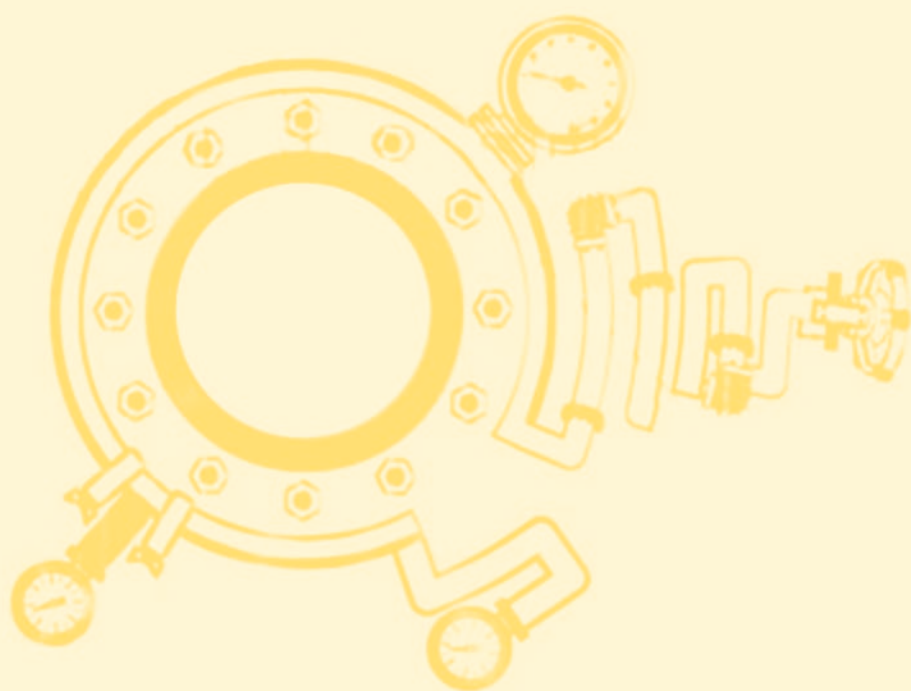


# ANNUAL REPORT

## 2013





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## STATEMENT OF THE COMPANY MANAGEMENT



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

Dear shareholders,  
dear lady and  
gentleman colleagues,

after a year we are again submitting an annual report of our company to you. We are extremely pleased to be able to say that the year 2013 was a successful year for us in the implementation of several projects. Right at the beginning, SPP - distribúcia gained a new strategic investor, Energetický a průmyslový holding. The arrival of a new shareholder meant for us particularly an



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

intensification of our efforts to build SPP – distribúcia into a modern, efficient and customer oriented company. We also, under the requirements of the Regulatory Office for Network Industries, in order to unbundle the operator of the distribution network within the vertically integrated company, successfully completed the takeover of several activities previously provided to us by the parent company.

In the operating area, we focused primarily on our commitment to responsibly take care of the gas



**Ing. Martin Holý**  
General Director

distribution network. Our investments were therefore directed primarily to the renovation and maintenance of the existing network in order to improve its safety and reliability. Expenditure in this area last year reached EUR 77.5 million. The bulk of investments went into the renovation of local networks, the length of the renovated network continues to grow; compared to five years ago it has tripled. We have improved the system of evaluating the technical condition for regulation stations and for high pressure gas pipelines, which enables us to identify, in a more objective and

targeted way, the parts of the distribution network which are destined for renovation. We have also modernized and streamlined the SCADA control system, which means a safer way of managing the network through one primary and one backup system. We have successfully met all quality standards and we did exceptionally well in the area of health and safety at work. Last year we did not have any registered working injuries.

During 2013, we continued to streamline the activities of our company. We optimized the cost of asset management, continuously increased productivity and focused on the area of procurement. Our goal is to purchase materials and services with the required quality at the lowest price. SPP - distribúcia influenced, in a positive way, several efficiency measures implemented in 2013. These include strengthening the procurement department and the review of several contracts, as well as increasing the efficiency of processes within the company.

Another extremely important area for us last year where we have also focused our attention has been connections offtakes. The basic reason for detecting unauthorized offtakes is to protect the safety and reliability of gas distribution and gas facilities, prevention of gas theft and to protect honest people who pay for their consumption. The unauthorized offtakes connections detected are the result of the great work of our highly skilled specialized team in which we integrate the best technical and analytical capacity, as well as the developing cooperation with police forces and investigators. Many unauthorized offtakes have such a serious nature that they threaten the safety

and reliability of gas distribution to the place where there is such an offtake and it becomes a potential risk to the health, lives and property of people living in its vicinity. Unauthorized offtakes will therefore, in light of these risks be a priority for us in the coming years.

Over the last year, we have also responded to the current situation and requirements of the gas market. Under the new decree on Gas Market Rules, we implemented several changes (for example, in balancing, technical standardization, etc.), which have contributed to the further development of the gas market and improving the comfort of our customers. We also worked on improving services for connecting to the distribution network, where we have managed to shorten the process of connecting to our network and also strengthened communication with customers through our web site. In order to make switching to gas more attractive, we launched

successful cooperation with a selected banking institution that provides cheaper finance for gasified buildings.

In the area of human resources in the year 2013 we focused mainly on the development of corporate culture. We are aware that the further development of our company depends on the creativity and expertise of our employees. In order to increase performance and initiative we have therefore set a new motivational evaluation system, through which we will reward superior performance and results of their work. We thank all our employees for the conscientious and responsible work done over the last year.

We are convinced that in the last year we have created the conditions for the further development of SPP - distribúcia as a modern, efficient and competitive company.



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



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



**Ing. Martin Hollý**  
General Director

## PROFILE OF THE COMPANY

SPP - distribúcia, as the owner and operator of the gas distribution network in the Slovak Republic, focuses on ensuring the technically safe, reliably supplied and at the same time economically efficient distribution of natural gas. Deepening expertise and continuous development are crucial for maintaining a high level of safety and efficiency in this area for the company.

The activities of SPP - distribúcia are concentrated as a priority on proper care of the distribution network. This valuable asset is used to distribute around 98 % of the total volume of natural gas distributed in the Slovak Republic, to more than 1.5 million offtake points. Last year we distributed a total of 5.03 billion cubic metres of natural gas, the same amount as the previous year. The central focus of SPP - distribúcia is the sale of distribution capabilities, making connections to the gas distribution network, development activities, operation and performance of maintenance of gas facilities.

In its efforts to preserve the energy security of the Slovak Republic and the safety and reliability of the distribution network at SPP - distribúcia we devote consistent care to our natural gas pipelines and facilities, as well as to fulfilling quality standards and other legislative requirements. We properly focus on the prevention of the occurrence of occupational injuries. In the year 2013, we achieved an excellent result because we did not have any registered working injuries. We also consider it necessary to make a constant effort to optimize processes, streamline operations and increase operational efficiency.

In the open natural gas market, our company puts its emphasis on providing high quality services to the users of the distribution network, the number of which has increased in the past year to 23, as well as for customers in all categories. To actively support a functioning open market environment, in our business practices we apply a transparent and non-discriminatory approach to all of our customers. In the period ended, SPP - distribúcia implement the in-sourcing of the subsidiary SPP - distribúcia Servis, s.r.o., and the outsourcing of the verification of business measuring instruments, which until now was done by an authorized metrological centre, to the newly established subsidiary Plynárenská metrológia, s.r.o.

