

REPORT  
for the period  
**1 January – 31 July 2018**



**ZEMNÝ PLYN**

EKOLOGICKY ŠETRŇÝ  
EKONOMICKY VÝHODNÝ  
ENERGETICKY HOSPODÁRNÝ



Natural gas is an effective and cheap solution in fighting against climate change.



**ZEMNÝ PLYN**

Ekologicky šetrný  
Ekonomicky výhodný  
Energeticky hospodárny

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# FOREWORD FROM THE COMPANY MANAGEMENT

Dear shareholders,  
Dear lady colleagues,  
Dear gentleman colleagues,

We present the annual report to you that summarizes the results of our activities and project implementation in the first seven months of 2018, which can be considered very successful. As usually, the company's economy was affected by the weather. Despite the fact that winter did not reach the same intensity as in the previous period, it lasted much longer. According to the Slovak Hydrometeorological Institute, the extremely long cold weather was caused by air circulation in the atmosphere, when our territory was twice affected by a strong cold wave, thus, March this year was one of the coldest ones since 1951. Therefore, especially good results were achieved in particular in January, February and March 2018, which led to an increase in natural gas consumption. In 2018, SPP - distribúcia, a. s. continued to optimise the internal processes. In an effort to stabilise the level of operating expense, we further optimised our operating activities, in particular by increasing work productivity in maintenance and procurement. As a follow-up to the legislative process started already at the end of 2017, on 15 May 2018 the Parliament approved an amendment to Act No. 251/2012 Coll. on energy, which (except for four provisions) came into effect on 1 June. The amendment brought to our company changes in taking the readings at the points of delivery of customers except households and in submitting the measured data to the corresponding natural gas suppliers. The conditions for the issuance and alteration of the licence for business in energy for gas distribution activities, as well as the conditions for the connection of a facility or distribution network to the transmission system also changed. The amendment also introduced new penalties for vertically integrated

enterprises for the violation of selected duties laid down by the Act. New Act No. 152/2018 Coll. on metrology and on the amendment to certain acts also came into effect on 1 July 2018. At the beginning of 2018, the Regulatory Office for Network Industries (RONI) notified the intention to amend RONI Decree No. 223/2016 Coll. laying down the price regulation in the gas industry. The amendment came into effect on 20 July 2018 and it brought to SPP - distribúcia a partial change in charging the payments for daily distribution capacity overrun for gas distribution for agricultural purposes with seasonal character. At present, the legislative process of amending Act No. 309/2009 Coll. on the support of renewable energy sources also continues; within it, comments submitted in the interdepartmental proceeding were evaluated in June 2018. Currently, meetings of the work group, which includes representatives of our company, take place at the Ministry of Transport and Construction of the Slovak Republic in order to prepare a new legal regulation - draft Act on Land-Use Planning and Act on Construction. The beginning of the legislative process is planned for autumn 2018, when both draft acts should be submitted to the interdepartmental commenting proceeding. In June 2018, the Government approved the Economic Policy Strategy of the Slovak Republic till 2030. The Environmental Policy Strategy till 2030 "Greener Slovakia" is still under preparation. In May 2018, SPP - distribúcia, a. s. joined the preparation of the Low-Carbon Strategy of Development of the Slovak Republic till 2030 with outlook to 2050 for selected sectors of economic activities. In the EU, legislative processes take place, which lead to the revision of Directives No. 2010/31/EU on the energy performance of buildings, No. 2012/27/EU on energy efficiency, No. 2009/28/EC on the promotion

of the use of energy from renewable sources, No. 2009/73/EC concerning common rules for the internal market in natural gas, and to the adoption of a new Regulation of the EP and Council on energy union governance. In the previous period, no serious emergency event was recorded during gas facilities operation, which confirms the correctness of adjustment of maintenance 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 safe and reliable natural gas supply to our business partners even in the following period. With the objective to ensure distribution network safety, we also focused on unauthorized gas consumption using our strengthened analytical capacities in revealing 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 the 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. We also make progress in customer services. Our web applications enjoy great interest. In 2017, the electronic form was used by 67 % of applicants for connection and technical change, whereas in the first seven months of 2018, it was used by 73 % of applicants. The forms were also used for 58 % of applications for the installation of meters in the first seven months of 2018, which is by

3 % more than in 2017 and by 7 % more than in 2016. Applicants use this service especially because it can be completed very rapidly and is available 24 hours a day. We also continue to send invoices for payment of connection fees, connection contracts and statements on technical changes electronically to the applicants' electronic mailboxes. This step eliminated the need for personal acceptance of registered mail and speeded up the availability of our statements regarding the gasification of new points of delivery or the technical modification of the 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 the existing and future customers. We have a novelty in on-line communication - new on-line forms for the connection and technical change of residential houses and applications for disassembly of meters before any reconstruction of the existing point of delivery. There is also a new application "Frequently Asked Questions" for the categories of households and small entrepreneurs on our web. Customers can find immediate answers to their questions there, without a necessary visit to the Customer Centre or calling to the Customer Line. This February, a new online application providing "Information on the progress of attending to application in the process of connection" was started on the web for applicants for the connection to the distribution network. The new application provides customers with a comfort and fast way of getting information on the progress of attending to their application. The application is available seven days a week, 24 hours a day in all categories (the future customer in a single-family house, multiple dwelling house or in the categories of retail, medium and wholesale customers). Moreover, at the beginning of the year, a new online application

"Self-Reading of Natural Gas" was started for customers from the categories of Households and Retail. The customers can use the application for extraordinary readings, changes of gas supplier or in the period of the respective reading cycle for the point of delivery.

Thanks to digitalization, the connection of our customers to natural gas is much simpler, more comfortable and better available today. In the future, too, we will focus on the extension of electronic services, communication through social networks, and we will improve the services that have been well-tried. Management of environmental aspects of the activities of our company 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. In the previous period we also continued to medially support natural gas as a "green" heating medium. The subject was in particular to intensify the media communication about the advantages of natural gas as an energy medium, which can contribute to the improvement of the environment for acceptable prices, and to prepare a high-quality media campaign "Natural gas is 3E", which will present the basic characteristics and advantages of natural gas - Ecological Friendliness, Cost Effectiveness, and Energy Efficiency. The key message of the campaign starting in September this year is that natural gas can be an effective and cheap solution in fighting against climate change and taking effort to improve air quality, playing the key role in the transfer to low-carbon energy.

Today, thanks to the long-year effort of our employees and the ability to respond flexibly to energy market changes, SPP - distribúcia is a modern, reliable and efficient entity creating values for its employees, business partners and shareholders and respecting its employees.



**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



We provide natural gas distribution  
to more than 1.5 million points  
of delivery.



**ZEMNÝ PLYN**

EKOLOGICKY ŠETRNÝ  
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# 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 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 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 provided services, which is reflected in the growing options for electronic access to key services.

Priority business areas for SPP - distribúcia include the sale of distribution capacity, connections to the gas distribution network, active promotion of the use of natural gas as a 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 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. 7. 2018

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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. (former 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 pekárne and cukrárne, 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 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 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, reduction in 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 of 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; till 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 to work for the AGROFERT Group, first holding the position of financial director and member of the Board of Directors of Duslo, a. s., and from 2008 as the CEO and Vice-

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

## TOP MANAGEMENT AS AT 31. 7. 2018

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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 Economics  
and Regulatory Division

Roman Filipoiu completed his Financial Management studies at the Faculty of Business Management at the University of Economics in Bratislava. Later on, he obtained his MBA at Oxford University in Great Britain. After graduating, he started working as an Auditor and Consultant in Deloitte, where he participated in audits of several major banks, financial institutions, and media companies in Slovakia. He started working in the energy sector after joining NAFTA a. s. in 2007. 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 Economics and Regulatory Division for SPP - distribúcia, a. s. At the same time, he operates as Chairman of the Supervisory Board in SPP - distribúcia Servis, s. r. o., and member of the Supervisory Board in Plynárenská metrológia, s. r. o.



