

Annual Report

2010

” In the midst of a dynamic market environment, the present position of the Distribution Network Operator will develop further towards meeting the requirements of market liberalization, implementation of the 3rd Energy Package and preparations for the new regulation period, in particular.”

Jost Ahrens
Chairman of the Board of Directors

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Statement by the Chairman of the Board of Directors



” In the midst of a dynamic market environment, the present position of the Distribution Network Operator will develop further towards meeting the requirements of market liberalization, implementation of the 3rd Energy Package and preparations for the new regulation period, in particular. ”

Ladies and Gentlemen,

For the company SPP - distribúcia the year 2010 was a continuation of the successful journey of transformation towards becoming a leading Distribution System Operator in the region of Central and Eastern Europe.

In the midst of a dynamic market environment, the present position of the Distribution Network Operator will develop further towards meeting the requirements of market liberalization, implementation of the 3rd Energy Package and preparations for the new regulation period (2012 – 2016), in particular.

SPP - distribúcia is prepared to contribute to open yet determined dialogue on a new regulatory method, which in essence must ensure the reflection of all cost factors that SPP - distribúcia incurs. The necessity for investments into the renewal and reconstruction of the network will continue to be the main driver in this respect, as the safety and proper functioning of our network are a priority. Keeping this as our paramount objective for the future, at the same time, is crucial to earning public support and trust.

It is mandatory for us at SPP - distribúcia to secure these safety elements under all modes of operation and climatic conditions, and not only as part of over 26,000 kilometers of low and medium pressure networks, but also on the high-pressure pipelines operated by our company. The fact that the responsibility of SPP - distribúcia covers functions beyond the core distribution business, like network balancing and the role of Slovak Gas Dispatching, make our role unique for a Distribution System Operator in Europe, while the necessity to ensure high profitability of our economic and technical activities becomes ever more essential.

The last year was also a period of development during which SPP - distribúcia realized a series of initiatives aimed at a necessary further increase in efficiency of the company's internal processes and performance in continuation of what was started only in 2008 within the project "NET".

In order to tackle future challenges, and also in consideration of the performance of our peers, SPP - distribúcia must continue on its path of active preparation in the sphere of cost management, stabilized and lean processes, and smooth coordination within the company structures, while strictly maintaining the high safety record of our network operations.

I sincerely believe that the steps to be taken will prove to be the right ones in order to keep SPP - distribúcia on track, to protect its leading position and to set out the right framework for a prosperous company future.

Having said this, I am proud to say that I am confident that SPP - distribúcia will successfully manage the topics ahead. I draw this strong belief from the input and dedication of our employees and the management, which formed an ever apparent part of company culture during 2010.

It is true that the management of our physical infrastructure assets is an essential concept by means of which the company achieves its business objectives, manages effective natural gas distribution and sustains safety. Yet our core tasks can only be achieved through the combined effort of our workforce who day-by-day and throughout the country provide a professional approach that deserves recognition and respect. In this regard, the floods of the summer of 2010 have proven thoroughly the preparedness of our company to deal with emergency situations in an impressive way. The extraordinary efforts displayed during the relief works in affected areas can also be taken as proof of the solidarity of our employees and the consequential transformation of our company values in real life.

What else makes us prepared for the future?

I strongly believe that we must pay great attention to the continued improvement of all forms of collaboration within the company with the involvement of all sections and – what is of great importance in well-functioning companies – through active interconnection between employees and management, whether at headquarters or in regions, in the form of direct communication offering space for open dialogue.

Transparent communication on both strategic aims and the individual steps on how to reach these will be essential. I sincerely hope that a good foundation of mutual understanding will create trust among us all in order to fuel the support and team spirit within our company for the challenges ahead.

From an external point of view, the year 2010 witnessed several important milestones in the field of customer orientation aimed at retaining existing customers and attracting new ones to our services, which will be essential for the economic well-being of SPP - distribúcia.

In March we opened our Call Centre in Prievidza and in May the new SPP - distribúcia Customer Office in Bratislava, and the successful test phases of the last year proved that we have chosen the right direction.

Aiming mainly at our strategic customers segment, the process of connection was completely re-engineered. SPP - distribúcia's website now features all elements and pre-requisites for the connection process in a clear structure and provides access to competent partners in the case of questions.

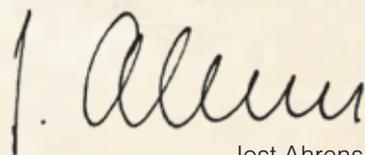
In this area, more will follow in the year 2011 with a focus on inner-organisational steps to introduce a key account management system and to support active business development in this field.

Last but not least, emphasis was put on the quality of external communication and the creation of better conditions for communication with cities and municipalities in Slovakia. This represents additional support for the company image in the sphere of direct contact with customers, following the strategic aim to strengthen our customer base and handle our customer relations in a more efficient and professional way. On a more operative scale, the stronger focus on the in-time and on demand response to questions concerning the coordination of digging works and network development planning throughout Slovakia will contribute to the positive perception of SPP - distribúcia in the eyes of the general public.

In 2011, SPP - distribúcia will remain committed to contributing to public dialogue on legislative initiatives by making independent proposals and also by keeping an "ear on the market" whenever there is room for reasonable adaptations to existing policies and procedures. In this respect, SPP - distribúcia would like to be regarded as a fair partner that responsibly values core projects for the whole Slovak Republic such as the introduction of biomethane, and it is open to playing an active role in their development.

The path that SPP – distribúcia followed in 2010 calls for pro-active continuation in 2011. We may speak of success achieved already, for which my thanks belong to all employees of SPP - distribúcia who contributed with their daily work and sometimes with even "above standard" efforts to this result.

I am convinced that the shared ambition will lead to shared success and lay a solid foundation for the future of SPP - distribúcia.



Jost Ahrens
Chairman of the Board of Directors

Statement by the General Director



” Even though all of our planned economic indicators were met in 2010, I am convinced that long-term success is only possible if we make constant progress.”

Ladies and gentlemen,

the Annual Report offers an opportunity to evaluate the development in our company, as well as to inform you about the proposals, plans and anticipations for the upcoming period. Another year passed of independent operation of SPP - distribúcia and we successfully managed this even under market conditions stricken by the impacts of economic recession.

The success of a company is undoubtedly measured and proven by its results. However, I strongly believe that it is the employees that deserve most credit for the results and the image-making and brand-shaping of the company. I am glad, and at the same time also proud, to have the opportunity on behalf of the management of the company to thank almost 1,700 employees for the results that our company achieved in 2010. The year 2010 was a period of stabilization, strengthening new solutions and revealing and applying new development possibilities after 2009, when SPP - distribúcia underwent complex changes to the organisational structure, management principles and competencies. The rising quality and intensity of communication with employees and the related improvement in mutual understanding have led to new stimuli, which we consider essential inspiration for management work, because we believe that it is the employees who know best how to do their work most effectively. That is also why we are glad that all the changes we made in the past year were put into action with no troubles or misunderstandings.

Fundamental goal of the management within financial planning and statement reports is transparency. Our company achieved auspicious economic results and key cuts in costs as a result of the continuous introduction of measures on saving and optimization. Achieving these measures was only possible thanks to the strong support of our employees, who have taken an active part in changes to internal procedures and in raising constantly the level of work productivity and strategies on all levels of the company. In spite of looking for savings, the investment expenditures linked to the safety of distribution network operation were not limited, because we consider it our core responsibility.

We include operation and development of the gas distribution system among the main activities of the company SPP – distribúcia. We fulfill the function of Slovak Gas Dispatching and are responsible for the security of gas supply for households and for balancing the distribution network. It is necessary to emphasize that apart from the unexpected events brought on by the floods in 2010, there were no substantial operational problems and we continue to guarantee a safe and reliable gas distribution network. Every further administrative action taken was aimed at raising management efficiency and naturally also at improving operational safety of the distribution network. Today we can confidently say that all the facilities operated by SPP – distribúcia have operational and safety rules in place, which are in line with Slovak statutes. In cases where the rules are not legislatively specified, we act demonstrably always in a way that is in line with international standards.

