

SPP - distribúcia, a.s.

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

For the year ended 31 December 2013



SPP - distribúcia, a.s.

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of SPP - distribúcia, a.s. (the "Company"), which comprise the balance sheet as at 31 December 2013, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Statutory Body's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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


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

Opinion

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

Bratislava, 20 February 2014


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


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



SPP - distribúcia, a.s.

**INDEPENDENT AUDITOR'S REPORT AND SEPARATE FINANCIAL STATEMENTS
(PREPARED IN ACCORDANCE WITH THE INTERNATIONAL FINANCIAL REPORTING
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For the year ended 31 December 2013

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SPP - distribúcia, a.s.
BALANCE SHEETS
As at 31 December 2013 and 31 December 2012
(EUR '000)

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

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



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



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

SPP – distribúcia, a.s.
INCOME STATEMENTS
Years ended 31 December 2013 and 31 December 2012
(EUR '000)

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

SPP – distribúcia, a.s.
STATEMENT OF COMPREHENSIVE INCOME
Years ended 31 December 2013 and 31 December 2012
(EUR '000)

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

SPP - distribúcia, a.s.
STATEMENTS OF CHANGES IN EQUITY
Years ended 31 December 2013 and 31 December 2012
(EUR '000)

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

SPP – distribúcia, a.s.
STATEMENTS OF CASH FLOWS
Years ended 31 December 2013 and 31 December 2012
(EUR '000)

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

1. GENERAL

1.1. General Information

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

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

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

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

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

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

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

1.2. Principal Activities

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

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

1.3. Employees

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

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

1.4. Registered Address

Mlynské nivy 44/b
825 11 Bratislava
Slovak Republic

2. NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS AND CHANGES IN ESTIMATES

2.1. Adoption of New and Revised International Financial Reporting Standards

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

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

- **IFRS 13 "Fair Value Measurement"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 1 "First-time Adoption of IFRS" – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 1 "First-time Adoption of IFRS" – Government Loans**, adopted by the EU on 4 March 2013 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 7 "Financial Instruments: Disclosures"** – Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IAS 1 "Presentation of Financial Statements"** – Presentation of Items of Other Comprehensive Income, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 July 2012),
- **Amendments to IAS 12 "Income Taxes"** – Deferred Tax: Recovery of Underlying Assets, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IAS 19 "Employee Benefits"** – Improvements to the Accounting for Post-employment Benefits, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to various standards "Improvements to IFRSs (cycle 2009-2011)"** resulting from the annual improvement project of IFRS (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 27 March 2013 (effective for annual periods beginning on or after 1 January 2013), and
- **IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).

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

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

- **IFRS 10 "Consolidated Financial Statements"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IFRS 11 "Joint Arrangements"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IFRS 12 "Disclosures of Interests in Other Entities"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IAS 27 (revised in 2011) "Separate Financial Statements"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),

- **IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosures of Interests in Other Entities"** – Transition Guidance, adopted by the EU on 4 April 2013 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosures of Interests in Other Entities" and IAS 27 (revised in 2011) "Separate Financial Statements"** – Investment Entities, adopted by the EU on 20 November 2013 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IAS 32 "Financial Instruments: Presentation"** – Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IAS 36 "Impairment of Assets"** – Recoverable Amount Disclosures for Non-Financial Assets, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014), and
- **Amendments to IAS 39 "Financial Instruments: Recognition and Measurement"** – Novation of Derivatives and Continuation of Hedge Accounting, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014).

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

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

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

- **IFRS 9 "Financial Instruments" and subsequent amendments** (effective date was not yet determined),
- **Amendments to IAS 19 "Employee Benefits"** - Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 July 2014),
- **Amendments to various standards "Improvements to IFRSs (cycle 2010-2012)"** resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014),
- **Amendments to various standards "Improvements to IFRSs (cycle 2011-2013)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 July 2014), and
- **IFRIC 21 "Levies"** (effective for annual periods beginning on or after 1 January 2014).

