



ANNUAL REPORT  
2017



**ZEMNÝ PLYN**

EKOLOGICKY ŠETRÝ  
EKONOMICKY VÝHODNÝ  
ENERGETICKY HOSPODÁRNÝ





Natural gas combustion produces a negligible quantity of particulate matter, negligible amounts of sulphur oxides and minimum amounts of carbon monoxide, and the level of nitrogen oxides is also very low.



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ENERGETICKY HOSPODÁRNÝ

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## FOREWORD FROM THE COMPANY MANAGEMENT

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Dear shareholders,  
Dear lady colleagues,  
Dear gentleman colleagues,

We present this annual report to you that summarizes the results of our activities and project implementation in 2017; as a whole, the year 2017 can be considered especially successful. The company's financial results were positively affected by the extremely cold weather in the first weeks of the year. January 2017 was the coldest first month of the year of the previous 20 years and with its average temperature, it is among the ten coldest Januaries in the entire history of temperature measurements in Slovakia, which caused an extreme increase in natural gas consumption. Gas distribution in January, February, and April was markedly higher than the long-term average. As a result of low average temperatures in the first half-year of 2017, the volume of gas distributed to end customers increased in comparison with the same period in 2016. In the second half of 2017, gas consumption was at a level similar to 2016. At the same time, we continued to increase the efficiency of distribution by executing our own optimisation measures. In consequence, we achieved after-tax profit in 2017 amounting to EUR 153.26 million. We were also successful in using synergies inside the company in 2017, which means that we carried out up to 53 kilometres out of 128 kilometres of local network reconstruction using our own resources, which represents almost three-times the preceding year's scope. In the previous period, no serious emergency event was recorded during gas facilities operation,

which confirms the correctness of maintenance adjustment and investment activities.

As regards the current winter, thanks to the responsible work of our employees, we prepared the distribution network in such a way as to be able to provide a safe and reliable natural gas supply to our business partners even in the following period. With the objective of ensuring distribution network safety, we also focused on unauthorized gas consumption using our strengthened analytical capacities to reveal it.

In order to solve and prevent any emergency situations, SPP - distribúcia, as a distribution network operator, continuously provides a standard for security of gas supplies to household consumers in compliance with the valid legislation. It is carried out in particular through the utilisation of natural gas reserves in the underground storage facility, as well as contractually agreed gas supplies in a way fully covering the needs for the fulfilment of security standards in accordance with economic and efficiency criteria. The implementation of these measures proves that the company is able to provide continuous and reliable gas distribution to all households in the Slovak Republic, even in the event of an emergency situation like a 30-day interruption of gas supply from Russia. We are also making progress in customer service. Our web applications enjoy great interest. Already more than 60 per cent of applicants for connection to the distribution network communicate electronically with our company and utilise the on-line forms on our website, which are available 24 hours

a day, 7 days a week. This significantly increased the number of electronic applications for meter installations, applications for statements on the existence of gas facilities as well as payments of fees via the Internet. Last year we began working on the introduction of a software application to allow customers to monitor which stage their applications were in with regard to the connection process. The application successfully went live in February 2018. At the end of the previous year, we created and published on our website an instructional video entitled "Seven steps to connection" which guides those interested in using natural gas through the individual distribution network connection phases. We also created a new company channel on YouTube where, in the future, it will be possible to add further videos contributing to our customers' better awareness. Thanks to digitalization, the connection of our customers to natural gas is much simpler, more comfortable and better available today. In the future we will continue focusing on the extension of electronic services, communication through social networks, and we will improve the services that have been well-tried. The management of the environmental aspects of our company's activities remains among our permanent priorities, therefore, we observe the defined operating and control procedures and performance indicators in compliance with the ISO 14 001 standard. Last year we also continued to support natural gas as a "green" heating medium. The main objective was to intensify communication about the advantages of natural gas as an energy medium that can contribute to environmental



improvement for an acceptable price. In general, natural gas is a convenient energy source. It is eco-friendly, economical and energy-saving. In comparison with other solid fuels, natural gas combustion produces much fewer harmful substances and a negligible quantity of particulate matter, which in higher concentrations endangers the health of citizens, in particular pregnant women and little children. When using natural gas for heating, it is possible to save up to 50 % of CO<sub>2</sub> emissions compared to coal, and up to 60 % in the combined production of electricity and heat from natural gas. The fact that natural gas contains virtually no particulate matter or sulphur compounds is another advantage of using natural gas in terms of air quality improvement. Thus, natural gas can be an effective and cheap solution in the fight against climate change and the effort to improve air quality, playing a key role in the transfer to low-carbon energy. Drawing attention to these advantages is among the objectives of our communication campaign "Natural Gas is 3E", which presents the basic characteristics and advantages of natural gas - Ecological Friendliness, Cost-Effectiveness and Energy Efficiency, as well as the articles published at professional conferences, the information website [oplyne.info](http://oplyne.info), or recently on social networks, too.

Thanks to the year-long efforts of our employees and the ability to respond flexibly to energy market changes, we are now a modern, reliable and efficient entity creating value for its employees, business partners and shareholders and respecting its employees. All of our future steps will lead to improving our credit in the trend begun.



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



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



**Ing. Martin Hollý**  
General Director

In 2017 we distributed 4,90 billion cubic meters of natural gas to points of delivery. In Slovakia 77 % of municipalities home to more than 94 % of the country's population are currently gasified.



**ZEMNÝ PLYN**

EKOLOGICKY ŠETRŇÝ  
EKONOMICKY VÝHODNÝ  
ENERGETICKY HOSPODÁRNÝ



# COMPANY

## COMPANY PROFILE

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The company SPP - distribúcia, a. s., as the owner and operator of a gas distribution network of more than 33,000 km, provides natural gas distribution in the territory of the Slovak Republic to more than 1,5 million points of delivery. The volume of such distributed gas accounts for about 98 % of the total natural gas volume distributed in the Slovak Republic for more than 94 % of the Slovak population with access to natural gas. The reliability of the operation of such an extensive gas distribution network requires a high level of professionalism, continuous development and consistent monitoring of the condition of pipelines and gas facilities in order to ensure the technically safe, user reliable and economically efficient distribution of natural gas. SPP - distribúcia considers a continuous natural gas supply as one

of the strategic pillars for maintaining the energy security of the Slovak Republic; therefore, increased attention is paid to it by the company. Furthermore, the company concentrates on the consistent implementation of quality standards and a number of other legislative requirements. SPP - distribúcia is a responsible guarantor of a strategic gas supply for household customers. The company also performs dispatching control and monitoring of the gas distribution system, including its physical balancing. SPP - distribúcia actively supports the development of an open gas environment through its activities. The company aspires to be a stable and efficient provider of professional services for the 25 distribution network users as well as natural gas customers of all categories. It places emphasis on transparent and non-discriminatory business

activities and strives to continuously improve the services provided, which is reflected in the growing options for electronic access to key services. Priority business areas for SPP - distribúcia include the sale of distribution capacity, connections to the gas distribution network, active promotion of the use of natural gas as a comfortable, economical and environmentally friendly fuel, development activities, and the operation and maintenance of gas facilities. The provision of safety for the extensive gas distribution network and its operation is preceded by the safety of people in their own workplaces, which remains the company's priority. SPP - distribúcia strives to set up its processes optimally and to increase the efficiency of the operating activities resulting from its position as an independent operator on the Slovak gas market.



## BOARD OF DIRECTORS AS AT 31 DECEMBER 2017

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

František Čupr graduated from the Faculty of Business and Economy of Mendel Agricultural and Forestry University Brno with a Masters of Business Administration (MBA) in 2006. After graduating, he worked for seven years with Jihomoravská energetika, a. s., in Brno, in various managerial positions, including Deputy Director of the Sales Division and Strategy Director. In 2005 he started to work for the J&T Investment Group, dealing with energy projects. In the same year, he founded a company trading in electricity and natural gas, EP Energy Trading, a. s. (formerly

United Energy Trading, a. s.), where he executed the function of Chairman of the Board of Directors and CEO until 2012. In the period of 2006 - 2010, he was a member of the Supervisory Board of Pražská energetika, a. s. From 2009 - 2013, he operated as a member of the Supervisory Board of Pražská teplárenská, a. s. In 2013 he became Chairman of the Board of Directors of Stredoslovenská energetika - distribúcia, a. s. Since 24 January 2013, he has held the position of Chairman of the Board of Directors of SPP - distribúcia, a. s.



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

Štefan Šebesta completed studies in the Management of Industry and Food Enterprises at the Faculty of Chemical and Food Technology of the Slovak University of Technology in Bratislava in 1993. He began his career in 1991 as Communications Manager in Solid, a. s. In the period of 1992 - 1994, he worked for the investment company DIVIDEND, a. s., in the position of Communication Manager and at the same time as Portfolio Manager. He was appointed Chairman of the Supervisory Board of Záhorácke pekáreň and cukráreň, a. s. in 1995. In the years 1994 to 1998 he

worked in the polygraphic company DEAL, s. r. o. He was a manager at DEAL & PRINT, s. r. o., between 1998 and 2006. In the years 2006 and 2007 he was Director of the Investment and Acquisitions Office at the Ministry of Defence of the Slovak Republic. He became a Member of the Supervisory Board of Vojenský opravárenský podnik, a. s. in Trenčín in 2007. Since August 2007 he has been the Executive of Cleanlife, s. r. o., and at the same time of DEAL & PRINT, s. r. o. He became Vice-Chairman of the Board of Directors of SPP - distribúcia, a. s. on 12 July 2012.



**František Urbaník, Ph.D**  
Member of the Board  
of Directors

František Urbaník graduated from the Faculty of Electrical Engineering of the Brno University of Technology. He obtained his PhD at the VŠB - Technical University of Ostrava, Faculty of Mining and Geology. He started his professional career at Vlárské strojírný, s. p. in 1991 as Chief Power-Supply Director. In the period from 1993 to 1995, he was employed with IMC, s. r. o. as a system engineer. In 1995 he co-founded AISE, s. r. o., where he worked as a system engineer and marketer. He executed projects of measurement and control implementation, reductions in the energy intensity of industrial enterprises and applied development of data collection and distribution methods. In 1997 he became

the Executive Officer and Director of this company, where he still works. In the period from 1997 to 2008, he was also a manager at ENBI, s. r. o., where, in addition to energy studies and audits, he participated in the projects of EPC, M&C of Johnson Controls, AISYS, ERIS, and SIEMENS Systems, and in the application of TEDOM and Caterpillar cogeneration units; until 1999 he also held the position of Executive Officer of the company. In January 2017, he became a member of the Board of Directors of SES BOHEMIA ENGINEERING, a. s. Since 26 May 2017, he has been a member of the Board of Directors of SPP - distribúcia, a. s.\*



**Mgr. Ing. Marek Štrpka**  
Member of the Board  
of Directors

Marek Štrpka graduated from the Faculty of Commerce of the University of Economics in Bratislava and the Faculty of Law of Comenius University in Bratislava. He started his professional career in 1996 in the St. Nicolaus Group, holding various managerial positions for eight years. In 2003 he started working for the AGROFERT Group, first holding the position of financial director and member of the Board of Directors of Duslo, a. s., and from 2008 as the CEO and Vice-Chairman of

the Board of Directors of this company. At the same time, he operated as Chairman of the Supervisory Board of the Association of the Chemical and Pharmaceutical Industry SR, Member of the Board of Directors of the Slovak Agriculture and Food Chamber, and member of Klub 500. Since 2013 he has been the CEO of Stredoslovenská energetika - distribúcia, a. s. Since 11 November 2015, he has been a member of the Board of Directors of Stredoslovenská energetika - distribúcia, a. s.