## BOARD OF DIRECTORS

31 December 2013



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



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



**Mgr. Petr Hájek**  
Member of the Board

Ing. František Čupr, MBA took over the position of the Chairman on 24 January 2013. Up to 23 January 2013 the position was held by Assessor jur. Sebastian Jochem. Mgr. Petr Hájek took over the position as member of the board on 24 January 2013.

Up to 23 January 2013 the position was held by Ing. Jean-Pierre Béringuier.



## UPPER MANAGEMENT

as of 31 December 2013



**Ing. Martin Hollý**  
General Director



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

Ing. Rastislav Prelec took over the position as the Head of the Network Operation and Asset Management Section on 1 July 2013.

Up to 30 June 2013 the position was held by Ing. Milan Mindek.



**Ing. Roman Filipoiu, MBA**  
Head of the Economy  
and Regulation Section



**Ing. Miroslav Horváth**  
Head of the Maintenance  
and Metering Section

Ing. Miroslav Horváth took over the position as the Head of the Maintenance and Metering Section on 1 July 2013.

Up to 30 June 2013 the position was held by Ing. Rastislav Prelec.

## UPPER MANAGEMENT

as of 31 December 2013



**Ing. Marek Paál**  
Head of the Distribution  
Services Section



**Ing. Dušan Dobiáš**  
Head of the Investments Section



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

The Human Resources and QHSE Section was created on 1 December 2013, when Mgr. Ing. František Kajánek became its head.

## SUPERVISORY BOARD

as 31 December 2013



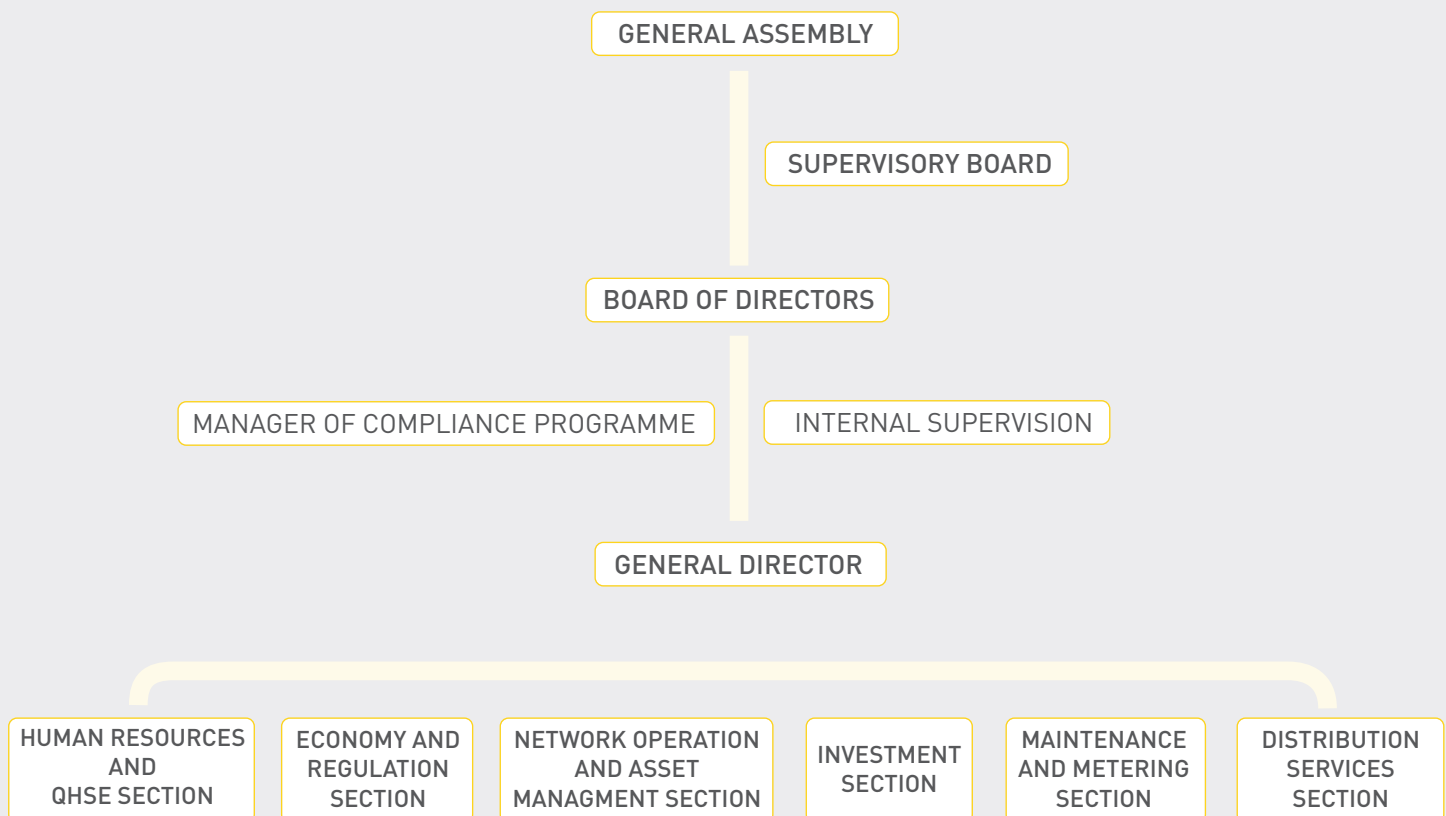
**Ing. Rastislav Chovanec, PhD.**  
Chairman of the Supervisory Board

