

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 2017

SPP - distribúcia, a.s.

INDEPENDENT AUDITOR'S REPORT

To the Shareholder, Supervisory Board and Board of Directors of SPP – distribúcia, a.s. and the Audit Committee:

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of SPP – distribúcia, a.s. (the "Company"), which comprise the statement of financial position as at 31 December 2017, the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the provisions of Act No. 423/2015 Coll. on Statutory Audit and on Amendment to and Supplementation of Act No. 431/2002 Coll. on Accounting, as amended (hereinafter the "Act on Statutory Audit") related to ethical requirements, including the Code of Ethics for Auditors that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the risk factors
Estimated Revenues from Gas Distribution	
<p>The Company recognises revenues from natural gas distribution based on regulated prices and quantity of distributed gas to end customers. A portion of revenues from natural gas distribution to small customers and households is recognised based on estimates, as the volume of natural gas distributed to such customers is determined by a meter reading of the consumed gas after the end of the reporting period.</p> <p>Revenue estimates are software-based using input data from management and an external data provider. Revenue estimates calculation requires Company management to apply a significant degree of judgment, especially in determining the following assumptions:</p> <p>a) Estimated quantity of distributed natural gas depending on measured temperatures in individual customer categories;</p> <p>b) Own consumption estimate;</p> <p>c) Changes in natural gas accumulation in the distribution network.</p>	<p>Our audit procedures included, inter alia:</p> <ul style="list-style-type: none"> Assessment of the appropriateness of and reliance on the procedure and method used by management to determine the estimates; Testing the accuracy of a sample of data based on which the estimate is made, including the reconciliation of input parameters to internal and external underlying documentation; Testing whether the assumptions used are appropriate given the measurement objective in compliance with accounting standards; Assessment of effectiveness of the setup and operation of the controls over the estimation by management and controls in the implementation; Assessment of changes in the relevant information system, assessment of IFRS requirements to recognise the accounting estimate in the financial statements.

Impairment Assessment

See Note 3d) to the financial statements

The Company owns property, plant and equipment, which comprises the natural gas distribution network in Slovakia amounting to EUR 2.7 billion. As at each reporting date, the Company makes an assessment as to whether the carrying amount of the distribution network is impaired by calculating the present value of future cash flows arising from the Company's operation. An impairment test of assets requires to determine estimates of the following key calculation inputs:

- Future fees the Company is entitled to charge for its distribution services under the price regulation regime;
- Natural gas volume distributed in the future;
- Discount rate specific to the assets owned by the Company;
- Associated capital expenditures and operating costs.

The above assumptions require management to make highly-subjective judgments regarding long-term periods.

Our audit procedures included, inter alia:

- Discussion of the evaluation process with top management to identify impairment indicators, and of the conclusion that there were no such indicators as at 31 December 2017;
- Evaluation of the assumptions and methods used by the Company when calculating the distribution network's value, mainly those relating to the discount rate and revenue growth forecast;
- Examination of the model's mathematical basis;
- Performance of a retrospective review of the assumptions used in the model in the previous year;
- Assessment whether available information regarding the outlook of the regulation regime to be applied in the future is adequately reflected in the model.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS as adopted in the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on Information Disclosed in the Annual Report

The statutory body is responsible for information disclosed in the annual report prepared under the requirements of the Act on Accounting No. 431/2002 Coll. as amended (the "Act on Accounting"). Our opinion on the financial statements stated above does not apply to other information in the annual report.

In connection with the audit of financial statements, our responsibility is to gain an understanding of the information disclosed in the annual report and consider whether such information is materially inconsistent with the financial statements or our knowledge obtained in the audit of the financial statements, or otherwise appears to be materially misstated.

As at the issuance date of the auditor's report on the audit of financial statements, the annual report was not available to us.

When we obtain the annual report, we will evaluate whether the Company's annual report includes information whose disclosure is required under the Act on Accounting, and based on procedures performed during the audit of the financial statements, we will express an opinion on whether:

- Information disclosed in the annual report prepared for 2017 is consistent with the financial statements for the relevant year; and
- The annual report includes information pursuant to the Act on Accounting.

Furthermore, we will disclose whether material misstatements were identified in the annual report based on our understanding of the Company and its position, obtained in the audit of the financial statements.

Other reporting obligations as required by Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public interest entities

Appointment and Approval of the Auditor

We were appointed as the statutory auditor by the Company's statutory body on 22 December 2017 based on our approval by the Company's General Meeting held on 22 December 2017. The length of our total uninterrupted engagement including previous renewals of the engagement (extensions of the period for which we were appointed) and our reappointments as the statutory auditors is 8 years.

Consistency with the Additional Report to the Audit Committee

Our audit opinion expressed herein is consistent with the additional report prepared for the Company's Audit Committee, which we issued on the same date as the date of this audit report.

Non-Audit Services

We did not provide the Company with any prohibited non-audit services referred to in Article 5 (1) of Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding the statutory audit of public-interest entities and remained independent of the Company when conducting the audit.

Other than statutory audit services and services disclosed in the financial statements, we provided no other services to the Company and its controlled undertakings.

Bratislava, 15 February 2018



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



Ing. Ján Bobocký, FSCA
Responsible Auditor
Licence UDVA No. 1043

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SPP - distribúcia, a.s.
Statement of Financial Position
As at 31 December 2017 and 31 December 2016
(EUR '000)

	<i>Note</i>	31 December 2017	31 December 2016
ASSETS:			
NON-CURRENT ASSETS			
Property, plant and equipment	7	2 275 351	2 346 136
Non-current intangible assets and other assets	9	16 691	19 686
Investments in subsidiaries	8	1 000	1 005
Total non-current assets		2 293 042	2 366 827
CURRENT ASSETS			
Inventories	10	140 597	148 458
Cash and cash equivalents		54 635	77 516
Receivables and prepayments	11	251 132	148 246
Total current assets		446 364	374 220
TOTAL ASSETS		2 739 406	2 741 047
EQUITY AND LIABILITIES:			
CAPITAL AND RESERVES			
Registered capital	17	1 200 000	1 200 000
Legal reserve fund and other funds	18	287 615	284 502
Retained earnings	18	153 256	142 951
Total equity		1 640 871	1 627 453
NON-CURRENT LIABILITIES			
Loans and bonds	14	631 635	630 740
Deferred tax liability	23	344 948	350 313
Deferred income	12	12 892	11 988
Obligation under finance lease	15	271	4 649
Retirement and other long-term employee benefits	13	4 862	5 064
Total non-current liabilities		994 608	1 002 754
CURRENT LIABILITIES			
Trade and other payables	16	88 961	92 157
Loans and bonds	14	6 903	6 854
Obligation under finance lease	15	4 437	4 437
Income tax	23	3 260	7 071
Retirement payments and other short-term employee benefits	13	366	321
Total current liabilities		103 927	110 840
Total liabilities		1 098 535	1 113 594
TOTAL EQUITY AND LIABILITIES		2 739 406	2 741 047