Amendments to legislation in terms of legislative changes connected with the activities of our company met with prompt reactions from our part in 2010. Our company has adapted to changes in gas market rules. We are active participants in the preparation of legislative changes regarding quality standards of distribution services.

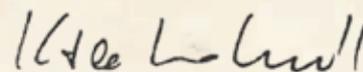
The status of our company in the regulated business environment requires a constant search for new forms of communication and cooperation with customers and business partners. We made substantial progress in this regard in 2010. An increasingly strong motivation for our work is the satisfaction of customers, who appreciate quality and a quick service through a more targeted and customer-oriented approach. We consider not only traders as our customers, but also everyone who takes natural gas off the distribution network or would like to in future. Our concentration is furthermore focused on big investors and we are actively seeking the right balance in mutual responsibility of the distributor and investors on efficient use and investment return with respect to already existing or potential strategic projects of significant gas customers.

Last but not least, from the managerial point of view it is necessary to mention also careful approach when it comes to safety on workplace. The measures undertaken in 2010 highlight the importance of well-being of our employees and responsibility of everybody for co-creation of safe and productive working environment.

Even though all of our planned economic indicators were met in 2010, I am convinced that long-term success is only possible if we make constant progress. Apart from fulfilling the basic commitments of the distribution network operator, which remains our priority, we will work intensively also in other areas of interest in 2011. One of the key challenges and opportunities ahead is the area of regulatory management and preparation for the next regulatory period. We anticipate positive results from the ongoing analyses on preparation of the 3rd energy package implementation, which may produce new effective possibilities of mutual cooperation between the companies within the SPP Core Group. No matter which of the legislative models is eventually adopted, SPP – distribúcia will continue to follow the path of changes that we set out on in 2008.

I believe that we will be able to build on attained successes and we will get the most out of the challenges and opportunities ahead, discover other sources of inspiration for gradual development of our company and that we will maintain the favor of our business partners, customers and employees. That is the only possible means of achieving positive evaluation of the first five years of independent existence of SPP – distribúcia.

I would like to thank our shareholders and business partners for their support, cooperation and trust, which make it possible for our company to grow and step towards long-term prosperity.



Bohumil Kratochvíl
General Director

Company Profile

What We Build Upon

Although the gas distribution sector has a long tradition in Slovakia, SPP – distribúcia is a young, dynamically developing and flexible company. A 100% subsidiary of SPP, the company began operating on 1st July 2006 following the legal unbundling of all activities relating to natural gas distribution and distribution assets. Since that time, SPP – distribúcia has been developing its know-how backed by the extensive and invaluable experience of the company's employees.

Who We Are

The exclusive position of our company on the Slovak energy market also carries with it great responsibility. Our priority is to guarantee the safe and reliable distribution of natural gas to consumers, to ensure operating safety and the occupational safety of our employees. In the past year, our employees proved their competence and commitment in situations involving risk, when eliminating the impacts following the vast floods that plagued several areas in Slovakia. Thanks to great expertise and immense efforts of our employees, it was possible to renew natural gas supplies shortly at each point of supply affected by the floods except for those where the impacts were so devastating that the re-launch of the gas facility into operation was permanently impossible.

The mission of our company as a distribution network owner and operator is the safe and reliable distribution of natural gas. Our company sells distribution capacities, focuses on development activities, operates and maintains the distribution network and, last but not least, covers the dispatching activities and network balancing through Slovak Gas Dispatching.

In all of the activities that SPP – distribúcia performs as the Distribution Network Operator, a transparent and non-discriminatory approach is applied both to customers and gas suppliers alike.

Where We Are Heading

In the company, the years 2009 and 2010 were related to the implementation of initiatives under the NET project, the result of which was the introduction of operations management system based on asset management principles. Against the background of the need for ever increasing efficiency, the year 2011 will inevitably see a continuation in the further optimisation of internal processes and activities, an improvement in the quality of our services and the deepening of contacts with both our customers and partners.

Key measures that have led to streamlining the management of SPP - distribúcia definitely include the implementation of optimized maintenance activities and the associated change of organisational structure. The original 9 local centers were reduced to 6. New geographical delineation, standardization of working procedures and specialization of activities in line with the new arrangement of local centers, with clearly specified competencies, produces greater efficiency and cost savings for the company.

The upcoming period will be marked by thorough preparations for the new regulatory period. Maximum attention will be paid to successfully introduce a balanced approach, mainly in connection with the rising need to increase investments so as to maintain the safe and reliable distribution of natural gas to end customers.

Access to natural gas is enjoyed by more than 94% of Slovak citizens. Today, SPP – distribúcia secures the distribution of natural gas for approximately 1.5 million consumers in Slovakia, which serves as proof of the popularity and widespread use of natural gas as a fuel and, at the same time, creates an opportunity for continuing with development of distribution capacities also in future.

Strategy and Goals of the Company

The mission of SPP – distribúcia is to secure the reliable, safe and effective distribution of natural gas from the supplier to the customer. The company's vision is to continue being a stable, trustworthy and efficient provider of quality services in the field of natural gas distribution, foreseeing the future needs of customers and also creating value for our customers, shareholder and employees.

In 2010 SPP - distribúcia continued in its efforts to become a customer-oriented company and streamlined internal processes in this respect. The company launched successfully the live operation of the Customer Line for Connection to the Distribution Network and it opened Customer Offices for Connection to the Distribution Network. In order to make the company even more responsive to the requirements of an increasingly demanding market environment, it boosted the efficiency of decision-making and business processes.

SPP - distribúcia has chosen a proactive approach in the field of communication with cities and villages. The company has set the goal to lead open dialogue with representatives of cities and villages, in line with the updated internal policy and standards for communication. The outcome of two-way communication with municipal representatives will be beneficial coordination of work as part of planned reconstruction and development projects. Both parties will have timely and sufficient information about plans.

In 2011 SPP - distribúcia expects stronger competition on the gas supply market and the entry of new suppliers to the market. As a result of switching to a new gas supplier, the company therefore expects a higher number of applications for the conclusion of gas distribution contracts with new suppliers. In this respect, SPP - distribúcia pledges to ensure the professional, non-discriminatory and timely processing of such applications.

The current regulatory period will end in 2011. A cardinal step for the company will therefore be the active contribution in the dialogue with the regulator concerning the regulation method for the upcoming period. SPP - distribúcia will pay full attention to issues reflected in the current regulatory framework and those that are critical for the company, like reflecting the need to increase investments into reconstruction of the distribution network.

Key Goals in 2011

The most important goals of SPP – distribúcia spring from the responsibility to ensure the safe and reliable distribution of gas for all our customers.

Guaranteeing a high safety level of operating activities

SPP – distribúcia ensures the good technical condition of the distribution network by systemic measures and procedures, and so it is able to guarantee the safe and reliable distribution of gas for its customers in the long-term. In the interest of fulfilling the commitment to further streamline the activities performed at gas facilities and with emphasis on the safety and continuity of gas distribution, the company updated the "Rules for Operation and Maintenance of Gas Facilities" as of 1st January 2011. One of our goals in 2011 will be to improve the quality of the construction of new distribution networks, which the company intends to ensure thanks to the updated system for checking adherence to technological procedures in the construction of gas facilities by third parties.

Continuously improving operating efficiency

In 2010 the demanding situations that the company's workers had to face as a result of summer floods were handled successfully and in a short period dozens of cases involving damage to the distribution network were solved. These successful interventions were also the result of the improved efficiency and optimized coordination of our operating activities. The year 2011 will be characterised by further measures for increasing efficiency and savings. One of the main challenges will be to perform the outsourcing of meter readings in a way that preserves the quality of the provided service towards gas suppliers. The provision of this external service will be continually monitored and evaluated in order to follow the set criteria of quality and efficiency.

