

ANNUAL

REPORT

2015



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FOREWORD FROM THE COMPANY MANAGEMENT

Dear shareholders,
Dear lady colleagues,
Dear gentleman colleagues,

After a year we again present you our Annual Report, which maps the results of our activities and successfully implemented projects in the last twelve months.

In terms of high temperatures, the last two winters absolutely defied any long-term forecasts. Despite the climate changes unforeseeable by any regulatory formula, we consider the performance of our company, SPP - distribúcia, to have been successful in the last year. In all our activities, our highest priority was the safe, reliable, and efficient distribution of gas.

We have increased the safety of our distribution network through the implementation of a local gas pipeline reconstruction programme, the enactment of safety measures on the interstate pipeline, and the fulfilment of the maintenance plan in place for our equipment. We have also effected several modifications to our investment process. We have increased the level of supervision of our suppliers' work, as well as the standardization level and work productivity in our design activity. The aforementioned was manifested in the increase of the share of projection works carried out in-house. Thanks to these changes, we renovated almost 130 kilometres of local network pipelines. Our operation and maintenance standards are of high quality, owing to which we did not have to deal with any significant emergency in the distribution network for the whole period.

Last year we also continued to improve the performance of our operating activities, in particular by increasing

work productivity in maintenance activities, in procurement, as well as the optimization of facility- and fleet-management costs.

We also focused our attention continuously on unauthorised gas usage, strengthening our analytical capacities in the discovery thereof. Furthermore, we appreciate the adoption of the legislative proposal for the governmental amendment to the Criminal Act, which introduces criminal responsibility for unauthorized tampering with meters and counterfeiting seals, whereby the protection of honest customers will be strengthened, and at the same time organized criminal groups will be legally penalized.

In the past year, SPP - distribúcia also succeeded in improving customer services, in particular in the area of better accessibility and simplification of the connection process, through the elimination of unnecessary paperwork and expansion of the usage options for our Internet applications. We are glad our customers are actively utilising these new services. As of today, almost every newly connected customer has utilised the on-line forms published on our website.

We even made progress in unbundling our IT area, where the separation process is currently culminating. The successful completion thereof will strengthen our position as an independent distribution network operator and increase the credibility of -our company's services.

Managing the environmental aspects of our activities is a constant priority for us, therefore we maintain the defined operational and control methods and indicators of performance in accordance with the requirements

of the ISO 14 001 standard. In this respect, we continued to support natural gas as a “green” fuel last year. Numerous environmental studies confirm that when comparing the number of solid pollutant emissions, as well as carbon and nitrogen dioxides produced by fossil energy sources and biomass, natural gas cannot be included in the group of “non-green” energy sources. On the contrary, considering its positive contribution to the improvement of the environment, natural gas would deserve better legislative and financial support from society, as is the case with renewable energy sources (RES).

The difference in state support to RES and natural gas is significant to the detriment of gas, which considerably obstructs Slovakia’s journey to a low-carbon economy. Moreover, our current estimates of heating costs prove that natural gas is also significantly cheaper compared to electricity. In this respect, we have introduced a significant tool in support of natural gas - the informational website www.oplyne.info, where we offer visitors a vast amount of information on natural gas, options for the usage thereof, traditional and new technologies based on natural gas, as well as various comparative and case studies. We also plan to prepare a broader information campaign focusing on end users linked to this website. Since March 2015, we have started cooperating with the leading manufacturer of gas boilers on the Slovak market, with whom we agreed upon discounts for the gas customers aimed at retaining them as customers in the future. We also see perspective in the utilisation of compressed natural gas (CNG), however, only when having the relevant entities’ adequate support. What we also consider important is

the support of other technologies utilising natural gas across the whole spectrum, starting from households up to the large industrial enterprises.

The firm’s performance in the past year has been significantly influenced by the deviation of temperatures from their long-term average. The above-average temperatures seen in the winter months were significantly reflected in the volume of natural gas distributed. We partially compensated for the unfavourable factors by adopting optimization measures prevailing in the area of consumption of material and energy and services purchased. As a result of the above-mentioned factors, revenues in 2015 were EUR 362.22 million and profit after tax was EUR 99.55 million.

Following the unbundling process from SPP, a. s., our corporate processes are set up well and with long-term perspective. We will continuously improve the quality and efficiency of our activities in favour of our customers and commit to the safety and reliability of the natural gas supply.

We want to continue to foresee the needs of our customers in the future as well, in order to promptly react to market requirements, and continue using the most advanced tools in managing our assets based on risk assessment and further dealing with unauthorized usage. All the actions of our company will be aimed at strengthening its position as a modern, efficient, and reliable entity.

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

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

Ing. Martin Hollý
CEO

COMPANY

PROFILE **OF THE COMPANY**

SPP - distribúcia, as the owner and operator of a gas distribution network of more than 33,000 km, provides for the distribution of natural gas in the territory of the Slovak Republic to more than 1.5 million points of delivery. The volume of gas distributed this way represents about 98% of total natural gas volume distributed in the Slovak Republic for the more than 94% of the Slovak population with access to natural gas.

The reliability of a gas distribution network of such an extent requires a high level of professionalism, constant development, and non-stop consistent monitoring of the condition of pipelines and gas facilities in order to ensure the technically safe, user reliable, and at the same time economically efficient distribution of natural gas.

SPP - distribúcia considers the provision of a continuous natural gas supply as one of the strategic pillars for maintaining the energy safety of the Slovak Republic; therefore, increased attention is paid to it by the company. Furthermore, the company concentrates on the consistent implementation of quality standards and a number of other legislative requirements. SPP – distribúcia is a responsible guarantor for providing supplies for household customers. The company is also in charge of logistic control and the monitoring of the gas distribution system, including its physical balancing.

SPP - distribúcia actively participates in the support of the development of the open market environment through its activities. The company aspires to be a stable and efficient provider of professional services for 27* users of the distribution network as well as natural gas customers of all categories. Emphasis is placed on transparent and non-discriminatory business activity. We are constantly trying to improve our services, which is reflected in the growing options for electronic access to key services.

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

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

* Number as of 31/12/2015



BOARD OF DIRECTORS

AS OF 31/12/2015



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

Frantisek Čupr graduated from the Faculty of Business and Economics of Mendel Agricultural and Forestry University Brno with a Masters of Business Administration (MBA) in 2006. After graduating, he worked for Jihomoravská energetika, a. s., in Brno, where he operated for 7 years at various managerial positions, including as Deputy Director of the Sales Division and Director of Strategy. In 2005, he started to work for the J&T Investment Group, dealing with energy projects. In the same year, he founded a company trading in electricity and natural gas, EP Energy Trading, a. s. (former United Energy Trading, a. s.), where he held the function of Chairman of the Board of Directors and CEO until 2012. From 2006 through 2010, he was a member of the Supervisory Board of Pražská energetika, a. s. From 2009 - 2013, he operated as a member of the Supervisory Board of Pražská teplárenská, a. s. In 2013, he became Chairman of the Board of Directors of Stredoslovenská energetika - distribúcia, a. s. Since 24 January 2013, he has held the position of Chairman of the Board of Directors of SPP - distribúcia, a. s.



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

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



Mgr. Petr Hájek
Member of the Board

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



Ing. Gustáv Laca
Member of the Board

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



Mgr. Ing. Marek Štrpka
Member of the Board

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

TOP MANAGEMENT **AS OF 31/12/2015**



Ing. Martin Holly
CEO

Martin Holly graduated from the Faculty of Commerce at the University of Economics in Bratislava with a specialization in foreign trade and from the Universidad de Grenada in Spain. After graduation, he first worked for several years as 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 the restructuring of the company. From July of 2008 to September 2012, he was 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 held the position of General Director of the company SPP - distribúcia, a. s. since 1 December 2012.