**Ing. Pavol Mertus**  
Member of the Board  
of Directors

In 1987 Pavol Mertus graduated from the Faculty of Mining of the Technical University in Košice and subsequently completed his postgraduate studies in economics and management of the mining industry. Until 1991 he worked as mine inspector at the Mining Office in Bratislava. In the period from 1992 to 1994, he acted as an adviser to the Prime Minister of the Slovak Republic. From 1994 to 1999, he held the position of General Director of the State Environmental Fund of the Slovak Republic and was a member of the Supervisory Board of Všeobecná úverová banka. In the period of 1999 – 2003, he held the position of Business and Economic Director of Pozagas, a. s., where he was responsible for economic management and business matters of the company. From 2003 to 2005, he acted as an adviser to the Board of Directors

and a member of the Supervisory Board of FIN-energy, a. s. Bratislava, where he was in charge of energy and gas projects. In the period of 2008 – 2016, he acted as General Director and Executive Officer of ČKD – Slovensko, a member of the ČKD Group Praha, in charge of the complete operation of the company acting in the energy and gas industries, in the area of technology. From 2007 to 2010, he was a member of the Supervisory Board of SSE, a. s., from 2011 to 2012, a member of the Board of Directors of SSE – distribúcia, a. s., and from 2013 to 2016, a member of the Board of Directors of SSE, a. s. Since December 2016, he has acted as Chairman of the Supervisory Board of SSE – Distribúcia, a. s. in Žilina. Since 2 January 2017, he has been a member of the Board of Directors of SPP - distribúcia, a. s.\*\*

\* Until 25 May 2017, the function of member of the Board of Directors was held by Mgr. Petr Hájek.

\*\* Until 1 January 2017, the function of member of the Board of Directors was held by Ing. Gustáv Laca.

## TOP MANAGEMENT AS AT 31 DECEMBER 2017

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**Ing. Martin Holý**  
General Director

Martin Holly graduated from the Faculty of Commerce at the University of Economics in Bratislava with a specialization in foreign trade, and from the Universidad de Grenada in Spain. After graduating, he first worked for several years as Senior Auditor and Consultant at Arthur Andersen. In 2003 he took up the position of Director of the Economic Department in NAFTA a.s., where

he significantly contributed to the restructuring of the company. From July 2008 to September 2012, he was General Director of NAFTA, a. s., as well as a Member of statutory bodies in POZAGAS a. s. In October 2012 he moved to SPP - distribúcia, a. s., within the SPP Group, where he has held the position of General Director since 1 December 2012.



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

Roman Filipoiu completed his Financial Management studies at the Faculty of Business Management at the University of Economics in Bratislava. Later he obtained his MBA at Oxford University in Great Britain. After graduating he started working as an Auditor and Consultant in Deloitte, where he participated in audits of several major banks, financial institutions, and media companies in Slovakia. He started working in the energy sector after joining NAFTA a. s. in 2007. He was responsible for controlling,

price regulation, and later also for accounting, procurement, and finance. In the same period, he also worked as Chairman of the Supervisory Board in Karotáž a cementace s. r. o. and Naftárska leasingová spoločnosť a. s. Since April 2009 he has been Head of the Economic and Regulatory Division for SPP - distribúcia, a. s. At the same time, he operates as Chairman of the Supervisory Board in SPP - distribúcia Servis, s. r. o., and member of the Supervisory Board in Plynárenská metrológia, s. r. o.





**Ing. Rastislav Prelec**  
Head of Network Operations  
and the Asset Management  
Division

Rastislav Prelec graduated from the Faculty of Electrical Engineering at the Slovak University of Technology in Bratislava in 1985 and completed his Masters in Industrial Engineering at Fachhochschule Ulm (Germany) in 2005. After completing his studies, he worked at the Chemical Technology Research Institute as Head of the Automation Department until 1991. In the period of 1991 - 1995, he was self-employed in the field of industrial automation. In 1995 he joined Slovenský plynárenský priemysel, a. s. as a Telemetric Equipment Technician. He later worked as Head of the Control Systems Department. Since 1997

he has worked as a Project Manager and Co-Manager on the following projects: Reconstruction and Remote Control of Transfer Stations (SCADA SPD), Remote Monitoring of Regulation Stations (SCADA OZ), Dispatching Control Systems (SCADA), Remote Monitoring of Large Customers, Mobile Workplaces, and the Distribution Information System. In 2009 he was appointed Director of the Maintenance and Metering Division in SPP - distribúcia, a. s., where he served until 1 July 2013, when he became Head of Network Operations and the Asset Management Division in SPP - distribúcia, a. s.



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

Miroslav Horváth completed his studies at the Faculty of Mechanical Engineering of the University of Žilina, specializing in the gas industry. After graduating he started working for Slovenský plynárenský priemysel, š.p., as a Technician of Gasification in 1999. Subsequently he worked in several positions, among others also as Head of the Centre District Gasworks in Považská Bystrica. In July 2004 he became Head of

the Local Unit in Prievidza. After the legal unbundling in 2007, he joined SPP - distribúcia, a. s., in the post of Head of the Regional Centre East in Košice. Since 2009 he has worked as Head of the Maintenance Department in the Maintenance and Metering Division and subsequently as Deputy to the Section Head. On 1 July 2013 he was appointed Head of the Maintenance and Metering Division for SPP - distribúcia, a. s.



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

Marek Paál, specialising in the gas industry, completed his studies at the Faculty of Mechanical Engineering of the University of Žilina in 2003. However, he started working in this field in 1996, when he joined the Slovak Gas Dispatching at Slovenský plynárenský priemysel, a. s. (SPP), holding various posts. He starting working at SPP in 2004 as Director of the Distribution Capacities Sales Division. In 2006 he participated in

the legal unbundling process of SPP into three separate companies and led the project for the implementation of a distribution information system for liberalised gas trading. After the legal unbundling, he continued to work as Director of the Distribution Capacities Sales Division in the now separated company SPP - distribúcia, a. s. Since the restructuring of the company in 2009, he has held the position of Head of the Distribution Services Division.

## TOP MANAGEMENT AS AT 31 DECEMBER 2017

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**Ing. Irenej Denkocy, ACCA**  
Head of the Investment Division

Irenej Denkocy graduated from the Faculty of Business Management of the University of Economics in Bratislava with a specialization in financial management. He continued his studies by qualifying for and gaining ACCA membership. After graduating, he first worked as an assistant auditor at Ernst & Young, where he participated in the audits of several significant businesses in Slovakia.

In 2009 he joined SPP - distribúcia, a.s., in the position of Senior Controller. Starting from 2011, he worked in the position of Head of Investments Controlling and Asset Registry. From July 2014 to January 2015, he was nominee Head of the Investments Division of SPP - distribúcia a. s. Since 1 February 2015, he has been Head of the Investments Division.



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

František Kajánek graduated from the Mining-Geology Faculty at the Mining College in Ostrava with a specialization in economics and the management of mines, and later studied law at Comenius University. He has been actively engaged in the area of human resources since 1995, working at NCHZ a. s., Nováky, for the Office for State Services, and for the Ministry of Labour, Social Affairs and Family of the Slovak Republic.

Starting from 2007, he worked for NAFTA, a.s., where he held the position of Director of Human Resources from 1 January 2008. In addition to human resources, he was also responsible for corporate culture and internal communication development. Since 1 December 2013, he has been a team-member of SPP - distribúcia as Head of Human Resources and the QHSE Division.

## SUPERVISORY BOARD

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

In 2002 Rastislav Chovanec completed his International Business Studies at the Faculty of Business Management at the University of Economics in Bratislava, where in 2006 he also obtained his PhD. He started working in 2004 as a project manager at the Foreign Direct Investment Section of the Slovak Investment and Trade Development Agency (SARIO), where he worked until 2006. Between 2006 and 2010, he worked as an Adviser to the Prime Minister for

Foreign Investment. In the years 2008 - 2012, he was CEO of Ceptra, s.r.o. In 2012 he returned to the Government Office of the Slovak Republic, where he worked for two years as an Adviser to the Prime Minister for Investment. In 2014 he was appointed State Secretary of the Ministry of the Economy of the Slovak Republic, where he continues to operate. Since 2012 he has been Chairman of the Supervisory Board for SPP - distribúcia, a. s.

### **William Price**

Vice-Chairman of the Supervisory Board \*

Members:

**Pavol Korienek,**  
Member of the Supervisory Board

**Milan Boris,**  
Member of the Supervisory Board

**Ing. Robert Procházka,**  
Member of the Supervisory Board

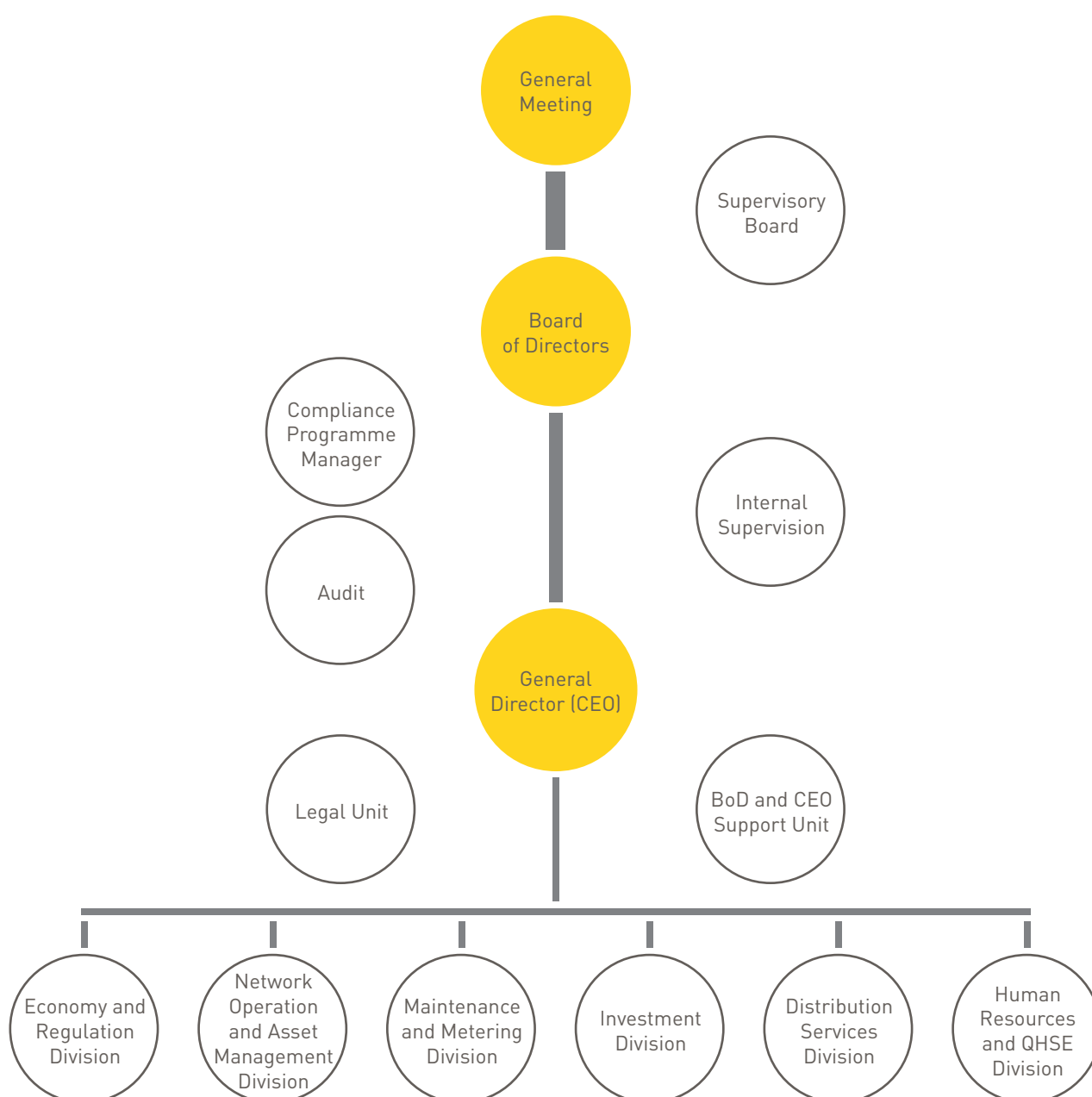
**JUDr. Mgr. Matej Šimášek, PhD.,**  
Member of the Supervisory Board\*\*

\* Mr. William Price became a member of the Supervisory Board on 21 March 2017; he was elected to the office of Vice-Chairman of the Supervisory Board on 29 June 2017. Until 20 March 2017, the function of Vice-Chairman of the Supervisory Board was held by Ing. Mgr. Tomáš David.

\*\* JUDr. Mgr. Matej Šimášek, PhD. became a member of the Supervisory Board on 6 April 2017. Until 5 April 2017, the function of member of the Supervisory Board was held by Ing. Miroslav Recký.



## ORGANIZATIONAL STRUCTURE





When using natural gas for heating, it is possible to save up to 50 % of CO<sub>2</sub> emissions compared to coal, and up to 60 % in the combined production of electricity and heat from natural gas.