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Accounting

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

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

b) Research and Development

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

c) Property, Plant and Equipment and Intangible Assets

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

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

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

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

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

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

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

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

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

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

d) Government Grants

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

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

e) Inventories

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

f) Financial Assets

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

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

Loans and Receivables

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

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

Impairment of Financial Assets

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

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

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

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

Derecognition of Financial Assets

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

g) Financial Liabilities

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

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

Other Financial Liabilities

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

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

h) Subsidiaries

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

i) Cash and Cash Equivalents

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

j) Provisions for Liabilities

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

k) Borrowing Costs

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

l) Revenue Recognition

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

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

m) Social Security and Pension Schemes

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

n) Retirement and Other Long-Term Employee Benefits

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

o) Leasing

Finance lease

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

Operating lease

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

p) Taxation

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

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

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

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

Current and Deferred Tax for the Year

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

Special Levy on Businesses in Regulated Industries

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

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

q) Foreign Currencies

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Impairment of Property, Plant and Equipment

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

Useful Life of Property, Plant and Equipment

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

5. FINANCIAL INSTRUMENTS

a) Financial risk management

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

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

(1) Foreign currency risk

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

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Sensitivity to foreign exchange changes

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

(2) Commodity price volatility risk

The Company has entered into contracts for natural gas storage and natural gas purchases to cover losses in the distribution network. The contract for natural gas storage is concluded for 30 years and is at a fixed price. Natural gas purchase prices to cover losses are subject to tender for one year in advance. Currently, a fixed unit price for natural gas purchases is agreed for 2014; the same trend is expected also in the future. The current effective legislation of the Regulatory Office for Network Industries allows one to transfer the effect of natural gas price changes to cover losses to the price for natural gas distribution; thus, the Company does not consider the commodity price volatility risk significant.

(3) Interest rate risk

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

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

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

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

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

(4) Credit risk

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

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

(5) Liquidity risk

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

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

As at 31 December 2013	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Loans	-	-	-	50 000	55 000	105 000
Other liabilities	-	11 760	-	-	-	11 760
Trade payables	-	114 837	-	-	-	114 837
As at 31 December 2012	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Loans	-	8	30 000	-	-	30 008
Other liabilities	-	10 510	-	-	-	10 510
Trade payables	-	118 612	-	-	-	118 612

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b) Capital risk management

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

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

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

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

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

(ii) Page 6

c) Categories of financial instruments

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

d) Estimated fair value of financial instruments

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

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

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

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

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

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

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

Embedded derivative instruments

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

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6. PROPERTY, PLANT AND EQUIPMENT

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

The accompanying notes form an integral part of the separate financial statements.

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

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

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

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

7. INVESTMENTS IN SUBSIDIARIES

At 31 December 2013

	<i>Subsidiaries</i>
Opening balance, net	1 000
Additions	5
Reclassification	-
Disposals	-
Impairment	-
Closing balance, net	1 005
Cost	1 005
Impairment	-
Closing balance, net	1 005

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

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

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

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

Additional information on the subsidiaries:

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

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8. NON-CURRENT INTANGIBLE ASSETS AND OTHER ASSETS

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

9. INVENTORIES

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

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

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

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

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10. RECEIVABLES AND PREPAYMENTS

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

Receivables fall due as follows

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

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

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

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

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

Movements in the provision for receivables were as follows:

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

Collateralisation of receivables

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

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Overdue receivables that were not provided for:

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

Overdue receivables that were provided for:

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

11. DEFERRED INCOME

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

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

12. RETIREMENT AND OTHER LONG-TERM EMPLOYEE BENEFITS

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

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

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

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

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

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

Key assumptions used in actuarial valuation:

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

13. INTEREST-BEARING BORROWINGS

	31 December 2013 Secured	31 December 2013 Unsecured	31 December 2013 Total	31 December 2012 Secured	31 December 2012 Unsecured	31 December 2012 Total
Loans	-	105 000	105 000	-	30 008	30 008
Bonds	-	-	-	-	-	-
Total	-	105 000	105 000	-	30 008	30 008