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

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 in 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 the Network Operation and Asset Management Division in SPP- distribúcia, a. s.



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

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

Gasworks in Považská Bystrica. In July 2004 he became Head of the Local Unit in Prievidza. After the legal unbundling in 2007, he joined SPP - distribúcia, a. s., 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.



**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. Since 2004 he worked at SPP as Director of the Distribution Capacities Sales Division. In 2006, he participated in the legal

unbundling process of SPP into three separate companies and led the project for the implementation of 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. 7. 2018

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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 the Human Resources  
and QHSE Division

František Kajánek graduated from the Mining-Geology Faculty at the Mining College in Ostrava with a specialization in economics and the management of mines, and later studied law at the 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 the Human Resources and 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 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 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 operates up to now. Since 2012, he has been Chairman of the Supervisory Board for SPP - distribúcia, a. s.

### **William Price**

Vice-Chairman of the Supervisory Board

Members:

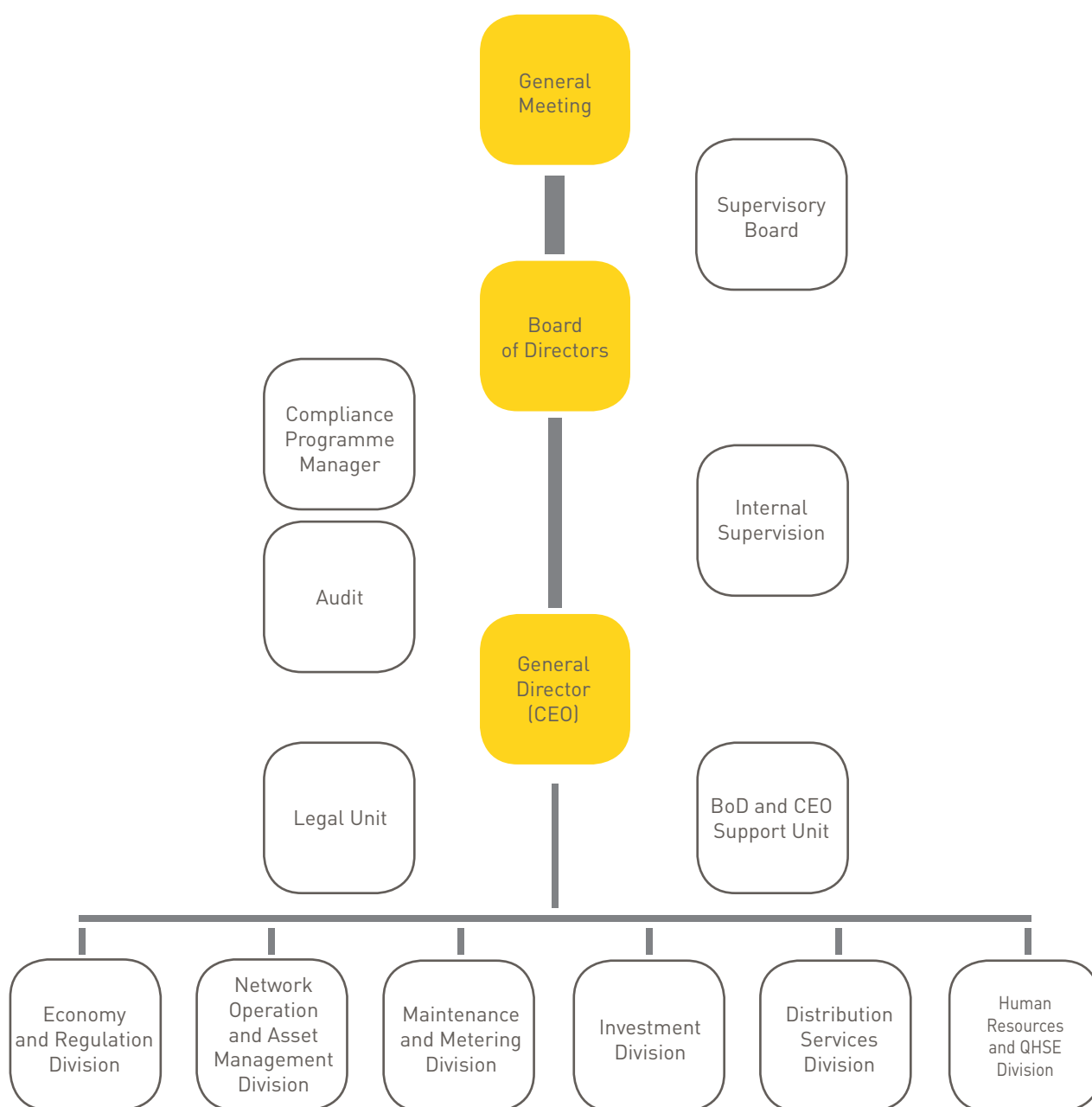
**Pavol Korienek**, Member of the Supervisory Board

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

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

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

## ORGANIZATIONAL STRUCTURE





When using natural gas for heating,  
it is possible to save up to 50 % of CO<sub>2</sub>  
emissions compared to solid fuels.



**ZEMNÝ PLYN**

ÉKOLOGICKY ŠETRNÝ  
EKONOMICKY VÝHODNÝ  
ENERGETICKY HOSPODÁRNÝ





We are responsible for the safety and reliability of a gas distribution network of more than 33,000 km.



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ENERGETICKY HOSPODÁRNÝ



# SAFE AND RELIABLE DISTRIBUTION

## OPERATION AND SAFETY OF THE NETWORK

In terms of distribution network operation, the actual course of the year 2018 was focused on preparing the background documents and procedures for more demanding repairs. Certain planned repairs are connected with cutting out the hazardous depressions on the gas pipeline DN500 found by the internal inspection of the gas pipeline, with the repair of welds, replacement of connection and bypass closures or replacement of piping material of the high-pressure gas pipeline. In addition to the planned repairs, an external inspection takes place on specified gas pipelines that is connected with vegetation removal and assurance of pipeline continuity. All the activities and repairs on the distribution network, which are in progress, will have been completed by the beginning of the heating season 2018. Professional elimination of found defects within the framework of corrective maintenance and high-quality performance of preventive and inspection activities in the required intervals creates a basis for the safe and reliable distribution network, which can meet requirements of natural gas consumers without any problem.

## DAMAGE TO GAS FACILITIES CAUSED BY THIRD PARTIES

In the first seven months of 2018, the company recorded the trend of damage to gas facilities caused by third parties comparable with the same period in 2017. Damage to gas facilities is recorded in particular during earthwork execution in the zones of protection of gas facilities. On request, SPP - distribúcia, a. s. performs the staking-out of gas facilities free of charge up to a distance of 100 m with the objective to eliminate the number of damages to gas facilities. In 2018, cooperation with the Slovak Trade Inspection in solving cases of damage to gas facilities continues.

## 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 security of gas supplies to household customers in compliance with valid legislation in the first seven months of 2018, too. 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 period under assessment 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 2018, too, 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 almost 1,000 cases of unauthorized consumption with a volume of more than 2.9 mil. of cubic metres of gas.

In order to increase safety of our facilities in operation, in 2018, we carried out dozens of general checks focused on 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 interventions into the gas pipeline. Based on facts suggesting the crime of gas theft, 30 charges were brought.