The financial statements on pages 6 to 38 were signed on 15 February 2018 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 Statement
Years ended 31 December 2017 and 31 December 2016
(EUR '000)

	<i>Note</i>	<i>Year ended 31 December 2017</i>	<i>Year ended 31 December 2016</i>
REVENUES FROM SALES OF SERVICES:			
Natural gas distribution		397 868	358 610
Other revenues		33 119	24 676
Total revenues		<u>430 987</u>	<u>383 286</u>
OPERATING EXPENSES:			
Depreciation and amortisation	7,9	(100 547)	(99 186)
Storage of natural gas and other services		(50 967)	(53 457)
Staff costs	19	(43 193)	(41 553)
Purchases of natural gas and consumables and services		(17 252)	(14 981)
Own work capitalised		9 585	7 988
Provisions and impairment losses, net		(758)	(777)
Provision for bad and doubtful debts, obsolete and slow-moving inventory, net		25	74
Other, net	21	<u>2 410</u>	<u>2 900</u>
Total operating expenses		<u>(200 697)</u>	<u>(198 992)</u>
OPERATING PROFIT		<u>230 290</u>	<u>184 294</u>
Financial revenues		654	245
Financial costs	22	(18 056)	(18 129)
PROFIT BEFORE INCOME TAXES		<u>212 888</u>	<u>166 410</u>
INCOME TAX	23	(59 632)	(23 459)
NET PROFIT FOR THE PERIOD		<u>153 256</u>	<u>142 951</u>

SPP – distribúcia, a.s.
Statement of Comprehensive Income
Years ended 31 December 2017 and 31 December 2016
(EUR '000)

	<i>Year ended 31 December 2017</i>	<i>Year ended 31 December 2016</i>
NET PROFIT FOR THE PERIOD	153 256	142 951
OTHER COMPREHENSIVE INCOME/(LOSS) (may be reclassified to profit or loss in the future):		
Hedging derivatives (cash flow hedging)	3 825	(1 123)
Change in actuarial assumptions	115	175
Deferred tax related to items of other comprehensive income for the period	(827)	120
OTHER NET COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	3 113	(828)
TOTAL NET COMPREHENSIVE INCOME FOR THE PERIOD	156 369	142 123

SPP - distribúcia, a.s.
Statement of Changes in Equity
Years ended 31 December 2017 and 31 December 2016
(EUR '000)

	<i>Registered capital</i>	<i>Legal reserve fund</i>	<i>Other reserves</i>	<i>Hedging reserve</i>	<i>Retained earnings</i>	<i>Total</i>
Balance at 31 December 2015	1 200 000	291 484	(229)	(5 925)	99 545	1 584 875
Net profit for the period	-	-	-	-	142 951	142 951
Other net comprehensive income for the period	-	-	135	(963)	-	(828)
Dividends paid	-	-	-	-	(99 545)	(99 545)
Changes in the registered capital	-	-	-	-	-	-
Changes in the legal reserve fund	-	-	-	-	-	-
Balance at 31 December 2016	1 200 000	291 484	(94)	(6 888)	142 951	1 627 453
Net profit for the period	-	-	-	-	153 256	153 256
Other net comprehensive income for the period	-	-	91	3 022	-	3 113
Dividends paid	-	-	-	-	(142 951)	(142 951)
Changes in the registered capital	-	-	-	-	-	-
Changes in the legal reserve fund	-	-	-	-	-	-
Balance at 31 December 2017	1 200 000	291 484	(3)	(3 866)	153 256	1 640 871

SPP – distribúcia, a.s.
Statements of Cash Flows
Years ended 31 December 2017 and 31 December 2016
(EUR '000)

	<i>Note</i>	<i>Year ended 31 December 2017</i>	<i>Year ended 31 December 2016</i>
OPERATING ACTIVITIES			
Cash flows from operating activities	25	340 249	258 046
Interest paid		(13 595)	(13 749)
Interest received		173	297
Income tax paid		(69 635)	(40 213)
Net cash flows from operating activities		257 192	204 381
INVESTING ACTIVITIES			
Acquisition of property, plant and equipment		(21 113)	(21 542)
Proceeds from/repayments of borrowings received from the Group companies – cash pooling		(253 400)	(132 501)
Non-current borrowings provided		-	-
Proceeds from the sale of property, plant and equipment and intangible assets		118	314
Received dividends		81	98
Proceeds from the sale of long-term securities and shares in other entities		345	-
Net cash inflow/(outflow) from investing activities		(273 969)	(153 631)
FINANCING ACTIVITIES:			
Decrease in the legal reserve fund		-	-
(Repaid)/received bank loans and borrowings		-	-
Proceeds from issue of bonds		-	-
(Expenditures for)/proceeds from derivative transactions		(2 405)	(2 264)
Expenditures for the settlement of finance lease obligations		(3 699)	(5 619)
Paid dividends		-	(46 043)
Net cash flows from financing activities		(6 104)	(53 926)
NET (DECREASE)/INCREASE IN CASH		(22 881)	(3 176)
EFFECTS OF FOREIGN EXCHANGE FLUCTUATIONS			
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		77 516	80 692
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		54 635	77 516

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 Business Register on 10 December 2004.

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.

SPP Infrastructure, a.s. is the 100% owner of the Company. The shareholders of SPP Infrastructure, a.s. are Energetický a průmyslový holding, a.s. ("EPH") with a near 49% share and management control, and Slovenský plynárenský priemysel, a.s. ("SPP") with a 51% share.

On 29 June 2017, the Extraordinary General Meeting approved the Company's 2016 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 2017 was 1 303, of which executive management: 8 (for the year ended 31 December 2016: 1 341, of which executive management: 8).