## ZEMNÝ PLYN

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EKONOMICKY VÝHODNÝ  
ENERGETICKY HOSPODÁRNÝ





## ZEMNÝ PLYN

EKOLOGICKY ŠETRNÝ  
EKONOMICKY VÝHODNÝ  
ENERGETICKY HOSPODÁRNÝ

We are responsible for distribution security and reliability of natural gas networks with a length of 33,273 km.



# SAFE AND RELIABLE DISTRIBUTION

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## OPERATION AND SAFETY OF THE NETWORK

From the view of the operator, the year 2017 was connected with the ongoing stabilisation of the distribution network after the introduction of a new type of odorant - Spotleak 1007.

At present, the level of odorization is optimal in the entire distribution network. In 2017 the professionalism of the operation was also verified while removing defects located after the internal inspection on HP gas pipelines DN300 and DN500. The defects were removed during outages of gas supplies connected with demanding operations to shut off the gas flow at the point of the removal while harmonizing the activities of company's employees and external contractors. No deficiencies were recorded during the execution of the removals in the gas pipelines. The elimination of the defects has increased the safety of the distribution network.

Professional detection of defects found during corrective maintenance and the high-quality performance of preventive activities in required intervals will ensure the safety and reliability of the distribution network of SPP - distribúcia in the future.

## DAMAGE TO GAS FACILITIES CAUSED BY THIRD PARTIES

In 2017, in comparison with 2016, the company registered an increase in the number of cases where its gas facilities were damaged by third parties. The damage was mainly connected with the execution of earthwork in the protective zones of gas facilities.

The increase in such cases of damage was recorded when earthwork was carried out without staking out the gas facilities. It must be noted that SPP - distribúcia, a. s. performs the staking-out of gas facilities free of charge up to a distance of 100 m, thus, such damage can be considered a gross violation of obligations by the party performing the earthwork. In 2018 the company also cooperated with the Slovak Trade Inspection in dealing with cases of damage to gas facilities.

## PROVIDING A STANDARD FOR SECURITY OF SUPPLIES

In order to resolve and prevent a possible state of emergency, the company, as the distribution network operator, continued to provide a standard for the security of gas supplies to household customers in compliance with valid legislation in 2017. It was carried out in particular through the utilisation of natural gas reserves in the underground storage facility, as well as contractually agreed gas supplies in a way fully covering the needs for the fulfilment of the security standards in accordance with economic and efficiency criteria.

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

## DISCOVERING UNAUTHORIZED USAGE OF NATURAL GAS

In 2017 we continued to successfully detect cases of unauthorized gas consumption with the aim of achieving a reduction in losses from natural gas distribution. Company employees identified and documented over 2,000 cases of unauthorized consumption with a volume of more than 6.2 mil. cubic metres of gas.

In order to increase the safety of our facilities in operation, we carried out dozens of general checks in 2017 focused on the detection and documentation of unauthorized gas consumption. For that purpose, tens of thousands of points of delivery were checked last year which resulted in finding over 600 cases of provable unauthorized tampering with meters or direct intervention into the gas pipeline. Based on facts suggesting the crime of gas theft, almost 200 charges were brought.

## GASIFICATION OF SLOVAKIA

In Slovakia 77 % of municipalities home to more than 94 % of the country's population are currently gasified.

In terms of the achieved gasification level of the municipalities, no further development of the distribution network is required. However, due to the considerable development of residential areas, their connection to the distribution network has been ongoing for several years now. New residential areas are usually located in municipalities already gasified, which means an increase in the concentration of the distribution network.

In 2017 there was a significant increase in the volume of gas distributed through the distribution network of SPP - distribúcia in comparison with the previous year, which was mainly caused by the extremely cold weather in January 2017. However, in the long term, the volumes of gas currently distributed are lower, mostly due to higher air temperatures in winter months compared to the long-term norms.

### Distribution of natural gas through the SPP-D distribution network in 2013 – 2017 (billions of cubic metres/15°C)

	2013	2014	2015	2016	2017
Distributed volumes	5,03	4,24	4,59	4,68	4,90

### Investments in the modernisation / reconstruction of the network in 2013 - 2017 (in mil. EUR)

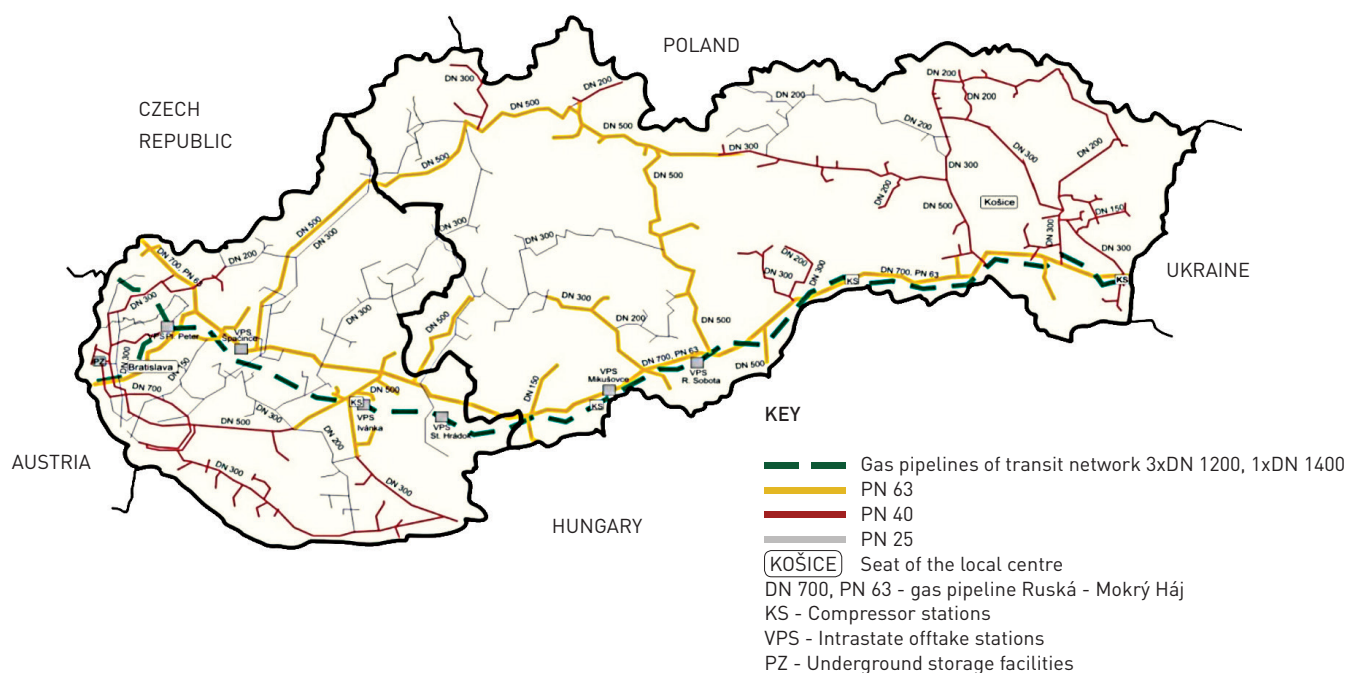
	2013	2014	2015	2016	2017
Investments in modernisation	28	14	21	27	24
Number of km of reconstructed gas pipelines of the local network (low- and medium-pressure gas pipelines)	136	90	126	129	128

## Length of the distribution network in 2013 – 2017 (in km)

	2013	2014	2015	2016	2017
High-pressure gas pipelines	6 291	6 297	6 278	6 274	6 280
Medium- and low-pressure gas pipelines	26 891	26 966	27 023	26 996	26 993
<b>Total</b>	<b>33 182</b>	<b>33 263</b>	<b>33 301</b>	<b>33 270*</b>	<b>33 273</b>

\* Update and specification of lengths of gas pipelines after the transition of the company to the new geographic information system (GIS).

## MAP OF THE DISTRIBUTION NETWORK OF SPP - DISTRIBÚCIA



## Classification of gas pipelines in the local network in 2013 - 2017 (in km)

	2013	2014	2015	2016	2017
Steel	12 623	12 559	12 509	12 429	12 342
Polyethylene	14 268	14 407	14 514	14 567	14 651



## ZEMNÝ PLYN

**EKOLOGICKY ŠETRNÝ  
EKONOMICKY VÝHODNÝ  
ENERGETICKY HOSPODÁRNÝ**

Already more than 60 % of applicants for connection to the distribution network communicate electronically with our company and utilize the on-line forms on our website, which are available 24 hours a day, 7 days a week.



# CUSTOMER ORIENTATION

## RELATIONS WITH GAS SUPPLIERS, LIBERALIZED GAS MARKET

As at 31 December 2017, SPP - distribúcia provided access to the distribution network and distribution of gas for 28 distribution-network users, which is the highest number of contracting partners in the history of the company. In 2017 the current trend of year-on-year decreases in the number of gas supplier changes, which started after the culmination of the number of gas supplier changes in 2012, was reversed. We recorded a slight increase in gas supplier changes in comparison with 2016. Last year we took several steps leading to gas market development in Slovakia, in particular by increasing the efficiency and improving the quality of the IT system user interface utilised by the users of our distribution network (gas suppliers).

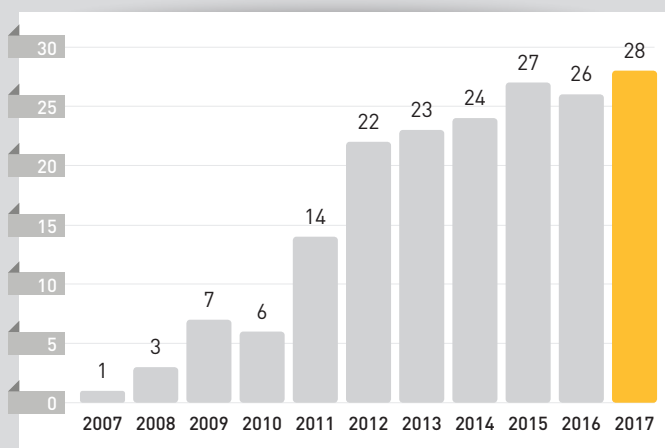
In particular, we reduced the periods of selected processes and extended the possibility of lodging electronic applications, which allowed a higher rate of flexibility and reduced paperwork. Further, we strengthened the non-discriminatory approach, openness and transparency by publishing information regarding the gas market on a regular basis in the form of a quarterly report published on the company's website, and by extending the quantity of data available through the user interface.

## LEGISLATION AND REGULATION

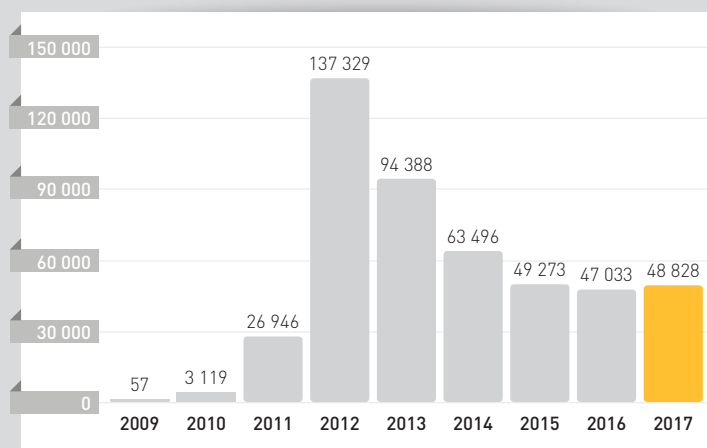
On 1 January 2017, an amendment to Decree of the Regulatory Office for Network Industries No. 24/2013 Coll. came into effect which resulted in several changes in gas market regulation. The most essential changes include the modification of certain periods, in particular

the extension of the period for daily (re) nominations of quantities of distributed gas, reduced periods for confirmation thereof and interruption or limitation of gas distribution. The changes also concerned the balancing of the distribution network, in particular the modification of price for purchase/sale of cumulated and reduction of tariff for overrunning the permitted daily deviation. The rules in ordering the classification of points of delivery in respective tariff groups and values of daily distribution capacity, in submitting objections and regarding the binding period for points of delivery when a gas supplier is changed have also been essentially changed. The issuance of a new price decision and its subsequent change in 2017 also essentially changed the structure of tariff groups (an increase in their number from 14 to 26) and fees for access to the distribution network and gas distribution.