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

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



Ing. Rastislav Prelec

Head of the Network Operation and Asset Management Division

In 1985 Rastislav Prelec graduated from the Faculty of Electrical Engineering at the Slovak University of Technology in Bratislava and in 2005 completed his Masters in Industrial Engineering at Fachhochschule Ulm (Germany). After completing his studies, he worked in the Chemical Technology Research Institute as Head of the 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. He later worked as Head of the Control Systems Department. Since 1997 he has worked as a Project Manager and Co-Manager on the following projects: Reconstruction and Remote Control of Transfer Stations (SCADA SPD), Remote Monitoring of Regulation Stations (SCADA OZ), Dispatching Control Systems (SCADA), Remote Monitoring of Large Customers, Mobile Workplaces, and the Distribution Information System. In 2009 he was appointed Director of the Maintenance and Metering Division in SPP - distribúcia, a.s., where he served until 1 July 2013, when he became Director of the Network Operation and Asset Management Division in SPP - distribúcia, a. s.



Ing. Miroslav Horváth

Head of the Maintenance and Metering Division

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



Ing. Marek Paál

Head of the Distribution Services Division

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



Ing. Irenej Denkocy, ACCA
Head of the Investment Division

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



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

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

SUPERVISORY BOARD



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

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

Mgr. Ing. Tomáš David

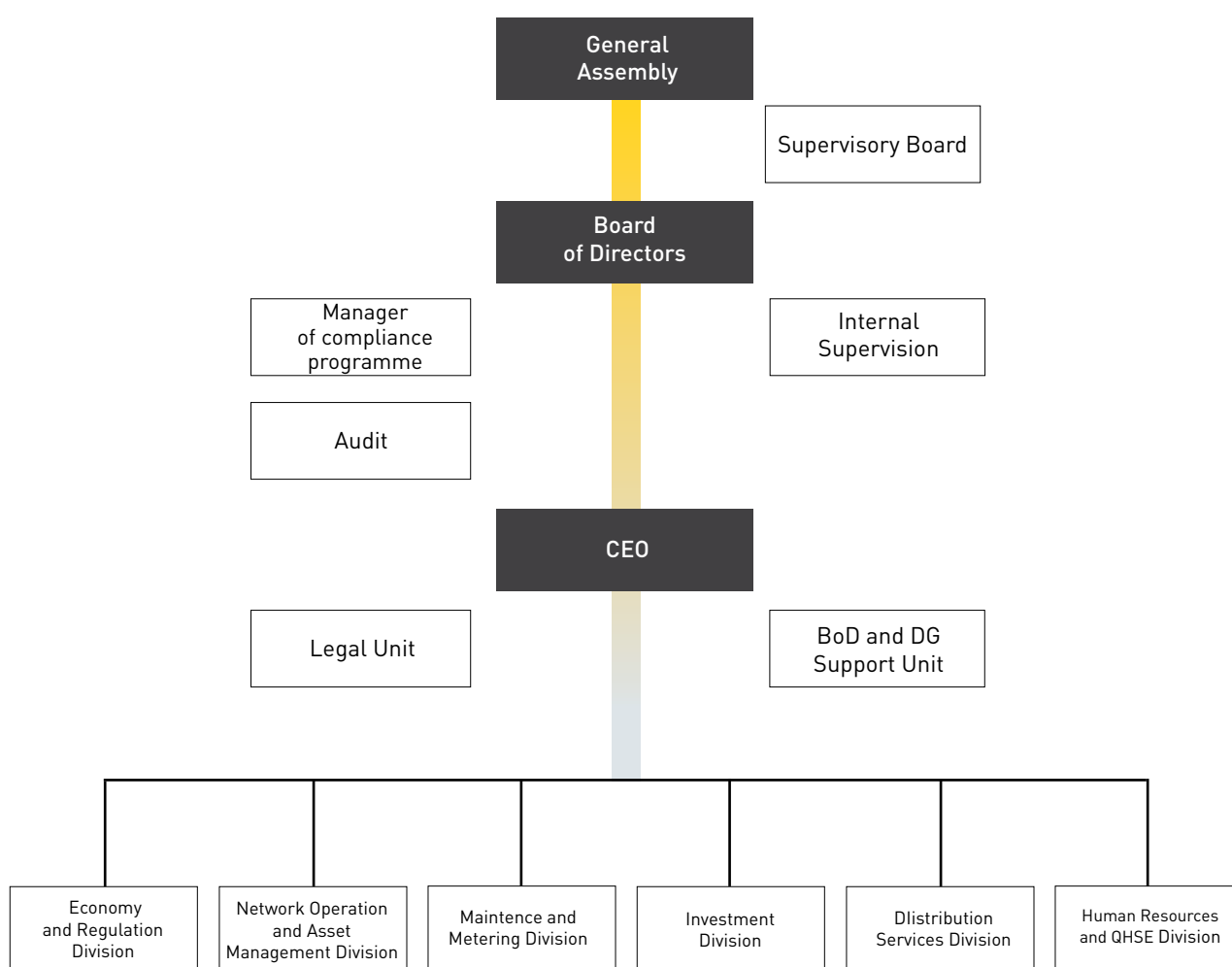
Vice-Chairman of the Supervisory Board

Members:

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

* Mr. Tomáš David became a member of the Supervisory Board on 11/11/2015, on 10/12/2015 he was elected Vice-Chairman of the Supervisory Board. Until 10/09/2014 the function of Vice-Chairman of the Supervisory Board was held by Ing. Pavel Horský.

ORGANIZATIONAL STRUCTURE





SAFE AND RELIABLE DISTRIBUTION

OPERATION AND SAFETY OF THE NETWORK

In terms of operations, 2015 was a successful year for our company. No serious emergencies while operating the gas facilities was recorded throughout the year, which confirms that the preventive activities implemented in the gas facilities were properly set. One great challenge was the implementation of the renovation activities, especially on the high-pressure gas pipelines of the distribution networks, which were specific and exceptional. These perfectly verified the functionality of the targeted linking and cooperation between the company's divisions and the professionalism of its staff. Another significant challenge was the continued transition to a new odorant, which required laborious work in order to properly set the individual elements of the distribution network. The network is now stabilized in this respect as well and prepared to provide users with a safe and reliable natural gas supply for the upcoming period.

We made progress in utilising an innovative approach to the monitoring of corrosion to gas pipelines in towns and municipalities as well as assessing the degree of elasticity of high-pressure gas pipelines in the field. We are trying to involve research institutes and experts from the academic community as much as possible in the development of these tools and the subsequent analysis of the output collected.

DAMAGE TO GAS FACILITIES CAUSED BY THIRD PARTIES

Despite the busy construction activities in the vicinity of the gas facilities, in 2015 the company managed to maintain the same trend for the development of the number of damages to the gas facilities compared to 2014.

Again, it should be stated that the damages were recorded prevalently during the implementation of earthworks, which are the most risky and most dangerous works for gas facilities. In 2015 the company implemented several measures to eliminate damage to gas facilities by third parties, including addressing the Association of Towns and Municipalities of Slovakia, the Slovak Chamber of Architects, the Slovak Chamber of Civil Engineers, or the Chamber of Surveyors and Cartographers, which were sent a poster and brochure electronically containing obligations for builders along with the legislative framework. In 2015 the Company continued to cooperate with the Slovak Trade Inspection (SOTI) in solving cases of damage to gas facilities.