As at 31 December 2017, the actual headcount was 1 292 (31 December 2016: 1 321).

1.4. Registered Address

Mlynské nivy 44/b
825 11 Bratislava
Slovak Republic

2. NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS AND CHANGES IN ESTIMATES

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 have been endorsed for use in the European Union (hereinafter the "EU"), and that are relevant to its operations and effective for annual periods beginning on 1 January 2017. The following amendments to the existing standards and new interpretations issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

- **Amendments to IAS 7 "Statement of Cash Flows"** – Disclosure Initiative – adopted by the EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017);
- **Amendments to IAS 12 "Income Taxes"** – Recognition of Deferred Tax Assets for Unrealised Losses – adopted by the EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017).

The adoption of these amendments to the existing standards has not led to any material changes in the Company's financial statements.

At the date of authorisation of these financial statements, the following new standards issued by IASB and adopted by the EU are not yet effective:

- **IFRS 9 "Financial Instruments"** – adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018);
- **IFRS 15 "Revenue from Contracts with Customers"** and amendments to IFRS 15 "Effective Date of IFRS 15" – adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018);
- **IFRS 16 "Leases"** – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to IFRS 4 "Insurance Contracts"** – Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" – adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied for the first time);
- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** – Clarifications to IFRS 15 "Revenue from Contracts with Customers" – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018).

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 new standards, amendments to the existing standards and new interpretations, which were not endorsed for use in the EU as at the reporting date (effective dates stated below are for IFRS in full):

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard;
- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021);
- **Amendments to IFRS 2 "Share-based Payment"** – Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to IFRS 9 "Financial Instruments"** – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded);

- **Amendments to IAS 28 “Investments in Associates and Joint Ventures”** – Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to IAS 40 “Investment Property”** – Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to various standards “Improvements to IFRSs (cycle 2014 – 2016)”** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018);
- **Amendments to various standards due to “Improvements to IFRSs (cycle 2015 – 2017)”** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019);
- **IFRIC 22 “Foreign Currency Transactions and Advance Consideration”** (effective for annual periods beginning on or after 1 January 2018);
- **IFRIC 23 “Uncertainty over Income Tax Treatments”** (effective for annual periods beginning on or after 1 January 2019).

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

Based on the Company's estimates, applying hedge accounting to the portfolio of financial assets or liabilities pursuant to IAS 39 “Financial Instruments: Recognition and Measurement” would not have a significant impact on financial statements if applied as at the reporting date.

The Company anticipates that adopting these new standards and amendments to the existing standards and interpretations will have no material impact on the Company's financial statements in the period of initial application, except for IFRS 16 “Leases” for which the Company is assessing potential impacts in 2018.

The Company analysed potential impacts of IFRS 9 “Financial Instruments” and decided to modify the provisioning method in respect of receivables. The change in the quantification of provisions for assets has no material impact on the financial statements of the Company.

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) Information about Operating Segments

Operating segments are recognised in accordance with the internal system of management reporting provided for the highest executive decision-making body. The highest executive decision-making body that is responsible for the allocation of resources and for evaluating the performance of these operating segments has been identified to be the Board of Directors, which makes strategic decisions.

c) 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.

d) 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 2017</i>	<i>Useful life until 2016</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 2017 and 2016, 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 2017, 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.

e) 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.

f) 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.

g) 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.

h) 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.

i) 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.

j) Cash and Cash Equivalents

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

k) Provisions for Liabilities

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

l) 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.

m) Issued Debt Securities

Issued debt securities are initially measured at fair value plus transaction costs, and then measured at amortised cost using the effective interest rate method.

n) 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.

The Company analysed revenue recognition and decided to increase the accuracy of the revenue presentation in the separate financial statements by reporting revenues from core business activities and other revenues separately.

Revenues from core business activities include fees for natural gas distribution. From the Company's perspective, this activity represents a primary activity, and therefore such revenues are recognised separately.

Other revenues include fees for additional procurement of capacities, fines, connection fees, and fees for other activities which are not core Company activities.

Due to changes in the revenue presentation, the presentation of the prior year's items was aligned with the presentation of the current year's items in the income statement.

o) 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.

p) 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 Eurozone 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.

q) Finance and Operating Lease

Finance lease

A finance lease is a lease under which all the risks and rewards arising from the ownership of an asset are transferred (economic substance of the arrangement). The accounting treatment of a lease 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 the leased assets in its balance sheet nor does it recognise operating lease obligations for future periods. Lease payments are recognised as an expense on a straight-line basis over the lease term.

r) 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 21%. The income tax rate is valid from 1 January 2017.

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 to the period when the asset is realized 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 was 19%. The income tax rate valid until 31 December 2013 was 23%. The income tax rate valid from 1 January 2014 until 31 December 2016 was 22%. The income tax rate valid from 1 January 2017 is 21%.

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 and is obliged to pay a special levy during the validity of the Act. Under the original wording of the Act on a Special Levy on Businesses in Regulated Industries, the last levy period was December 2016. An amendment to the Act (effective from 1 January 2017) was adopted and the special levy will continue to be applied without time limitation. The levy period is a calendar month and the levy rate was 0.00363 until 31 December 2016. As of 1 January 2017, the levy rate will be temporarily increased to 0.00726 for 2017 and 2018. It will be reduced gradually so that the monthly levy rate amounts to 0.00545 in 2019 and in 2020, and it will fall to the original rate, ie 0.00363, in 2021. 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.

Due to the amendment to the Act on Special Levy on Businesses in Regulated Industries that abolished the time limit on the validity of the special levy payment, the Company must recognise a deferred special levy. A deferred special levy is recognised on all temporary differences between the carrying amount of assets and liabilities recognised under International Accounting Standards and the carrying amount of assets and liabilities recognised in accordance with Slovak accounting procedures. The deferred special levy is calculated by applying the special levy rate expected to apply in the period in which it is expected that the temporary difference from which the deferred special levy arises will be realised. The deferred special levy is recognised in the income statement.

s) 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 7 and 26 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.

(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 2017. The Company recognised no significant financial assets and liabilities denominated in a foreign currency as at 31 December 2016.

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 2017; 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.

The Company's management concluded loan contracts with a floating interest rate that changes based on changes in market conditions.