Optimising investment costs

The year 2010 was typified by the initiative "Investment Process Redesign" in SPP - distribúcia, the main goals of which were to reduce unit costs for investments, shorten the time period for administrative processes and streamline the management of the entire investment process. The result was the new design of the investment process, which is being gradually incorporated to the company's processes. In our effort to optimise the investment costs for renovation and development of the distribution network, the company's goal in 2011 is to finish its implementation and evaluate expectations following the first year since its introduction.

Strategy and Goals of the Company

Improving customer approach

SPP – distribúcia awaits new challenges in 2011, particularly in the field of marketing and the connection of customers to the distribution network. One of them is the creation of a unified and transparent system for researching new market opportunities and identifying potential new consumers across all customer categories. The company will also continue improving the contact with customers and the provision of information to potential new customers about the connection process and its conditions. The fact that we deem the professional relationships with our customers paramount will be also reflected in new organisational set-ups of our distribution services segment. The year 2011 will also be a year for defining and introducing the new connection policy in an effort to harmonise the rules for connection in the households segment with the changing conditions on the gas market.

Motivating qualified employees and job-seekers

SPP - distribúcia understands that qualified and motivated employees constitute the basic building block for the company to achieve its goals and successes. It is therefore striving to create favourable working conditions for our employees and to provide motivating and stabilising financial compensation, as well as various employee benefit programmes and opportunities for career growth. The company provides an opportunity to young talented people who are able to apply and develop their expertise and skills in our company.

Financial stability and profitability

With the aim of improving cost-efficiency and of securing stable profitability, SPP – distribúcia will concentrate on streamlining all important processes in the company. The creation of a new regulation policy represents one of the opportunities for analysing and setting the correct form of market regulation in gas distribution so that an adequate return on capital expenditures is ensured.



Our aim is to distribute natural gas and comfort safely and reliably into your homes.

Board of Directors as of 31st December 2010



Jost Ahrens, LL.M., Chairman of the Board of Directors. He studied law at the Universities of Passau and St. Petersburg, Russia (as part of the academic exchange programme). He started his professional career in the banking and financing sector of KPMG accounting in Hamburg. In the year 2003 he earned the academic status of LL.M. (Master of Laws) from the University of Sydney, Australia. He joined E.ON Ruhrgas in 2003, where he held various positions in Gas Supply Division, most recently as the Vice-President, LNG Supply Chain Management. On 1st October 2007 he became a Member of the Board of Directors of NAFTA a.s., the Slovak gas storage operator. He has served as a Member of the Board of Directors of SPP – distribúcia, a.s. since 1st October 2009. He became the Chairman of the Board of Directors of SPP – distribúcia, a.s. on 1st July 2010.



Ing. Miroslav Greš, Vice-Chairman of the Board of Directors. He graduated from the Faculty of Mechanical Engineering of the Technical University in Košice and later continued in postgraduate studies at the Faculty of Natural Sciences of P. J. Šafárik University in Košice in Mathematical Optimisation in Technical & Economic Practice. After completing his studies in 1986, he worked as a Mathematician - Analyst in the data center of Pozemné stavby, state enterprise and Agrostav SP. In 1991 he worked as the Head of Automated Data Processing in Pozemné stavby, state enterprise. Between 1993 and 1994 he worked for Aton Multimedia, s.r.o. at the position of the Head of Multimedia Application Development for the Ministry of Economy of the Slovak Republic. Between 1994 and 2001 he worked as a Database Application Analyst for TIC information offices in Mr. SOFT in Spišská Nová Ves. Since 2001 he has been working for IS KROS, a company specialising in selling economic and construction software, at the position of the Director and Head of Branch of KROS, a.s. in Spišská Nová Ves. He has been serving as the Vice-Chairman of the Board of Directors of SPP – distribúcia, a.s. since 24th June 2009.



Ing. Jean-Pierre Béringuier, Member of the Board of Directors. He studied engineering at the University Ecole Nationale Supérieure d'Arts et Métiers in Paris. In 1987 he started his professional career as Operations Manager in the Transmission Division – Ile de France Operations Center in Gaz de France SA. He held various positions in the Transmission Division – in 1990 – 1996 he worked as the Head of gas compressors & gas turbines Repair and Technical Support Department. In 1996 – 2000 he worked as the Head of transmission networks Expertise & Support Department and in 2000 – 2003 he held the position of the Head of Technical Operations Department in the Ile de France Operations Center. In 2003 – 2006 he was the Gas Infrastructures R&D Program Director in the Research & Development Division and at the same time he was the Chairman of MARCOGAS Infrastructures Committee in Brussels, Belgium. On September, 2006 he became Deputy CEO of Italcogim Reti (4th gas distribution operator in Italy) in GDF SUEZ Energy Europe & International, in Milan, Italy. He has been a Member of the Board of Directors of SPP – distribúcia, a.s. since 15th September 2010.

Ing. Stéphane Grit was the Chairman of the Board of Directors until June 30th 2010 and a Member of the Board of Directors until 14th September 2010.

Ing. Jean-Pierre Béringuier became a Member of the Board of Directors on 15th September 2010.

Top Management as of 31st December 2010



Ing. Bohumil Kratochvíl, General Director.

He graduated from the Czech Technical University in Prague. He started his professional career in the gas industry in 1980, gradually working in the fields of transmission, trading, exploration, production, storage and finally, the distribution of natural gas. During his career he worked for the Czech gas companies Transgas Prague and SPP Bohemia, a.s. He came to Slovakia in 2003 when he joined NAFTA a.s., where he was appointed the General Director in January 2004. Since 1st July 2008 he has been the General Director of SPP – distribúcia, a.s.



Ing. Dušan Dobiaš, Investment Section Director.

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



Ing. Roman Filipoiu, Economy and Regulation Section Director.

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



Ing. Rastislav Lauko, Asset Management Section Director.

He completed his finance studies at the Faculty of National Economy of the University of Economics in Bratislava in 2002. During his studies he completed an internship at the University of Lisbon, Portugal. He worked in the position of General Secretary of the Slovak branch of the International Youth Organisation. In 2005 he joined Slovenský plynárenský priemysel, a.s. (SPP) where he specialised in the regulation of distribution services and distribution tariffs. He participated in the process of legal unbundling of SPP into three separate companies. From 2006 he managed the finances of the company and relations with regulatory bodies in SPP – distribúcia, a.s. He led a project, which in 2009 resulted in the restructuring of the company on the basis of a modern management system of infrastructure assets. Since April 2009, he has been responsible as the Director of Asset Management Section in SPP – distribúcia, a.s. for the distribution network's development strategy, network operation, network profitability, metering strategy and management of network data.

Top Management as of 31st December 2010



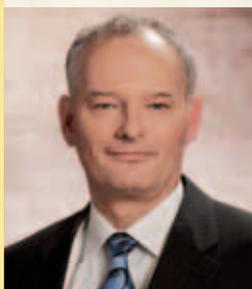
Ing. Milan Mindek, Slovak Gas Dispatching Director.

He graduated from the Technical Operation of Telecommunications Department at the Faculty of Electrical Engineering of the University of Transport and Communications in Žilina. His professional career began in 1980 as the Head of the Metering Group at the Regional Gas Company in Žilina, where he gradually worked in various management positions. In 1994 he joined Slovenský plynárenský priemysel, a.s. as the Head of Slovak Gas Dispatching and since 1996 he has been the Director of Slovak Gas Dispatching in SPP – distribúcia, a.s. Slovak Gas Dispatching is responsible for the day-to-day management of the company's distribution network, for management of gas distribution to downstream networks, for balancing distribution networks and fulfilling important tasks in handling states of emergency in the gas industry under the competence of the Slovak Republic. Equally important is the operation of the emergency line, which serves customers throughout Slovakia.



Ing. Marek Paál, Distribution Services Section Director.

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



Ing. Rastislav Prelec, Maintenance and Metering Section Director.