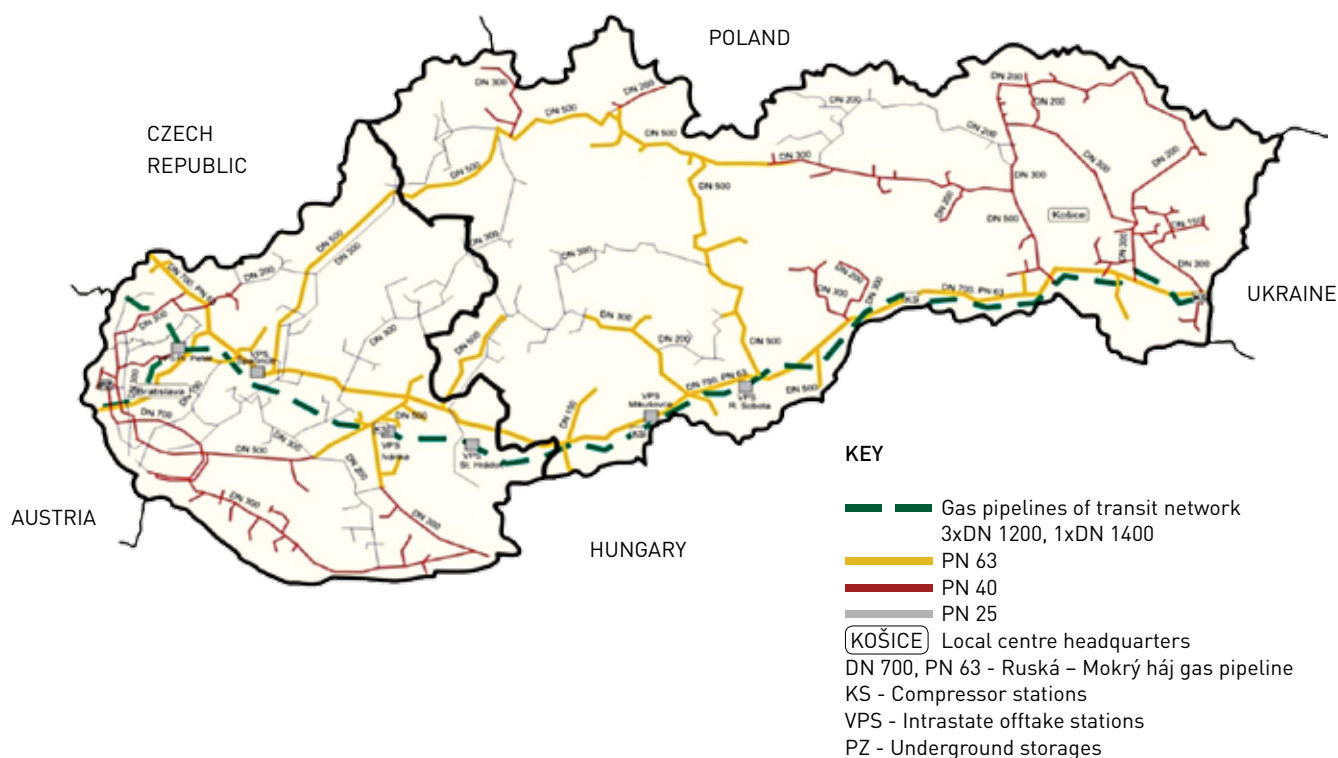
PROVIDING A STANDARD FOR SECURITY OF SUPPLY

In order to resolve and prevent a possible state of emergency, the company, as the distribution network operator, continued to provide the standard of safety for the gas supplies to household customers in compliance with valid legislation. The main tool was chiefly the utilisation of natural gas reserves in underground storage intended for balancing the network, as well as a contractual agreement for the gas supplies in a way fully covering the needs for the fulfilment of the safety standards in compliance with economic and efficiency criteria.

The implementation of these measures in the past year suggests that the company is able to provide continuous and reliable gas distribution to all households in the Slovak Republic even in the event of an emergency situation.



Map of the SPP - distribúcia distribution network



DISCOVERING UNAUTHORIZED USAGE OF NATURAL GAS

Again in 2015 we continued to successfully discover cases of unauthorized gas usage with the aim to achieve a reduction in losses from natural gas distribution. Company employees identified and documented more than two thousand cases of unauthorized usage.

In order to increase the safety of our operated facilities, we carried out tens of area checks in 2015, focusing on discovering and documenting unauthorized usage. For this purpose, almost 30 thousand points of delivery were checked last year. Based on facts suggesting the crime of gas theft, SPP - distribúcia brought hundreds of charges.

GASIFICATION OF SLOVAKIA

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

Compared to the previous year, 2015 has seen an increase in the volume of gas distributed through the SPP-D distribution network. However, with respect to the long term, the volume of gas currently distributed is lower, caused mostly by higher air temperatures in the winter months compared to long-term norms.

Distribution of natural gas in the SPP-D distribution network in the years 2011 - 2015 (in billion m³ / 15°C)

	2011	2012	2013	2014	2015
Distributed volumes	5,33	5,03	5,03	4,24	4,59

Length of the distribution network in the years 2011 - 2015 (in km)

	2011	2012	2013	2014	2015
High pressure gas pipelines	6 307	6 294	6 291	6 297	6 278
Medium pressure and low pressure pipes	26 653	26 785	26 891	26 966	27 023
Total	32 960	33 079	33 182	33 263	33 301

Classification of gas pipes in local networks in the years 2011 - 2015 1 (in km)

	2011	2012	2013	2014	2015
Steel	12 822	12 733	12 623	12 559	12 509
Polyethylene	13 831	14 052	14 268	14 407	14 514

Investment into renewal/renovation of the network in the years 2011 - 2015 (in EUR million)

	2011	2012	2013	2014	2015
Investment in renewal	45	42	28	14	21
Number of km of renovated gas pipes in local networks (low pressure and medium pressure pipes)	110	134	136	90	126

CUSTOMER ORIENTATION

LIBERALIZED GAS MARKET AND ITS FURTHER DEVELOPMENT

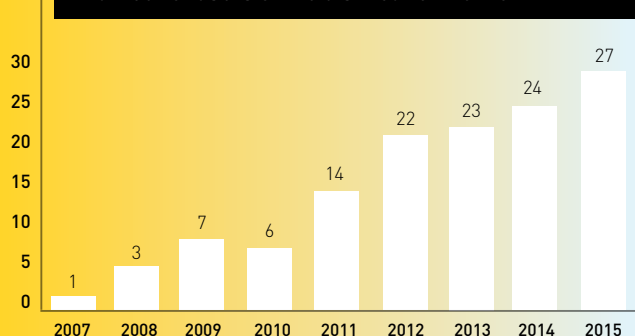
As of 31 December 2015, we provided access to the distribution network and distribution of gas for 27 distribution-network users, historically the highest number of contractual partners of SPP - distribúcia. Even if the number of gas-supplier changes continued to decrease in 2015, our company is ready to process a practically unlimited number of requests for gas supplier changes per month.

Regarding the development of the gas market in Slovakia, as of 1 February 2015, we implemented a system of daily deviations fixation, which enabled distribution-network users to control their daily deviations more efficiently. Our company also introduced a new process, "Accelerated registration of a point of delivery with a new gas supplier", which contributed to the higher protection of end customers against gas supply interruptions.

