consistent, in all material respects, with the relevant financial statements. We assessed the consistency of the information presented in the Annual Report on pages 23 – 28 with the information presented in the financial statements as at 31 December 2012. We have not audited any data or information other than the financial information obtained from the financial statements and accounting ledgers. We believe that the performed audit provides a reasonable basis for our audit opinion.

In our opinion, the financial information presented in the Annual Report is consistent, in all material respects, with the aforementioned financial statements as of 31 December 2012.

Bratislava, 16 May 2013

The Deloitte logo, consisting of the word "Deloitte" in a stylized, cursive blue font.

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A blue ink signature of Ing. Wolda K. Grant, written in a cursive style.

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

CONTACTS

SPP - distribúcia, a.s.

Mlynské nivy 44/b
825 11 Bratislava 26
Slovak Republic

www.spp-distribucia.sk

Emergency Line – Gas:

Tel.: 0850 111 727 (charged by price for local call)

Customer line for connection to the distribution network:

Tel.: 0850 269 269 (charged by price for local call)

The Customer Line is in operation every working day between 07:00 a.m. and 08:00 p.m.

E-mail: pripajanie@distribuciaplynu.sk

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

Tel.: +421 2 62 62 59 61 Secretariat of the Distribution Services Section

Fax: +421 2 62 62 85 48 Distribution Services Section

E-mail: distribucia@spp-distribucia.sk

Claims on services of SPP - distribúcia, a.s.:

E-mail: reklamacie@spp-distribucia.sk

Media contact:

Mgr. Ivana Zelizňáková, Communication Manager

Tel.: +421 2 62 62 60 29

E-mail: ivana.zeliznakova@spp-distribucia.sk



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