In 1985 he graduated from the Faculty of Electrical Engineering at the Slovak University of Technology in Bratislava and in 2005 he completed his Masters studies in industrial engineering at Fachhochschule Ulm (Germany). After completing his studies, he worked in the Chemical Technology Research Institute as the Head of Automation Department until 1991. Between 1991 and 1995 he was self-employed in the field of industrial automation. In 1995 he joined Slovenský plynárenský priemysel, a.s. as a Telemetric Equipment Technician. Later he served as the Head of Control Systems Department. From 1997 he worked as a Project Manager and Co-Manager in the following projects: Reconstruction and Remote Control of Transfer Stations (SCADA SPD), Remote Monitoring of Regulation Stations (SCADA OZ), Dispatching Control Systems (SCADA), Remote Monitoring of Large Customers, Mobile Workplaces and Distribution Information System. In 2009 he was appointed the Director of Maintenance and Metering Section in SPP – distribúcia, a.s.

Supervisory Board as of 31st December 2010



Doc. Ing. Nikolaj Ponevský, PhD., Chairman of the Supervisory Board.

He graduated from the Faculty of Metallurgy at the Technical University of Košice, where he later defended his candidate dissertation work (CSc.) and habilitation (Doc.). He is a founder of the gas industry as a professional specialisation in Slovakia. He founded and was the Director of the Joint Thermal Technology Laboratory at the Technical University in Košice and the Application & Consulting Centre for SK VITER (state commission for scientific-technological and investment development). He became an External Advisor to the Vice-Chairman of the Federal Government for the energy industry. Later he started working in the same position for the Prime Minister of the Slovak Government. Between 1991 and 1997 he founded and worked as the Director of the metallurgy trade representation for Balkan countries based in Sofia, Bulgaria. In 1998 he worked as an External Consultant and Project Manager in Telenor Slovakia, a.s. and in 1999 - 2004 he was an External Advisor to the Slovak President for External Relations for Balkan countries. At that time he also worked as an External Consultant and Advisor to DITEC, a.s. in the field of information technology. In 2004 he was appointed a Member of the Board of Directors of BAT, a.s. and he was also the Advisor to the General Director of the same company. Between 2004 and 2005 he was a Member of the Supervisory Board of Slovenský plynárenský priemysel, a.s. and in 2006 - 2007 a Member of the Supervisory Board of SPP - preprava, a.s. On 9th February 2007 he became Chairman of the Supervisory Board of SPP – distribúcia, a.s.

Ekkehard Ludwig, Vice-Chairman of the Supervisory Board

Members:

Pavol Korienek

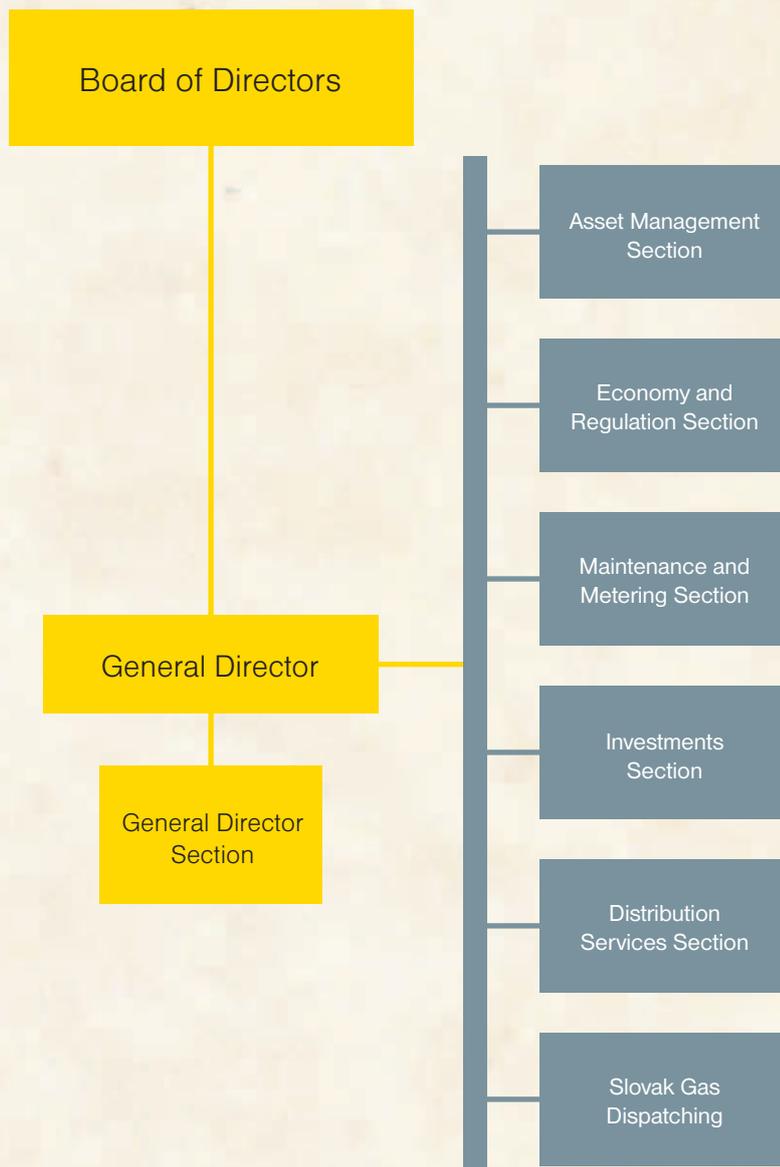
Ing. Gustáv Laca

Daniel Nechala

Ing. Vladislav Petráš

Dan Pantilie was the Vice-Chairman of the Supervisory Board until 27th July 2010.

Organisational Chart as of 31st December 2010



Economic and Financial Performance

Development of business environment

The business environment in Slovakia was influenced in 2010 by problems experienced by the whole eurozone, namely the euro crisis and the deteriorating financial stability of companies due to the financial and economic recession of the past two years.

Another factor affecting the business environment was the unstable development on the **foreign exchange market**. The exchange rate of the euro against the dollar progressively weakened throughout the course of 2010. The events taking place on the **commodity markets** with oil and oil products were characterised in 2010 foremost by the growth in oil prices, whereby the price of oil rose by almost a quarter through the year. The development of higher prices of oil and oil products combined with the weakening euro subsequently negatively reflected also in the levels of natural gas purchase prices.

Under these conditions, SPP – distribúcia concentrated primarily on achieving financial stability and profitability, as well as on ensuring the smooth and safe operation of the distribution network. In an effort to maintain financial stability and eliminate the negative effects of the external environment, the company proceeded with its programme of optimising operational and maintenance processes. Foremost we raised the efficiency of maintenance process and reorganised the structure of maintenance centres into 6 local centres.

Funds spent on long-term assets went mostly toward renewing the existing network (including the reconstruction of gas facilities damaged by the extensive floods). Investment into development of the networks continued by improving the conditions of the network (cathode protection) and by establishing gas connection lines for individual customers (obligation based on technical conditions of connection). No significant new development projects were launched, because of the increasing need to fund the renewal of the network and also because of the set-up of the current regulatory policy (regulation based on a price-cap method).

The company's constant focus on improving its approach and the quality of customer services led to a new customer line for connection to the distribution network being put into service and the establishment of four customer service offices in Bratislava, Žilina, Nitra and Košice. In line with the goal of reducing losses from gas distribution, a special team was set up to uncover cases of unauthorised offtakes.

Considering the nature of the sector in which SPP – distribúcia operates, the financial results of the company are also strongly affected by **climatic conditions**, as these influence the volume of gas that is distributed. Average temperatures for the whole 2010 heating season wavered below the long-term average and so had a positive effect on distributed volumes of gas. The average annual temperature was 9.1 degrees Centigrade. In the coldest months of the heating season, i.e. January and February, the average temperature was 0.9 degrees lower than the previous year.

In June 2010 Slovakia had to face an extraordinary situation due to **floods**. Ensuring the smooth supply of gas to customers was complicated by extensive flooding in some municipalities in central and east Slovakia, which caused a temporary disruption in natural gas supplies. This natural disaster caused landslides, tore down bridges and damaged gas pipelines, causing huge damages for the company. Our employees had to prevent a potential threat to the population posed by possible gas leaks from damaged pipelines.