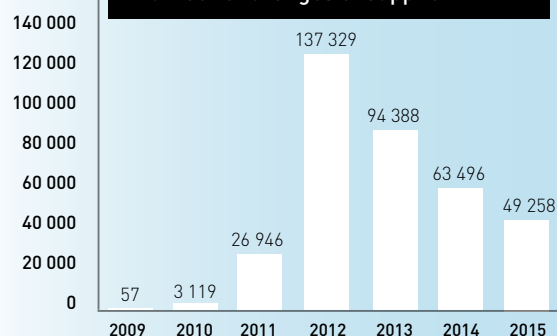
CONNECTING TO THE DISTRIBUTION NETWORK

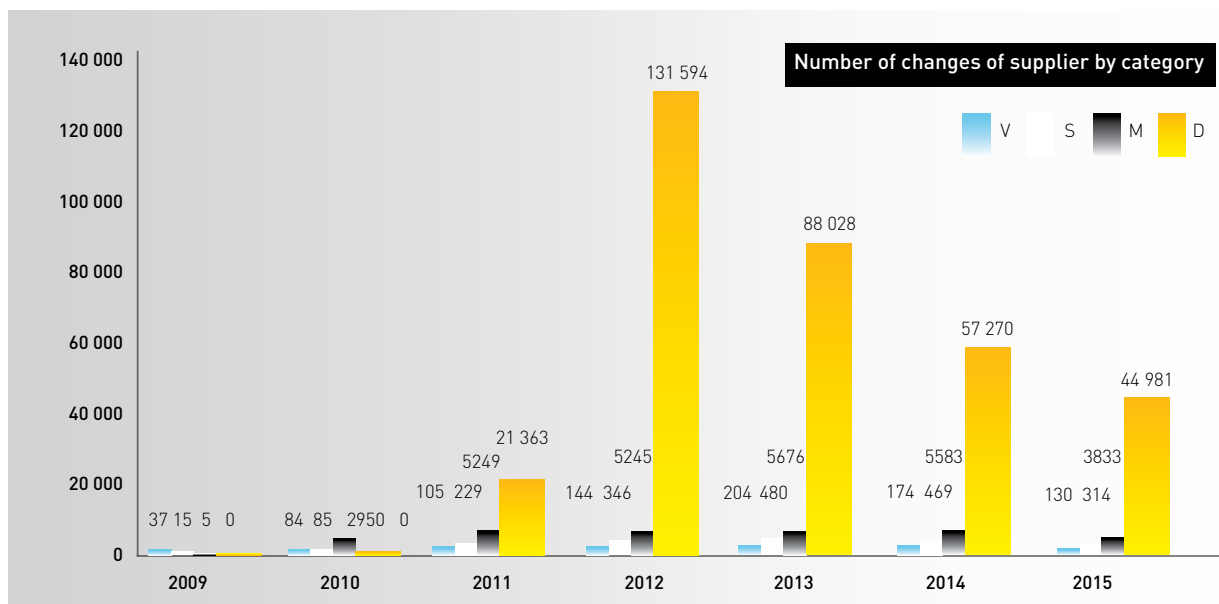
During 2015 our company provided applicants for connection with the possibility of personal contact in three customer offices in Bratislava, Žilina, and Košice. At the same time, these applicants could contact us by mail or on-line. On-line connection is increasingly becoming the most frequently used, with more than half of our customers currently connecting to the distribution network this way. In 2015 our company connected 8,891 new points of delivery to the distribution network. We have successfully continued to improve the connection process and are taking steps to reduce the length of the process of connecting households to less than 75 days. SPP - distribúcia fulfils the quality standards for determining the business and technical conditions for connection at a 100% level (Utility Regulator Decree no. 278/2012 Coll.)

Number of users of the distribution network



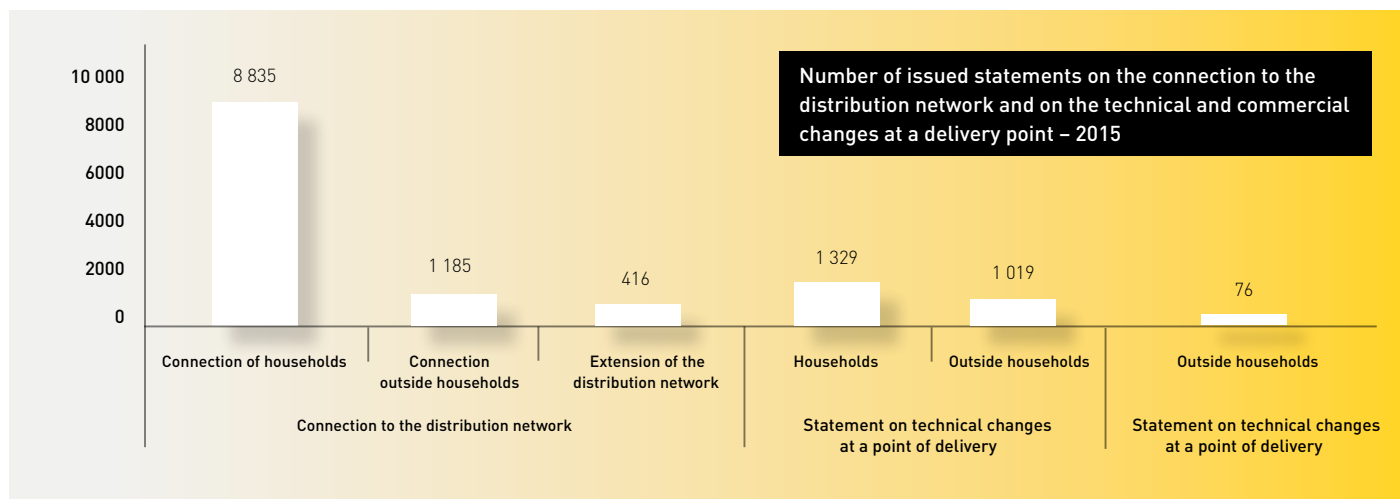
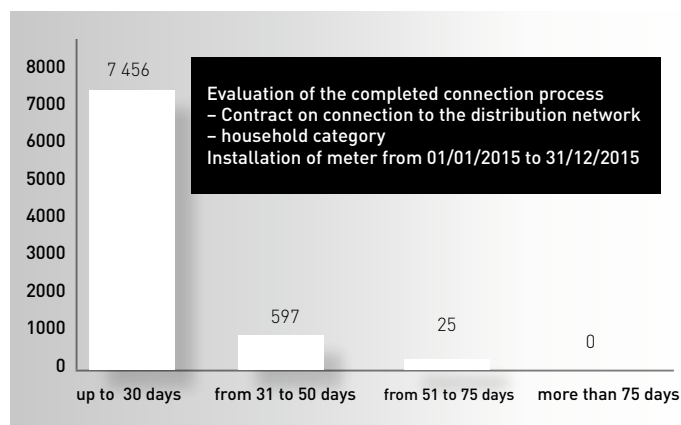
Number of changes of supplier





SERVICES FOR MEDIUM AND LARGE CUSTOMERS

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



DIGITIZATION OF SERVICES

We are actively engaged in the improvement of our website www.spp-distribúcia.sk in order to provide customers with the highest possible level of electronic services. In 2014 we had already implemented the first electronic forms for the connection process, which are becoming increasingly popular among customers. This is also evidenced by the fact that in 2015 as much as 55% of applications for connection and 41% of applications for installation of a meter were submitted electronically. That is the reason why we decided to continue the set trend of service electronisation. Customers are now able to submit an application for the issue of a statement on the existence and running of gas facilities, an application for the issue of a statement on the performance of activities in a protected/safety zone of gas facilities, or an order to plan out gas facilities.

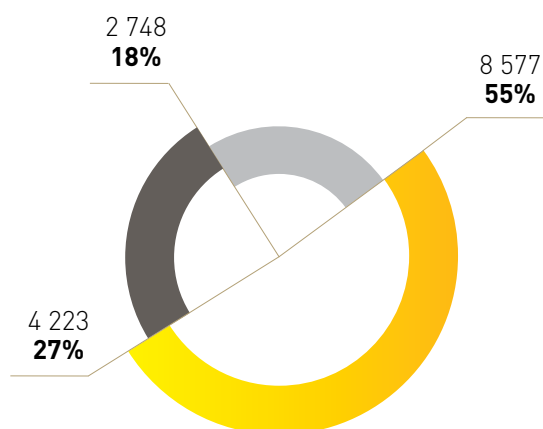
Natural gas as a commodity competes for the favour of customers with other energy media. Therefore, in January 2015 we launched a new microsite, www.oplyne.info, by means of which we would like to support the image of natural gas as an attractive energy medium. The site offers its visitors complex information

on natural gas and advantages of its use, calculators, as well as various comparative and case studies. We believe that the microsite will serve as a tool supporting customers' decision-making in favour of natural gas as a cost-effective and ecological energy source.