## GASIFICATION OF SLOVAKIA

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

From January to July 2018, the volume of gas distributed by the distribution network of SPP - distribúcia was approximately at the same level as in the same period of 2017, which was caused in particular by the cold months February and March 2018

(in 2017, January was an extremely cold month). 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 2014 – 2018 (as at 31 July) in billions of cubic metres/15°C

	2014	2015	2016	2017	as at 31/07/2018
Distributed volumes	4.24	4.59	4.68	4.90	2.87

### Investments in the modernisation / reconstruction of the network in 2014 – 2018 (as at 31 July) in mil. EUR

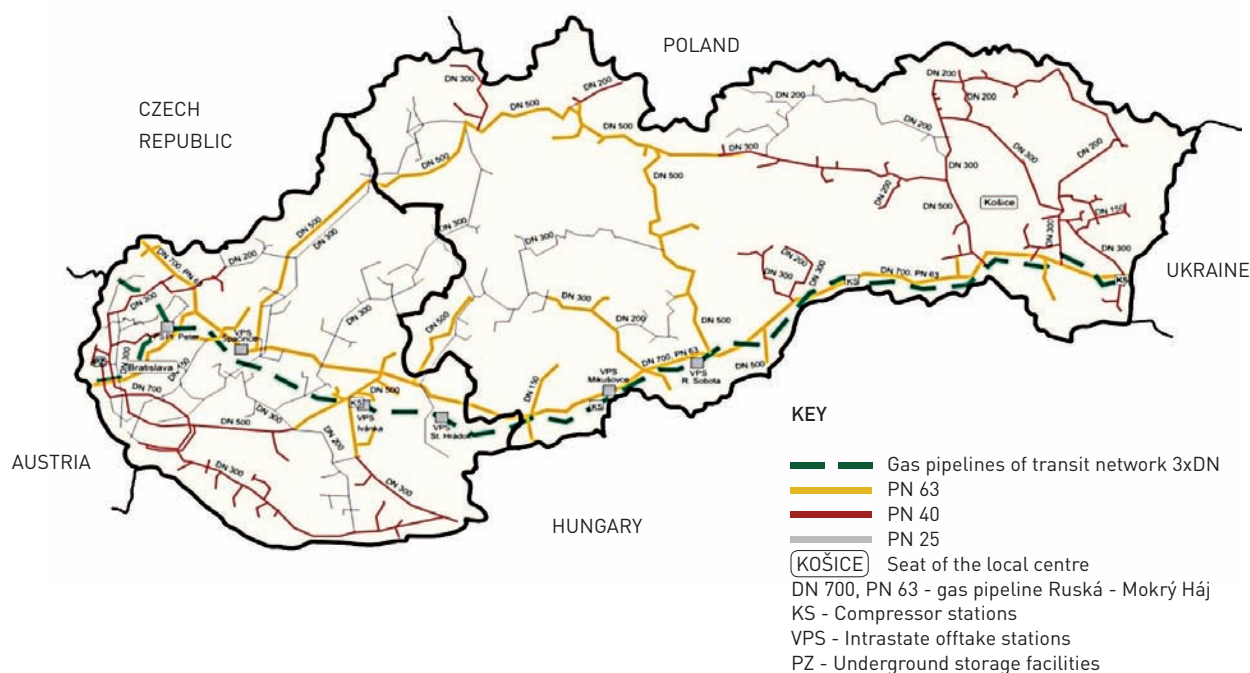
	2014	2015	2016	2017	as at 31/07/2018
Investments in modernisation	14	21	27	24	11
Number of km of reconstructed gas pipelines of the local network (low- and medium - pressure gas pipelines)	90	126	129	128	63.4

## Length of the distribution network in 2014 – 2018 (as at 31 July) in km

	2014	2015	2016	2017	as at 31/07/2018
High - pressure gas pipelines	6,297	6,278	6,274	6,280	6,280
Medium- and low-pressure gas pipelines	26,966	27,023	26,996	26,993	27,020
<b>Total</b>	<b>33,263</b>	<b>33,301</b>	<b>33,270*</b>	<b>33,273</b>	<b>33,300</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 2014 - 2018 (as at 31 July) in km

	2014	2015	2016	2017	as at 31/07/2018
Steel	12,559	12,509	12,429	12,342	12,298
Polyethylene	14,407	14,514	14,567	14,651	14,722



**ZEMNÝ PLYN**

EKOLOGICKY ŠETRŇÝ  
EKONOMICKY VÝHODNÝ  
ENERGETICKY HOSPODÁRNÝ

Our web applications  
were used by more  
than 2/3 of all  
of the applicants.



## CUSTOMER ORIENTATION

### RELATIONS WITH GAS SUPPLIERS, LIBERALIZED GAS MARKET

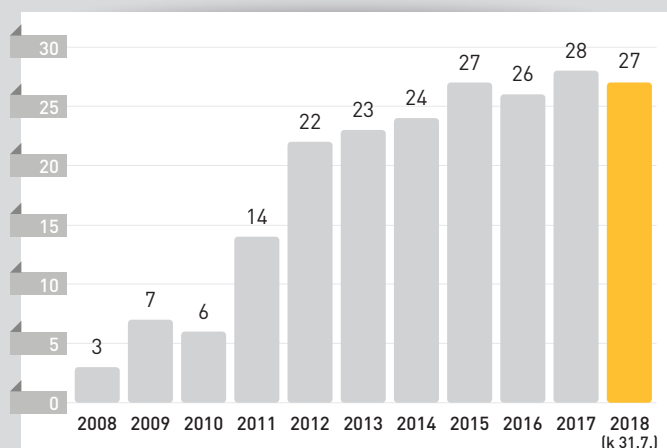
As at 31 July 2018, SPP - distribúcia provided access to the distribution network and distribution of gas for 27 distribution-network users. We continue to introduce novelties and improvements with the objective to contribute to gas market development in Slovakia, in particular by increasing the efficiency and improving the quality of the user interface of the IT system used by natural gas suppliers, by increasing the transparency and extending the availability of data on the distribution network and distribution contracts.

### LEGISLATION AND REGULATION

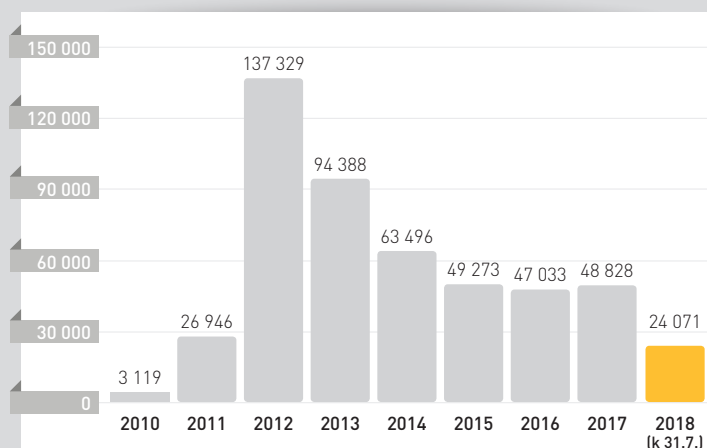
On 1 July 2018, the amendment to Act No. 251/2012 Coll. on energy and on the amendment to certain acts came into effect; it contains several changes of gas market regulation. The most important changes in gas distribution concern the physical readings and reporting of the data measured at the points of delivery; some of these changes were adopted with effect from 1 January 2019. Decree of the Regulatory Office for Network Industries No. 223/2016 laying down the price regulation in the gas industry was also amended,

with effect from 20 July 2018, in particular in relation to payments for the exceeding of the daily distribution capacity of agricultural entities, determination of the reference gas price and modification of the related distribution networks (note: the changes will be applied within the price regulation for 2019).

Number of distribution network users



Number of changes of supplier



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

During 2018, our company provided the applicants for the connection to the distribution network with the possibility of personal contact in three Customer Offices in Bratislava, in Žilina, and in 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.).

from January to July 2018, our company connected 3,524 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 the connecting procedural steps on the side of 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 installation of meters and installation of meters at points of delivery.