As at 31 December 2017, the Company recognised two loans received from banks with a face value of EUR 80 million and EUR 55 million; the loans bear a variable interest rate. The interest rate of these long-term loans amounts to 3M EURIBOR + a margin in % p.a. (Note 14).

The Company concluded derivative contracts to manage interest rate risk associated with the long-term bank loans.

(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, a.s., the majority shareholder of the parent company SPP Infrastructure, a.s., is 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 Infrastructure 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.

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The table below summarises the maturity of the financial liabilities as at 31 December 2017 and 31 December 2016, based on contractual undiscounted payments:

As at 31 December 2017	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Bonds	-	-	13 125	526 250	-	539 375
Loans	-	225	675	57 533	81 000	139 433
Trade and other payables	-	64 003	-	-	-	64 003
Obligations under finance lease	-	-	4 437	317	-	4 754
As at 31 December 2016	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Bonds	-	-	13 125	539 735	-	552 500
Loans	-	225	675	57 933	81 500	140 333
Trade and other payables	-	64 093	-	-	-	64 093
Obligations under finance lease	-	-	4 437	4 754	-	9 191

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 17 and 18 and interest-bearing borrowings as disclosed in Note 14. The gearing ratio at the 2017 year-end was 36% (2016: 35%).

As part of the capital structure optimisation the Company decreased its registered capital to EUR 1 200 million in 2014 (Note 17).

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

	31 December 2017	31 December 2016
Debt (i)	643 246	646 680
Cash and cash equivalents	54 635	77 516
Net debt	588 611	569 164
Equity (ii)	1 640 871	1 627 453
Net debt to equity ratio	36%	35%

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

(ii) Page 6

c) Categories of financial instruments

	31 December 2017	31 December 2016
Financial assets		
Loans and receivables (including cash and cash equivalents)	305 767	225 762
Financial liabilities		
Financial liabilities carried at amortised costs	707 201	710 773
Financial derivatives recognised as hedges	5 572	8 402

d) Estimated fair value of financial instruments

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 2017, the Company has no financial instruments measured at fair value except for financial liabilities from derivative instruments (interest swaps). The fair value of such instruments is estimated based on their present value of future cash flows discounted at the market interest rate. The measurement of interest swaps represents Level 2 of the fair value measurement.

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 2017 and 31 December 2016 under the requirements of IAS 39 (as revised in 2009).

6. OPERATING SEGMENTS

The Company assesses the segment information for the current and comparative reporting periods in accordance with IFRS 8 Operating Segments. In managing the Company's activities, allocating funds, and making strategic decisions, the Board of Directors considers all activities of the Company to be one segment given the nature of products and services. The strategic business unit offers various services aimed at natural gas distribution. The Company's activities focus on the Slovak Republic where all of its non-current tangible assets are located. The main indicators used by the Board of Directors in its decision-making process are earnings before interest, taxes, depreciation, and amortisation (EBITDA), and the amount of capital expenditures. To make decisions, the Board of Directors uses financial information which is consistent with the information disclosed in these separate financial statements. The Company's management submits a report on the Company's results to the Board of Directors on a monthly basis.

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7. 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 2016							
Opening net book value	102 810	2 275 326	542	9 631	159	24 619	2 413 087
Additions	24	1 011	-	33	-	29 898	30 966
Placed into service	1 093	24 843	-	506	13	(26 730)	(275)
Reclassifications	-	-	-	-	-	-	-
Disposals	(22)	(215)	-	(24)	-	-	(261)
Depreciation charge	(8 002)	(86 384)	(16)	(3 206)	(38)	-	(97 646)
Change in provisions	(114)	351	-	7	-	21	265
Closing net book value	95 789	2 214 932	526	6 947	134	27 808	2 346 136
Balance as at 31 December 2016							
Cost	173 650	2 897 696	592	27 724	1 016	31 465	3 132 143
Provisions and accumulated depreciation	(77 861)	(682 764)	(66)	(20 777)	(882)	(3 657)	(786 007)
Net book value	95 789	2 214 932	526	6 947	134	27 808	2 346 136
Year ended 31 December 2017							
Opening net book value	95 789	2 214 932	526	6 947	134	27 808	2 346 136
Additions	-	1 277	-	-	-	26 243	27 520
Placed into service	2 793	37 652	33	779	7	(41 904)	(640)
Reclassifications	(14)	14	-	-	-	-	-
Disposals	-	(29)	-	(39)	-	(2 817)	(2 885)
Depreciation charge	(7 954)	(86 551)	(16)	(2 932)	(31)	-	(97 484)
Change in provisions	58	(41)	-	16	-	2 671	2 704
Closing net book value	90 672	2 167 254	543	4 771	110	12 001	2 275 351
Balance as at 31 December 2017							
Cost	174 830	2 930 620	625	28 026	979	12 987	3 148 067
Provisions and accumulated depreciation	(84 158)	(763 366)	(82)	(23 255)	(869)	(986)	(872 716)
Net book value	90 672	2 167 254	543	4 771	110	12 001	2 275 351

These notes form an integral part of the separate financial statements.

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As at 31 December 2017, the Company used assets in the course of construction at a cost of EUR 36 506 thousand. A depreciation charge of EUR 582 thousand was recorded in 2017 in respect of these assets.

In 2015, the Company acquired hardware and software under a finance lease. Hardware is classified as machines and equipment and its net book value amounts to EUR 2 487 thousand as at 31 December 2017 (net book value as at 31 December 2016: EUR 3 979 thousand).

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>2017</i>	<i>2016</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	191 582	191 582	MSIG Insurance Europe AG

The cost of fully depreciated non-current assets (includes also non-current intangible assets), which were in use as at 31 December 2017, amounts to EUR 131 099 thousand (31 December 2016: EUR 101 272 thousand).

8. INVESTMENTS IN SUBSIDIARIES

<i>At 31 December 2017</i>	<i>Subsidiaries</i>
Opening balance, net	1 005
Additions	-
Reclassification	-
Disposals	(5)
Impairment	-
Closing balance, net	1 000
Cost	1 000
Impairment	-
Closing balance, net	1 000

SPP – distribúcia Servis, s.r.o. was established on 27 August 2012 by a Memorandum of Association as a 100% subsidiary of SPP – distribúcia, a.s. The company was registered in the Business 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 Business Register of the District Court Bratislava I on 1 October 2013.