Number of distribution network users



Number of supplier changes



## CONNECTION TO THE DISTRIBUTION NETWORK – SHORTENING OF THE PROCESS

During 2017 our company provided applicants for connection to the distribution network with the possibility of personal contact in three customer offices in Bratislava, Žilina, and Košice. At the same time, these applicants could contact us by mail or on-line through our website. SPP - distribúcia fulfilled the quality standards for determining business and technical conditions for connection at a level of 99.99 %, and the quality standards for determining business and technical conditions for the change of consumption parameters at the point of delivery at a level of 100 % (Decree of the Regulatory Office for Network Industries No. 278/2012 Coll.). In 2017 our company connected 9,411 new points of delivery to the distribution network in the categories: households, retail, medium, and wholesale customers. We successfully continued to improve the connection process and tried to reduce the total length of the process of connecting.

### Evaluation of procedural steps for connecting as regards SPP - distribúcia:

- Issuance of the technical conditions of connection and a draft contract on connection to the distribution network
- Statement on the project documentation
- Administration of applications for the installation of meters and the installation of meters at points of delivery.

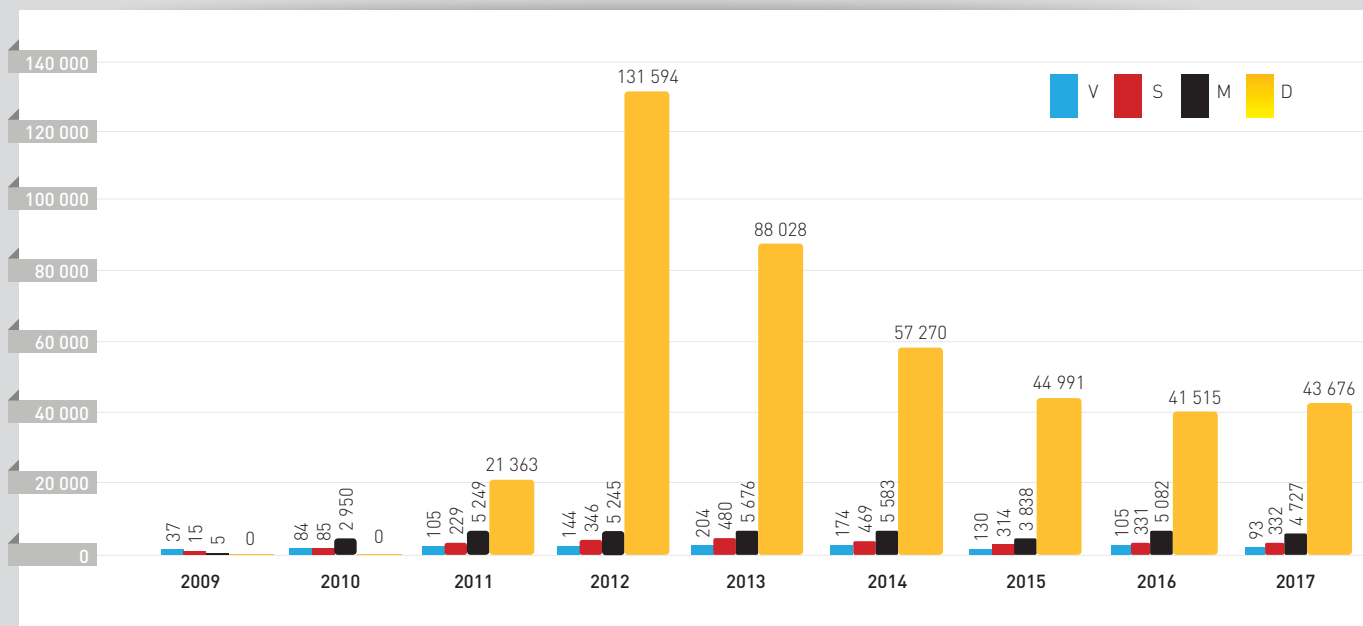
## SERVICES FOR MEDIUM AND LARGE CUSTOMERS

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

## DIGITALIZATION OF SERVICES – WEB APPLICATIONS FOR CUSTOMERS

We began posting electronic forms to the website [www.spp-distribucia.sk](http://www.spp-distribucia.sk) in 2014, through which our customers can file applications for connection, applications for a statement on technical changes at an existing point of delivery, or applications for the installation of meters, fully electronically from the comfort of their homes. While in 2015 the electronic form was used by 55 % of applicants, in 2016 electronic forms were used by 63 %, and in 2017 by as many as 67 % of applicants for connection and technical change. The forms were also used for 55 % of applications for the installation of meters, which is a 4 % increase over 2016 and 14 % more than in 2015. Applicants use this service especially because it can be completed very rapidly and is available 24 hours a day. We continue to send invoices for the payment of connection fees, connection contracts and statements on technical changes electronically to applicants' electronic mailboxes. This

Number of supplier changes by category



step eliminated the need for personal acceptance of registered mail and sped up the availability of our statements regarding the gasification of new points of delivery or the technical modification of existing points of delivery.

The implementation of this new method of communication is a further natural step in providing the highest comfort of service to existing and future customers.

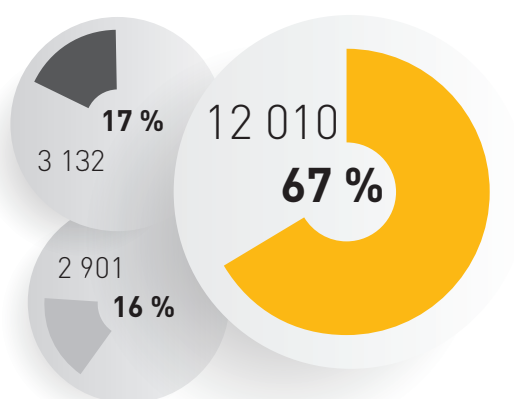
We have a novelty in on-line

communication - new on-line forms for connection and technical changes to residential houses and applications for the disassembly of meters before any reconstruction of the existing point of delivery.

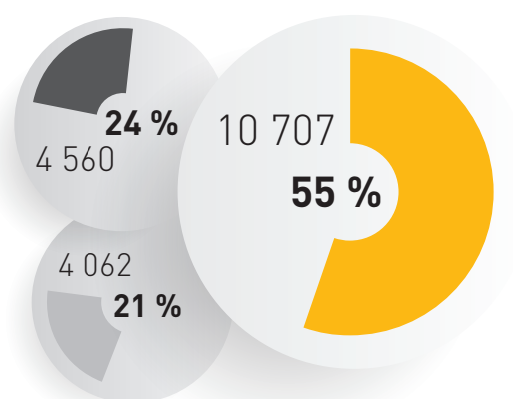
At the end of 2017, we managed to complete the instructional video "7 steps to connection", which explains and helps our customers better understand the process of household connection to the distribution network.

The video is available both on our website [www.spp-distribucia.sk](http://www.spp-distribucia.sk) and on the new YouTube channel of SPP - distribúcia. There is also a new "Frequently Asked Questions" application for the categories of households and small entrepreneurs on the web. Customers can find immediate answers to their questions there without needing to visit the Customer Centre or calling the Customer Line.

#### Applications for connection to the distribution network and for a statement on technical changes 1 January 2017 - 31 December 2017

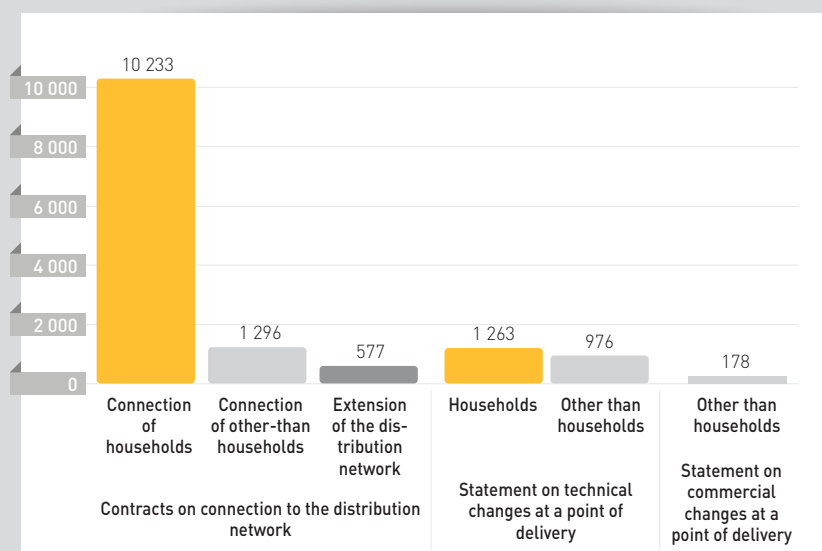


#### Applications for installation of meters 1 January 2017 - 31 December 2017

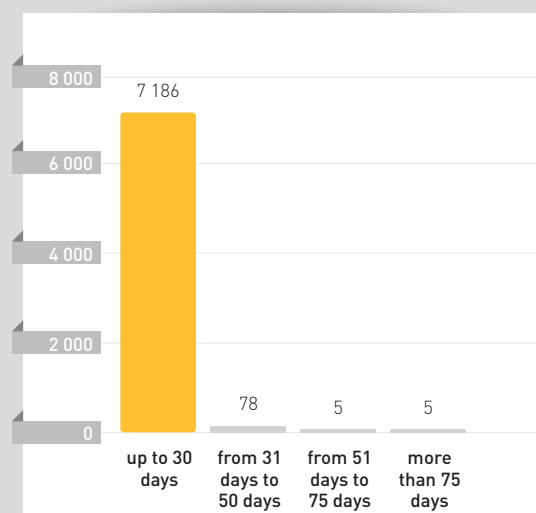


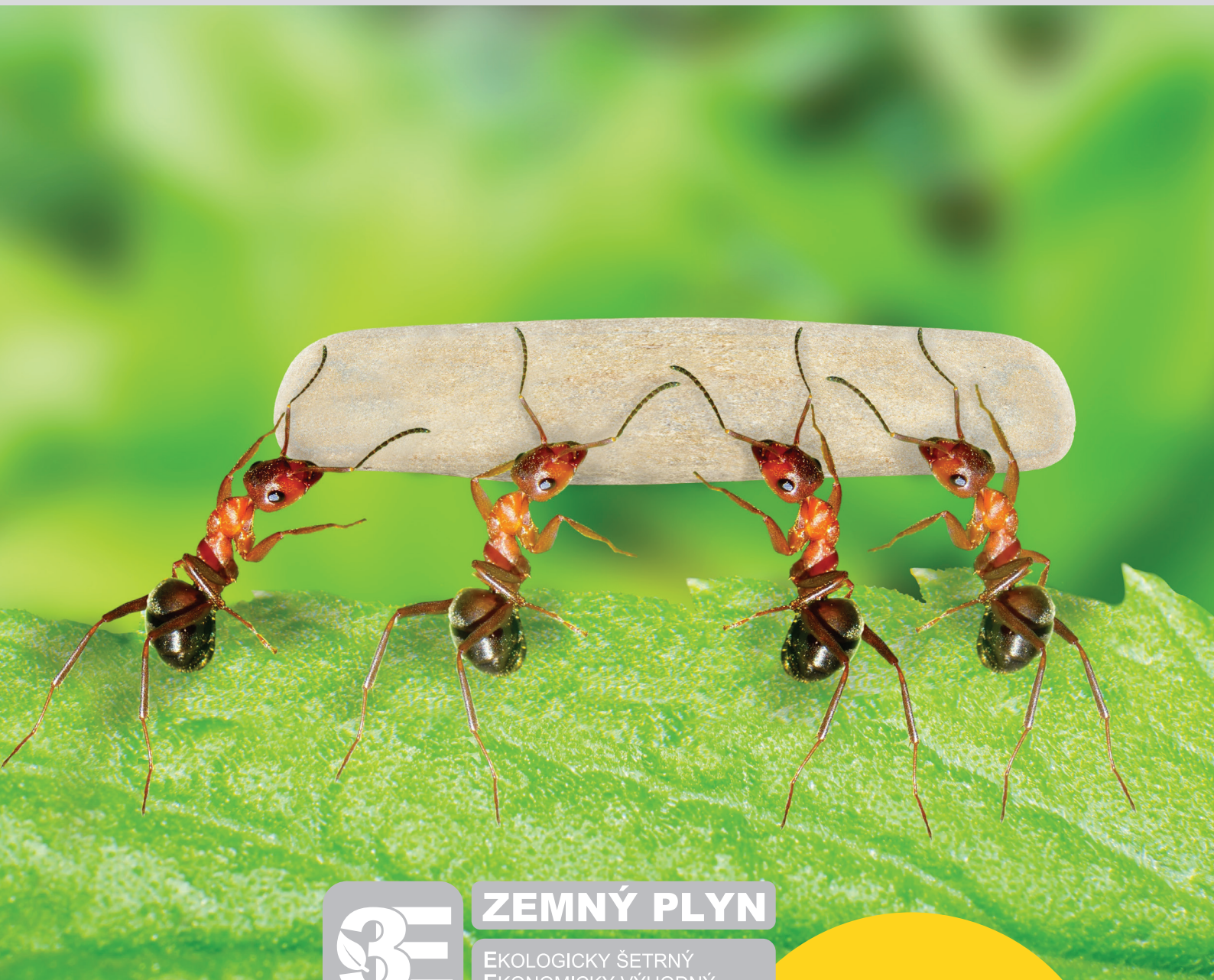
● by mail ● personally ● online

#### Number of issued statements on contracts for connection to the distribution network and to technical and commercial changes at a point of delivery in 2017



#### Evaluation of the completed process of connecting – contracts on connection to the DN in the category HOUSEHOLD Meter installation from 1 January 2017 to 31 December 2017





## ZEMNÝ PLYN

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Thanks to engagement and professionalism of our employees in 2017 we carried out almost half the preceding year's scope of local network reconstruction using our own resources.