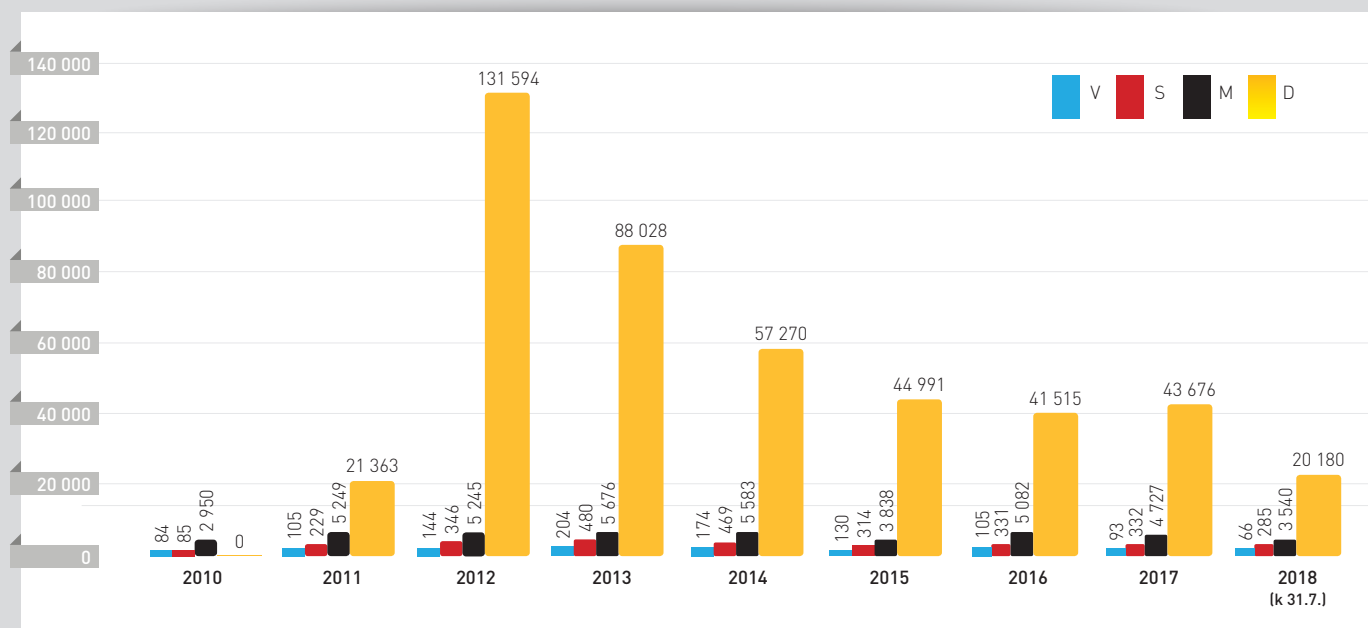
## SERVICES FOR MEDIUM AND LARGE CUSTOMERS

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 individual approach in gasifying their project.

## DIGITALIZATION OF SERVICES – WEB APPLICATIONS FOR CUSTOMERS

Already in 2014 we posted electronic forms at the website [www.spp-distribucia.sk](http://www.spp-distribucia.sk), through which our customers can lodge applications for connection, applications for statement on technical changes at an existing point of delivery, or applications for installation of meters, fully electronically from the comfort of their homes. In 2015, the electronic form was used by 55 % of applicants, in 2016, the electronic form was used by 63 %, in 2017, the electronic form was used by 67 %, and in the first seven months in 2018 by as many as 73 % of applicants for connection and technical change. The forms were also used for 58 % of applications for the installation of meters in the first seven months of 2018, which is by 3 % more than in 2017, by 7 % more than in 2016, and by 17 % 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 payment of connection fees, connection contracts and statements on technical changes electronically to the applicants' electronic mailbox.

Number of changes of supplier by categories

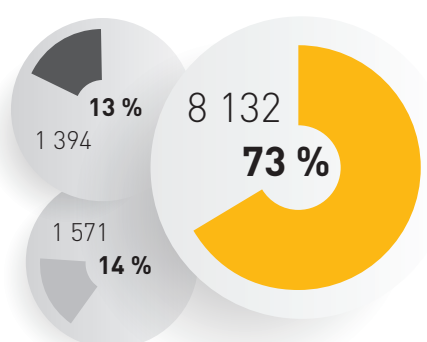


This step eliminated the need for personal acceptance of registered mail and speeded up the availability of our statements regarding the gasification of new points of delivery or the technical modification of the existing points of delivery. The implementation of this new method of communication is a further natural step in providing the highest comfort of service to the existing and future customers. We have a novelty in on-line communication - new on-line forms for the connection and technical change of residential houses and applications for 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 is

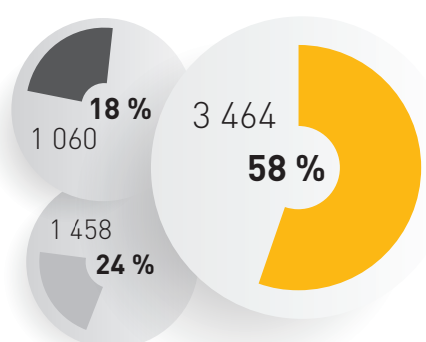
to explain and help our customers to better understand the process of household connection to the distribution network. The video is available both at our website [www.spp-distribucia.sk](http://www.spp-distribucia.sk) and at our new YouTube channel of SPP - distribúcia. There is also a new application "Frequently Asked Questions" for the categories of households and small entrepreneurs on the web. Customers can find immediate answers to their questions there, without a necessary visit to the Customer Centre or calling to the Customer Line. This February, a new online application providing "Information on the progress of attending to application in the process of connection" was started on the web for applicants

for the connection to the distribution network. The new application provides customers with a comfort and fast way of getting information on the progress of attending to their application. The application is available seven days a week, 24 hours a day in all categories (the future customer in a single-family house, multiple dwelling house or in the categories of retail, medium and wholesale customers). At the beginning of the year, a new online application "Self-Reading of Natural Gas" was started for customers from the categories of Households and Retail. The customers can use the application for extraordinary readings, changes of gas supplier or in the period of the respective reading cycle for the point of delivery.

#### Applications for connection to the distribution network and for a statement on technical changes for the period 01/01/2018 - 31/07/2018

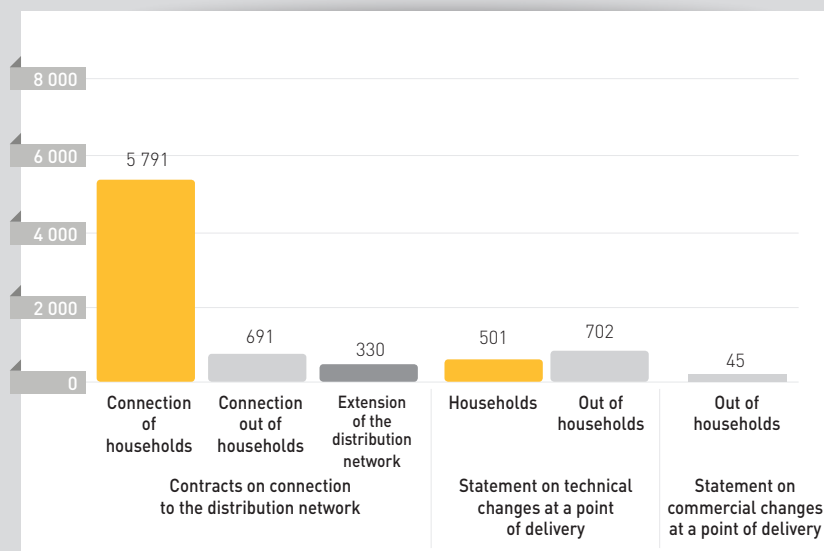


#### Applications for installation of meters from 01/01/2018 - 31/07/2018

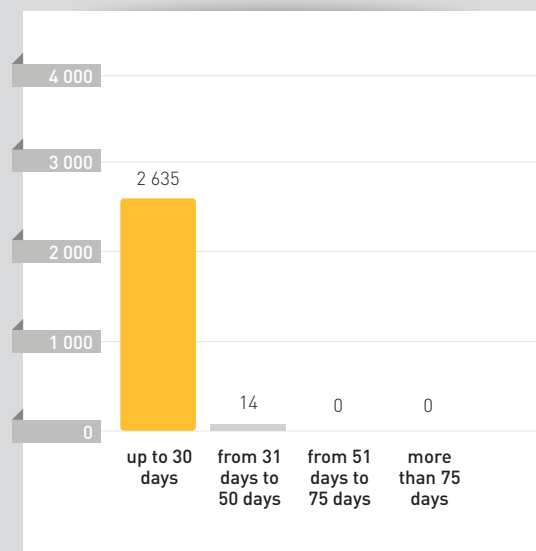


● by mail ● personally ● online

#### Number of issued statements on connection to the distribution network contracts and to technical and commercial changes at a point of delivery from 01/01/2018 to 31/07/2018



#### Evaluation of completed process of connecting - contracts on connection to the DN in the category HOUSEHOLD Meter installation from 1 January 2018 to 31 July 2018



Through the quality human resources management and development we improve efficiency of our teams.