Economic and Financial Performance

Results of SPP – distribúcia, a.s.

In 2010 SPP – distribúcia generated **revenues from services** worth EUR 387.54 million, which in comparison with the previous year represents a drop of EUR 5.61 million. The main source of these revenues comprised sales revenue from the provision of distribution capacities.

Operating expenses came to EUR 251.29 million, with the main elements being depreciation and amortisation, natural gas storage, other services and personnel costs. Operating costs were down EUR 0.32 million compared with 2009, mostly thanks to reduced costs for the purchase of natural gas and for materials and energies.

For the 2010 fiscal year the company posted a **pre-tax profit** of EUR 135.69 million, which compared with last year is a drop of EUR 5.40 million. The total income tax of EUR 28.66 million was made up of due taxes worth EUR 35.10 million and a reduction in the deferred tax liability by EUR 6.44 million. **Profit after tax** came to EUR 107.03 million.

Comparison of structure of profit after tax (in EUR million)

	2010	2009
Revenues from sale of services	387.54	393.15
Operating expenses	-251.29	-251.61
Profit/loss from financial operations	-0.56	-0.45
Pre-tax profit	135.69	141.09
Income tax	-28.66	-32.58
Profit after tax	107.03	108.51

Capital Structure

Assets

Total assets of the company as of the Balance Sheet compilation day came to EUR 2,998.83 million and were down EUR 2.79 million compared to the previous period.

Long-term assets comprised a value of EUR 2,747.34 million and accounted for 91.6% of total assets. Key book entries were buildings, structures, machinery and equipment of the distribution network. Compared with 2009 long-term assets dropped by EUR 19.73 million, which was caused by investments below the level of depreciations.

Investment expenses came to EUR 78.51 million and went mostly toward reconstructions and development of the distribution network, as well as on purchases of technologies and equipment.

Current assets as of the Balance Sheet date came to EUR 251.48 million and comprised inventories, receivables and financial accounts. Compared with 2009 they were EUR 16.98 million higher, with a substantial growth recorded in receivables toward parent company.

Comparison of asset structure (in EUR million)



Capital Structure

Equity and liabilities

Shareholder equity came to EUR 2,455.91 million, which represents 81.9% of the value of the sources for covering assets of the company. In addition to the share capital, this comprised the statutory reserve fund, retained earnings and income from current period. Shareholder equity dropped EUR 0.31 million year-over-year.

Share capital of SPP – distribúcia, a.s. represented the share capital registered in the Companies Register to the amount EUR 1,957.42 million. It comprises 11 ordinary shares (10 shares with a par value of EUR 3,319 and one share with a par value of EUR 1,957,384,402).

Shareholder structure as of 31st December 2010 was as follows:

Slovenský plynárenský priemysel, a.s.

11

shares

100%

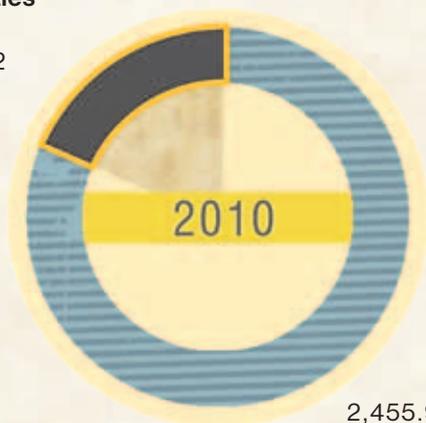
The balance of the **statutory reserve fund** of the company comprising capital deposits was EUR 391.46 million as of the Balance Sheet date.

The total amount of **obligations** constituted 18.1% of coverage of assets, with obligations as of the Balance Sheet date coming to EUR 542.92 million. Key entries of obligations comprised long-term liabilities (deferred tax liability worth EUR 359.57 million, other long-term liabilities worth EUR 30.00 million, deferred revenues worth EUR 27.54 million) and short-term liabilities worth EUR 122.70 million. Compared to the initial status, obligations were down EUR 2.48 million, which was caused mostly by a drop in the level of deferred tax liability.

Comparison of structure of sources of cover (in EUR million)

Liabilities

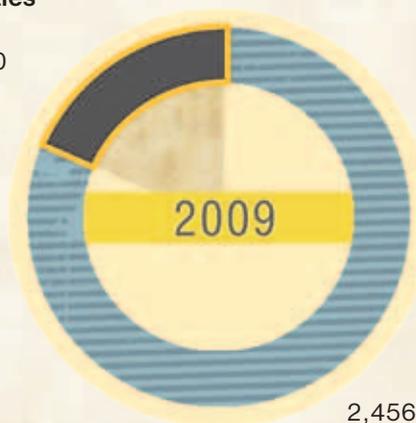
542.92
18.1%



2,455.91
81.9%
Equity

Liabilities

545.40
18.2%



2,456.22
81.8%
Equity

Natural Gas Distribution

In the past year, the company SPP – distribúcia ensured the distribution of 98.3% of the overall volume of distributed natural gas in Slovakia. Gas consumers find a trustworthy partner in SPP – distribúcia, as it provides comprehensive solutions in compliance with applicable legislation and regulation. The company ensures the safe and reliable distribution of natural gas through pipelines operated at low and medium pressure levels in the extent of more than 26.000 km. In addition, SPP - distribúcia also operates and maintains more than 6.000 km of high pressure pipelines contributing to its unique position on European level.

Distribution Network Development Strategy

The ownership and operation of the distribution network spanning nearly 33,000 km put strict requirements on the quality of management, inspection, maintenance and reconstruction of the network. The company SPP - distribúcia uses sophisticated procedures and tools to ensure the distribution network's operational efficiency is improved, while concurrently maintaining an appropriate safety level. One of the crucial tools for optimising the network renovation programme is HTS methodology (Technical status evaluation), which received the ISO 9001:2008 quality certificate in 2010. This methodology serves for systematic evaluation of the technical condition of gas facilities and also for planning reconstructions, preventive maintenance and technical inspection. The ambition for the future of the company SPP – distribúcia is to increase the share of certified processes and to ensure a continual increase in the quality of its labour procedures.

SPP – distribúcia devotes itself fully to the connection of new off-take gas facilities to the distribution network and to associated infrastructure development. Widening the customer portfolio and customer satisfaction are worked on day to day by prompt and thorough administration of more than 10,000 requests for connection to the distribution network received every year.

In the first half of 2010, SPP – distribúcia successfully connected to the distribution network the steam-gas cycle in Malženice (Trnava District) with an installed output of 430 megawatts, and in the second half of 2010 yet another combined-cycle plant in Považská Bystrica with an installed output of 60 megawatts.

SPP - distribúcia updates regularly the outlook concepts for optimal development of the distribution network, which reflect medium-term and also long-term market requirements. For this purpose, the company uses state-of-the-art IT tools with modelling of various network loading scenarios.

In its development activities, SPP – distribúcia respects consistently the rules that are established by the Office for Regulation of Network Industries. The company approaches all customers on a non-discriminatory and transparent basis. Under this approach, and for the sake of clarity and transparency in the connection process, a unified and structured policy for investments – connection of new big technological customers – was created in 2010, ensuring a return on investments in network development.

Commitments for the Upcoming Period

In the year 2011, a primary goal of SPP – distribúcia will be to react steadily to stronger competition which is expected to be particularly reflected in the need for professional preparation and implementation of a change of supplier in the households segment, the creation of a unified and transparent system for mapping market opportunities and potential consumers in all customer categories.

The company will focus further on the trend of deepening its customer orientation, and on the development of the marketing and business strategy.



Technological equipment of the Delivery Station in Záhorská Bystrica - significant technological object regulating the level of gas pressure from 4.0 Pa to 2.5 MPa for the Bratislava area

Natural Gas Distribution

Connection of Municipalities to the Distribution Network

Of the total number of municipalities in Slovakia, 77% were connected to the gas distribution network as of 31st December 2010, accounting for 94% of all Slovak citizens.