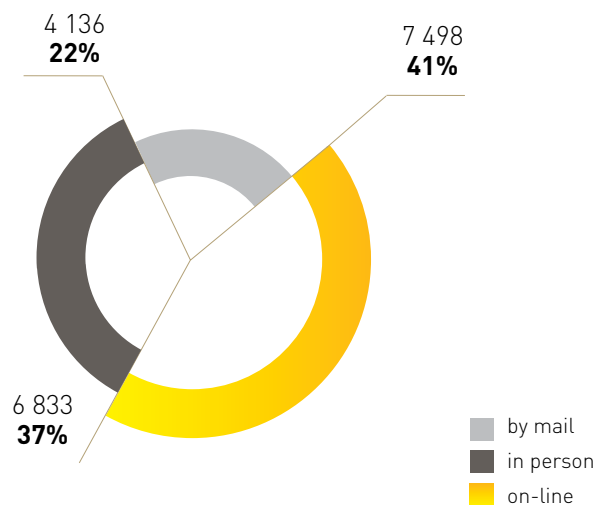
CUSTOMER RETENTION

In 2015 SPP - distribúcia also addressed possibilities for how to make natural gas more attractive for its customers. This effort resulted in cooperation with the gas boiler manufacturer Vaillant Group Slovakia, which offers select target groups a unique package of preferential conditions for the purchase of a new gas boiler. We believe that this cooperation will contribute to the retention of existing customers in the use of natural gas.

Applications for connection to the distribution network 01/01/2015 - 31/12/2015



Applications for installation of meter 01/01/2015 - 31/12/2015





EMPLOYEES AND DEVELOPMENT OF CORPORATE CULTURE

The proficient and reliable operation of our company in the natural gas distribution sector stems especially from the high level of professionalism and responsibility displayed by our employees in performing our activities. We appreciate the commitment and enthusiasm they demonstrate in their approach to everyday work. They are key to the safe and stable operation of our company. As of 31 December 2015, SPP - distribúcia employed 1,376 employees.

In order to fulfil the company's vision and our common goals, 2015 was a period of deepening expertise, improving processes and activities in human resources management and development, as well as cooperating intensely on the creation and set-up of the IT systems used in this area.

In order to improve and streamline the implementation of the training required by legislation, we managed to obtain certification for training issued by the National Labour Inspectorate using the expert knowledge of our internal lecturers. This certification will enable us to conduct trainings for employees aimed at obtaining permission for them to work with reserved gas technical equipment and the implementation of their updating training for renewal of the permissions obtained in the upcoming period.

Based on cooperation with secondary schools, we compiled a group of twelve students who are being actively prepared for potential employment in our corporate environment during the 2015/2016 school year as part of the Young Gasman Project. In our Graduate Development Programme, we devote our time to university graduates evaluated as fit and aspiring to join our team in the field of sales of distribution capacity or operation and maintenance of gas facilities upon completion of their studies. Last year, we also implemented preparation for the selection of candidates and the launch of the development programme entitled Hit the Gas on Your Career (Kariéra na plný plyn) for employees with high potential.

In terms of supporting the development of specific target groups, we focused on the development and cooperation of colleagues who regularly come into contact with customers not only in the external market environment, but also with customers within the company's internal environment. This is the development area we plan to actively address also in 2016.

SUPPORT FOR INDIVIDUAL PERFORMANCE AND INITIATIVE

To support the motivation, individual performance, and initiative of employees, we paid special attention to performance evaluations based on the efficient linking of rewards for individual performance and contribution to corporate development. Within the Development Programme for foremen and middle/lower management implemented in 2014 – 2015, we focused on the intense improvement of skills of more than one hundred colleagues, especially regarding the management of employee performance, evaluation of the work performance, and provision of efficient feedback.

For the first time, we carried out development interviews and feedback in a standardized form, with the aim to create space for employees' personal-work development and efficient planning of individual development targets, but foremostly to support mutual communication in the work teams. In order to improve employees' level of awareness and personal interest in fulfilment of the corporate strategy and development, we paid attention to several successful suggestions, initiatives, and good ideas resulting from the Employee Survey 2014 as well as the Development Interviews 2015 as a part of the activities for corporate culture development and enforcement.

In order to enhance individual performance and motivation to take part in the best possible economic results of the company, last year the preparation of rules for the introduction of working time account as of 1 January 2016 as a tool for scheduling working time for our employees was added to the provisions of the SPP - distribúcia Collective Agreement as amended by Amendment No. 1 for 2015 – 2018.

SAFETY IS OUR PRIORITY

In 2015 our company achieved a high level of occupational health and safety with respect to the requirements of the individual environmental components mainly by respecting the applicable legal standards for OHS and environment, as well as by complying with commitments resulting from our internal legislation.

We provided continuous training and qualification for employees, developing the awareness of stakeholders aimed at safe work and environmental protection.

All our employees as well as business partners are encouraged to use safe and environmentally friendly work procedures. At SPP - distribúcia we consider care for the environment to be an important pillar of our long-term operation.

We monitor the working and natural environment and evaluate the level of occupational health and safety on a regular basis. In order to eliminate possible risks and damages due to fires, we take preventive actions in terms of fire protection. Any deficiencies found are analysed and responsibly eliminated. Based on the dangers, threats, risks, and environmental aspects identified, the company's management provides for adequate financial, personal, and time sources aimed at eliminating any risks which could potentially cause damage to health or environment. By fulfilling the tasks required for occupational health services, we provide our employees with an optimal working environment.

In the management system, we put particular emphasis on the prevention and anticipation of potential risk situations. By giving priority to preventive measures, we constantly improve the conditions for safe work and protection of all environmental components. The positive development of occupational health and safety is also supported by the commitment of all the company's employees to the process of permanent improvement to OHS and environment conditions.

SOCIAL RESPONSIBILITY

At SPP - distribúcia we develop activities regarding regional development, voluntary donations, charity, as well as support of the disadvantaged. Within our activities, we apply the principles of business ethics and permanent sustainability, in particular through the policy of responsible procurement, environmental friendliness, as well as above-standard care for the highly valued health of our employees. We realize the needs and values of responsible commitment towards society.

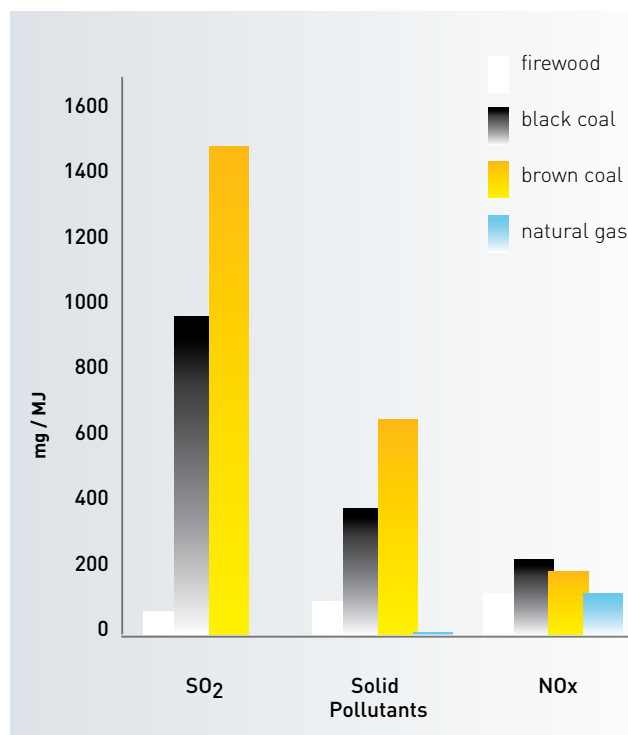
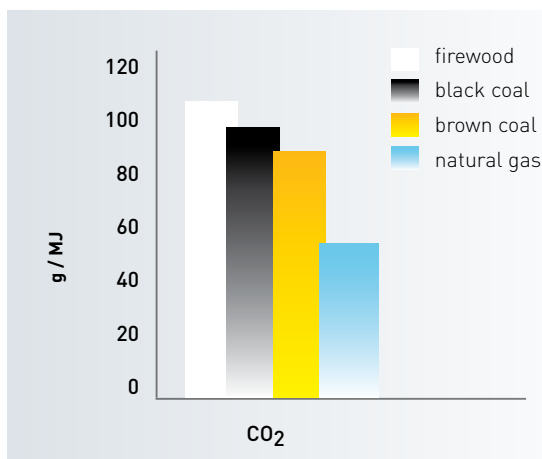
In conjunction with the SPP Foundation, we implement a grant programme in the long term, Cooperation with Municipalities, which is designed to support community projects aimed at supporting and enhancing villages, cities, and regions of Slovakia. We value the attitude of our employees in implementing the Employee Grant Programme, within which they try to cultivate life in the towns, municipalities, or communities they are active in. We also appreciate their commitment in organizing charity fundraising as well as their ongoing interest in blood donation. This year they expressed their commitment by participating in the charitable project Mission 04, focused on helping children with health disabilities, collecting blankets for the humanitarian organization Magna, which helps children and their families in the crisis regions of the world, fundraising for the Union of the Blind and Partially Sighted of Slovakia – "The White Crayon", and the traditional fundraising project "Daffodil Day", as well as multiple voluntary blood donations. Our employees also confirmed their stance through active participation in employee events such as the Corporate Games 2015 or Angelic Christmas, during which we cooperated with several protected workshops from different parts of Slovakia.