# EMPLOYEES AND DEVELOPMENT OF CORPORATE CULTURE

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We bring heat to the homes of Slovakia's citizens and this mission entails professionalism, reliability and the guarantee of a responsible approach. Our objective is to do our work at a high level of quality and quickly, with reasonable costs. We look for solutions using steps that are as simple as possible while being effective for our customers, the safety of the gas distribution network and the reliability of natural gas supplies. In this way we apply our common values and focus on the engagement and loyalty of our employees to the company where they live and work. We lead our teams to consistent cooperation and activity in implementing projects, to professionalism and willingness in providing services. Everyday professional and high-quality work leads to the safety of operation of gas facilities, and in contact with customers and business partners, it brings long-term stability of the company.

## EDUCATING AND DEVELOPING OURSELVES AND THE COMPANY

As at 31 December 2017, our team consisted of 1,292 employees. Deepening the professionalism of our employees and improving processes and activities in human resource management and development were also our priorities in 2017. With respect to the nature of our business, professional education and the acquisition of skills and certificates for the performance of specific gas activities is an inevitable precondition for maintaining the high level of professionalism

and continuous professional growth of our employees. Not only do we fulfil legislative requirements, we support education and development beyond the ambit of regulations. Important areas include in particular professional education and IT skills that are increasingly needed. We also pay attention to personal-career development and the development of so-called soft skills. Our employees both take part in domestic and foreign professional workshops and conferences, and share their experience and expertise through lectures and articles in professional printed and electronic media. Our company observes the policy of diversity, applied in its administration bodies, management bodies, and supervisory bodies. In 2017 we continued to implement the development programme Career at Full Throttle. The programme was created with the objective of developing key employees in managerial and expert positions and retaining precious specific know-how in the company. In order to have somebody to hand over knowledge and longtime experience from the gas practice to, we continuously strengthen our teams with young people as part of the Young Gasman and Graduate Development Programme projects. The Young Gasman Project is implemented in cooperation with secondary schools. Within the project, we work with students who already decided to get involved in the project during their studies. After completing their studies successfully, they can become part of our company. The Graduate Development Programme Project is devoted to university graduates,

allowing them to get to know key activities of our company through rotations directly in the workplaces. After meeting the conditions, select graduates strengthened our team in the areas of procurement, the reporting of investments or the operation of gas facilities. In the area of support for specific target group development, last year we implemented a development programme for designers and managers of investment execution focused on constructive communication with negotiating partners and on sharing good practice in our teams. We also gave our time to the specific development of managers and foremen. We have not forgotten that development combined with team-building is most efficient. We will continue actively developing specific groups of employees in 2018.

## SUPPORT OF INDIVIDUAL PERFORMANCE AND INITIATIVE

Our main mission is to stimulate individual as well as team performance through the support of individual and team motivation towards the continuous improvement of quality and efficiency. By linking remuneration to individual performance and contribution to the fulfilment of the company's vision and strategic goals, we create a sound competitive environment. We support innovative thinking and make visible the individuals and teams with extraordinary contributions to simplifying processes and bringing improvements in all areas of our operation.

This is the third time we have encouraged mutual direct communication in our teams through Development Interviews. They represent an occasion for personal and working development and the efficient planning of individual development goals for our employees. The second wave of employee surveys at the end of 2016 was followed by a discussion on its results during meetings in 11 towns of Slovakia at the beginning of 2017. These meetings, much like the Development Interviews, are a precious source of incentives and good ideas. The use of a Working Time Account – a form of unevenly distributing working time – for two years has contributed to the higher effectiveness and harmonization of available capacity required for the performance of maintenance and measurement work by employees. Based on these results, we entered into an agreement with employee representatives on continuing the use of the Working Time Account in 2018 and 2019. Thanks to our functioning social dialogue, together with employee representatives, we signed Amendment No. 2 to the valid Collective Agreement of SPP - distribúcia, a. s., with effect from 1 January 2018 to 31 December 2019. By modifying and increasing the advantages in the provisions of the Collective Agreement according to the Amendment, we have improved the attractiveness of our company on the labour market.

## CORPORATE SOCIAL RESPONSIBILITY

As a natural gas distributor, we realise that responsible business is inevitable for sustainability in Slovakia. Therefore, we pay extra attention to human health and eco-friendliness. In December 2017 we launched

the pilot phase of the introduction of an electronic payroll system. With respect to the environment, in 2018 it will fully replace its paper counterpart. Business ethics in the everyday life of the company is applied by each of our employees based on our common values. Corporate social responsibility, charity, and donorship activities are important to us. In 2017 we continued to support projects focused on education, the cultural development of communities, and life quality improvement in towns, municipalities and regions of Slovakia through the SPP Foundation. In the Employee Programme under the auspices of the EPH Foundation, we provided support to families with many children and parents of handicapped children from among our employees. We facilitated their access to various leisure-time activities for their children, thus supporting their out-of-school development.

What we really appreciate is the approach of our employees to the support of charity and donorship. Last year they again got involved in the charity project Mission 06 that is focused on providing help to children with handicaps. They expressed their fellowship by contributing to fund-raising for the Union of the Blind and Partially Sighted of Slovakia, "The White Crayon", for An Hour for Children of the Foundation for Children and Youth of Slovakia, and to fund-raising for the Plamienok Hospice. We are proud that in our company, we have a group of voluntary blood donors who donate the most precious thing – their blood – on a regular basis as well as when we address them with a particular request.

It has already become a tradition that last year we organised the Corporate Games of SPP - distribúcia 2017 to support the health and sport of our

employees and their families, or White Christmas at the end of the year to deepen mutual human relations. During these events we also continued our long-term cooperation with protected workshops in the form of creative workshops and selling activities. These occasions for meeting with colleagues from other parts of Slovakia are enjoyed by an increasing number of supporters every year.

## SAFETY IS OUR PRIORITY

The assurance of occupational health and safety, fire protection and environmental protection are among the priority objectives of SPP - distribúcia, a. s. The occupational health and safety management system in SPP - distribúcia, a. s. is based on the approved policy of occupational health and safety and the environment. It is focused on the prevention of accidents and injuries by identifying risks and factors of the working environment, on the quality and safety of technical equipment, on work hygiene and other threats to health at work, on preventing diseases and injuries, and last but not least, on the provision of healthcare to employees. We minimize hazards and risks by introducing safe working procedures, technologies, suitable work organization, regular checks of the observance of legal requirements, by enhancing working conditions with respect to the factors of the working environment, as well as by involving employees into the process of PPE selection, checks of the working environment and the resolution of occupational health and safety issues.

We systematically analyse the main reasons for the incidents which have occurred, identify possible hazards, risks, and environmental aspects, and

execute preventive measures. By utilising a system of training, we try to increase the awareness of our employees of possible risks resulting from their working activities to the surroundings, the environment, the company's assets, and their own safety and health.

We resolve actual challenges through the Occupational Safety and Environment Programmes. In 2017 the programme was implemented through the following important activities:

- OHS reviews conducted in cooperation with employee representatives responsible for OHS, which did not identify any significant defects;
- Update to risk assessment and evaluation for individual work positions, which is among the basic pillars of OHS assurance and the elimination of injuries and hazardous events at workplaces;
- Fulfilment of tasks

of the occupational health services for the purposes of the creation of an optimal working environment;

- Regular communication of topics related to occupational health and safety;
- Enhancing the awareness of occupational safety in common workplaces with the company's suppliers;
- Regular medical preventive examinations for employees;
- Provision of vitamin packages to support employee health and immunity in winter.

Environmental protection represents another pillar of the long-term operation of SPP - distribúcia.

Within the framework of odorant supply to odorization stations, the company transported thousands of litres of hazardous substances in 2017. In transporting and handling hazardous substances, all the requirements of the Agreement concerning the International Carriage

of Dangerous Goods by Road (ADR) were met. During everyday activities, repairs, reconstruction, maintenance or cleaning operations on technological equipment, we monitor on a regular basis the state of the general and working environment at both our own workplaces and workplaces shared with our suppliers. Any defects found are analysed and eliminated.

In 2017 the state professional supervision carried out several inspections in the area of OHS, fire protection and environmental protection in SPP - distribúcia. No fines or sanctions were imposed on the company during these inspections. We endeavour to continue intensively in the positive trend regarding occupational health and safety, to fulfil the Occupational Safety and Environment Programme, to apply the principle of prevention, and continuously ensure the observance of safety and environmental protection rules in our workplaces.







## ZEMNÝ PLYN

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Natural gas seems to be a suitable fuel for buildings belonging to the A1 and A0 classes of building energy performance due to the advantageous ratio of the price of condensing boilers (including installation), their high efficiency, low operating costs, simplicity, real comfort and affordability, not to mention the nearly negligible environmental impact.



# NATURAL GAS – EFFECTIVE AND ECOLOGICAL SOLUTION

In Slovakia 94 % of households and companies have access to natural gas. Easy access, reliability of use, simple control of gas appliances and environmental friendliness are key reasons for the permanent use of natural gas in Slovakia.

## NATURAL GAS AND THE ENVIRONMENT

Although natural gas is a fossil fuel, it has very positive environmental characteristics in comparison with other fuels. Compared to solid fuels, significantly fewer harmful substances and a negligible amount of particulate matter – dust particles which in higher concentrations can endanger human health, are generated during the combustion of natural gas. In addition to low levels of particulate matter (PM), natural gas combustion produces negligible amounts of sulphur oxides and minimum amounts of carbon monoxide, and the level of nitrogen oxides is also very low. As compared with firewood and coal, natural gas combustion produces significantly lower emissions of carbon dioxide. When using natural gas for heating, it is possible to save up to 50 % of CO<sub>2</sub> emissions compared to coal. In heating with wood, approximately 8-times more PM is released (PM<sub>10</sub> and PM<sub>2.5</sub>) than with natural gas, and when coal is fired, 34-times more PM is released. The adverse impacts of PM on the population's health are alarming. An increased PM concentration increases the occurrence of respiratory diseases and has adverse impacts on foetal development. The level of air pollution in Slovakia has been characterised as serious in the long term. The Slovak Hydrometeorological Institute declared first degree smog warnings for various locations in Slovakia several times last year. As measurements showed PM<sub>10</sub> concentration thresholds exceeded for two consecutive days, the Slovak

Hydrometeorological Institute issued the signal "warning" which is the first degree in the smog warning system. According to a report issued by the European Environment Agency, due to poor regulation of particulate matter in Slovakia, about 5,620 citizens die prematurely each year. No effective measures to reduce particulate matter emissions have been adopted in Slovakia so far. This applies mainly to local heating. In the past heating using black coal in particular contributed to pollution, whereas today wood combustion also represents an environmental problem. Even in gasified regions with low temperatures in winter, for economic reasons consumers tend to fire wood. Thus, adverse smog situations can be solved by reducing the volume of particulate matter based on the responsible selection of an energy source for heating and on the rational approach of the state to support heating sources that are friendly to the environment and human health.