Number of connected municipalities as of 31st December 2010

2,234

Distribution network length in 2006 - 2010 (in km)

	2006	2007	2008	2009	2010
High-pressure pipelines	6,307	6,343	6,327	6,298	6,302
Medium-pressure and low-pressure pipelines	24,388	25,194	25,667	26,208	26,446
Total	30,695	31,537	31,994	32,506	32,748

Length structure of the local network in 2006 - 2010 (in km)

	2006	2007	2008	2009	2010
Steel	12,285	12,388	12,734	12,848	12,819
Polyethylene	12,239	12,806	12,933	13,360	13,627

Investments in network renovation in 2006 - 2010 (in EUR million)

	2006	2007	2008	2009	2010
Investments in network renovation	32	41	59	42	47

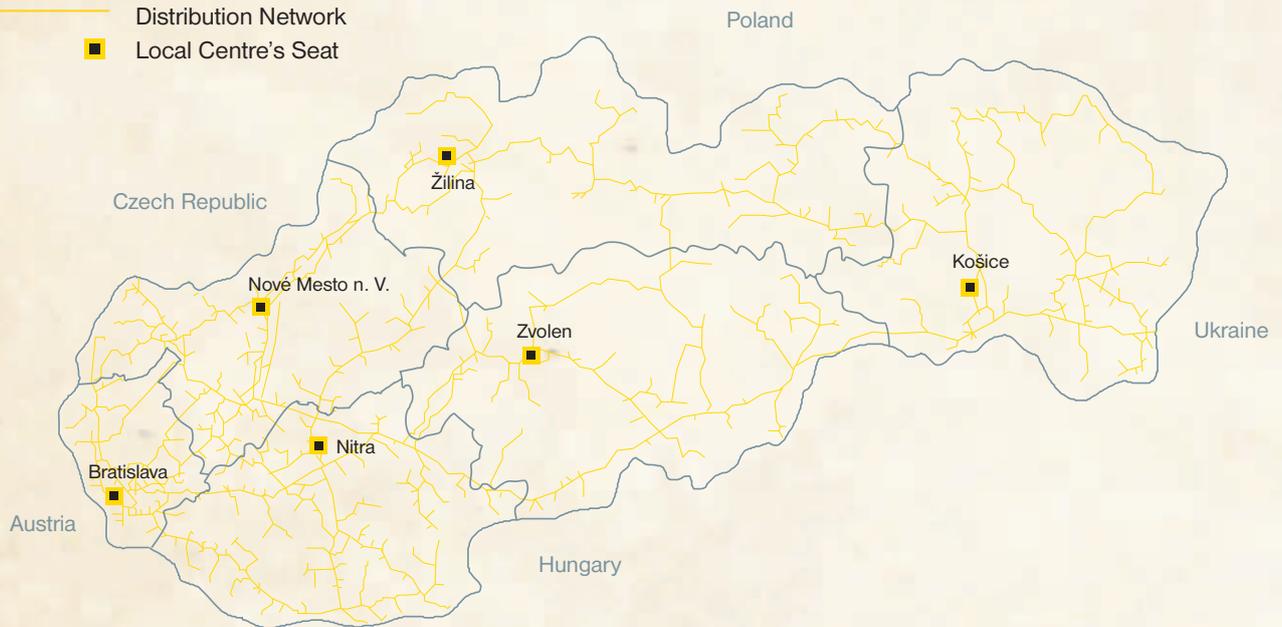
The aim of the programme for renovation of the distribution network of SPP – distribúcia is to preserve safety and the reliable distribution of gas to customers, while reflecting an acceptable risk exposure. The company, by means of the certified HTS methodology, adopts measures for efficient utilization of investments for the renovation of the distribution network. An increase in expenses in recent years is caused by the renovation of gas pipelines at the end of their life span. The investments made reflect the real needs of network renovation based on the outcomes of a technical status evaluation by the referred-to methodology.

Natural Gas Distribution

Distribution Network of Slovak Republic

Legend

- Distribution Network
- Local Centre's Seat



Surfacing of the bypass pipeline of the route valve near the village Jamnik

Communication with Customers and Partners

Connection to the Distribution Network – “Contact with Customer” Initiative

In our efforts to continuously improve the contact with our customers, in 2010 SPP – distribúcia successfully finished the “**Contact with Customer**” initiative. Its goal was to improve the quality of services in respect of connecting customers to the distribution network, but also in terms of the technical changes at existing off-take points. SPP – distribúcia therefore established the **Customer Hotline for connection to the distribution network** on **0850 269 269** and, at the same time, **Customer Offices for connection to the distribution network** were opened. Presently, Customer Offices are in full operation in Bratislava, Žilina, Nitra and Košice, while the office in Zvolen specialises in services for large businesses. These offices provide personal contact with customers in cities that are key to our company from the viewpoint of new connections to the distribution network.

Customer Hotline and Customer Offices for connection to the distribution network presently cover the following areas:

- provision of information about connection to the distribution network and about changes at existing points of supply,
- provision of comprehensive consulting and resolution of individual customer queries in the connection process, and changes for existing offtake equipment,
- acceptance and processing of applications for connection and changes at points of supply,
- issuance of technical and commercial conditions for connection and changes at points of supply,
- conclusion of contracts for connection to the distribution network.

For the upcoming period the priority is to create the kind of conditions that will answer the individual requirements of customers. As part of improving the customer orientation, the objective is to increase the standard of services provided at present. The long-term goal is to broaden the portfolio, the outcome of which will be the comprehensive provision of services for end customers in individual categories. These services will be provided in accordance with the prepared connection policy project in a way that the maximum transparency of published terms for connection to the distribution network is ensured, while preserving cost-efficiency of investments for both the customer and the company. In the new policy for connection of customers of all categories, the technical, economic-business and contractual conditions of connection to the distribution network will be adapted with the aim of shortening the connection process itself, so that it matches up completely to the requirements and needs of customers.

Communication with Cities and Municipalities

In 2010, SPP – distribúcia prepared a new concept for cooperation with Slovak cities and municipalities. For this purpose, internal communication standards were prepared, the foremost goal of which is to update the way the situation in cities and villages is reported in terms of work on gas facilities, to harmonise the procedures used by representatives of our company in direct communication with representatives of cities and villages and to determine responsibilities for individual steps in communication.

Backed by concrete organisational measures to enhance representation of SPP – distribúcia via the network of local centers in the regions, the planning of preventive and regular maintenance work on gas facilities and the network will in the future take place based on open mutual and efficient communication, with particular regard to coordination of excavation work,.

As of 1st January 2011 the pilot phase of this project has been launched, which represents just the first step in the realisation of the overall communication concept. SPP – distribúcia has a very clear idea about the goal – to lead professional dialogue with representatives of municipalities. This means that both parties will have timely and sufficient information about their plans, which will create sufficient room for open dialogue regarding reconstruction and development projects.

New Interactive Website

In December last year SPP – distribúcia launched the company’s new website with a modified structure and modern design. We deem this a very important tool, also thanks to two interactive applications, for supporting the development of communication with municipalities, as well as with other business partners and customers. The “Cities and Municipalities” application aims to give our partners an exhaustive and well-structured list of contact data for individual areas of Slovakia, which are in accordance with the organisational division of SPP – distribúcia allocated to our six local centres. In the interest of mutual coordination of work, we also created the application “Calendar of Most Important Excavation Works”, thanks to which representatives of cities and municipalities are able to receive information about development plans and specific projects much faster than previously possible.

For 2011 we consider our key goal to strengthen the perception of SPP – distribúcia as an actively communicating partner, which approaches business partners individually and is interested in adopting bilaterally beneficial and efficient solutions.

Human Resources

In the field of human resources, the year 2010 was characterised by implementation of several important activities. The bargaining on the new Collective Agreement for the 2011 – 2013 period formed an integral part of these activities. A positive aspect was that despite the difficult situation on the market, affected by the ongoing economic crisis and increasing competition, the company SPP – distribúcia managed not only to preserve the standard of the previous Collective Agreement, but also to enhance certain benefits in the social programme. The Collective Agreement was signed early on 29th September 2010.