NATURAL GAS - A CONVENIENT AND ECOLOGICAL SOLUTION FOR EVERYONE

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

NATURAL GAS PROTECTS THE ENVIRONMENT

Compared to other fossil fuels and firewood, natural gas is a much more environmentally-friendly energy source. Compared to solid fuels, significantly less pollutants and a negligible amount of dust particles, which in higher concentrations can endanger the health of population, are generated during combustion of natural gas. In addition to low levels of solid pollutants, negligible amounts of sulphur oxides, minimum amounts of carbon monoxide originate and the level of nitrogen oxides is also very low. Compared to firewood and coal, combustion of natural gas produces significantly lower emissions of carbon dioxide. When using natural gas for heating, it is possible to save up to 50% of CO₂ emissions compared to coal.



ECONOMIC ADVANTAGES OF NATURAL GAS TECHNOLOGY

Natural gas offers a wide range of uses both at home and in business and industry. Modern gas appliances are intelligent, fully automated, easily and well adjustable to the specific needs of users. They provide responsive performance within a very short time.

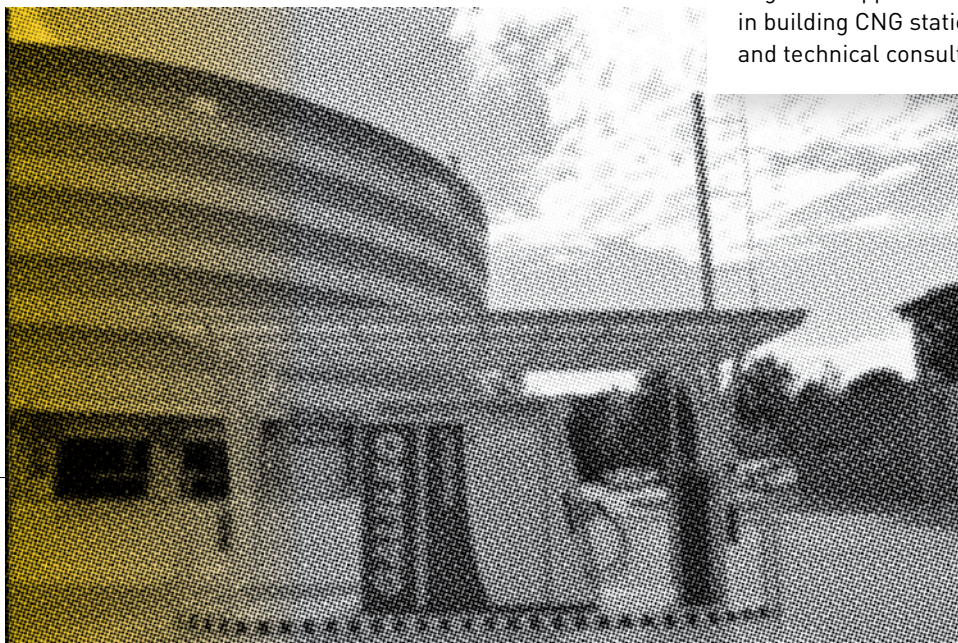


MODERNIZATION - COMBINED PRODUCTION OF HEAT AND ELECTRICAL ENERGY

A cogeneration unit is able to produce heat, electricity, or even cold in a single device, resulting in significant savings in primary energy compared to separate production of heat and electricity and reducing emissions of pollutants. A cogeneration unit is able to cover several energy needs of customers using a single appliance only. Given the availability of cogeneration in many power classes, it has a wide range of uses in industry, in the municipal sector, in health or social care services. Customers interested in cogeneration are offered a free analysis of cogeneration usage when installing a new one or renovating an existing source to natural gas.

COMPRESSED NATURAL GAS (CNG) AND ITS APPLICATION IN TRANSPORT

Natural gas continues to gradually confirm its place also in transport and an increasing number of car producers has CNG vehicles in their portfolio. The very operation of such vehicles provides users with advantages regarding lower fuel cost as well as a 50% lower motor tax compared to vehicles using conventional fuels. Moreover, by using CNG, emissions of pollutants are significantly reduced, along with decreased noise, which in the end is beneficial for the whole society in the form of better environment. SPP - distribúcia supports CNG through preferential distribution charge for the points of delivery of CNG fuelling stations and through the websites www.spp-distribucia.sk and www.oplyne.info, where in addition to general information on the advantages of natural gas, we also introduce the general public to CNG as the ecological fuel with a potential of greater application in transport. Customers interested in building CNG stations are also provided with business and technical consulting.



REPORT ON THE BUSINESS ACTIVITIES OF THE COMPANY

ECONOMIC AND FINANCIAL PERFORMANCE

DEVELOPMENT OF THE BUSINESS ENVIRONMENT

As in previous years, 2015 was also one of the hottest years in the history of temperature measurement commenced in 1880. However, the deviation of average temperatures from the long-term average was not as pronounced as in 2014, which was the hottest year in the history of measurement. A slight decrease of average temperatures compared to 2014 has brought a year-on-year growth of natural gas consumption and a related growth of revenues. At the same time, the gradual takeover of auxiliary activities into our internal environment from SPP, a. s. continued in 2015, which along with other optimization measures contributed to stabilization of the level of operational expenses and maintenance of the company's financial stability.

In 2015, the Regulatory Office for Network Industries issued a resolution determining the price for access to the distribution network and gas distribution valid for 2016. The resolution has mainly extended the number of tariff groups for gas distribution.

ECONOMIC RESULTS OF THE COMPANY

In 2015, SPP - distribúcia generated proceeds from the sale of services in the amount of EUR 362.22 million. The decisive component of the proceeds was the revenue from providing distribution capacity, which represented 99% of the proceeds.

Operating expenses incurred for the provision of proceeds from the sale of services amounted to EUR 211.42 million. The prevailing components of operating expenses included depreciation and amortization, personnel costs, and costs of storage of natural gas.

The company concluded the financial year of 2015 with profit before tax amounting to EUR 134.64. Profit after tax amounted to EUR 99.55 million. Corporate income tax of EUR 35.09 million consisted of payable tax of EUR 34.74 million, special contribution from business in utilities of EUR 6.11 million, and a deferred tax liability of EUR 5.76 million.

COMPARISON OF PROFIT STRUCTURE AFTER TAX (IN EUR MILLION):

	2015	2014
Proceeds from the sale of services	362,22	343,60
Operational expenses	-211,42	-211,74
Profit/loss from financial activities	-16,17	-1,76
Profit before tax	134,64	130,09
Corporate income tax	-35,09	-32,58
Profit after tax	99,55	97,51

ASSET AND CAPITAL STRUCTURE

ASSETS

As of the balance sheet date, total assets of the company amounted to EUR 2,727.65 million. Compared to 2014, the asset value decreased by EUR 929.82 million. Fixed assets at EUR 2,430.53 million represented 89.11% of the total assets. Major items of fixed assets included, in particular, the distribution network, buildings, structures, machines, and facilities of the distribution network.

Capital expenditure for the acquisition of fixed assets amounted to EUR 40.09 million and was directed mostly to the renewal of the network and construction of the information infrastructure.