## ENERGY PERFORMANCE OF BUILDINGS

After 2020, in line with the EU Action Plan 20/20/20, only nearly-zero energy buildings will be constructed, which will represent a fully new phenomenon in terms of design, construction and, last but not least, operation of buildings. The ultimate goal is not only the construction of nearly-zero energy buildings, but also the implementation of sustainable architecture and construction with the overall aim to design, implement and operate energy-active, environmentally safe and economically effective buildings in the future. The obligation to implement nearly-zero energy buildings results from Directive 2010/31/EU of the European Parliament and of the Council on the energy performance of buildings (hereinafter "EPBD"). According to this

directive, all new buildings in the EU will have to have nearly-zero energy consumption after 31 December 2020 (this does not apply to the public sector). For the public sector, an earlier date was determined – 1 January 2019.

Natural gas seems to be a suitable fuel for heating and hot-water preparation in buildings belonging to the A1 and A0 classes of building energy performance. This is in particular due to the advantageous ratio of the price of condensing boilers (including installation), their high efficiency, low operating costs, simplicity, real comfort and affordability, not to mention the nearly negligible environmental impact. Thus, the above mentioned should be taken into account in determining the factor of natural gas as a primary energy.

## NATURAL GAS AND EFFECTIVENESS

Heating systems including hot-water preparation are an integral part of single-family houses and should be taken into account before construction. System selection influences the thermal comfort in the house, the general comfort, as well as the total sum of money which the user must pay for the installation and operation of the heating system over a long period.

Nowadays only ultra-low energy single-family houses (energy performance building class A1) are being designed and built; in the future they will be replaced by nearly-zero energy buildings (passive houses, energy performance building class A0).

The following example shows that heat preparation from natural gas is objectively economical:

- a new single-family house with an A1 class building energy performance rating,
- with an area of 120 m<sup>2</sup>,

Fuel type	Natural gas	Wood pellets	Firewood	HP - air/water
Heat installation	Condensing boiler	Conventional boiler	Conventional boiler	HP - air/water
Efficiency	97 %	90 %	70 %	275 %
Fuel quantity	1 075 m <sup>3</sup>	2 222 kg	3 682 kg	3 636 kWh
<b>Operating expense (OPEX)</b>				
	<b>Natural gas</b>	<b>Wood pellets</b>	<b>Firewood</b>	<b>HP - air/water</b>
TOTAL	590 €/year	624 €/year	456 €/year	584 €/year
<b>Capital expense (CAPEX)</b>				
	<b>Natural gas</b>	<b>Wood pellets</b>	<b>Firewood</b>	<b>HP - air/water</b>
TOTAL	4 880 €	5 180 €	2 480 €	11 230 €
<b>COST OVER 15 YEARS</b>				
	<b>13 734 €</b>	<b>14 547 €</b>	<b>9 322 €</b>	<b>19 987 €</b>

- with a low-temperature floor (hot-water) heating system,
- the estimated heat (heating and hot water) consumption is 10,000 kWh.

The economic evaluation of any heating system takes into account two basic parameters: investment costs and costs during the useful life of the equipment or during the evaluation period. As regards total heating system costs, if we include user comfort and the health aspect (threat of carcinogenic emission production of the particulate matter in firewood combustion) in the evaluation, then gas heating appears the best option. Natural gas heating is also advantageous for the reconstruction of an older single-family house. As regards total heating system costs, the order of heating systems does not change.

## ELECTRICITY AND HEAT PRODUCTION IN A COGENERATION UNIT

A cogeneration unit is able to produce heat, electricity, or even cold in a single device, resulting in significant savings in primary energy compared to the separate production of heat and electricity by up to 40 %.

The direct consequence of primary fuel savings is a reduction in emissions produced in the combustion process. A cogeneration unit is able to cover all a customer's energy needs using only a single appliance. Given the availability of cogeneration in many power classes, it has a wide range of applications in industry, in the municipal sector, and in health or social care services. Customers interested in cogeneration are offered a free analysis of cogeneration usage when installing a new or renovating an existing source to natural gas.

## CONDENSING BOILERS FOR SINGLE-FAMILY HOUSES

Thermal comfort, safety, user comfort and effective use of energy contained in natural gas – all this is provided by the progressive technology of condensing boilers. Compared to conventional, traditional or low-temperature boilers, condensing boilers can use a larger quantity of the energy contained in gas, which leads to lower costs of energy consumption.

## COMPRESSED NATURAL GAS (CNG) AND ITS USE IN TRANSPORT

Natural gas continues to gradually find its application in transport as well, and an increasing number of car producers have CNG vehicles in their portfolios. The operation of such vehicles provides users with advantages regarding lower fuel cost as well as a 50 % lower motor vehicle tax compared to vehicles using conventional fuels. Moreover, by

using CNG the emission of pollutants is significantly reduced, along with decreased noise, which in the end is beneficial for the entire society in the form of a cleaner environment. The use of CNG brings economically advantageous, ecological and safe transport. The new fuelCNG project has been supported by the European

Union with the objective of building 14 CNG fuelling stations on the D1 and D2 highways, representing evidence that CNG offers good prospects in transport. SPP - distribúcia supports CNG through preferential distribution charges for CNG fuelling station points of delivery and through the websites [spp-distribucia.sk](http://spp-distribucia.sk) and

[oplyne.info](http://oplyne.info), where in addition to general information on the advantages of natural gas, we also present CNG to the general public as an ecological fuel with the potential for wider application in transport. Customers interested in building CNG stations are also provided with free business and technical consulting.



## NATURAL GAS IS 3E

Marketing and media support for the promotion of natural gas usage is perceived as one of the main missions and tasks in SPP - distribúcia. Thus, to intensify the active promotion of natural gas's advantages, it was necessary to select simple and comprehensible messages with the most effective coverage of the target groups addressed. Therefore, in creating a communication strategy to support natural gas, the objective was, through

a brief and comprehensible message, to help future constructors and persons interested in changing energy sources with the decision-making process when selecting a heating energy source in favour of natural gas, and also to support the long-term objective of keeping existing customers. By linking a modern logo and the comprehensible message "NATURAL GAS IS 3E", we endeavour to achieve the deepest possible penetration of natural gas's advantages into the public awareness and to establish the 3E logo as

a separate "brand" for natural gas characteristics as a commodity. 3E is a concentrated expression of the three main advantages of natural gas and also of three pillars of communication in supporting the utilisation of natural gas – ecological friendliness, cost effectiveness, and energy efficiency. Our objective in applying the 3E brand in communication is to achieve a state when the 3E brand is integrally connected with the phrase natural gas – "3E natural gas" and "Natural gas is 3E".



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We actively support the development of an open gas environment through our activities. We are a stable and efficient provider of professional services for the 25 distribution network users as well as natural gas customers of all categories.



# REPORT ON BUSINESS ACTIVITIES OF THE COMPANY

## ECONOMIC AND FINANCIAL PERFORMANCE

### DEVELOPMENT OF THE BUSINESS ENVIRONMENT

In 2017 gas distribution was affected by the extraordinarily cold winter. The first month of 2017 was the 9th coldest January measured in Slovakia since 1931 (Source: Slovak Hydrometeorological Institute). Especially good results were achieved in particular in January and December 2017, which led to an increase in natural gas consumption. In comparison with the previous year, natural gas consumption increased by 222.7 million cubic metres. Like in the previous period, the year 2017 also saw the continuing optimisation of internal processes. In the interest of a stable level of operating expenses, the company further optimised its operating activities, in particular by increasing work productivity in maintenance and procurement. With effect from 1 January 2017, the Regulatory Office for Network Industries issued a new price decision for access and gas distribution which changed the previous price decision

issued in October 2016. The new price decision reduced the fixed fee component and increased the variable fee component to a level comparable with the previous regulatory period in the household segment.

In June 2017 an amendment to Act No. 250/2012 Coll. on regulation in network industries was approved; it separated the position of Chairman of the Regulatory Office for Network Industries and Chairman of the Board for Regulation, where a new Chairman of the Office is named by the Government. This amendment also newly regulates the duties of the Board for Regulation in the process of approval of regulatory policy and the State's powers within price proceedings related to the regulated entities in the network industries. After the then Office Chairman abdicated in July 2017, Prof. Ľubomír Jahnátek was named to the position. In September 2017 the legislative process of preparing an amendment to Act No. 251/2012 Coll. on energy began; the amendment will be submitted to Parliament in the first quarter of 2018 to be negotiated.

At the end of 2017, the Ministry of Environment started preparing a new Strategy of Environmental Policy until 2030 entitled "Greener Slovakia", and the Ministry of Economy of the Slovak Republic started preparing the Strategy of Economic Policy of the Slovak Republic until 2030.

Regulation (EU) 2017/1938 of the European Parliament and of the Council concerning measures to safeguard the security of the gas supply and repealing Regulation (EU) No. 994/2010 came into effect in November 2017. The EU started preparing an amendment to Directive No. 2012/27/EU on energy efficiency, and to Directive No. 2009/73/EC concerning common rules for the internal market in natural gas. A new Regulation of the European Parliament and of the Council on the governance of the energy union and a new Directive of the European Parliament and of the Council on the promotion of energy from renewable sources are under preparation.

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

In 2017, SPP - distribúcia, a. s. generated revenues from natural gas distribution in the amount of EUR 397.87 million. Operating expenses incurred through

the securing of revenues from the sale of services amounted to EUR 200.70 million. The prevailing components of operating expenses included depreciation and amortization, costs

of gas storage and personnel costs. The company concluded the financial year 2017 with an after-tax profit amounting to EUR 153.26 million.

### Comparison of after-tax profit structure (in mil. EUR)

	2017	2016
Natural gas distribution	397,87	358,61
Other revenues	33,12	24,68
Operating expenses	-200,70	-199,00
Profit/loss on financial operations	-17,40	-17,88
<b>Profit before taxation</b>	<b>212,89</b>	<b>166,41</b>
Income tax	-59,63	-23,46
<b>After-tax profit</b>	<b>153,26</b>	<b>142,95</b>

## ASSET AND CAPITAL STRUCTURE

### ASSETS

As at the balance sheet date, the total assets of the company amounted to EUR 2,739.41 million, which represents a decrease by EUR 1.63 million in comparison with the year 2016. Non-current assets of EUR 2,293.04 million accounted for 83.71 % of total assets. The most significant items of non-current assets included in particular

gas distribution pipelines, regulation stations, technologies and equipment of distribution networks. Costs of acquisition of non-current assets amounted to EUR 26.36 million and were directed mostly to network renovation. In 2017 no costs of research and development activities were incurred by the company.

In comparison with 2016, current assets increased by EUR 72.16 million and as at the balance sheet date, they reached a value of EUR 446.37 million. Inventory, receivables and advance payments represented major current asset items in 2017. The increase in the value of current assets is also the decisive factor in the increase in total assets.

### Comparison of asset structure (in mil. EUR)

	2017	2016	2017	2016
Non-current assets	2 293,04	2 366,83	83,71 %	86,35 %
Current assets	446,37	374,21	16,29 %	13,65 %

## SHAREHOLDER'S EQUITY AND LIABILITIES

In the capital structure of SPP - distribúcia, a.s., no significant change occurred in the share of own and foreign financing resources. The own resources prevailed and represented 59.90 % of the total resources of asset coverage. The shareholder's equity amounted to EUR 1,640.87 million, which represents an increase by EUR 13.42 million in comparison with the previous period. The shareholder's equity consisted in particular of share capital, the statutory reserve fund and retained earnings from the current

accounting period. The share capital of the company recorded in the Commercial Register represents one share with a nominal value of EUR 1,200 million. As at the balance sheet date, the statutory reserve fund consisting of capital contributions amounted to EUR 287.61 million. The retained earnings for 2016 - a profit of EUR 142.95 million - was paid to the sole shareholder of the company in the form of a dividend. The General Meeting will decide on the distribution of profit for the accounting period of 2017

in the amount of EUR 153.26 million. The statutory body proposes that the General Meeting pay the profit to the sole shareholder in full amount, in the form of a dividend. As at the balance sheet date, liabilities represented 40.10 % of coverage of the company's assets and amounted to EUR 1,098.54 million. The liability structure was dominated by non-current liabilities in a total amount of EUR 994.61 million. Current liabilities amounted to EUR 103.93 million at the balance sheet date.