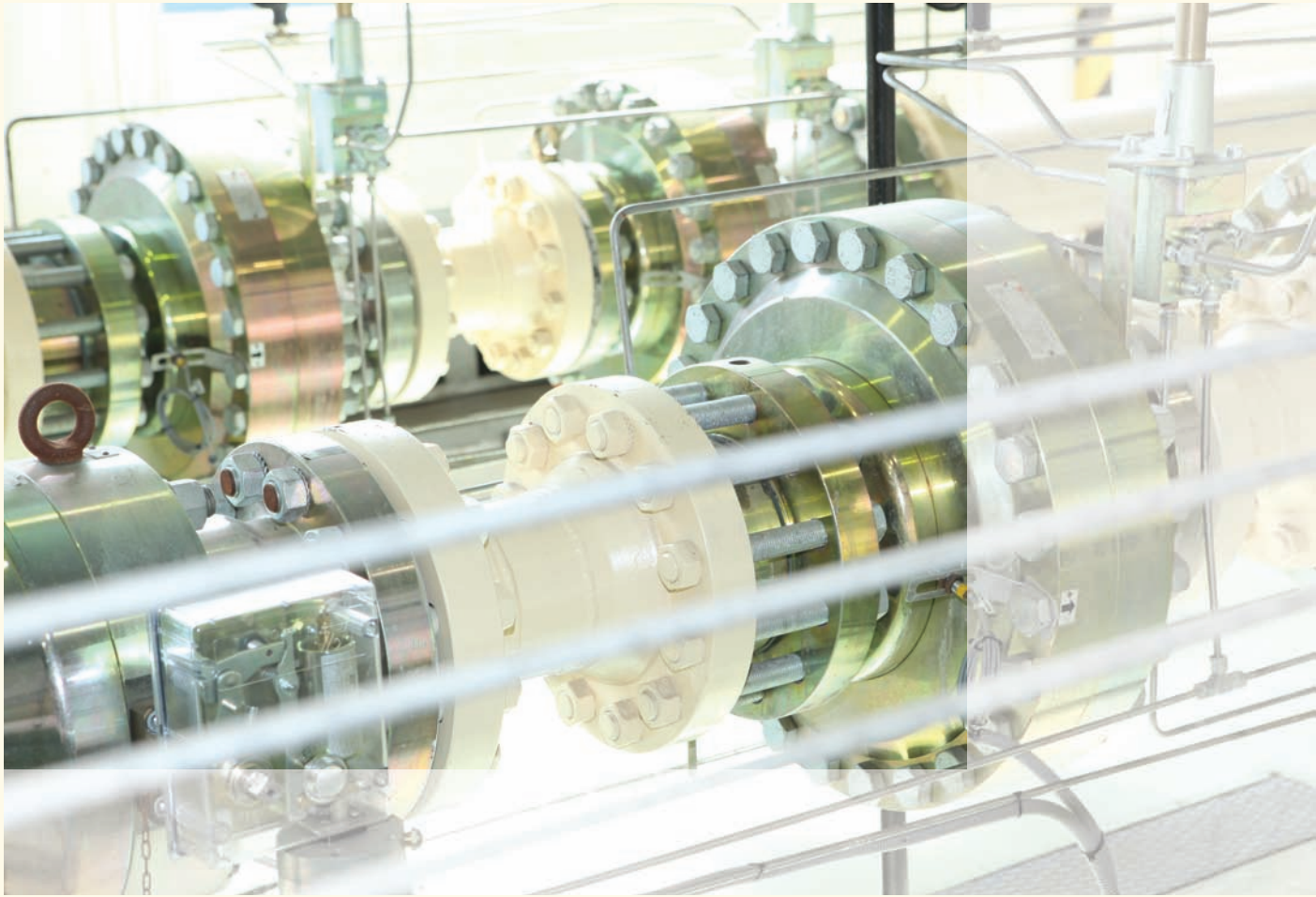
**Ing. Robert Ševela, Ph.D.**  
Vice-Chairman of the Supervisory Board

Members:

**Pavol Korienek**  
**Ing. Richard Vadkerty**  
**Ing. Robert Procházka**  
**Ing. Miroslav Recký**

## ORGANIZATIONAL STRUCTURE





## SECURE AND RELIABLE DISTRIBUTION

### OPERATION AND SAFETY OF THE NETWORK

Optimal planning in the area of preventative activities is for SPP - distribúcia an essential prerequisite for ensuring safe and reliable natural gas distribution to customers. In the past year we have once again confirmed our expertise, technical preparedness and reliability with consistent compliance with external and internal legislation, responsible operation of gas facilities and comprehensive care of the distribution network.

In operating our facilities, we ensured no serious incidents, which was contributed significantly to by our properly set-up system of contingency groups, which are ready 24 hours to deal with situations that may arise on the network. Our company also operates the Emergency Line - Gas - 0850 111 727, which operates 24 hours a day, which is intended for reporting leaks and other events related to gas distribution. Our preparedness for emergencies was tested in the floods of spring last year, when thanks to our responsible approach and activity in implementing flood protection measures we successfully mastered it. We thus avoided interruption in the supply of natural gas to customers, potential supply of gas facilities and eliminated property damage. As a result of continuous improvement and quality of performance of maintenance activities, as well as the recovery of natural gas facilities to reduce the number of leaks of natural gas by 3 % compared to 2012 (in the pipelines of local networks, it was by up to 27%).

In the year 2013 we successfully finished the process of qualitative extension to the model for the

evaluation of the technical condition of managed facilities. We thus prepared the ground for managing the assets to the highest standards, which will contribute to even higher levels of efficiency and operational activities undertaken to increase the level of safety and reliability of gas facilities.

### INTERRUPTION OF GAS DISTRIBUTION CAUSED BY THIRD PARTIES

Interruption of gas distribution due to damage to gas facilities by acts of third parties arises mainly from excavations carried out in the vicinity of pipelines. In recent years, we have taken several measures which have had a positive impact on reducing the frequency of these incidents. One of the most effective measures in this area is undoubtedly free staking out of pipes, where the limit of one hour is not exceeded and the staked-out length does not exceed 100 metres. We introduced this from 1 April 2011. From that date, the number of requests for free staking-out has grown while conversely damage to gas facilities by third parties declined significantly as a result of good communication and education in this area. We can therefore describe the year 2013 as truly successful from the viewpoint of eliminating damage to gas facilities by third parties. The number of damages to us compared to 2012 was reduced by more than 40 %. This fact is even more favourable, as the biggest drop in cases of damage to gas facilities by third parties was recorded in the carrying out of excavation, where the damage to gas facilities is riskiest.

## KEEPING THE STANDARD OF SECURE DELIVERIES

As the operator of the distribution network, SPP - distribúcia, in order to deal with extraordinary situations and their avoidance, ensured a standard of secure gas deliveries in the year 2013 for household customers in accordance with new legislation effective from 1.9.2012 (Amendment to the Energy Act) in full. We have ensured the implementation of the security of supply standards primarily through natural gas reserves in underground storage which is also

designed for balancing the distribution network. We also ensure the security of supply through contractual emergency supplies of gas in order to cover the needs for the implementation of the security of supply standards economically and efficiently.

The stated measures show that company was and is ready to fulfil its obligations in the field of security of gas supply and ensuring continuous and reliable gas distribution to all households in the Slovak Republic, and even in the event of an extraordinary situation.

### Length of distribution network 2009 - 2013

	2009	2010	2011	2012	2013
High-pressure gas pipelines	6 298	6 302	6 307	6 294	6 291
Medium and low-pressure gas pipes	26 208	26 446	26 653	26 785	26 891
<b>Total</b>	<b>32 506</b>	<b>32 748</b>	<b>32 960</b>	<b>33 079</b>	<b>33 182</b>

### Classification of gas pipes in local networks 2009 - 2013 (in km)

	2009	2010	2011	2012	2013
Steel	12 848	12 819	12 822	12 733	12 623
Polyethylene	13 360	13 627	13 831	14 052	14 268

#### Investment into renewal / renovation of the network 2009 - 2013 (mil. EUR)

	2009	2010	2011	2012	2013
Investment into renewal	42	47	45	42	28
Number of km or renovated pipes in local networks (low and medium-pressure pipes)	66	57	110	134	136

#### Distribution of natural gas using the distribution network of SPP – distribúcia during 2009 – 2013 (billion m<sup>3</sup> / 15 °C)

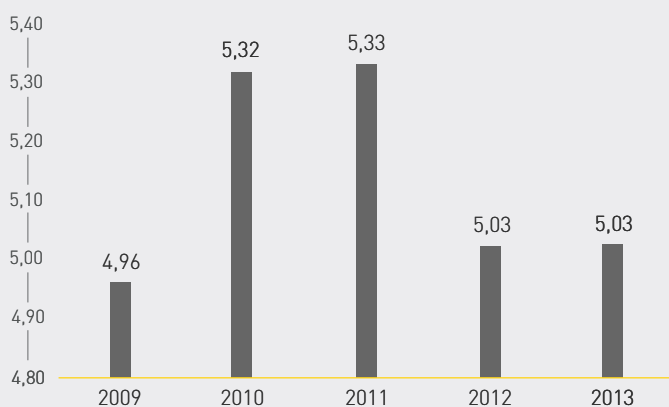
	2009	2010	2011	2012	2013
Distributed volumes	4,96	5,32	5,33	5,03	5,03