The Company sold its subsidiary, Plynárenská metrológia, s.r.o., during the reporting period ended 31 December 2017.

Information on the subsidiaries of SPP – distribúcia as at 31 December 2017 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

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Additional information on the subsidiaries:

<i>Business name and seat of the entity</i>	<i>Equity</i>		<i>Profit/loss</i>	
	<i>2017</i>	<i>2016</i>	<i>2017</i>	<i>2016</i>
SPP – distribúcia Servis, s.r.o.				
Seat: Oslobodenia 1068/50, Malacky	1 070	(13)	(2)	(12)

Profit/(loss) for the current reporting period represents an estimate as the final financial statements of the subsidiary were not available to SPP – distribúcia, a.s. (parent company) as at the reporting date.

9. 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 2016				
Opening net book value	9 577	6 602	261	16 440
Additions	32	-	5 899	5 931
Placed into service	1 662	4 754	(6 142)	274
Disposals	-	-	-	-
Amortisation	(2 650)	(309)	-	(2 959)
Change of provisions	-	-	-	-
Closing net book value	8 621	11 047	18	19 686
At 31 December 2016				
Cost	11 642	14 732	18	26 392
Provision and impairment loss	(3 021)	(3 685)	-	(6 706)
Net book value	8 621	11 047	18	19 686
Year ended 31 December 2017				
Opening net book value	8 621	11 047	18	19 686
Additions	-	-	73	73
Placed into service	11	3	(19)	(5)
Disposals	-	-	-	-
Amortisation	(2 816)	(247)	-	(3 063)
Change of provisions	-	-	-	-
Closing net book value	5 816	10 803	72	16 691
At 31 December 2017				
Cost	11 653	14 630	72	26 355
Provision and impairment loss	(5 837)	(3 827)	-	(9 664)
Net book value	5 816	10 803	72	16 691

In 2015 and 2016, the Company acquired hardware and software under a finance lease (Note 15). Software is classified as software and its net book value as at 31 December 2017 amounted to EUR 4 283 thousand (31 December 2016: EUR 6 438 thousand). Software acquired in 2016 amounted to EUR 1 041 thousand. A connection to the transmission network amounting to EUR 4 729 thousand was placed into service in 2016.

10. INVENTORIES

	<i>31 December 2017</i>	<i>31 December 2016</i>
Natural gas	139 648	147 569
Raw materials and other inventories	1 040	927
Provision	(91)	(83)
Total	140 597	148 458

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 2017, provisions were reversed in the amount of EUR 37 thousand (31 December 2016: EUR 9 thousand).

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11. RECEIVABLES AND PREPAYMENTS

	31 December 2017	31 December 2016
Receivables from distribution activities	16 079	19 536
Prepayments and other receivables	4 603	8 709
Cash pooling receivables	230 450	120 001
Receivables from the sale of natural gas	-	-
Total	251 132	148 246

Receivables fall due as follows

	31 December 2017	31 December 2016
Within one year	251 132	148 246
From 1 year to 2 years	-	-
From 2 to 5 years	-	-
More than 5 years	-	-
Total receivables	251 132	148 246

As at 31 December 2017, the Company recorded receivables within maturity and overdue receivables amounting to EUR 250 943 thousand and EUR 929 thousand, respectively. In the comparable period, ie as at 31 December 2016, the Company recorded receivables within maturity and overdue receivables amounting to EUR 148 015 thousand and EUR 1 057 thousand, respectively. As at 31 December 2017, receivables and prepayments are recognised net of provisions for bad and doubtful debts in the amount of EUR 740 thousand (31 December 2016: EUR 825 thousand).

Movements in the provision for receivables were as follows:

	31 December 2017	31 December 2016
Opening value	(825)	(912)
Creation	(56)	(124)
Use	59	21
Reversal	82	190
Closing value	(740)	(825)

Collateralisation of receivables

Several bank guarantees totalling EUR 30 321 thousand (31 December 2016: EUR 33 525 thousand) were established to secure the Company's receivables from natural gas distribution. In addition, financial funds in the amount of EUR 7 423 thousand (31 December 2016: EUR 4 566 thousand) were deposited in the Company's bank account.

Overdue receivables that were not provided for:

	31 December 2017	31 December 2016
Less than 2 months	64	68
2 to 3 months	4	87
3 to 6 months	4	52
6 to 9 months	4	7
9 to 12 months	8	2
More than 12 months	845	841
Total	929	1 057

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12. DEFERRED INCOME

	31 December 2017	31 December 2016
Opening balance, net	11 988	11 266
Assets acquired during the reporting period	1 277	1 076
Amortisation during the reporting period	(373)	(354)
Closing balance, net	12 892	11 988

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.

13. 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 December 2014, a new collective agreement was signed which is valid for the period from 2015 until 2018 and under which employees are entitled to a retirement benefit based on the number of years worked with the Company as at their retirement. The retirement benefits range from three to five times the employee's average salary. As at 31 December 2017 and 31 December 2016, the obligation relating to retirement and other long-term employee benefits was calculated on the basis of valid collective agreement.

As at 31 December 2017, there were 1 292 (31 December 2016: 1 323) employees covered by this program. As of that date, it was an un-funded program, with no separately allocated assets to cover the program's liabilities.

Movements in the net liability recognised in the balance sheet for the year ended 31 December 2017 are as follows:

	Long-term benefits	Post- employment benefits	Total benefits at 31 December 2017	Total benefits at 31 December 2016
Net liability at 1 January	1 265	4 120	5 385	5 619
Net expense recognised	(26)	159	133	126
Change in actuarial assumptions	-	(115)	(115)	(175)
Benefits paid	(71)	(104)	(175)	(185)
Net liabilities	1 168	4 060	5 228	5 385

	Current liabilities (included in other current liabilities)	Non-current liabilities	Total
At 31 December 2017	366	4 862	5 228
At 31 December 2016	321	5 064	5 385

Key assumptions used in actuarial valuation:

	At 31 December 2017	At 31 December 2016
Market yield on government bonds	0.985%	0.693%
Annual future real rate of salary increases	2%	2%
Annual employee turnover	1.44%	1.44%
Retirement ages (male and female)	See below	See below

The retirement age will be gradually increased by a number of days to be set annually based on the dynamics of average life expectancy development common for men and women, as determined by the Statistical Office.