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ENERGETICKY HOSPODÁRNÝ



# EMPLOYEES AND DEVELOPMENT OF CORPORATE CULTURE

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The long-term business stability of SPP - distribúcia is the result of the everyday professional and high-quality work of our teams. The safety of gas distribution network operation, reliability of natural gas supplies to customers, a willing and correct approach to our customers and business partners is a matter of concern to us. We bring environmentally and economically suitable and energy efficient solutions for Slovakia inhabitants in order to provide them with heat for their homes responsibly and reliably. We lead our teams to consistency and engagement in implementing projects, to professionalism and willingness in communication and in providing services to customers. We apply professional ethics and our values in mutual cooperation, appreciate the efficiency and quality of key activities which we perform on the gas market. We appreciate work engagement, fellowship, and loyalty of our employees.

## EDUCATING AND DEVELOPING OURSELVES AND THE COMPANY

As at 31 July, our team consisted of 1295 employees. We are aware that continuous education, obtaining skills and authorisations for the performance of specific gas activities are preconditions for constant improvement of expertise of our employees and better quality of our services. Beyond the ambit of observing the legislative

requirements, we give our time to professional growth and personal and career development of our employees with high priority. We also provide room for ever more needed IT skills and the development of soft skills. We also like to share our expertise, knowledge, and experience in lectures and contributions at workshops and conferences, as well as through electronic and print media. In May 2018, we completed the development programme Career at Full Blast successfully. The programme was created with the objective to develop the key employees in managerial and expert positions and to retain precious specific know-how in the company. We continuously strengthen our teams by young people within the projects Young Gasman and Graduate Development Programme with the objective to hand over knowledge and long-term gas practice experience. The Young Gasman Project is implemented in cooperation with secondary schools. It is focused on students who decided to join the project already 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, after they have met the conditions, to get to know key activities of our company through rotations directly in the workplaces, thus improving their skills for their future work in the company. In the area of the development of specific target groups of employees, we provided communication support

to our employees in the call centre, customer offices and registry in the first half-year of 2018. We carried out a workshop focused on new approaches in communication with customers interconnected with the development team-building in the interest of further improvement of contacts with our customers. We will actively develop specific groups of employees in the remaining part of the year, too.

## SUPPORT OF INDIVIDUAL PERFORMANCE AND INITIATIVE

Improving processes and activities in human resources management and development were our priorities also in the first half-year of 2018. Through the support of individual and team motivation and initiative we activate individual performance as well as performance of teams to continuous improvement of quality and efficiency. The remuneration efficiently linked to individual performance and contribution to the fulfilment of company's vision and goals stimulates a sound competitive environment. Mutual direct contact and communication in our teams is especially important to us. We support it through Development Interviews. They represent an occasion for personal and working development and efficient planning of individual development goals of our employees. This year, we executed the interviews for the employees, who have been

working for maximum three years in our company or have changed their position in the period of one year. In 2019, we will again execute the Development Interviews for the entire company. They represent a precious source of impulses for business improvement and good ideas which we are grateful for. To inspire and support creativity, we prepared a multifunctional conference room. We believe that a new and stimulating environment will lead to creative brainstorming during meetings which will result in further good ideas. With respect to the regulation of legislative requirements in the area of personal data protection we established a project team, whose members solved the implementation of measures resulting from the adoption of the European Union Regulation, Act No. 18/2018 on personal data protection.

## CORPORATE SOCIAL RESPONSIBILITY

We perceive corporate responsibility in natural gas distribution in favour of sustainability in Slovakia as an inevitable imperative. Business ethics in the everyday life of the company is applied by each of our employees based on our common values. We pay extra attention to human health and environmental protection. With respect to the environment, at the beginning of the year we replaced the paper version of payroll slip by the electronic version. We participate in the all-Slovakia campaign for environmental protection in towns and for the improvement of the form of our employees "Bike to Work". We highly appreciate the participation of 68 active bikers associated in 23 teams. By driving 5,554 km to and from work on bicycles in May, they saved 1,389 kg of CO<sub>2</sub> and supported

our common goal of ecological approach to life in Slovakia. Corporate social responsibility, charity, and donorship activities are of a special importance to us. Therefore we respect that 32 employees of our company decided to support and contribute to the submission of 28 projects to the employee grant programme under the auspices of the EPH Foundation "In my surroundings". We are very glad that the regular voluntary blood donation is strongly represented in our company and that our employees did not hesitate to contribute to the collection of the League against Cancer - Day of Daffodils in April. We welcomed summer together during the company games at Liptov, which we organise to support sports, health and as an opportunity to meet colleagues from various places of Slovakia. The event was supported by the participation of our employees as well as their families. We would like to thank them all for the support of the event and the increasing number of its favourers.

## SAFETY IS OUR PRIORITY

Safe system of work and health of employees while respecting environmental principles is among the main objectives of SPP- distribúcia, a. s. Occupational health and safety of employees is an equal and integral part of our activities. The management system is based on the approved policy of occupational health and safety and environmental protection. It is focused on the prevention of accidents and injuries and creation of a favourable working environment through the identification of possible risks. In managing, we take into account the factors of the working environment and take adequate measures to eliminate

them. In cooperation of company management and employees we define particular OHS measures. We perceive OHS as employee protection with respect to all aspects of work, including hygiene and prevention of damage to health at work, prevention of diseases and injuries, and last but not least, the provision of healthcare to employees.

We minimize hazards and risks by introducing safe working procedures, technologies, suitable work organization, regular check of observance of legal requirements, as well as by involving employees into the process of PPE selection, check of the working environment, and resolving of occupational health and safety issues.

We systematically analyse the root causes of the incidents occurred, identify possible hazards, risks, and environmental aspects, and execute preventive measures. By utilising a system of trainings, we try to increase the awareness of our employees of possible risks resulting from their working activities to the surroundings, environment, company's assets, and their own safety and health.

We solve actual challenges through the occupational safety and environment programmes. In the first half-year of 2018, the programme was implemented through the following important activities:

- OHS, FP and E training for all employees of the company with respect to particular work factors
- Informing employees on the current safety procedures on posters
- Update of risk evaluation and assessment for individual job positions

- Provision of adequate personal protective equipment
- Regular communication of topics related to occupational health and safety
- Enhancing the awareness of occupational safety in common workplaces with the suppliers of the company
- Regular medical preventive examinations of employees