## DISCOVERING UNAUTHORIZED GAS OFFTAKES

One of the parts of the activities of our company is the continuous aim to reduce losses in distribution of natural gas. Ongoing monitoring and evaluation were also addressed in the year 2013, even in the specific field of detection of illegal offtakes. The present trend is worrying, an increasing number of identified and documented illegal natural gas offtakes. While in 2012 we uncovered 1727 cases of unauthorized offtakes, in 2013 on the basis of rigorous and systematic approach our specialized team in cooperation with police forces and investigators found 2435. In cases of unauthorized offtakes it is often due to the action of unqualified persons who may endanger the security of gas

supply but in particular the immediate neighbourhood and health of citizens. In order to increase the safety of operating equipment, we therefore carried out in 2013, dozens of broad controls aimed at detecting and documenting illegal consumption. To this end, last year we reviewed a total of 30,050 delivery points and we found 382 cases of proven interventions with meters or even directly into the pipe. On the basis of the facts showing that an offence had been committed, 640 criminal complaints were filed, which were subsequently investigated by law enforcement agencies.



Distributed volumes of natural gas 2009 – 2013 (in billions m<sup>3</sup>)

## GASIFICATION OF SLOVAKIA

Gasification of new locations continues in Slovakia, in comparison with the past it is at a much more moderate rate. It mainly consists of connecting new residential areas in already gasified municipalities. The reason for this fact is that 77% of the municipalities (with 94% of inhabitants) in Slovakia are already gasified.

Distribution network of SPP - distribúcia



## CUSTOMER ORIENTATION

### LIBERALIZATION OF THE GAS MARKET

SPP - distribúcia has, since 2007, recorded yearly increases in the number of users of the distribution network, particularly gas suppliers. At the end of 2013, we distributed gas for 23 users of the distribution network. This number proves that from the viewpoint of possibilities of accessing the gas distribution network, there is no barrier to liberalizing the gas market.

From the viewpoint of changes to gas suppliers, in 2013 we have recorded a fall in comparison with 2012 in the domestic category. In all other categories the growth was again recorded as in previous years.

### NEW LEGISLATION IN ENERGY

On 1 February 2013 there came into force a Decree of the Regulatory Office for Network Industries No. 24/2013 Coll laying down rules for the functioning of the internal market in electricity and rules for the functioning of the internal gas market, also known as the "Market Rules".

The introduction of new market rules contributed to the further development of the Slovak gas market and the integration of the surrounding gas markets. For users of the distribution network, (gas suppliers) in implementing those rules we brought increased flexibility in managing their daily and cumulative deviations and further simplified and streamlined the process of changing gas supplier, which further enhances the customer and partner convenience for users of our distribution network, but ultimately for the actual end users of gas.

### CONNECTING TO THE DISTRIBUTION NETWORK

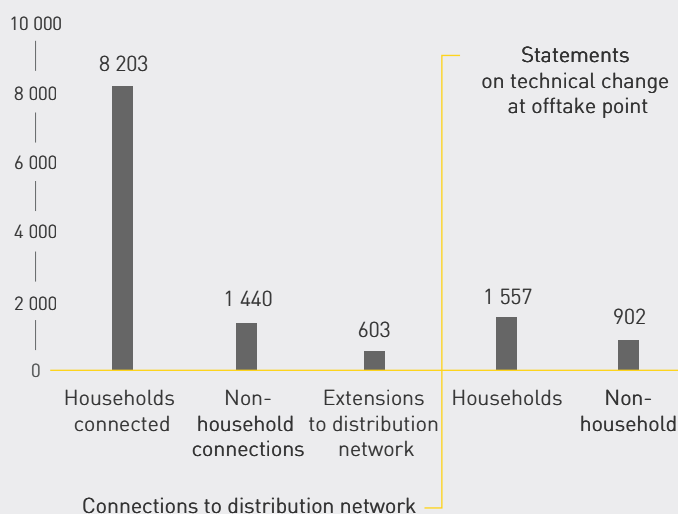
In the year 2013 our company provided applicants wishing to connect with the opportunity of personal contact in 19 customer contact centres - "Front Office". Applicants wishing to connect could also use postal and e-mail contact.

In 2013 our company added 9821 new offtake points to the distribution network. We have introduced innovations that contributed to the improvement of services for connecting to the distribution network, such as shortening the process of connecting to our network for households from 90 to 75 days. For future customers, but also for those who are already connected, we prepared last year in partnership with a banking institution a product enabling them to obtain more favourable terms to finance the construction of new, or upgrade existing connections of property to the gas distribution network. All our efforts are directed to ensure that we continue to increase the user convenience of natural gas for existing as well as future gas customers.

### SERVICE FOR MEDIUM AND LARGE CUSTOMERS

SPP - distribúcia using its key account managers constantly strives to improve the relationship with customers whose collection exceeds 60 thousand m<sup>3</sup> of natural gas per year. Managers provide advice to customers and offer technical and business solutions before implementing connection or prior to the implementation of technical changes to the offtake point so that the gasification project runs as smoothly as possible.

Number of statement issued on connection to the distribution network and to technical changes at offtake points – 2013



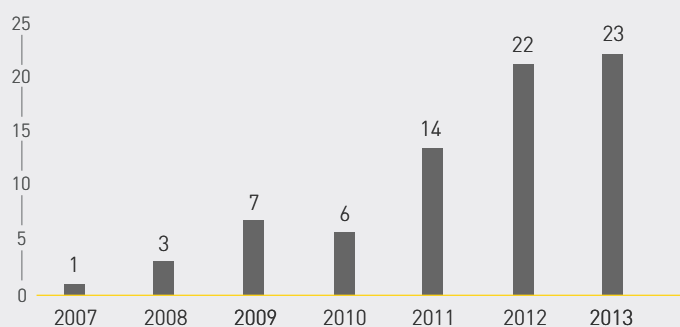
In this way the company supports the connection of high-efficiency cogeneration based on the natural gas distribution network. The correctness of this approach was confirmed in the year 2013 by the connection of multiple co-generation units with a total installed capacity of 21 MW.

SPP - distribúcia has fulfilled the standards of quality for the set commercial and technical conditions for connection at a 100% level (in the meaning of the Regulatory Office for Network Industries No. 278/2012 Coll., which sets quality standards for gas storage, gas transport and gas distribution).