Current calculation: retirement age in the previous calendar year + the set number of days. The set number of days was 76 based on the Statistical Office data.

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14. LOANS AND BONDS

	31 December 2017 Unsecured	31 December 2016 Unsecured
Loans	135 049	135 000
Bonds	503 489	502 594
Total	638 538	637 594
Loans by currency		
EUR		
– with a fixed interest rate	503 489	502 594
– with a floating interest rate	135 049	135 000
Total loans	638 538	637 594
Loans are due as follows:		
Within one year	6 903	6 854
From 1 to 2 years	-	-
From 2 to 5 years	551 635	550 740
More than 5 years	80 000	80 000
Total loans	638 538	637 594

As at 31 December 2016 and 31 December 2017, the Company drew the following loans:

Long-term loans denominated in euros in the amount of EUR 55 million and EUR 80 million with an interest rate consisting of a variable portion (3M EURIBOR) and a fixed margin in % p.a. fall due in 2020 and 2024, and are not secured by any assets.

The average interest rate of the loans drawn as at 31 December 2017 was 0.340 % (31 December 2016: 0.429%).

In 2014, the Company issued bonds in the amount of EUR 500 million with a fixed interest rate of 2.625% p.a. The maturity of bonds is on 23 June 2021.

Interest rates of the loans and bonds:

Loans and bonds

EUR	
– with a fixed interest rate	2.625% p.a.
– with a floating interest rate	3M EURIBOR + margin

The carrying amount and face value of loans and bonds:

	Carrying Amount		Face Value	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Loans	135 049	135 000	135 000	135 000
Bonds	503 489	502 594	500 000	500 000
Total	638 538	637 594	635 000	635 000

The carrying amount of bonds comprises an accrued coupon in the amount of EUR 6 854 thousand.

SPP – distribúcia, a.s has no unused credit lines.

Based on a loan agreement signed on 12 November 2014, the company is required to comply with the agreed financial covenants, ie

- Balance on the bank account may not fall below EUR 30 000 thousand, and
- Net debt and EBITDA ratio may not be lower than 2.65:1 at the end of the reporting period.

If the Company's rating with at least one agency falls to or below the following levels: BBB- at Standard and Poor's, BBB- at Fitch, Baa3 at Moody's, SPP-distribúcia, a.s. is required to provide additional collateral in the form of a guarantee, cash collateral or other form of collateral acceptable to the bank.

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As at 31 December 2013, the Company drew a loan in the amount of EUR 55 000 thousand. Under the loan agreement, the Company is not required to meet any financial covenants. However, the loan agreement defines the minimum level of the parent company's rating (Moody's: Baa2, Fitch: BBB), as the parent company provided collateral for the 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 (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 2017, the SPP-distribúcia, a.s. rating was A- (Fitch) or Baa2 (Moody's), ie all conditions were met.

15. OBLIGATION UNDER FINANCE LEASE

During 2015, the Company acquired tangible and intangible assets - hardware and software under a finance lease. The lease contract does not have the legal form of a lease, nevertheless it is recognised as a lease based on contractual terms and conditions. The lessee obtains economic rewards from the use of the leased assets during a major part of their economic useful life in return for assuming an obligation to pay for this right an amount at the inception of the lease that approximates the fair value of the assets and the related financial charge.

The lease contract is concluded for 4 years and the Company has an option to purchase equipment at the end of the lease term.

Obligation under long-term finance lease:

	Present Value of Minimum Lease Payments	
	31 December 2017	31 December 2016
Maturity		
Less than 1 year	4 437	4 437
1-5 years	271	4 649
More than 5 years	-	-
Total	4 708	9 086

The difference between the present value of minimum lease payments and gross investment in a lease is not significant.

Information on the residual value and fair value of the obligation under finance lease:

	Residual Value		Fair Value	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Obligation under finance lease	4 708	9 086	4 776	9 299
Total	4 708	9 086	4 776	9 299

16. TRADE AND OTHER PAYABLES

	31 December 2017	31 December 2016
Payables from distribution activities	31 024	27 189
Trade payables	24 905	30 926
Trade payables for gas purchases	210	848
Employee liabilities	6 908	5 740
Social security and other taxes	12 478	13 922
Payables from financial derivatives	5 572	8 402
Other payables	7 864	5 130
Total	88 961	92 157

As at 31 December 2017, trade payables to SPP Storage, s.r.o. (related party) amounted to EUR 2 545 thousand (31 December 2016: EUR 2 540 thousand).

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As at 31 December 2017, the Company recorded payables within maturity in the amount of EUR 88 961 thousand; no overdue payables were recognised. As at 31 December 2016, the Company recorded payables within maturity in the amount of EUR 92 157 thousand; no overdue payables were recognised.

Social fund payables:

	Amount
Opening balance as at 1 January 2017	135
Total creation:	337
<i>from expenses</i>	337
<i>non-mandatory allotment</i>	-
Total drawing:	(395)
<i>monetary rewards and gifts</i>	(91)
<i>benefit in material deprivation</i>	-
<i>work jubilee benefits</i>	(71)
<i>catering allowance</i>	(103)
<i>other drawing as per CA</i>	(130)
Closing balance as at 31 December 2017	<u>77</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 (2016: EUR 33 thousand).

17. REGISTERED CAPITAL

The registered capital consists of 1 ordinary certificate-form share with the face value of EUR 1 200 000 thousand. SPP Infrastructure, a. s. is the holder of such share. The registered capital has been registered in the Business Register in the full amount.

18. 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 291 484 thousand (31 December 2016: EUR 291 484 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 2017	Profit allotment for 2016
To cover losses from previous years	-	-
Dividends	142 951	99 545
Total profit to be distributed	<u>142 951</u>	<u>99 545</u>

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19. STAFF COSTS

	<i>Year ended 31 December 2017</i>	<i>Year ended 31 December 2016</i>
Wages, salaries and bonuses	29 838	28 743
Social security costs	10 778	10 002
Other social security costs and severance pay	2 577	2 808
Total staff costs	43 193	41 553

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 6 181 thousand (except for accident insurance). The employees contribute an additional 13.4% of the relevant base up to the above limits.