### Comparison of liability structure (in mil. EUR)

	2017	2016	2017	2016
Shareholder's equity	1 640,87	1 627,45	59,90 %	59,37 %
Liabilities	1 098,54	1 113,60	40,10 %	40,63 %

The structure of shareholders as at 31 December 2017 was as follows:

SPP Infrastructure, a.s.	1 share	100%
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## SUMMARY RESULTS

Progress of the assets and profits of SPP - distribúcia, a. s., for the year ending 31 December 2017 and

2016 according to the individual financial statements were prepared in accordance with International

Financial Reporting Standards as adopted by the EU.

## Balance sheet (selected data in thous. EUR)

	Year ending 31 December 2017	Year ending 31 December 2016
<b>ASSETS</b>		
NON-CURRENT ASSETS		
Buildings, structures, machinery and equipment	2 275 351	2 346 136
Investments in subsidiary companies	1 000	1 005
Intangible non-current and other assets	16 691	19 686
<b>Total non-current assets</b>	<b>2 293 042</b>	<b>2 366 827</b>
CURRENT ASSETS		
Inventory	140 597	148 458
Receivables and advance payments	251 132	148 246
Tax receivables and income taxes	0	0
Cash and cash equivalents	54 635	77 516
Provided loans	0	0
<b>Total current assets</b>	<b>446 364</b>	<b>374 220</b>
<b>TOTAL ASSETS</b>	<b>2 739 406</b>	<b>2 741 047</b>

	Year ending 31 December 2017	Year ending 31 December 2016
<b>SHAREHOLDER EQUITY AND LIABILITIES</b>		
CAPITAL AND PROVISIONS		
Share capital	1 200 000	1 200 000
Statutory reserve fund and other funds	287 615	284 502
Retained profit	153 256	142 951
<b>Total shareholder equity</b>	<b>1 640 871</b>	<b>1 627 453</b>
NON-CURRENT LIABILITIES	994 608	1 002 754
CURRENT LIABILITIES	103 927	110 840
Total liabilities	1 098 535	1 113 594
<b>TOTAL SHAREHOLDER EQUITY AND LIABILITIES</b>	<b>2 739 406</b>	<b>2 741 047</b>

## Profit and loss statement (selected data in thous. EUR)

	Year ending 31 December 2017	Year ending 31 December 2016
Natural gas distribution	397 868	358 610
Other revenues	33 119	24 676
Operating expenses	-200 697	-198 992
<b>Operating profit</b>	<b>230 290</b>	<b>184 294</b>
Financial revenues	654	245
Costs of financing	-18 056	-18 129
<b>PROFIT BEFORE TAXATION</b>	<b>212 888</b>	<b>166 410</b>
Income tax	-59 632	-23 459
<b>PROFIT FOR PERIOD</b>	<b>153 256</b>	<b>142 951</b>

## Cash flow statement (selected data in thous. EUR)

	Year ending 31 December 2017	Year ending 31 December 2016
<b>OPERATING ACTIVITIES</b>		
Cash flows from operating activities	340 249	258 046
Interest paid	-13 595	-13 749
Interest received	173	297
Income tax paid	-69 635	-40 213
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>257 192</b>	<b>204 381</b>
<b>CASH FLOWS FROM INVESTMENTS</b>	<b>-273 969</b>	<b>-153 631</b>
<b>CASH FLOWS FROM FINANCIAL ACTIVITIES</b>	<b>-6 104</b>	<b>-53 926</b>
<b>NET INCREASE OF CASH</b>	<b>-22 881</b>	<b>-3 176</b>
BALANCE OF CASH AT THE BEGINNING OF THE PERIOD	77 516	80 692
<b>BALANCE OF CASH AT THE END OF THE PERIOD</b>	<b>54 635</b>	<b>77 516</b>

### IMPORTANT EVENTS THAT OCCURRED AFTER THE TERMINATION OF THE ACCOUNTING PERIOD FOR WHICH THE ANNUAL REPORT IS PREPARED

After 31 December 2017 no important events occurred which would require changes or disclosure in the annual report.

# STATEMENT ON COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE IN SLOVAKIA

In administration and management, SPP - distribúcia complies with the Code of Corporate Governance in Slovakia issued by the Central European Corporate Governance Association. The Code is publicly available at the Association's

website [www.cecga.org](http://www.cecga.org). Our aim is the implementation of and compliance with the various principles of the Code, demonstration of the process of their implementation, while issuing a statement on corporate governance. In 2017 the company applied the Code

of Corporate Governance without deviations. Pursuant to Article 20 (6) of Act No. 431/2002 Coll. on accounting as amended, the company presents the following Statement:

## GENERAL MEETING

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

- a. The right to participate in the management of the company, to a share in the profit and liquidation balance of the company in case of its winding up with liquidation. The shareholder exercises the right to participate in the management of the company by voting at the General Meeting; the shareholder must respect the organizational measures valid for the course of the General Meeting. At the General Meeting the shareholder has the right to request information, explanations relating to matters of the company or issues concerning the controlled persons, to submit proposals to the agenda of the General Meeting and to be elected to bodies of the company;
- b. A shareholder is entitled to a share in the profit of the company (a dividend) that the General Meeting has designated for distribution. A shareholder is not obliged to return a dividend received in good faith to the company;
- c. To the extent permitted by applicable legislation (including Energy Act No. 251/2012 Coll.), a shareholder is entitled to inspect the minutes of meetings of the Supervisory Board, while being obliged to maintain confidentiality of the information thus

obtained;

- d. The right to vote at the General Meeting - the shareholder's number of votes is determined by the ratio of the nominal value of their shares to the share capital;
- e. Any transfer of shares shall be subject to the approval of the General Meeting. The General Meeting may refuse a transfer of shares if it is in conflict with the company's Articles of Association or the shareholders agreement.

The General Meeting performs the following functions:

- a. Election and dismissal of members of the Supervisory Board;
- b. Election and dismissal of members of the Board of Directors;
- c. Changes in the Articles of Association, the statute of the Supervisory Board or the statute of the Board of Directors;
- d. Change in the share capital;
- e. Merger, fusion, split-up, change of legal form, winding up with liquidation or other significant changes in the corporate structure of the company;
- f. Decision on the appointment of a liquidator of the company and determination of remuneration of the liquidator;
- g. Decision on the distribution of any dividends by the company or distribution of other payments arising from shares;
- h. Decisions on the increase or decrease in the share capital of the company;

- i. Approval of ordinary individual, extraordinary individual, ordinary consolidated or extraordinary consolidated financial statements of the company;
- j. Decisions on the allocation of profit of the company, including the determination of the amount of dividends and any royalties, and on the method of settlement of any company losses;
- k. Decisions on changes in the rights linked to any type of the company's shares;
- l. Decisions on the conversion of registered shares to bearer shares and vice versa;
- m. Decisions on the limitation or exclusion of the preferential right of a shareholder to subscribe newly issued shares of the company in accordance with and subject to conditions laid down by law;
- n. Approval of a contract on the transfer of the company's business and contract or the transfer of a part of the company's business;
- o. Any substantial change in the nature of the core business of the company or in the manner in which the company conducts its core business;
- p. Approval of the commencement of any legal or arbitration proceedings against persons who were direct or indirect shareholders of SPP before 23 January 2013 and ceased to be shareholders of SPP no later than on 23 January 2013;
- q. Appointment of an auditor.



## BOARD OF DIRECTORS

The Board of Directors is a statutory body of the company acting on behalf of the company. The Board of Directors makes decisions on all matters related to the company. The Board of Directors has five members. Members of the Board of Directors are appointed and dismissed by the General Meeting for a period of four years. When electing or dismissing a member of the Board of Directors, the General Meeting may determine that their election to or

dismissal from the office is effective at a later date than on the date when the decision of the General Meeting was taken.

The Board of Directors:

- a. Manages the business of the company and ensures all of its operational and organizational matters;
- b. Convenes the General Meeting;
- c. Exercises employer rights;
- d. Implements resolutions

- of the General Meeting, or written decisions of the sole partner;
- e. Ensures prescribed book-keeping and keeping of other records, books and other documents of the company;
- f. Submits reports to the General Meeting;
- g. Submits materials to the Supervisory Board for consideration;
- h. Prepares the annual budget and business plan of the company.

## SUPERVISORY BOARD

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

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

- a. Fulfilment of tasks assigned by the General Meeting to the Board of Directors;
- b. Compliance with the Articles of Association of the company and relevant legislation with regard to the company's activities;

- c. Economic and financial activities of the company, accounting, records, accounts, the state of the company's assets, its liabilities and receivables.

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

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

## COMMITTEES

SPP - distribúcia, a. s. has used a legal exemption from the obligation to establish an audit committee directly at the level of SPP - distribúcia, a. s., and ensured that activities of the audit committee would be performed by a committee established at the level of the parent company SPP Infrastructure, a. s., because the parent company SPP Infrastructure, a. s. also fulfils conditions of the Act on Statutory Audit for the establishment of an audit committee and therefore has established such a committee. The Audit Committee established

at the level of the parent company SPP Infrastructure, a. s. performs its activities for SPP - distribúcia, a. s. on the basis of a business and legal contract on the provision of services. The Audit Committee must have at least 3 members. The committee members are appointed by the General Meeting. At least one Committee member must have professional experience in the area of accounting or statutory audit and all members as a whole must have qualifications suitable for the sector in which the accounting entity operates. An absolute majority of members as well

as the chairman of the Committee (elected by members of the Committee or by the Supervisory Board) must be independent. An independent member is an individual who is not connected by property or personally with the accounting entity or its subsidiary, its partners, members of statutory bodies and statutory auditor of the accounting entity, and who is not their close person and does not receive from the accounting entity or its subsidiary any other income than the remuneration for the work in the Supervisory Board or Audit Committee.

## MANAGEMENT METHODS

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

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

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

## INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT

Internal control at all levels of the organizational structure serves to reveal preventively any potential risk occurrence in the company. The internal control system includes all forms of continuous control measures, procedures and mechanisms in individual departments. The internal control system of SPP - distribúcia was implemented through the adoption of internal management acts which regulate the performance of internal controls and internal audits by internal

employees. The controls are performed by employees directly participating in individual processes, managers of individual units or employees authorized by them who are responsible for controlled processes and control results, or by internal auditors. Control results are submitted to the relevant bodies of the company on a regular basis. Timely adoption of preventive measures ensures the effective adjustment of key processes.

Within risk management, SPP - distribúcia monitors, evaluates and manages in particular regulatory, market, financial, operating, environmental, personnel, and media risks, as well as their influence on the financial statements. Thanks to the action plans adopted by the company management, the influence of risks on company operation is continuously decreased.