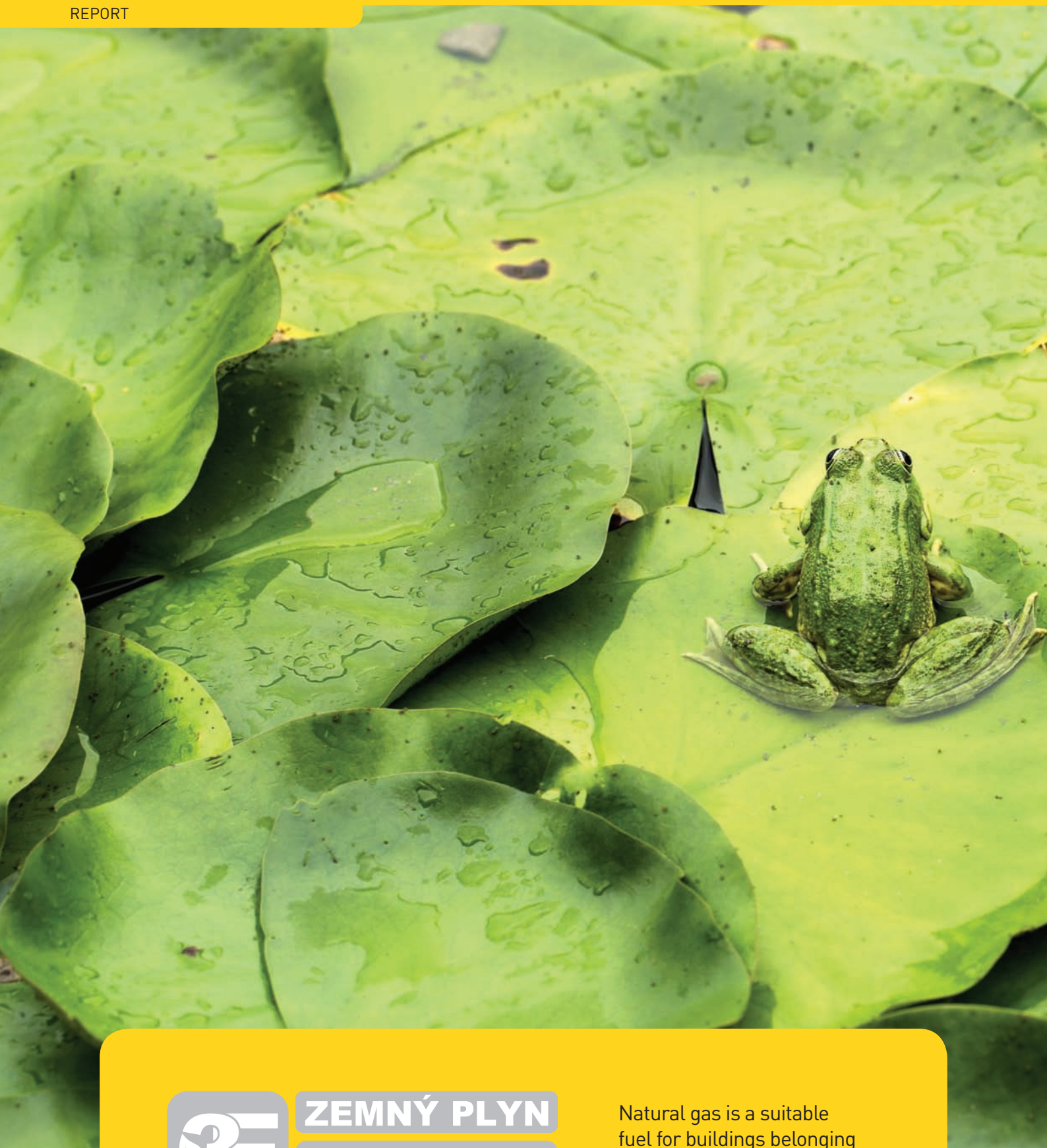
Environmental protection represents another pillar of long-term operation

of SPP - distribúcia. In its everyday activities, repairs, reconstructions, maintenance or cleaning operations on technological equipment, the company respects all components of the environment in compliance with the legislative requirements and actual environmental policy. On a regular basis we monitor the condition of the living and working environment not only on technological equipment but also during construction and reconstruction of gas pipelines and other activities

of the company. In the first half-year of 2018, the state professional supervision carried out several inspections in the area of OHS, fire protection and environmental protection in SPP - distribúcia, with the conclusion of compliance with the legislative requirements. Our effort is to apply intensively the principles of prevention at our workplaces, to fulfil the Safety and Environment Programme and to keep improving the performance of the occupational health and safety system.







## ZEMNÝ PLYN

EKOLOGICKY ŠETRNÝ  
EKONOMICKY VÝHODNÝ  
ENERGETICKY HOSPODÁRNÝ

Natural gas is a suitable fuel for buildings belonging to the A1 and A0 classes of energy performance.

# 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 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 population 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 has declared the first degree of smog situation for various locations in Slovakia several times last year.

As the measurements showed exceeded thresholds of PM<sub>10</sub> concentration for two consecutive days, the Slovak Hydrometeorological Institute issued the signal “warning” – first degree of smog situation. 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 so far in Slovakia. This applies mainly to local heating. In the past, in particular heating using black coal contributed to pollution, whereas today wood combustion also represents an environmental problem. Even in gasified regions having 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 responsible selection of an energy source for heating and on the rational approach of the state to the support of 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 (it 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 energy performance of buildings. It is in particular due to the advantageous ratio of the price of condensing boiler (including installation), its 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 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. The selection of system influences the thermal comfort in the house, 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 (class of energy performance of buildings A1) are designed and built; in the future, they will be replaced by nearly-zero energy buildings (passive houses, class of energy performance of buildings A0). The following example shows that heat preparation from natural gas is



Fuel type	Natural gas	Wooden 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>Wooden 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>Wooden pellets</b>	<b>Firewood</b>	<b>HP - air/water</b>
TOTAL	€4,880	€5,180	€2,480	€11,230
<b>COSTS FOR 15 YEARS</b>				
	<b>€13,734</b>	<b>€14,547</b>	<b>€9,322</b>	<b>€19,987</b>

objectively economical:

- a new single-family house with A1 class of energy performance of buildings ,
- with an area of 120 m<sup>2</sup>,
- with 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 equipment or during the evaluation period. As regards total heating system costs, if we include user comfort and the health aspect (threat of production of carcinogenic emissions of particulate matter in firewood combustion) in the evaluation, then gas heating appears the best option.

Natural gas heating is also advantageous for 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 COGENERATION UNIT

Cogeneration unit is able to produce heat, electricity, or even cold in a single device, resulting in significant savings in primary energy compared to separate production of heat and electricity up to 40 %. The direct consequence of primary fuel savings is a reduction of the emissions produced in the combustion process. Cogeneration unit is able to cover all customers' 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 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, too, 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, emissions of pollutants

are 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, which has been supported by the European Union and its objective is to

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

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 of a 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 of natural gas usage promotion is perceived as one of main missions and tasks in SPP - distribúcia. Thus, to intensify the active promotion of natural gas 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 the energy source in decision-making when selecting the heating energy source in favour of natural gas, and also to support the long-term objective to keep the 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 advantages into the public awareness and to establish the 3E logo as a separate

"mark" for natural gas characteristics as a commodity. 3E is a concentrated expression of 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 mark in communication is to achieve the state, when the 3E mark will be integrally connected with the phrase natural gas - "3E natural gas" and "Natural gas is 3E".





**ZEMNÝ PLYN**

EKOLOGICKY ŠETRŇÝ  
EKONOMICKY VÝHODNÝ  
ENERGETICKY HOSPODÁRNÝ

We are a stable and effective provider of professional services for 27 users of natural gas distribution network.



# REPORT ON BUSINESS ACTIVITIES OF THE COMPANY

## ECONOMIC AND FINANCIAL PERFORMANCE

### DEVELOPMENT OF THE BUSINESS ENVIRONMENT

As every year, the economic environment of the gas industry is affected in particular by the trends of winter season in the calendar year. This also applies to 2018; although winter did not reach the intensity as in the previous season, it lasted much longer. According to the Slovak Hydrometeorological Institute, the extremely long cold weather was caused by air circulation in the atmosphere, when our territory was twice affected by a strong cold wave, thus, March this year was one of the coldest ones since 1951. Therefore, especially good results were achieved in particular in January, February and March 2018, which led to a increase in natural gas consumption. In 2018, SPP - distribúcia, a.s. continued to optimise the internal processes. In an effort to stabilise the level of operating expense, the company further optimised its operating activities, in particular by increasing work productivity in maintenance and procurement. As a follow-up to the legislative process started already at the end of 2017, on 15 May 2018 the Parliament approved an amendment to Act No. 251/2012 Coll. on energy and on the amendment to certain acts (hereinafter the "AoE"), which came into effect on 1 July 2018 (except for four provisions). The amendment brought to

SPP - distribúcia, a.s. changes in taking the readings at the points of delivery of customers except households and in submitting the measured data to the corresponding natural gas suppliers. The conditions for the issuance and alteration of the licence for business in energy for gas distribution activities, as well as the conditions for the connection of a facility or distribution network to the transmission system also changed. The amendment also introduced new penalties for vertically integrated enterprises for the violation of selected duties laid down in the respective provisions of the AoE. New Act No. 152/2018 Coll. on metrology and on the amendment to certain acts also came into effect on 01/07/2018.