20. COSTS OF AUDIT SERVICES

	<i>Year ended 31 December 2017</i>	<i>Year ended 31 December 2016</i>
Audit of financial statements	31	30
Tax advisory services	-	-
Other	6	2
Total	37	32

21. OTHER REVENUES AND EXPENSES

	<i>Year ended 31 December 2017</i>	<i>Year ended 31 December 2016</i>
Unauthorised natural gas consumption	1 941	2 225
Other taxes and charges	(405)	(455)
Donated assets	366	354
Profit/(loss) from the sale of raw materials	16	106
Profit/(loss) from the sale of assets	51	3
Other	441	667
Total	2 410	2 900

22. FINANCIAL EXPENSE

	<i>Year ended 31 December 2017</i>	<i>Year ended 31 December 2016</i>
Interest expense	17 942	17 938
Other	114	191
Total financial expense/(income)	18 056	18 129

Interest expense mainly includes expenses for the coupon of a bond issued by the Company in 2014 (Note 14).

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23. TAXATION

23.1. Income Tax

Income tax comprises the following:

	Year ended 31 December 2017	Year ended 31 December 2016
Current tax related to the current year	47 421	40 013
Refunds and additional assessments of income tax	16	(1 054)
Special levy	18 388	7 208
Deferred special levy (Note 23. 2)	7	(1 438)
Deferred income tax (Note 23.2)		
– Current year	(6 199)	(21 270)
Total	59 632	23 459

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

	Year ended 31 December 2017	Year ended 31 December 2016
Profit before taxation	212 888	166 410
Income tax at 21%	44 706	36 610
Effect of adjustments from permanent differences between carrying amount and tax value of assets and liabilities	(3 485)	(1 029)
Refunds and additional assessments of income tax	16	(1 054)
Special levy on business in regulated industries	18 395	5 770
Effect of change in tax rate from 22% to 21%	-	(16 838)
Other adjustments	-	-
Income tax for the current year	59 632	23 459

The reported tax rate differs from the standard tax rate stipulated by law in the amount of 21% (2016: 22%) mainly 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 r).

23.2. Deferred Income Tax

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

	At 1 January 2017	(Charge)/Credit to other comprehensive income/loss	(Charge)/credit to profit for the period	At 31 December 2017
Difference in NBV of non-current assets	(358 307)	-	5 225	(353 082)
Items adjusting tax base only when paid	50	-	356	406
Provisions for receivables	55	-	(22)	33
Impairment loss	1 579	-	202	1 781
Provision for bonuses	453	-	910	1 363
Provision for employee benefits	1 040	-	56	1 096
Hedging derivative instruments	1 831	(803)	-	1 028
Change in actuarial assumptions	24	(24)	-	-
Other	1 523	-	(528)	995
Total	(351 752)	(827)	6 199	(346 380)

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	<i>At 1 January 2016</i>	<i>(Charge)/Credit to other comprehensive income/loss</i>	<i>(Charge)/credit to profit for the period</i>	<i>At 31 December 2016</i>
Difference in NBV of non-current assets	(380 695)	-	22 388	(358 307)
Items adjusting tax base only when paid	202	-	(152)	50
Provisions for receivables	62	-	(7)	55
Impairment loss	1 466	-	113	1 579
Provision for bonuses	1 176	-	(723)	453
Provision for employee benefits	1 106	-	(66)	1 040
Hedging derivative instruments	1 671	160	-	1 831
Change in actuarial assumptions	64	(40)	-	24
Other	1 806	-	(283)	1 523
Total	(373 142)	120	21 270	(351 752)

In accordance with the Company's accounting policy, certain deferred tax assets and liabilities were mutually offset. As required by International Accounting Standards, deferred tax also includes a deferred special levy on business in regulated industries under a special regulation. (Note 3 r). The following table shows the balances (after offsetting) of deferred tax for the purposes of recognition in the balance sheet:

	<i>31 December 2017</i>	<i>31 December 2016</i>
Deferred tax liability (Note 23.2)	(346 380)	(351 751)
Deferred special levy	1 432	1 438
Total	(344 948)	(350 313)

24. TAX EFFECTS IN THE STATEMENT OF OTHER COMPREHENSIVE INCOME

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

<i>31 December 2017</i>	<i>Before tax</i>	<i>Tax</i>	<i>After tax</i>
Change in actuarial assumptions	3	-	3
Cash flow hedging	4 895	(1 028)	3 867
Other comprehensive loss for the period	4 898	(1 028)	3 870

<i>31 December 2016</i>	<i>Before tax</i>	<i>Tax</i>	<i>After tax</i>
Change in actuarial assumptions	175	(40)	135
Cash flow hedging	(1 123)	160	(963)
Other comprehensive profit/(loss) for the period	(948)	120	(828)

25. CASH FLOWS FROM OPERATING ACTIVITIES

	Year ended 31 December 2017	Year ended 31 December 2016
Profit before tax	212 888	166 410
Adjustments:		
Depreciation and amortisation	100 547	99 186
Interest income, net	17 759	17 976
Reserves, provisions and other non-cash items	327	617
Loss/(profit) from the sale of non-current assets	(51)	(3)
Income on non-current financial assets	(81)	(98)
(Increase)/decrease in receivables and prepayments	7 566	(6 213)
(Increase)/decrease in inventories	7 852	4 907
Increase/(decrease) in trade and other payables	(6 558)	(24 736)
Cash flows from operating activities	340 249	258 046

26. COMMITMENTS AND CONTINGENCIES

Capital Expenditure Commitments

As at 31 December 2017, capital expenditures of EUR 13 777 thousand (31 December 2016: EUR 17 231 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 a framework operating lease contract concluded in 2010. The framework contract (as per the relevant amendment) 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 3 450 thousand in the year ended 31 December 2017 (31 December 2016: EUR 4 257 thousand).

Non-cancellable operating lease payables amount to:

Period	31 December 2017	31 December 2016
Within 1 year	2 380	2 000
From 1 to 5 years	6 005	2 697
More than 5 years	25	20
Total	8 410	4 717

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).

The regulatory period is five years, starting in 2017 and ending in 2021.

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. 223/2016 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 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 2017, 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. 223/2016 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.

Since 2014, the buy-out of gas facilities being the distribution network has also been subject to price regulation in the gas industry.

Based on changes arising from issued price decisions, RONI approved in its decision the corresponding changes to the Operating Rules of SPP – distribúcia, a.s.