## SHARE CAPITAL OF THE COMPANY

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

Issue No. (CEM): LP0001508566

Nominal value: EUR 1,200,000,000

Type: ordinary share

Form: certificated

Class: registered share

Percentage of share in share capital: 100%

Admitted to trading: 0 pc

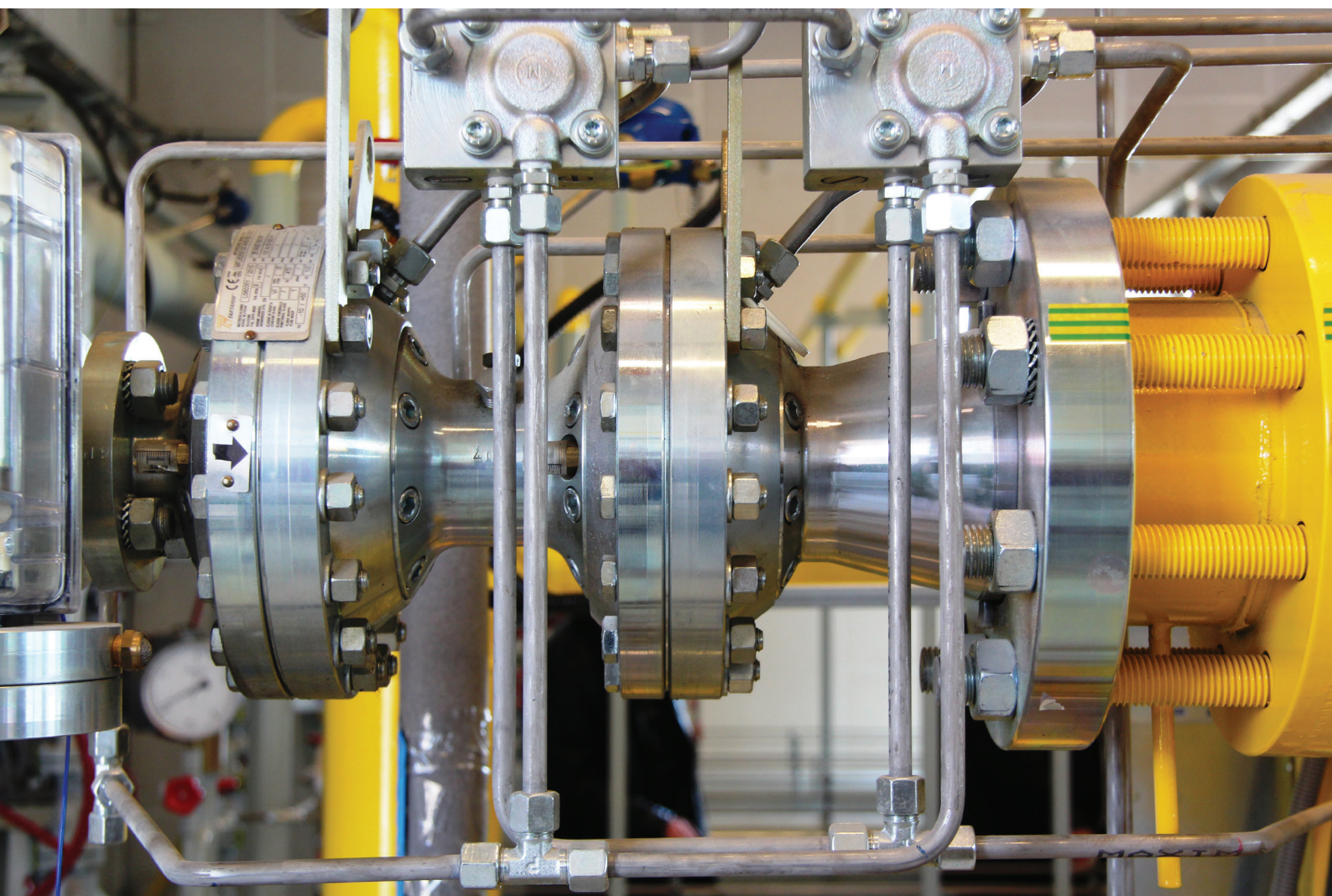
The share capital structure does not include shares whose owners would

have special rights of inspection.

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

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

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





# REPORT ON THE IMPLEMENTATION OF MEASURES ADOPTED IN THE COMPLIANCE PROGRAMME OF THE DISTRIBUTION NETWORK OPERATOR FOR 2017

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1. The compliance programme is an internal regulation of the distribution network operator, SPP - distribúcia, a. s. which, according to the provisions of Act No. 251/2012 Coll. on energy and on amendments to certain acts, defines measures to ensure the non-discriminatory administration of the distribution network, which is a part of a vertically integrated business. The Compliance Programme determines the specific obligations of employees aimed at preventing possible discriminatory behaviour of the distribution network operator. The latest update of the Compliance Programme identified as D.RM.04.07.06, with effect from 1 December 2015, was amended by banning insider trading based on the provisions of EU Regulation No. 1227/2011 on wholesale energy market integrity and transparency (REMIT).
  - (b) Obligations to ensure non-discriminatory behaviour of the distribution network operator in providing information;
  - (c) Obligations to ensure non-discriminatory conditions of providing services by the distribution network operator to gas market participants;
  - (d) Conditions relating to the manager of the Compliance Programme, including appointment and dismissal;
  - (e) The activity of the manager of the Compliance Programme including the training of the distribution network operator's staff in the Compliance Programme and the activities of staff focused on observing the Compliance Programme;
  - (f) Obligations ensuring publicity about the Compliance Programme, control and execution of the annual report on the implementation of the Compliance Programme.
2. The Compliance Programme includes the following measures::
  - (a) Obligations to ensure the independence of the distribution network operator from other activities not related to gas distribution;
3. In 2017 the implementation of measures listed in the Compliance Programme was performed in mainly the following way:
  - (a) SPP - distribúcia, a. s. as the distribution network operator is established as a separate company and its organizational structure is arranged in such a way as to ensure the independence of all activities of the distribution network operator associated with gas distribution from other activities in the vertically integrated company which are not related to gas distribution;
  - (b) Maintaining a non-discriminatory approach to the provision of information meant for the gas market participants and in providing services of the distribution network operator;
  - (c) The internal procedures of the distribution network operator include measures implemented to ensure non-discriminatory behaviour in accordance with the Compliance Programme;

(d) Publication of the Compliance Programme, which is accessible to employees of the distribution network operator in the electronic database of regulations, and for other market participants on the website of the distribution network operator;

(e) Carrying out checks of observance of the Compliance Programme. In 2017, for example, the Compliance Programme manager verified the application of a non-discriminatory approach in performing services ordered by distribution network users, in providing customers with

information and in supplying gas to the entry points of the linked distribution networks for several gas suppliers. Further checks concerned the prohibition of insider trading for employees who have access to confidential information.

4. On 14 May 2014, on the basis of the shareholder's decision, the company SPP Infrastructure, a. s. became the sole shareholder of SPP - distribúcia, a.s. and the gas supplier Slovenský plynárenský priemysel, a.s. is no longer a part of the vertically integrated company that includes SPP - distribúcia, a.s. This has provided for the full

independence of the distribution network operator from the activities relating to the gas supply. Based on contracts, in 2017 SPP - distribúcia, a.s. took over only property rental services from Slovenský plynárenský priemysel, a.s.

5. The manager of the Compliance Programme of the distribution network operator did not identify any breach of obligations set by the Compliance Programme during the period from 1 January 2017 to 31 December 2017.

In Bratislava on 13 February 2018



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



**ZEMNÝ PLYN**

EKOLOGICKY ŠETRŇÝ  
EKONOMICKY VÝHODNÝ  
ENERGETICKY HOSPODÁRNÝ

The reliability of the operation of such an extensive gas distribution network requires a high level of professionalism, continuous development and consistent monitoring of the condition of pipelines and gas facilities in order to ensure the technically safe, user reliable and economically efficient distribution of natural gas.



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Section Sro, File 4444/B  
Id. Nr.: 31 343 414  
VAT Id. Nr.: SK2020325516

## SPP - distribúcia, a.s.

### SUPPLEMENT TO THE INDEPENDENT AUDITOR'S REPORT ON THE ANNUAL REPORT Pursuant to Act No. 423/2015 Coll., Article 27 (6)

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

- I. We have audited the financial statements of SPP - distribúcia, a.s. (the "Company") as at 31 December 2017 presented in Appendix to annual report of the Company. We issued an Auditor's Report on the Audit of Financial Statements dated 15 February 2018 in the wording as follows:

#### 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
<b>Estimated Revenues from Gas Distribution</b>  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.  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:	Our audit procedures included, inter alia: <ul style="list-style-type: none"> <li>• Assessment of the appropriateness of and reliance on the procedure and method used by management to determine the estimates;</li> <li>• 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;</li> <li>• Testing whether the assumptions used are appropriate given the measurement objective in compliance with accounting standards;</li> <li>• Assessment of effectiveness of the setup and operation of the controls over the estimation by management and controls in the implementation;</li> </ul>

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a) Estimated quantity of distributed natural gas depending on measured temperatures in individual customer categories; b) Own consumption estimate; c) Changes in natural gas accumulation in the distribution network.	<ul style="list-style-type: none"> <li>Assessment of changes in the relevant information system, assessment of IFRS requirements to recognise the accounting estimate in the financial statements.</li> </ul>
<b>Impairment Assessment</b>  <i>See Note 3d) to the financial statements</i>  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: <ul style="list-style-type: none"> <li>Future fees the Company is entitled to charge for its distribution services under the price regulation regime;</li> <li>Natural gas volume distributed in the future;</li> <li>Discount rate specific to the assets owned by the Company;</li> <li>Associated capital expenditures and operating costs.</li> </ul> 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.

## II. Report on Other Legal and Regulatory Requirements

### **Report on Information Disclosed in the Annual Report – Supplement to the Independent Auditor's 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.

We evaluated whether the Company's annual report includes information whose disclosure is required by the Act on Accounting.


Based on procedures performed during the audit of the financial statements, in our opinion:

- 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, based on our understanding of the Company and its position, obtained in the audit of the financial statements, we are required to disclose whether material misstatements were identified in the annual report, which we received after the date of issuance of the report on the audit of financial statements. There are no findings that should be reported in this regard.

Bratislava, 27 March 2018

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

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





## ZEMNÝ PLYN

EKOLOGICKY ŠETRNÝ  
EKONOMICKY VÝHODNÝ  
ENERGETICKY HOSPODÁRNÝ

Natural gas is an effective and cheap solution in the fight against climate change and the effort to improve air quality.





## PROSPECTS OF THE COMPANY FOR 2018

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The continuous increase of safety levels is a priority area which we actively focus on and will continue to invest in in the future. We perceive safety as a strategic priority, therefore, we place emphasis on developing models allowing us to define an adequate scope of maintenance according to the state of a particular asset and the risk level regarding its operation. Risk modelling has already proved itself, for example, in the area of regulation station maintenance, therefore, we will further invest in the development of innovative approaches in determining the technical state of our assets.

Increasing effectiveness and looking for synergies in the company represents another important area in which we were successful last year; we will continue developing it in the next period as well. The know-how of local network reconstruction performed by our company will be moved to a higher level by managing demanding reconstruction in the centre of Bratislava and other densely populated towns.

As regards customer services, we will continually focus on increasing the level of services provided, particularly digitalization. Thanks to the unlimited time availability of our on-line forms on our company's website, the connection of our customers to natural gas is much simpler, more comfortable and, according to last year's results, ever more attractive. In the future we are going to expand our electronic

services even more, for example, in the area of self-reading submission via the Internet or the introduction of an application for customers so that they are able to monitor the stage of their application's handling in the connection process from the comfort of their homes. We will continually improve introduced and proven tools.

As regards marketing support provided to the connection of new points of delivery to the natural gas distribution network in 2018, we will focus in particular on the promotion of objective cost-efficiency of heat preparation from natural gas in new and reconstructed single-family houses. These marketing activities will be performed in particular through modern communication channels, such as social networks, and through the promotion of professional articles. Another key piece of information communicated to the public through modern electronic forms is that heat preparation through cost-saving and eco-friendly facilities on the basis of natural gas meets the conditions set for designing and constructing buildings in the A1 energy class. The summary objective of these marketing activities will be to preserve the majority share of natural gas in the number of new (approved) single-family houses in 2018. We will further intensify the campaign "Natural gas is 3E" to support natural gas through public information on the ecological friendliness, cost effectiveness, and energy efficiency of natural gas utilisation so that

thanks to natural gas the energy mix of Slovakia also improves air quality in a rational way and without significant adverse financial impacts on energy consumers.

In addition to our long-term objectives, we will process and submit incentives for the creation of a low-carbon strategy as well as for the development of an energy act. Preparation for an increase in the number of gas meter replacements after 2020 will also be important.

Last but not least, we will continue to improve the efficiency of the performance of our operating activities, particularly in the area of procurement, increases in work productivity in maintenance, as well as the optimisation of the costs of real estate and car fleet administration.

We want to achieve a high level of customer satisfaction through flexibility in responding to the needs of our customers, and to development of the energy market. We will achieve the objectives of 2018 through the provision of a high level of safety for our operating activities, continuous improvement of operating and investment efficiency, improvement of our approach to customers, and an increase in the engagement of our employees. As a stable, credible, and effective provider of natural gas distribution services, we will make maximum effort to create values for our customers, employees, and shareholders.

## CONTACTS

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

**Emergency line - gas:**

Tel.: 0850 111 727 (charged at the price of a local call)

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

Tel.: 0850 269 269 (charged at the price of a local call)  
The customer line is in operation on working days from 7:00 a.m. to 8:00 p.m.  
E-mail: [pripajanie@distribuciaplynu.sk](mailto:pripajanie@distribuciaplynu.sk)  
On-line forms: [www.spp-distribucia.sk/sk\\_online-aplikacie](http://www.spp-distribucia.sk/sk_online-aplikacie)

**Contract relations between SPP - distribúcia, a. s. and gas suppliers:**

Tel.: +421 2 2040 2011 Secretariat of Distribution Services  
E-mail: [distribucia@spp-distribucia.sk](mailto:distribucia@spp-distribucia.sk)

**Microsite on natural gas:**

[www.oplyne.info](http://www.oplyne.info)

**Facebook:**

[www.facebook.com/SPPdistribucia/](http://www.facebook.com/SPPdistribucia/)

**Complaints regarding the services of SPP - distribúcia, a. s.:**

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