At the beginning of 2018, the Regulatory Office for Network Industries (hereinafter the "Office") notified the intention to amend Decree of the Office No. 223/2016 Coll. laying down the price regulation in the gas industry. The amendment came into effect on 20 July 2018 and it brought to SPP - distribúcia a.s. a partial change in charging the payments for daily distribution capacity overrun for gas distribution for agricultural purposes with seasonal character. At present, the legislative process concerning the amendment to Act No. 309/2009 Coll. on the support of renewable energy sources also takes place; within it, comments submitted

in the interdepartmental proceeding were evaluated in June 2018. Currently, meetings of the work group, which includes SPP - distribúcia, a.s., take place at the Ministry of Transport and Construction of the Slovak Republic in order to prepare a new legal regulation: draft Act on Land-Use Planning and draft Act on Construction. The beginning of the legislative process is planned for autumn 2018, when both draft acts should be submitted to the interdepartmental commenting proceeding.

In June 2018, the Government approved the Economic Policy Strategy of the Slovak Republic till 2030. The Environmental Policy Strategy till 2030 "Greener Slovakia" is still under preparation. In May 2018, SPP - distribúcia, a. s. joined the preparation of the Low-Carbon Strategy of Development of the Slovak Republic till 2030 with outlook to 2050 for selected sectors of economic activities. In the EU, legislative processes take place, which lead to the revision of Directives No. 2010/31/EU on the energy performance of buildings, No. 2012/27/EU on energy efficiency, No. 2009/28/EC on the promotion of the use of energy from renewable sources, No. 2009/73/EC concerning common rules for the internal market in natural gas, and to the adoption of a new Regulation of the EP and Council on energy union governance.

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

In the accounting period of 2018, SPP - distribúcia, a. s. generated revenues from natural gas distribution in the amount of EUR 231.58 million. Operating expenses incurred by the company through the securing of revenues from the sale of services

amounted to EUR 108.40 million. The prevailing items of operating expenses included depreciation and amortization, costs of gas storage and personnel costs. Profit before taxation reached the amount of EUR 130.86 million, thus,

the company concluded the financial year 2018 with an after-tax profit amounting to EUR 97.63 million.

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

	2018 (k 31.7.2018)	2017
Natural gas distribution	231.58	397.87
Other revenues	18.07	33.12
Operating expenses	-108.4	-200.70
Profit/loss on financial operations	-10.39	-17.40
<b>Profit before taxation</b>	<b>130.86</b>	<b>212.89</b>
Income tax	-33.23	-59.63
<b>After-tax profit</b>	<b>97.63</b>	<b>153.26</b>

## ASSET AND CAPITAL STRUCTURE

### ASSETS

As at the balance sheet date of the financial statements, the total assets of the company amounted to EUR 2,687.46 million, which represents a decrease by EUR 51.95 million in comparison with the previous year 2017. Non-current assets of EUR 2,251.65 million accounted for 83.78 % 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. In 2018, costs of acquisition of non-current assets amounted to EUR 11.91 million and were directed mostly to network renovation. This year, no funds were spent on research and development

activities by the company. In comparison with 2017, current assets decreased by EUR 10.56 million and as at the balance sheet date of the financial statements, they reached a value of EUR 435.81 million, which represents 16.22 % of total assets. Mainly inventory, receivables and advance payments represented major current assets items.

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

	2018	2017	2018	2017
Non-current assets	2,251.65	2,293.04	83.78 %	83.71 %
Current assets	435.81	446.37	16.22 %	16.29 %



## SHAREHOLDER'S EQUITY AND LIABILITIES

In the capital structure of SPP - distribúcia, a.s., no serious change occurred in the share of own and foreign financing resources.

The own resources prevailed over the foreign financing resources and represented 59.03 % of the total resources of asset coverage.

The shareholder's equity amounted to EUR 1,586.51 million this year, which represents a decrease by 3.31 % in comparison with the previous period. The shareholder's equity consisted in particular of the share capital, 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 and other funds created from capital contributions amounted to EUR 288.88 million.

The retained earnings for 2017 - profit of EUR 153.26 million - was paid to the sole shareholder of the company in the form of dividends. The General Meeting will decide on the distribution of profit for the accounting period of 2018 in the amount of EUR 97.63 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 of financial statements, the company's liabilities represented 40.97 % of coverage of the company's assets and amounted to EUR 1,100.95 million. The liability structure was dominated by non-current liabilities in a total amount of EUR 999.58 million.

In particular loans and bonds representing 63.25 % of non-current liabilities are the most important part of them. As at the balance sheet date, the current liabilities amounted to EUR 101.37 million, which represents a decrease by EUR 2.55 million in comparison with the previous year.

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

	2018	2017	2018	2017
Shareholder's equity	1,586.51	1,640.87	59.03 %	59.90 %
Liabilities	1,100.95	1,098.54	40.97 %	40.10 %

### The structure of shareholders as at 31/07/2017 was as follows:

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

Progress of the assets, capital structure, and profits of SPP - distribúcia, a. s., for the year

ending 31 July 2018 and 31 December 2017 according to the individual financial statements prepared

in accordance with International Financial Reporting Standards as adopted by the EU.

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

<b>ASSETS:</b>	<b>Year ending 31 July 2018</b>	<b>Year ending 31 December 2017</b>
NON-CURRENT ASSETS		
Buildings, structures, machinery and equipment	2,235,709	2,275,351
Investments in subsidiary companies	1,000	1,000
Intangible non-current and other assets	14,936	16,691
<b>Total non-current assets</b>	<b>2,251,645</b>	<b>2,293,042</b>
CURRENT ASSETS		
Inventory	135,569	140,597
Receivables and advance payments	246,255	251,132
Tax receivables and income taxes	8,367	0
Cash and cash equivalents	45,625	54,635
Provided loans	0	0
<b>Total current assets</b>	<b>435,816</b>	<b>446,364</b>
<b>TOTAL ASSETS</b>	<b>2,687,461</b>	<b>2,739,406</b>

<b>SHAREHOLDER'S EQUITY AND LIABILITIES</b>	<b>Year ending 31 July 2018</b>	<b>Year ending 31 December 2017</b>
CAPITAL AND PROVISIONS		
Share capital	1,200,000	1,200,000
Statutory reserve fund and other funds	288,877	287,615
Retained profit	97,635	153,256
<b>Total shareholder's equity</b>	<b>1,586,512</b>	<b>1,640,871</b>
NON-CURRENT LIABILITIES	999,576	994,608
CURRENT LIABILITIES	101,373	103,927
Total liabilities	1,100,949	1,098,535
<b>TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES</b>	<b>2,687,461</b>	<b>2,739,406</b>

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

Years ending 31 July 2018 and 31 December 2017

	Year ending 31 July 2018	Year ending 31 December 2017
Natural gas distribution	231,581	397,868
Other revenues	18,072	33,119
Operating expenses	-108,397	-200,697
<b>Operating profit</b>	<b>141,256</b>	<b>230,290</b>
Financial revenues	172	654
Costs of financing	-10,563	-18,056
<b>PROFIT BEFORE TAXATION</b>	<b>130,865</b>	<b>212,888</b>
Income tax	-33,230	-59,632
<b>PROFIT FOR PERIOD</b>	<b>97,635</b>	<b>153,256</b>