Changes in the regulatory laws

In March 2016, the Regulation Council issued the Regulation Policy for 2017 – 2021 which, inter alia, defines the objectives and priorities of regulation in the gas industry for the upcoming regulation period. In July 2016, Decree No. 223/2016 Coll. stipulating price regulation in the gas industry with effect from 27 July 2016 was approved. An amendment to Decree 24/2013 Coll. laying down common rules for the electricity market and common rules for the gas market was approved. The amendment introduced the option of increasing the fixed component of the total price for gas distribution up to 85%, and broadened the tariff groups.

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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27. RELATED PARTY TRANSACTIONS

The 100% owner of the Company's shares is SPP Infrastructure, a.s., in which Energetický a průmyslový holding, a.s. holds a near 49% of the shares including management control and 51% of the shares by Slovenský plynárenský priemysel, a.s.

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

	Year ended 31 December 2017		Year ended 31 December 2017	
	Revenues	Expenses	Other	Payables
SPP, a.s.				
SPP Infrastructure, a.s.	282 874	10 983	-	231
Other related parties	579	118	-	230 540
	7 960	31 878	18 785	24
Total	291 413	20 075	18 785	4 755
			231 919	39 007

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

The Company primarily recognises the purchase of raw materials and assets as "Other".

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

	Year ended 31 December 2016		Year ended 31 December 2016	
	Revenues	Expenses	Other	Payables
SPP, a.s.				
SPP Infrastructure, a.s.	258 582	11 706	144	3 434
Other related parties	122	85	-	120 033
	4 828	31 884	29 444	684
Total	263 532	43 675	29 588	124 151
				33 558

Since 2013, the Company has applied an exemption from IAS 24 on the non-disclosure of information on related parties through the Ministry of Economy of the Slovak Republic.

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

	Year ended 31 December 2017	Year ended 31 December 2016
Remuneration to members of the Board of Directors, Supervisory Board, executive management and former members of the bodies - total	1 706	1 909
Of which:		
Board of Directors and executive management	1 622	1 809
Supervisory Board	84	100
Benefits after termination of employment to members of the Board of Directors, Supervisory Board, executive management and former members of the bodies - total	-	-
Of which:		
Board of Directors and executive management	-	-
Other long-term benefits to members of the Board of Directors, Supervisory Board, executive management and former members of the bodies - total	-	-
Of which:		
Board of Directors and executive management	-	-
Benefits after termination of employment to members of the Board of Directors, Supervisory Board, executive management and former members of the bodies - total	-	-
In-kind benefits to members of the Board of Directors and executive management - total	67	68
Of which:		
Board of Directors and executive management	67	68
Supervisory Board	-	-
Other payments to members of the Board of Directors, Supervisory Board, executive management and former members - total	14	14
Of which:		
Board of Directors and executive management	14	14
Supervisory Board	-	-

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

a) Members of the Company's bodies

Body	Function	Name
Board of Directors	Chairman	Ing. František Čupr, MBA
	Vice-Chairman	Ing. Štefan Šebesta
	Member	Mgr. Petr Hájek – until 25 May 2017
	Member	Ing. František Urbaník, Ph.D. – since 26 May 2017
	Member	Marek Štrpka
	Member	Ing. Gustáv Laca – until 1 Jan 2017
Supervisory Board	Member	Ing. Pavol Mertus – since 2 Jan 2017
	Chairman	Ing. Rastislav Chovanec, PhD.
	Vice-Chairman	Tomáš David – until 20 Mar 2017
	Vice-Chairman	William Price – since 21 Mar 2017
	Member	Ing. Miroslav Recký – until 5 Apr 2017
	Member	JUDr. Mgr. Matej Šimášek, PhD. – since 6 Apr 2017
	Member	Ing. Róbert Procházka
	Member	Milan Boris
Executive management	Member	Pavol Korienek
	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
	Director of Investments	Ing. Irenej Denkocy, ACCA
	Director of Maintenance and Measurement	Ing. Miroslav Horváth
	Director of Distribution Services	Ing. Marek Paál
	Director of Human Resources, Quality, Health and Safety at Work, and Environment	Mgr. Ing. František Kajánek
	Director of Internal Supervision	
	Director of Internal Supervision	Mgr. Karin Jaššová, PhD.

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 IFRS 10 paragraph 10.28 and did not prepare consolidated financial statements as at 31 December 2017. Consolidated financial statements presented in accordance with the International Financial Reporting Standards will be prepared by SPP Infrastructure, a.s. with its seat at Mlynské nivy 44/a, 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 SPP Infrastructure, a.s. SPP Infrastructure, a.s. prepares consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS).

In the consolidated financial statements, subsidiaries are the reporting entities including structured reporting entities which are controlled by the Group, as (i) it has power to control the relevant activities of the respective reporting entity that have a significant impact on its profitability and revenues, (ii) is exposed, or has a right, to variable returns from such reporting entity, and (iii) has the ability to use its power to affect returns for the investors in the respective reporting entity. The existence and impact of substantial rights including potential voting rights has to be considered when assessing whether the Group has power over the other reporting entity. The right will be considered substantial if its owner has the practical ability to exercise the right at the time when decisions on the reporting entity's relevant activities are made. The Group can have power over a reporting entity if it owns less than one half of the voting rights. In such case, the Group assesses the size of voting rights of other investors compared to the rights and ownership structure of such other voting rights in order to identify whether it has de-facto control over the reporting entity. Protective rights of other investors, such as those relating to substantial changes in the reporting entity's activities, or those which are applicable only in exceptional circumstances, shall not prevent the Group from controlling another entity. Subsidiaries are consolidated from the day of transfer of control to the Group and deconsolidated in the case of a loss of control.

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 presented as at 31 December 2017 by the ultimate reporting entity, Energetický a průmyslový holding, a.s., with its registered office at Pařížská 130/26, Josefov, 110 00 Prague 1, Czech Republic. The consolidated financial statements of Energetický a průmyslový holding, a.s. are available at its registered office and will be deposited with the Business Register of the Municipal Court in Prague, Czech Republic by statutory deadlines.

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

29. POST-BALANCE SHEET EVENTS

After 31 December 2017, there were no significant events that would require adjustments to or disclosure in the financial statements.

Prepared on:

15 February 2018

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

Approved on:

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

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

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

Ing. Roman Filipoiu

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

Ing. Peter Duračka