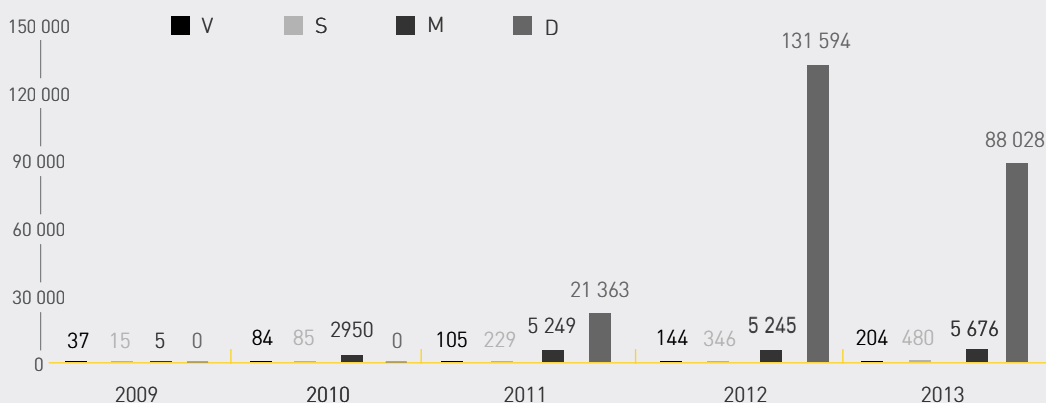
### SPP - DISTRIBÚCIA AND VÚB BANK OFFER ATTRACTIVE BENEFITS FOR GASIFICATION OF REAL ESTATE

From 1 September 2013, SPP - distribúcia launched successful cooperation with VÚB bank. All categories of customers can learn about the advantages gasifying their properties. With favourable conditions for loan financing, which represent real cost savings, the customer can finance their projects such as the construction or renovation of a house, building a workplace, renovating gas facilities etc. SPP - distribúcia entered this activity in order to strengthen its long-term customer orientation, as well as to promote and raise the profile of the use of natural gas as a preferred and user-friendly media.

Number of users of distribution network



Number of changes of gas supplier by category



## CORPORATE CULTURE AND DEVELOPMENT OF HUMAN RESOURCES

In the last year we have, through supporting motivation and strengthening a proactive stance, put greater emphasis on use of personal initiative, new ideas and streamlining.

At SPP - distribúcia we value the expertise of our people, because for the safe operation of our company the responsible attitude and reliability of its employees is crucial. In 2013 we therefore actively devoted ourselves to targeted development of expertise and support for motivation to fulfil the vision and strategy of the company.

Internal communication is as an integral part of corporate culture of performance that focuses on continuously increasing the efficiency of our activities to raise awareness, commitment and personal involvement of employees in the results and development of the company. We implement direct communication with the active involvement of senior management in meetings at local centres throughout Slovakia.

### SUPPORT FOR INDIVIDUAL PERFORMANCE AND INITIATIVE

The year 2013 was also a year of important preparation for us. As a result of a precise analysis of the stimulii in our company with the aim of effectively linking remuneration to individual performance, there originated in the past year a new system of performance evaluation, which from 1 January 2014 more directly supports performance and initiative. Our aim is to develop the SPP - distribúcia along these lines, to mobilize the potential of people, to objectively and transparently reward. The new system also complements the application of the new provisions of the Collective Agreement with SPP - distribúcia

for the years 2014 - 2015, which are also aimed at strengthening individual approach to performance and increasing the interest of employees in the best economic results of the company.

### LEADING HR ORGANIZATION AWARD

Again in 2013, the consulting firm PwC in cooperation with the Association for HR Management and Development with the media support of TREND magazine, announced the second annual competition for the Company with the Most Effective HR Management. SPP - distribúcia won first place in the energy sector. The Leading HR Organization award was won by SPP - distribúcia especially due to its high level of quality of HR processes and HR management among energy companies in Slovakia.

The special meaning for us is the transfer to the independent functioning in the area of human resources with the inclusion of services provided initially through a contractual relationship by the company SPP. Therefore, we put considerable effort into setting competencies and processes so that the agenda of human resources from the first day of the year 2014 will be implemented under our direction reliably, on time and with high quality.

### SAFETY IS OUR PRIORITY

An integral part of the activity of our company is consistently caring for Safety and Health at Work while maintaining high standards of environmental protection. Evidence of this is the commitment on the part of company management in the form of the

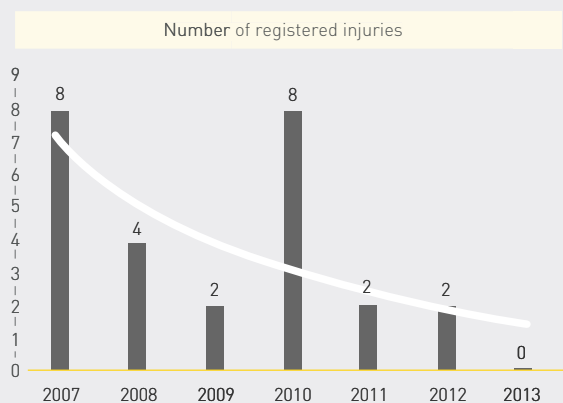
policy on health and safety at work and the environment. The year 2013 was for SPP – distribúcia a year without a single registered working injury, which brings a really positive trend in the area of workplace injury rate. During the past year we also did not record any environmental accident or incident. We look after the high level of quality and performance of the system in the interests of the safety both through auditing the working environment of our employees, as well as audits of our suppliers.

The management system for health and safety at work and the environment uses the international standards ISO 14001 and OHSAS 18001, continuous training of employees and organizational drills for preventing possible incidents and significantly reducing safety and environmental risks. The intense pursuit of a positive trend in the field of safety and health at work will continue in the coming period, especially through applying the principles of prevention and appealing for respect of the rules of safety and vigilance in our workplaces.

## CORPORATE RESPONSIBILITY

SPP – distribúcia is aware of the needs and values of activities in the area of responsibility towards society. Through the SPP Foundation it has implemented a grant program entitled Cooperation with Municipalities, which is designed to support projects for the public good, aimed at supporting and helping bring success to villages, towns and regions of Slovakia. We appreciate the proactive attitude of our employees in the organization of collections or donation of blood, which was shown with their participation in the event at the Day of Family and Friends in Košice and near Žilina. In the past year, many have been involved in the grant program, which not only supports community activities, but also participates in the organization and implementation of the activities. In addition to the organization of events outside work and supporting volunteer activities, we continue in partnership with sheltered workshops.

As of 31 December 2013 SPP – distribúcia had 1387 employees.



## NATURAL GAS – CONVENIENT AND ECOLOGICAL SOLUTION FOR EVERYONE

Natural gas is used by 94% of the inhabitants of Slovakia. It is, especially thanks to its user convenience, reliability, advantages and environmental friendliness.

### NATURAL GAS CONQUERS DISTANCE

Natural gas is a fossil fuel. It is found in underground deposits. After extraction and all necessary treatment it is delivered directly to customers. We distribute natural gas in a gaseous state through gas pipelines and in liquid form (LNG - liquefied natural gas) or a compressed state (CNG - Compressed Natural Gas) transported by tankers. It is then added to transport and distribution systems that supply customer delivery points where it has a wide range of uses.

### NATURAL GAS PROTECTS THE ENVIRONMENT

Thanks to the development of gasification, there has been a gradual replacement of solid fuels, which has had a positive effect on emissions of greenhouse gases. During the combustion of natural gas, there is the smallest proportion of carbon dioxide produced compared with other fossil fuels. Practically, it does not contain ingredients causing the incidence of harmful substances (for example, sulphur, fluorine, chlorine and its compounds). Gases produced from the combustion of natural gas are odourless, non-toxic, with no smoke and soot. On this basis it is clear that it is the cleanest fossil resource. That's why it has widening application in transport.