Action Plan for Improving Employee Satisfaction

The implementation of specific steps, which reflected the results from the employee opinion survey of autumn 2009, was a major activity in the field of human resources management. Its goal was to map out the satisfaction of our employees. The output of the satisfaction survey and the discussions afterwards with employees as part of the so-called focus groups comprised an action plan of specific activities in key areas, which will be improved continuously according to the quantitative and qualitative results. The key areas of interest are:

- Communication,
- Implementation of organisational changes,
- Remuneration and motivation,
- Customer orientation,
- Work conditions and prevention of stress at work,
- Knowledge sharing.

A large portion of these activities were implemented progressively throughout 2010. The company management paid increased attention to the commitment to support solutions leading to an improvement in identified areas, with active implementation of these improvement steps continuously.

Internal Communication

On all managerial levels the company SPP – distribúcia supports and develops personal and interactive communication between employees and management. In 2010, specific internal communication tools in SPP – distribúcia were successfully developed gradually further standardized with the objective of making current topics from the life of the company accessible to all employees. For instance, regular nationwide working meetings of the management in the regions and meetings with employees provide the space for the receiving of valuable feedback from the employees.

Once again in 2010 we continued to advance attested forms of personal communication, such as regular meetings of the Boards of Directors of the SPP Core Group companies with employees in the various parts of Slovakia, with the aim of informing employees about the latest events in the companies and of creating scope for open discussion. Space for dialogue with employees was also created at the lunches with Members of the Boards of Directors or at the new employees' breakfasts with the Human Resources Director.

Strong emphasis is put on the cascade form of communication with employees, while direct and regular communication of superiors with their subordinates is considered the most efficient form of communication. Personal communication by written forms of internal communication is supported as well, namely through the specialised newsletter NET – Main News, which informs about the latest news about ongoing projects, or through special information letters from the Chairman of the Board of Directors and General Director to employees.

Employee Relations

With the aim of improving and maintaining the good physical health of employees, our company provides them with premium standard preventive medical examinations in accordance with the valid Collective Agreement. More than a half of company employees throughout Slovakia used this opportunity in 2010.

We support workforce recuperation in a similar fashion. Employees have a chance to go on 7-day recuperation stays at several spa facilities in Slovakia. In 2010, a total of 465 employees stayed in the resorts of Turčianske Teplice Spa, Číž Spa, Brusno Spa and Bardejov Spa.

Under our social and employee care policy, a package of various contributions from the Social Fund has been provided for the likes of food, work anniversaries, personal anniversaries, support in need, social assistance to employees and their family members in difficult life situations, and we also rewarded blood donors.

Education

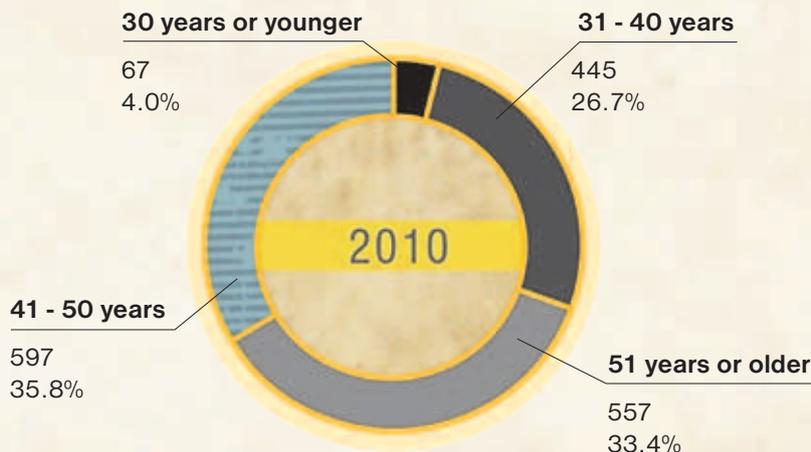
SPP – distribúcia pays great attention to securing compulsory and periodical training laid down by law. Moreover, our company pays special attention to developing managerial and specific skills of employees.

In 2010 implementation of the Graduate Development Programme continued, allowing university graduates to receive their first work experience and professional expertise in the selected area of our company. Under this programme, the graduates participated in various education and development activities and worked on assigned tasks and projects under the leadership of managers – mentors.

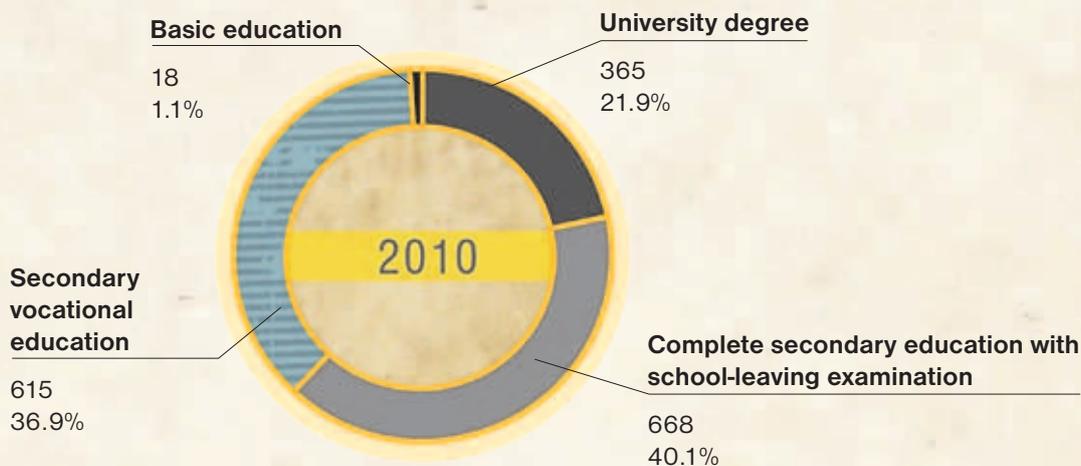
Taking care of key and talented employees

In our company close attention is paid to employees possessing key know-how and employees showing strong potential. Therefore, also in 2010 support was given to development activities for this employee group, which is being prepared for future managerial and expert positions. Their development was targeted primarily at managerial, professional and language skills. The broadening of expertise and professional know-how was facilitated also through mentoring and shared meetings with members of the company's top management.

Age Structure of Employees as of 31st December 2010



Qualification Structure of Employees as of 31st December 2010



As of 31st December 2010, the average age of SPP - distribúcia, a.s. employees was 45.5 years.

Women in SPP - distribúcia, a.s.

1,666 employees worked in SPP - distribúcia, a.s. as of 31st December 2010, of whom 166 were women, representing 10.0 % of the total number of employees.

Environmental Protection and Work Safety

Safe and reliable operation of gas facilities, while respecting the principles of occupational health and safety and with minimum impact on the environment, is one of the priority goals of our company.

To achieve this goal, the management of SPP – distribúcia undertook to observe the environmental and safety policy that is based on requirements of ISO 14001 and OHSAS 18001 standards.

The occupational health and safety policy and the environmental policy represent a commitment to create all necessary preconditions for a safe working environment, the prevention of accidents and avoidance of adverse effects on the environment. The company establishes these conditions by systematically detecting the hazards, threats and environmental aspects and by implementing preventive measures and educational activities.

In our company, caring for the health and safety of our employees is the competence of a qualified team of professionals, who make internal audits, evaluate their results and propose measures for lowering potential risks.