As of the balance sheet date, the current assets of the company was at EUR 297.12 million. The significant decrease in the current assets value is also a determinant of the total assets decrease. In 2015, there was a decrease mainly in the value of receivables from cash pooling, and cash and cash equivalents, which were used to settle liabilities towards shareholders due to the decrease of share capital in 2014. The structure of current assets in 2015 was dominated by reserves and cash and cash equivalents.

EQUITY AND LIABILITIES

In 2015, the structure of financing of SPP - distribúcia was dominated by own sources, which represented 58.10% of the total sources of the asset coverage. Equity reported in the value of EUR 1,584.88 mil. consisted mostly of share capital, followed by the statutory reserve fund and the profit of the current accounting period. The share capital recorded in the Commercial Registry consists of a single share with the nominal value of EUR 1,200 million. In 2015, the level of the statutory reserve fund created from capital deposit was decreased by EUR 100 million and as of the balance sheet day achieved the value of EUR 391,48 million. The decrease was caused by the drop of share capital during 2014, related to the optimization of the capital structure.

As of the balance sheet day, the liabilities financed 41.90% of the company's assets, with the value achieving EUR 1,142.77 million. The payables structure was dominated by long-term liabilities in total value of EUR 1,027.69 million. The most significant components of long-term liabilities were bonds issued in the nominal value of EUR 500 million, deferred tax liability of EUR 373.14 million and bank loans in amount of EUR 135 million. Compared to last year, the value of short-term liabilities drops and as of the balance sheet day amounts to EUR 115.08 million. The decrease was caused by the payment of liability towards shareholders, which originated in connection with the reduction of share capital in 2014 from EUR 1,957 million to EUR 1,200 million.

THE SHAREHOLDER STRUCTURE AS OF

31/12/2015 WAS AS FOLLOWS:

SPP Infrastructure, a. s.	1 akcia	100%
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COMPARISON OF ASSET STRUCTURE (in EUR million):

	2015	2014	2015	2014
Fixed assets	2 430,53	2 489,57	89,11%	68,07%
Current assets	297,12	1 167,90	10,89%	31,93%

COMPARISON OF EQUITY AND LIABILITY STRUCTURE (in EUR million):

	2015	2014	2015	2014
Equity	1 584,88	1 681,72	58,10%	45,98%
Payables	1 142,77	1 975,74	41,90%	54,02%

SUMMARY RESULTS

Progress of the assets and results of SPP - distribúcia, a.s., for the year ended 31 December 2015 and compared to 2014, according to the individual financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU.

BALANCE SHEET (highlights in EUR thousand)

ASSETS:	Year ending 31 December 2015	Year ending 31 December 2014
LONG-TERM ASSETS		
Buildings, structures, machines and facilities	2,413,087	2,480,711
Investments in subsidiaries	1,005	1,005
Intangible long-term assets and other assets	16,440	7,850
Long-term assets total	2,430,532	2,489,566
CURRENT ASSETS		
Inventory	153,369	153,032
Receivables and prepayments made	63,055	650,980
Tax receivables and income tax	0	3,785
Cash and cash equivalents	80,692	323,046
Loans provided	0	37,058
Current assets total	297,116	1,167,901
ASSETS TOTAL	2,727,648	3,657,467
EQUITY AND LIABILITIES		
CAPITAL AND RESERVES		
Share capital	1,200,000	1,200,000
Statutory reserve fund and other funds	285,330	384,212
Undistributed profit	99,545	97,512
Equity total	1,584,875	1,681,724
LONG-TERM LIABILITIES	1,027,692	1,023,136
SHORT-TERM LIABILITIES	115,081	952,607
Liabilities total	1,142,773	1,975,743
EQUITY AND LIABILITIES TOTAL	2,727,648	3,657,467

STATEMENT OF PROFIT AND LOSS

(highlights in EUR thousand)

Year ending
31 December 2015Year ending
31 December 2014

Proceeds from sale of services	362,217	343,597
Operational expenses	-211,415	-211,743
Operating profit	150,802	131,854
Proceeds from finance	1,792	6,955
Financing costs	-17,957	-8,719
PROFIT BEFORE TAX	134,637	130,090
Corporate income tax	-35,092	-32,578
PROFIT FOR THE PERIOD	99,545	97,512

CASH FLOW STATEMENT (highlights in EUR thousand)**OPERATING ACTIVITIES**

Cash flows from operating activities	240,659	234,135
Interest paid	-15,693	-1,014
Interest received	2,364	5,538
Corporate income tax paid	-35,938	-39,222
Cash flows from operating activities, net	191,392	199,437

INVESTMENT ACTIVITIES

Acquiring long-term assets	-18,331	-15,779
Income/payments of loans taken from companies in the group - cash pooling	-360,338	-527,541
Long-term loans provided	0	75,622
Income from sales of buildings, machines and facilities and intangible assets	107	5,093
Cash flows received/(used) from investment activity, net	-378,562	-462,605

FINANCIAL ACTIVITIES

Reduction of the statutory reserve fund	-1,756	0
(Repaid)/received loans and credits from banks	-50,000	80,000
Income connected with issued bonds	0	495,320
(Expenditure)/income from derivative operations	-1,915	-2,514
Expenditure for payment of liabilities from financial lease	-1,513	0
Cash flows from financial activities, net	-55,184	572,806
NET INCREASE IN CASH ON HAND	-242,354	309,638
EFFECTS OF EXCHANGE RATE CHANGES	0	0
BALANCE OF CASH ON HAND AT THE BEGINNING OF THE PERIOD	323,046	13,408
BALANCE OF CASH ON HAND AT THE END OF THE PERIOD	80,692	323,046

STATEMENT ON COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE IN SLOVAKIA

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

GENERAL ASSEMBLY

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

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

The scope of the General Assembly includes:

- a. Election and dismissal of members of the Supervisory Board,
- b. Election and dismissal of members of the Board of Directors,
- c. Amendments to the statutes, status of the Supervisory Board or the status of the Board of Directors,
- d. Change in the share capital,
- e. Merger, consolidation, division, change of legal form, winding-up proceedings or other significant change in the corporate structure of the company,
- f. Decision on the appointment of a liquidator of the company and on the determination of the liquidator's remuneration,
- g. Decision on the distribution of any dividends by the company or distribution of other payments arising from shares,
- h. Decision on the increase or reduction of the company share capital,
- i. Approval of the individual, extraordinary individual, ordinary consolidated, or extraordinary consolidated financial statements of the company,
- j. Decision on the allocation of the company profit, including the determination of the amount of dividends and any royalties, and on the manner of payment of any company loss,
- k. Decision on changes to the rights associated with shares of any kind,
- l. Decision on the conversion of registered shares into bearer shares and vice versa,
- m. Decision on the restriction or exclusion of the preferential right of a shareholder to subscribe for newly issued shares of the company in accordance with and subject to the conditions laid down by law,
- n. Approval of the agreement on the transfer of the company's business and of the agreement on the transfer of a part of the company's business,
- o. Any substantial change in the nature of the core business of the company or in the manner in which the company performs its core business,

- p. Approval of the commencement of any court or arbitration proceedings against persons who were direct or indirect shareholders of SPP before 23 January 2013 and ceased to be shareholders no later than on 23 January 2013,
- q. Appointment of an auditor.

BOARD OF DIRECTORS

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

The Board:

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

SUPERVISORY BOARD

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

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

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

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

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

COMMITTEES

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

MANAGEMENT METHODS

For its management, the company mainly uses methods of direct management, methods combining direct and professional (indirect) management, and project management methods. Direct management is generally based on setting goals, tasks and directions, and on the operational guidance of activities of the managed organizational unit or employee.

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

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

SYSTEM OF INTERNAL CONTROLS AND RISK MANAGEMENT

By implementing internal control at all levels of the organizational structure, we discover the potential source of risks in the company. The internal control system includes all forms of continuous control measures, procedures, and mechanisms at individual units.

The internal control system of SPP - distribúcia was implemented through the adoption of internal management acts governing the exercise of internal control and internal audits by the company's own employees. Inspections are conducted by employees who are directly involved in the specific processes, managers of individual departments responsible for controls of the processes, and the results of the inspection, their authorized employees or internal auditors.