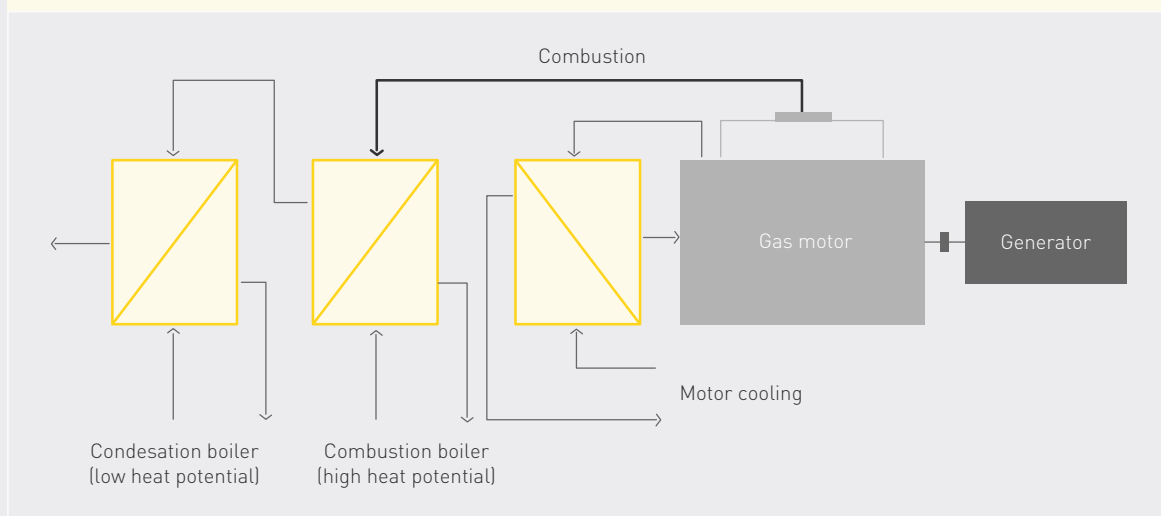
### NATURAL GAS – SUITABLE FOR CLASSIC AND PROGRESSIVE SOLUTIONS

Natural gas has many potential uses. In homes, it is used for heating, hot water and cooking. The use of gas for these steps is most convenient for the consumer. Modern gas appliances are intelligent, fully automated and easily adjustable to the specific needs of the user. In the economy it serves as a source of energy for operating various technological processes of production. It is due to its versatility, that natural gas has an important place in industries the national economy as well as in homes.

### COGENERATION – COMBINED MANUFACTURE OF HEAT AND ELECTRICAL ENERGY

Cogeneration or trigeneration can be implemented wherever there is requirement to provide heating and prepare hot water, electricity or refrigeration. A cogeneration unit is able to cover the energy needs of the customer in one device. These devices are available in many power levels so as to meet the exact needs of the customer. Due to its variability, cogeneration has a wide range of uses in industry, the municipal sector, in health care facilities, schools, swimming pools or lidos. With modern combined power generation there is a saving of primary energy compared to the separate production of heat and electricity, a direct result of which is saving fuel costs and protecting the environment by reducing emissions resulting from combustion.

### Kogeneračná jednotka



### CONDENSATION BOILERS FOR HOUSES

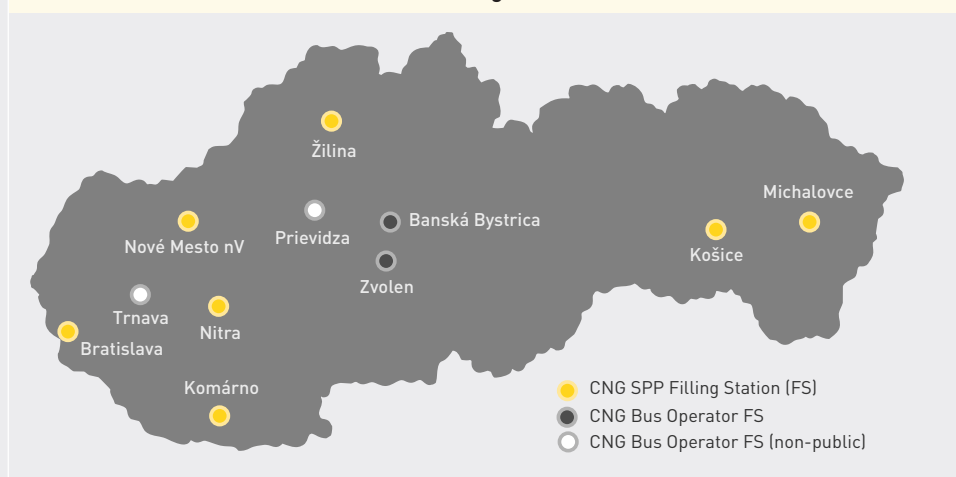
Condensation boilers, thanks to their structure, also use the condensation heat of flue gas and thus are able to harness up to 97 % of the energy of combustion of natural gas. The result is an increase in boiler efficiency and reduction in the cost of operation.

there are increasing emissions in transport. An excellent opportunity to reverse this negative trend is to increase the proportion of vehicles running on CNG. The main advantages of CNG are manifested in the form of reduced costs of operation and environmental friendliness.

### COMPRESSED NATURAL GAS - CNG FOR AUTOMOBILES

Compressed natural gas is a suitable alternative to petrol and diesel motors. Thanks to the growing number of automobiles using petrol and diesel,

### CNG Filling Stations







## ECONOMIC AND FINANCIAL PERFORMANCE

### DEVELOPMENT OF THE BUSINESS ENVIRONMENT

The year 2013 brought many changes. The company Energetický a průmyslový holding became a new shareholder in SPP - distribúcia after buying 49% of the shares from previous owners E.ON Ruhrgas AG and GdF Suez.

The past year was one of four warmest ever measured from 1880. The average temperature reached 14.52 degrees Celsius, which was reflected in the reduced consumption of natural gas. In order to maintain the financial stability, the company continued the ongoing optimization processes.

The Regulatory Office for Network Industries adopted Decree no. 24/2013 Coll. Laying down rules for the functioning of the internal market in electricity and rules for the functioning of the internal gas market. This has created the need for several changes in the processes of SPP - distribúcia, such as the changing the start of the gas day and transition to using energy units.

At the same time the Regulatory Office for Network Industries adopted Decree no. 193/2013 Coll., which sets the price regulations in the gas industry. SPP - distribúcia used it as the basis for submitting price proposals for the year 2014.

### ECONOMIC RESULTS OF SPP - DISTRIBÚCIA, A.S.

In the year 2013 SPP - distribúcia achieved proceeds from the sale of services amounting to 372.44 million. A major source for producing such revenue was receipts for providing distribution capacity, which represented 99 % of revenues.

**Operational costs** were EUR 240.21 million. The main components of operating costs were accounted for by depreciation and amortization, other services, personnel costs, and storage of natural gas. Compared to 2012, operating expenses decreased by EUR 9.89 million. The reduction was recorded mainly due to the decrease in use of external services - savings have been recorded due to streamlining the procurement process, improving the management of external suppliers in the process of removing leakage of natural gas, lower cost of services provided by the parent company and optimizing internal processes.

For 2013, the company reported **profit before tax** of EUR 132.20 million, which compared to last year is a fall of EUR 6.86 million. Corporate income tax of EUR 19.05 million brought tax due up to EUR 38.61 million, a special contribution from business in regulated industries of EUR 5.85 million and a deferred tax liability of EUR 25.41 million. **Profit after tax** reached EUR 113.15 million.