Loans by currency						
EUR						
- with a fixed interest rate	-	-	-	-	30 008	30 008
- with a floating interest rate	-	105 000	105 000	-	-	-
Total loans	-	105 000	105 000	-	30 008	30 008

Loans are due as follows:						
Within one year	-	-	-	-	30 008	30 008
From 1 to 2 years	-	-	-	-	-	-
From 2 to 5 years	-	50 000	50 000	-	-	-
More than 5 years	-	55 000	55 000	-	-	-
Total loans	-	105 000	105 000	-	30 008	30 008

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

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

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

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

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Interest rates of the loans:

Loans

EUR

- with a fixed interest rate

- with a floating interest rate

1M/3M EURIBOR + margin

The carrying amount and face value of loans and bonds:

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

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

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

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

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

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

14. TRADE AND OTHER PAYABLES

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

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

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

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

Social fund payables:

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

Liabilities secured by pledge or other form of collateral

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

15. REGISTERED CAPITAL

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

16. LEGAL RESERVE FUND AND RETAINED EARNINGS

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

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

Distribution of profit:

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

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17. STAFF COSTS

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

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

18. COSTS OF AUDIT SERVICES

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

19. FINANCIAL EXPENSE

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

20. TAXATION

20.1. Income Tax

Income tax comprises the following:

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

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

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

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

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

20.2. Deferred Income Tax

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

	<i>At 1 January 2013</i>	<i>(Charge)/Credit to other comprehensive income/loss</i>	<i>(Charge)/credit to profit for the period</i>	<i>At 31 December 2013</i>
Difference in NBV of non-current assets	(415 926)	-	24 644	(391 282)
Items adjusting tax base only when paid	7	-	12	19
Provisions for receivables	1 534	-	(70)	1 464
Impairment loss	684	-	232	916
Other	1 317	-	593	1 910
Total	(412 384)	-	(25 411)	(386 973)
	<i>At 1 January 2012</i>	<i>(Charge)/Credit to other comprehensive income/loss</i>	<i>(Charge)/credit to profit for the period</i>	<i>At 31 December 2012</i>
Difference in NBV of non-current assets	(349 958)	-	(65 968)	(415 926)
Items adjusting tax base only when paid	9	-	(2)	7
Provisions for receivables	461	-	1 073	1 534
Impairment loss	403	-	281	684
Other	1 257	-	60	1 317
Total	(347 828)	-	(64 556)	(412 384)

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

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

21. TAX EFFECTS IN THE STATEMENT OF OTHER COMPREHENSIVE INCOME

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

31 December 2013	Before tax	Tax	After tax
Cash flow hedging	-	-	-
Other comprehensive loss for the period	-	-	-
31 December 2012	Before tax	Tax	After tax
Cash flow hedging	(91)	-	(91)
Other comprehensive income/(loss) for the period	(91)	-	(91)

22. CASH FLOWS FROM OPERATING ACTIVITIES

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

23. COMMITMENTS AND CONTINGENCIES

Capital Expenditure Commitments

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

Operating Lease Arrangements

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

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Non-cancellable operating lease payables amount to:

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

Liberalisation of the Slovak energy sector and possible regulation risks

Regulation framework on the natural gas market in the Slovak Republic

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

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

Tariffs for regulated activities

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

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

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

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

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

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

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Changes in the regulatory laws

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

Taxation

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

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24. RELATED PARTY TRANSACTIONS

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

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

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

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

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

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

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

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

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

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

a) Members of the Company's bodies

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

b) Consolidated financial statements

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

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

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

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

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

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

26. POST-BALANCE SHEET EVENTS

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

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

Prepared on:

20 February 2014

**Signature of a member of
the statutory body of the
reporting entity or a
natural person acting as a
reporting entity:**


**Signature of the person
responsible for the
preparation of the
financial statements:**


**Signature of the person
responsible for
bookkeeping:**

Approved on:


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


Ing. Roman Filipoiu


Ing. Peter Duračka


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