The results of the inspections are presented to the competent bodies on a regular basis. By early adoption of preventive measures, we manage to set up the key processes efficiently.

Within its risk management framework, SPP - distribúcia monitors, evaluates and manages primarily the regulatory, market, financial, operational, environmental, personal, and media risks. Thanks to the action plans adopted by the company's management, we manage to constantly reduce the impacts of risks on the company's operation.

SHARE CAPITAL

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

Issue number (CEM): LP0001508566

Nominal value: EUR 1,200,000,000

Number: 1 pc

Type: ordinary share

Form: materialized

Class: registered share

Percentage share in share capital: 100%

Admitted to trading: 0 pc

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

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

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

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



MANAGEMENT OF THE COMPLIANCE PROGRAM OF THE DISTRIBUTION NETWORK OPERATOR FOR 2015

Report on the fulfilment of measures adopted within the Compliance Programme for 2015

1. The Compliance Programme is an internal regulation of the distribution network operator, SPP - distribúcia, a. s., which, pursuant to the provisions of Act no. 251/2012 Coll., on energy and on amendments to certain acts, defines measures to ensure non-discriminatory administration of the distribution network, which is a part of a vertically integrated business. The Compliance Programme determines specific obligations of employees, aimed at preventing possible discriminatory behaviour of the distribution network operator. The regulation identified as D.RM.04.06.06 was updated in the last quarter of 2015. The update identified as D.RM.04.07.06, with effect from 01/12/2015, was amended by banning insider trading, based on the provisions of the Regulation of EU No. 1227/2011 wholesale energy market integrity and transparency (REMIT).
2. The Compliance Programme includes the following measures:
 - (a) Obligation to ensure the independence of the distribution network from other activities not related to gas distribution,
 - (b) Obligation to ensure non-discriminatory behaviour of the distribution network for the provision of information,
 - (c) Obligation to ensure non-discriminatory conditions of service of the distribution network for gas market participants,
 - (d) Conditions relating to the manager of the Compliance Programme, including the appointment and dismissal thereof,
 - (e) Activity of the manager of the compliance programme including training of distribution network staff about the compliance programme and activities of staff designed to maintain the compliance programme,
 - (f) Obligations ensuring publicity about the compliance programme, control and execution of the annual report on the implementation of the compliance programme.
3. In 2015, the implementation of measures listed in the Compliance Programme was performed mainly in the following way:
 - (a) SPP - distribúcia, a.s. as the distribution network operator is established as a separate company and its organizational structure is arranged to ensure the independence of all activities of the distribution network associated with gas distribution from other activities in the vertically integrated company, which are not related to gas distribution,
 - (b) Maintaining a non-discriminatory approach to the provision of information meant for the gas market participants and in providing services of the distribution network,
 - (c) The internal procedures of the distribution network include measures implemented to ensure non-discriminatory behaviour in accordance with the compliance programme,
 - (d) Publishing the Compliance Programme, which is accessible to employees of the distribution network in the electronic database of regulations and for other market participants on the web site of the distribution network operator,
 - (e) Carrying out checks of keeping to compliance programme. In 2015, for example, the Compliance Programme manager verified the business terms and conditions published on the distribution network operator's website, the rules of evaluation of the distribution network users when determining the financial security, the conditions for gas supply to a market participants by several gas suppliers at once, the conditions for connecting and settlement of gas facilities of other owners into the distribution network, etc.
4. On 14/05/2014, on the basis of a decision of the shareholder, SPP Infrastructure, a.s. became the sole shareholder of SPP - distribúcia, a.s. Based on this change, the gas supplier Slovenský plynárenský priemysel, a.s., is no longer a part of the vertically integrated company that includes SPP - distribúcia, a.s. This has provided for a full independence of activities of the distribution network operator relating to gas distribution from activities relating to gas supply. In 2015, based on the contracts, SPP - distribúcia, a.s. took over only the property rental services and provisionally the IT services from Slovenský plynárenský priemysel, a.s. Takeover of the IT services is gradually being completed.
5. The manager of the Compliance Programme of the operator found no breach of obligations set by the Compliance Programme during the period from 01/01/2015 to 31/12/2015.

In Bratislava, dated 03/02/2016



Ing. Milan Kachút

Manager of the Compliance Programme of the distribution network operator, SPP -distribúcia, a. s.

INDEPENDENT AUDITORS REPORT



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Id. Nr.: 31 343 414
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SPP - distribúcia, a.s.

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of SPP - distribúcia, a.s. (the "Company"), which comprise the balance sheet as at 31 December 2015, 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 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Bratislava, 16 March 2016


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


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

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PROSPECTS OF THE COMPANY FOR 2016

SPP - distribúcia seeks to continue being stable, reliable and efficient service provider in the sector of natural gas distribution. We will achieve our goals for 2016 with a high level of safety of our operating activities, continuously improving operational efficiency and investment, improving our approach to customers and increasing the involvement of our employees.

We will ensure a safe operation of the distribution system in the next year with a transparent and objective assessment of the technical condition of all our gas facilities through principles based on risk assessment. On the basis of analysis of probability as well as causes and effects together with consequences, we will set the parameters for appropriate maintenance, intensify the maintenance for risky assets and limit interventions in functioning or risk-free facilities. Therefore, it will remain at the centre of our attention to materially fulfil the plan of maintenance and investments directed in the renovation of our networks. We will continue working on increasing our share in the construction and installation activity. Our priorities further include the addressing of unauthorised usage. Cooperation with police forces and other public institutions intensifies our action against the perpetrators and organizers of illegal gas usage, who in addition to fraud, also jeopardize the safety and reliability of natural gas distribution and the general public through their illegal actions.

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

As regards the customer service, we will continue to focus on the improvement of the level of our services provided. This comprises especially the improvement of services of connecting into the distribution network as well as improvement of the electronic services and communication with customers through our website. Our priorities will also include active promotion of natural gas as an economically and ecologically favourable energy medium. Promotional activities will be carried out through our existing microsite www.oplyne.info, the main task of which is to develop awareness on natural gas. Similarly, we plan to promote natural gas in the places where future builders obtain information relating to the construction of their family houses. We will also focus on the customers who are interested in building and effectively operating their energy system and refurbishing or replacing the gas appliances. Even in 2016, we will continue to pursue the cooperation started with the selected boiler manufacturer, with the aim to retain the existing customers by continuous use of natural gas.

We would like to foresee the future needs of our customers, to flexibly react to the needs identified as well as to the development on the energy market and thereby generate value for our business partners, shareholders, and employees.



SPP - distribúcia, a. s.

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

Emergency line – gas:

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

Customer line for connection to the distribution network:

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

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

Phone: +421 2 2040 2011 Secretariat of the Distribution Services Section
E-mail: distribucia@spp-distribucia.sk

Microsite on natural gas:

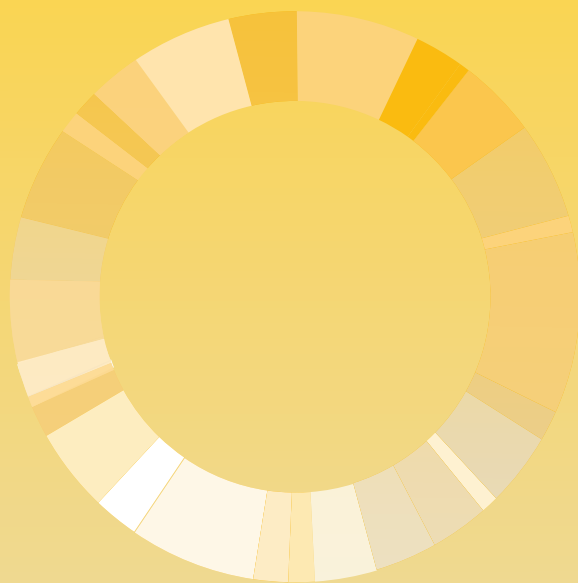
www.oplyne.info

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

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