Inspections, injuries and accidents

External inspections, injuries, fires, environmental accidents and incidents	
Number of external inspections performed by state expert supervision	25
Number of fines imposed from performed state expert supervision	0
Number of registered injuries	8
Number of fires	5
Number of environmental accidents	0
Number of environmental incidents	0

Environmental Protection and Work Safety

Apart from the permanent emphasis on avoiding incidents on the distribution network during the year 2010, it was decided to focus also on incidents that occur within the "ordinary" labour process. Closer attention was paid to a deeper analysis of causes in the labour accident rate. An analysis was made of identified risks affecting work safety and the likelihood of employee injuries according to specific work positions in the updated Register of Hazards, Threats and Risks. The traumatological plan and the instructions on reporting injuries summarise the concrete measures and activities in case a work accident occurs. New identified health and safety requirements were incorporated to the Rules for Operation and Maintenance of Gas Facilities by revision, and safety measures stated in the original technological procedures were updated.

Furthermore, SPP – distribúcia adopted an action plan and introduced a series of additional measures to create safer working conditions. The primary aim was to utilize those specific means that would increase the level of employee awareness about safety, which is necessary in their daily work.

In our effort to support a cautious approach of employees when working with risk factors, but also when performing routine activities, we have created several tools that enhance the awareness of identified risks. Within our new campaign launched in 2010, the premises of buildings were revived by using information posters highlighting the need to observe safety rules when moving in a workplace or handling chemicals, and advising employees how to prevent the occurrence of work accidents. Within the Intranet of SPP - distribúcia, a continuous clock counting the days without any registered injuries sets new standards in risk awareness of our employees.



Pipeline closing on medium - pressure pipeline during reconstruction works

Summary results

Balance Sheet (Selected Data in EUR thousand)

As at 31st December 2010 and 31st December 2009

	31 st December 2010	31 st December 2009
ASSETS:		
NON-CURRENT ASSETS		
Property, plant and equipment	2,740,217	2,765,282
Non-current intangible assets and other assets	1,634	1,787
Other non-current assets	5,483	0
Total non-current assets	2,747,334	2,767,069
CURRENT ASSETS		
Assets classified as held for sale	13	53
TOTAL ASSETS	2,998,826	3,001,619
EQUITY AND LIABILITIES:		
CAPITAL AND RESERVES		
Registered capital	1,957,418	1,957,418
Legal reserve fund	391,459	391,484
Retained earnings	107,031	107,318
Total equity	2,455,908	2,456,220
NON-CURRENT LIABILITIES		
CURRENT LIABILITIES		
Total liabilities	542,918	545,399
TOTAL EQUITY AND LIABILITIES	2,998,826	3,001,619

Profit and Loss (Selected Data in EUR thousand)

Years ended 31st December 2010 and 31st December 2009

	Year ended 31 st December 2010	Year ended 31 st December 2009
Revenues from sales of services	387,542	393,145
Operating expenses	(251,290)	(251,607)
Operating profit	136,252	141,538
Financial revenues	626	75
Financial costs	(1,186)	(521)
Profit before income taxes	135,692	141,092
Income tax	(28,661)	(32,581)
NET PROFIT FOR THE PERIOD	107,031	108,511

Summary results

Cash Flow (Selected Data in EUR thousand)

Years ended 31st December 2010 and 31st December 2009

	Year ended 31 st December 2010	Year ended 31 st December 2009
Operating activities		
Cash flows from operating activities	225,644	183,037
Interest paid	(1,198)	(588)
Interest received	94	72
Income tax paid	(38,882)	(28,623)
Net cash inflow from operating activities	185,658	153,898
Investing activities		
Acquisition of property, plant and equipment	(78,505)	(78,813)
Proceeds from sale of property, plant and equipment and intangible assets	20	69
Net cash inflow/(outflow) from investing activities	(78,485)	(78,744)
Financing activities		
Dividends paid	(107,318)	(104,991)
Proceeds and expenditures related to interest-bearing borrowings	0	30,000
Other proceeds and payments from financial activities, net	246	(123)
Net cash flows from financing activities	(107,072)	(75,114)
Net increase/(decrease) in cash and cash equivalents	101	40
Effects of foreign exchange fluctuations	0	0
Cash and cash equivalents at the beginning of the period	138	98
Cash and cash equivalents at the end of the period	239	138



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

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

- I. We have audited the financial statements of SPP - distribúcia, a.s. (the "Company") as at 31 December 2010 presented on pages 30 to 31. We issued an Auditor's Report on these financial statements dated 2 March 2011 in the wording as follows:

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of SPP - distribúcia, a.s. (the "Company"), which comprise the balance sheet as at 31 December 2010, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Statutory Body's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of SPP - distribúcia, a.s. as of 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Other Matter

The financial statements of the Company for the year ended 31 December 2009 were audited by another auditor who expressed an unqualified opinion thereon dated 17 February 2010.

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Member of Deloitte Touche Tohmatsu

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

We conducted our audit in accordance with International Standards on Auditing. Those standards require that the Auditor plan and perform the audit to obtain reasonable assurance that the information disclosed in the Annual Report and presented in the financial statements is consistent, in all material respects, with the relevant financial statements. We assessed the consistency of the information presented in the Annual Report on pages 30 to 31 with the information presented in the financial statements as at 31 December 2010. We have not audited any data or information other than the financial information obtained from the financial statements and accounting ledgers. We believe that the performed audit provides a reasonable basis for our audit opinion.

In our opinion, the financial information presented in the Annual Report is consistent, in all material respects, with the aforementioned financial statements as of 31 December 2010.

18 March 2011
Bratislava, Slovak Republic



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



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

Report on Compliance Programme of the Distribution Network Operator for the year 2010

1. In accordance with the Energy Act No. 656/2004 Coll., as later amended (the "Act"), the Distribution Network Operator has implemented a Compliance Programme. The "Distribution Network Operator Compliance Programme", the last update of this guideline marked as D.RM.04.02.06 came into effect on January 1st, 2010 (referred to as the "Compliance programme").
2. The Compliance Programme sets forth the following measures:
 - (a) obligations ensuring the independence of the Distribution Network Operator from other activities that are not related to distribution;
 - (b) obligations ensuring a non-discriminatory approach in providing information;
 - (c) obligations ensuring non-discriminatory conditions of service provision of the Distribution Network Operator to gas market participants;
 - (d) activities of the Compliance Programme Officer, inclusive of training employees about the Compliance Programme;
 - (e) activities of employees aimed at following the Compliance Programme;
 - (f) obligations securing the publishing of the Compliance Programme, control and elaboration of annual report on Compliance Programme fulfillment.
3. Fulfillment of measures adopted within the Compliance Programme in 2010 was mainly ensured by the following means:
 - (a) SPP - distribúcia, a.s. as the distribution network operator is established as an independent company with its organisational structure arranged in such a way that all operations of the distribution network operator related to gas distribution are independent of other operations not related to gas distribution;
 - (b) by implementing measures aimed at ensuring a non-discriminatory approach to internal processes of the Distribution Network Operator in accordance with the Compliance Programme;
 - (c) by following a non-discriminatory approach by the provision of information meant for gas market participants and by the provision of services of the Distribution Network Operator in line with the Compliance Programme;
 - (d) by publishing the Compliance Programme for employees of the Distribution Network Operator and by carrying out training of all employees about measures of the Compliance Programme;
 - (e) by execution of control with respect to adherence to the Compliance Programme.
4. The Compliance Officer of the Distribution Network Operator in the period from January 1st to December 31st 2010 has not discovered or received any information about a potential or alleged infringement of obligations imposed by the Compliance Programme.

In Bratislava, on 20th January 2011



Ing. Milan Kachút
Compliance Programme Officer of the Distribution Network Operator

Contacts

Registered Office:

SPP – distribúcia, a.s.
Mlynské nivy 44/b
825 11 Bratislava 26
Slovak Republic

Website:

www.spp-distribucia.sk

Emergency line - gas:

Phone: 0850 111 727 (charged by price of a local call)

Contact with media:

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Phone: + 421 2 6262 6029
e-mail: ivana.zeliznakova@spp-distribucia.sk

Customer Hotline for connection to the distribution network:

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e-mail: pripajanie@distribuciaplynu.sk

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

Phone: + 421 2 6262 5961 secretariat of distribution services section
Fax: + 421 2 6262 8548 distribution services section
e-mail: distribucia@spp-distribucia.sk

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