#### Comparison of structure of profit after tax (in millions of EUR):

	2013	2012
Revenue from sales of services	372,44	389,94
Operational costs	-240,21	-250,10
Profit/loss from financial activity	-0,03	-0,78
<b>Profit before tax</b>	<b>132,2</b>	<b>139,06</b>
Corporate income tax	-19,05	-100,99
<b>PROFIT AFTER TAX</b>	<b>113,15</b>	<b>38,07</b>

## CAPITAL STRUCTURE

### ASSETS

The **total assets** of the company on the balance sheet date were EUR 3 093.04 million and in comparison with the previous period had grown by EUR 120.41 million.

The **fixed assets** were EUR 2 799.45 million and out of the total assets formed 90.51 %. The decisive items were particularly the distribution network, buildings, machines and equipment of the distribution network.

The **investment costs** for acquiring fixed assets were EUR 34.8 million and spent particularly on renovation of the network.

The **current assets** as of the balance sheet date were EUR 293.59 million. The largest shares were made up of stock, receivables and prepayments. Compared to 2012 they had decreased by EUR 35.32 million, the largest decrease was in the heading cash.

### SHARE CAPITAL AND LIABILITIES

**Shareholders equity** reached EUR 2 462.05 million, which represents 79.6 % of the value of the resources covering the property of the company. Apart from the share capital, there is the legal reserve fund and profit from the current period.

The **share capital** of SPP - distribúcia consisted of the share capital registered in the commercial registry amounting to EUR 1 957.42 million. It consists of 11 ordinary shares (10 shares with a nominal value of EUR 3 319 and one share with a nominal value of EUR 1 957 384 402).

The state of the **legal reserve fund** of the company from capital deposits was EUR 391.48 million on the balance sheet date.

The total sum of **liabilities** was 20.4 % of asset coverage, as of the balance sheet day, liabilities were EUR 630.99 million. Key items of liabilities consisted of loans and bonds of 105 million, a deferred tax liability of EUR 386.97 million and current liabilities of EUR 126.6 million. From the previous year, liabilities increased by EUR 45.33 million, mainly due to an increase in loans.

#### Comparison of asset structure (in millions of EUR):

	2013	2012	2013	2012
Fixed assets	2 799,45	2 643,73	90,51 %	88,94 %
Current assets	293,59	328,90	9,49 %	11,06 %

#### Comparison of the structure of liabilities (in million EUR):

	2013	2012	2013	2012
Shareholders equity	2 462,05	2 386,97	79,6 %	80,30 %
Liabilities	630,99	585,66	20,4 %	19,70 %

#### Structure of share holders as of 31 December 2013 was as follows:

Slovenský plynárenský priemysel, a.s.	11 shares	100 %
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### SUMMARY RESULTS

The development of the state of assets and liabilities and profit/loss of SPP - distribúcia, a.s., for the years ending 31 December 2013 and 2012 as per individual financial statements prepared in International Financial Reporting Standards as adopted by the EU.

# BALANCE SHEET

(SELECTED DATA IN THOUSANDS OF EUR)

State as of 31 December 2013 and 31 December 2012

	31 Dec 2013	31 Dec 2012
<b>ASSETS:</b>		
<b>FIXED ASSETS</b>		
Buildings, structures, machines and equipment	2 565 508	2 635 163
Investment in subsidiaries	1 005	1 000
Intangible fixed assets and other assets	7 911	7 565
Other fixed assets	225 026	-
<b>Fixed assets total</b>	<b>2 799 450</b>	<b>2 643 728</b>
<b>CURRENT ASSETS</b>		
Stock	156 769	157 918
Receivables and prepayments	119 937	108 748
Tax receivables from income taxes	3 474	-
Cash and cash equivalents	13 408	62 237
<b>Current assets total</b>	<b>293 588</b>	<b>328 903</b>
Assets held for sale	-	-
<b>ASSETS TOTAL</b>	<b>3 093 038</b>	<b>2 972 631</b>
<b>SHAREHOLDER EQUITY AND LIABILITIES:</b>		
<b>CAPITAL AND RESERVES</b>		
Share capital	1 957 418	1 957 418
Statutory reserve fund and other funds	391 484	391 484
Retained earnings	113 150	38 069
<b>Total shareholder equity</b>	<b>2 462 052</b>	<b>2 386 971</b>
<b>FIXED LIABILITIES</b>	<b>504 389</b>	<b>423 941</b>
<b>CURRENT LIABILITIES</b>	<b>126 597</b>	<b>161 719</b>
<b>Liabilities total</b>	<b>630 986</b>	<b>585 660</b>
<b>SHAREHOLDER EQUITY AND LIABILITIES TOTAL</b>	<b>3 093 038</b>	<b>2 972 631</b>

## PROFIT AND LOSS STATEMENT

(SELECTED DATA IN THOUSANDS OF EUR)

For the years ending 31 December 2013 and 31 December 2012

	Year ending 31 Dec 2013	Year ending 31 Dec 2012
Revenue from sales of services	372 441	389 940
Operating costs	-240 209	-250 096
Operating profit	132 232	139 844
Financial income	936	405
Financing costs	-970	-1 186
<b>PROFIT BEFORE TAX</b>	<b>132 198</b>	<b>139 063</b>
Corporate Income Tax	-19 048	-100 994
<b>PROFIT FOR THE PERIOD</b>	<b>113 150</b>	<b>38 069</b>



# CASH-FLOW STATEMENT

(SELECTED DATA IN THOUSANDS OF EUR)

For the years ending 31 December 2013 and 31 December 2012

	Year ending 31 Dec 2013	Year ending 31 Dec 2012
<b>OPERATIONAL ACTIVITIES</b>		
Cash flows from operations	225 069	263 017
Interest paid	-724	-1 153
Interest received	784	405
Corporate income tax paid	-50 522	-34 486
Cash flows from operations, net	174 607	227 783
<b>INVESTMENT ACTIVITIES</b>		
Expenses for acquisition of shares in other accounting entities	-5	-1 000
Expenditure on long-term loans	-225 000	0
Acquisitions of fixed assets	-35 397	-53 172
Revenue from sale of property, plant and equipment and intangible property	51	3
Cash flow received / (used) from investing activities	-260 351	-54 169
<b>FINANCIAL ACTIVITIES</b>		
Dividends paid	-38 069	-112 428
Revenue and expenses associated with loans taken	74 992	-
Other net income and expenses from financial activities	-8	-20
Cash flows from financial activities, net	36 915	-112 448
Net increase/(decrease) in cash position	-48 829	61 166
Effects of exchange rate changes	-	-
Cash and cash equivalents at beginning of period	62 237	1 071
Cash and cash equivalents at end of period	13 408	62 237



# REPORT ON THE COMPLIANCE PROGRAMME OF THE DISTRIBUTION NETWORK OPERATOR

FOR THE YEAR 2013

## REPORT ON THE IMPLEMENTATION OF MEASURES ACCEPTED IN THE COMPLIANCE PROGRAMME FOR THE YEAR 2013

1. The compliance programme is an internal regulation of the distribution network operator, SPP - distribúcia, a.s., which, pursuant to the provisions of Law no. 251/2012 Coll, on energy and on amendments to certain laws (the "Law") defines measures to ensure non-discriminatory administration of the distribution network, which is part of a vertically integrated undertaking and determines the specific duties of employees aimed at eliminating potential discriminatory administration of the distribution network. In 2013, two updates to the compliance program entered effect. The first, coded D.RM.04.04.06, entered into force on 1 January 2013 and the second, the currently valid update for compliance, with the code D.RM.04.05.06, came into force from 1 April 2013.
2. The compliance programme includes the following measures:
  - (a) obligation to ensure the independence of the distribution network from other activities not relating to distribution,
  - (b) obligation to ensure non-discriminatory administration of the distribution network for the provision of information,
  - (c) obligation to ensure non-discriminatory conditions of performance of the distribution network for gas market participants,
  - (d) conditions of legislation applicable to the general manager of the compliance program and the process of his appointment or determination and removal,
  - (e) activity of the manager of the compliance program including training of distribution network staff about the compliance program and operations staff designed to maintain the compliance program,
  - (f) obligation to ensure publicity about the compliance program, control and execution of the annual report on the implementation of the compliance program.
3. Implementing measures included in the compliance programme was ensured in 2013 mainly in the following way:
  - a) SPP - distribúcia, a.s., as the distribution network operator is established as a separate company and its organizational structure is arranged to ensure the independence of all activities of the distribution network associated with gas distribution from other activities in the vertically integrated company, which are not related to gas distribution,
  - b) compliance with non-discriminatory of access to the provision of information designed for the gas market participants and in providing services of the distribution network in accordance with the compliance program,
  - c) the internal procedures of the distribution network include measures implemented to ensure non-discriminatory administration in accordance with the compliance program,
  - d) publicising the compliance programme for employees of the distribution network,
  - e) carrying out checks of following the compliance program.
4. Based on the requirements of the Regulatory Office for Utility Industries during 2013 SPP - distribúcia, a.s. took steps that lead to limiting the use of services from the vertically integrated business of which SPP - distribúcia, a.s. is a part. This will strengthen the independence of the distribution network.
5. The manager of the compliance programme of the distribution network operator, during the period from 1 January 2013 to 31 December 2014, found no breach of obligations which are established by the compliance programme.

In Bratislava, dated 28 January 2014

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

## REPORT OF THE INDEPENDENT AUDITOR



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VAT Id. Nr.: SK2020325516

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

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

- I. We have audited the financial statements of SPP-distribúcia, a.s. (the "Company") as at 31 December 2013 presented attachment to the annual report. We issued an Auditor's Report on these financial statements dated 20 February 2014 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 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.

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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 25 – 29 with the information presented in the financial statements as at 31 December 2013. 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 2013.

Bratislava, 30 May 2014



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



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

## PROSPECTS OF THE COMPANY

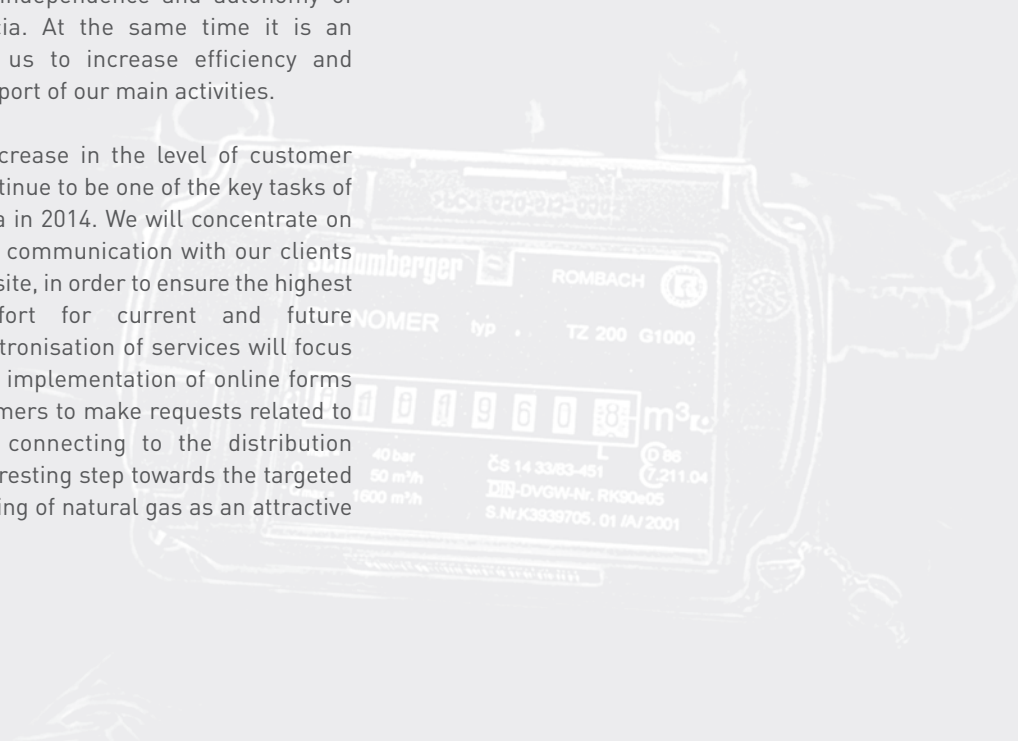
FOR THE YEAR 2014

In the coming period we also aspire to the position of a stable, reliable and efficient provider of quality services in the field of natural gas distribution. Our priority is to guarantee a high level of supply security while continuously improving operational efficiency. The objective will be to further develop the management of our assets, as well as other initiatives to enhance efficiency, such as renegotiating supplier contracts, increased productivity, etc. From 1 January 2014 our company, in accordance with the requirement of the Regulatory Office for Network Industries has taken over a substantial part of the support services previously provided by the parent company, SPP. Services which up to the end of 2013 were provided by contract, we will provide almost exclusively in-house. This is done to further strengthen the independence and autonomy of SPP - distribúcia. At the same time it is an opportunity for us to increase efficiency and enhance the support of our main activities.

The constant increase in the level of customer services will continue to be one of the key tasks of SPP - distribúcia in 2014. We will concentrate on the extension of communication with our clients through the website, in order to ensure the highest operating comfort for current and future customers. Electronisation of services will focus primarily on the implementation of online forms that allow customers to make requests related to the process of connecting to the distribution network. An interesting step towards the targeted awareness building of natural gas as an attractive

energy media will be the launch a new microsite on natural gas. A visitor to this website can become aware of the possibilities of using natural gas, conventional and new technologies based on natural gas, as well as various comparative and case studies. We will continue the project in cooperation with VUB Bank, which offers financial advantages for gasification of real estate.

In the year 2014 we will concentrate on more active communication with customers who are interested in making more effective their energy use or renewing gas appliances. We will continue to support the use of compressed natural gas - CNG in transport.



**SPP – distribúcia, a.s.**

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Slovak Republic  
[www.spp-distribucia.sk](http://www.spp-distribucia.sk)

**CONTACT:****Emergency Line – Gas:**

Tel.: 0850 111 727 (calls charged at local rates)

**Customer line for connection to the distribution network:**

Tel.: 0850 269 269 (calls charged at local rates)  
The customer line is in operation every working day from 7.00 to 20.00.  
E-mail: [prisajanie@distribuciaplynu.sk](mailto:prisajanie@distribuciaplynu.sk)

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

Tel.: +421 2 62 62 59 61 secretariat for the section for distribution services  
Fax: +421 2 62 62 85 48 section for distribution services  
E-mail: [distribucia@spp-distribucia.sk](mailto:distribucia@spp-distribucia.sk)

**Complaints line for SPP – distribúcia, a.s.:**

E-mail: [reklamacie@spp-distribucia.sk](mailto:reklamacie@spp-distribucia.sk)

**Contact with the media:**

Mgr. Ivana Zelizňáková,  
manager for communication

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