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

	Year ending 31 July 2018	Year ending 31 December 2017
<b>OPERATING ACTIVITIES</b>		
Cash flows from operating activities	200,226	340,249
Interest paid	-13,409	-13,595
Interest received	236	173
Income tax paid	-41,155	-69,635
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>145,898</b>	<b>257,192</b>
<b>CASH FLOWS FROM INVESTMENTS</b>	<b>-153,093</b>	<b>-273,969</b>
<b>CASH FLOWS FROM FINANCIAL ACTIVITIES</b>	<b>-1,815</b>	<b>-6,104</b>
<b>NET INCREASE OF CASH</b>	<b>-9,010</b>	<b>-22,881</b>
BALANCE OF CASH AT THE BEGINNING OF THE PERIOD	54,635	77,516
<b>BALANCE OF CASH AT THE END OF THE PERIOD</b>	<b>45,625</b>	<b>54,635</b>

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

After 31 July 2018 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 the financial

year 2018, 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 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 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's 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;



- |  |   |  |
|--|---|--|
| <p>n. Approval of a contract on the transfer of the company's business and contract on the transfer of a part of the company's business;</p> <p>o. Any substantial change in the nature of the core business of the company or in the manner</p> | <p>in which the company conducts its core business;</p> <p>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</p> | <p>and ceased to be shareholders of SPP no later than on 23 January 2013;</p> <p>q. Appointment of an auditor.</p> |
|--|---|--|

## 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 the 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 an annual budget and business plan of the company.

## SUPERVISORY BOARD

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 establishment of an audit committee and therefore they have 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 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 the 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 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 the regulatory, market, financial, operating, environmental, personnel, 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:

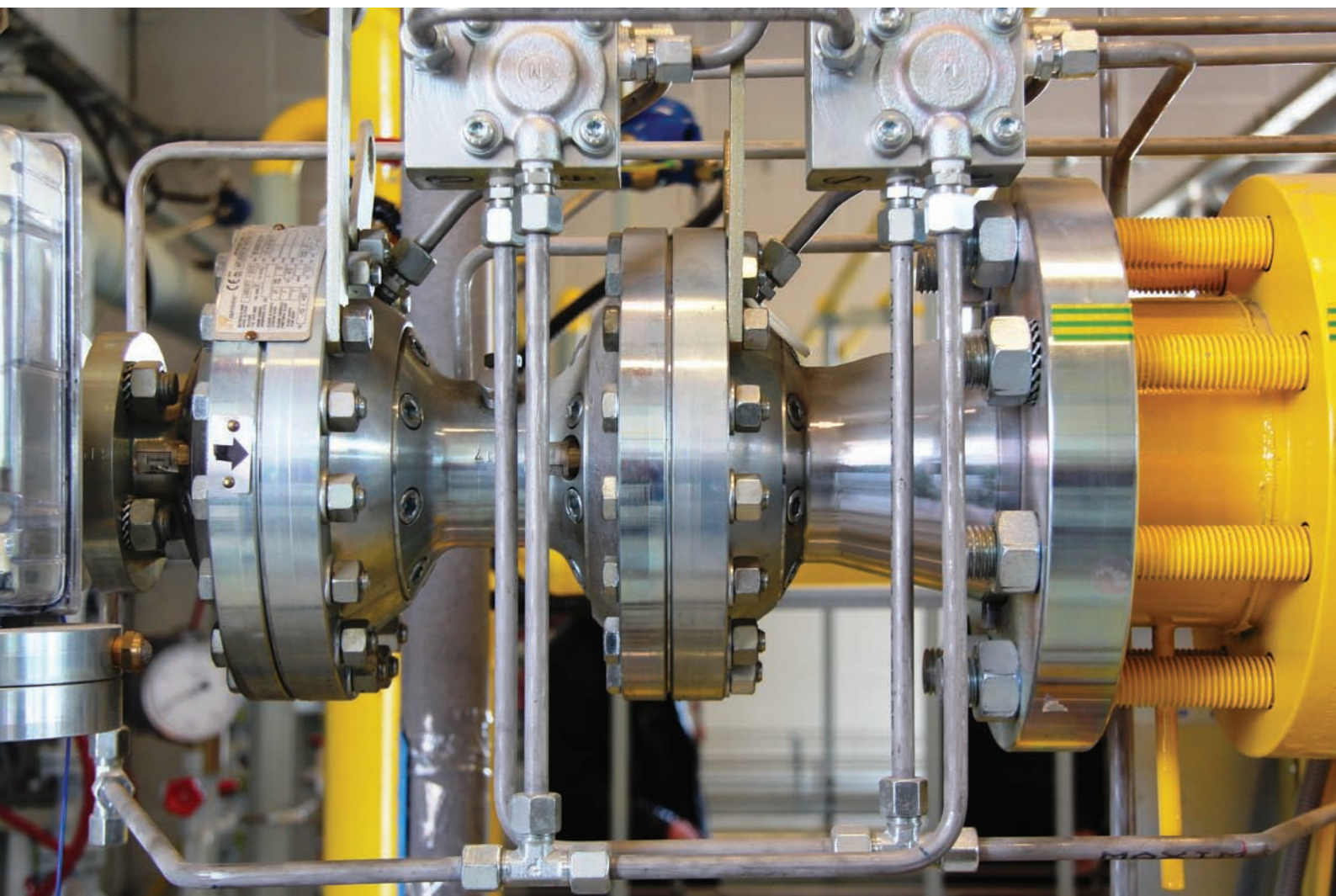
Issue No. (CEM): LP0001508566  
 Nominal value: EUR 1,200,000,000  
 Type: ordinary share  
 Form: certificated  
 Class: registered share  
 Percentage share in share capital: 100 %  
 Admitted to trading: 0 pc

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 the takeover bid.

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



# REPORT ON THE IMPLEMENTATION OF MEASURES ADOPTED IN THE COMPLIANCE PROGRAMME OF THE DISTRIBUTION NETWORK OPERATOR FOR THE PERIOD 1 JANUARY – 31 JULY 2018

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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 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 Regulation of EU 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 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;
  - (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. From 1 August 2017 to 31 July 2018, the manager of the Compliance Programme verified, for example, the observance of
3. From 1 August 2017 to 31 July 2018, the implementation of measures listed in the Compliance Programme was performed mainly in the following way:
  - (a) SPP - distribúcia, a. s. as a distribution network operator is established as a separate company



non-discriminatory approach in performing the services ordered by distribution network users, in providing information, in attending to applications, in solving claims and complaints. 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 full independence of the distribution network operator from the activities relating to gas supply. From 1 August 2017 to 31 July 2018, SPP - distribúcia, a.s. took over

only the services of real estate lease from Slovenský plynárenský priemysel, a.s. based on contracts.

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 01/08/2017 to 31/07/2018.

In Bratislava on 10/08/2018



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



## ZEMNÝ PLYN

EKOLOGICKY ŠETRNÝ  
EKONOMICKY VÝHODNÝ  
ENERGETICKY HOSPODÁRNÝ

The operation of gas distribution network requires a high level of professionalism, continuous development and consistent monitoring of its condition.



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

## SPP - distribúcia, a.s.

### INDEPENDENT AUDITOR'S REPORT

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

#### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

##### Opinion

We have audited the financial statements of SPP – distribúcia, a.s. (the "Company"), which comprise the statement of financial position as at 31 July 2018, the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the 7-month period 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 July 2018, and its financial performance and its cash flows for the 7-month period 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 the 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: 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.	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> <li>Assessment of changes in the relevant information system, assessment of IFRS requirements to recognise the accounting estimate in the financial statements.</li> </ul>

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**Impairment Assessment**

*See Note 3d) to the financial statements*

The Company owns property, plant and equipment, which comprises the natural gas distribution network in Slovakia amounting to EUR 2.3 billion. As at each reporting date, the Company makes an assessment as to whether the carrying amount of the distribution network is impaired by calculating the present value of future cash flows arising from the Company's operation. An impairment test of assets requires to determine estimates of the following key calculation inputs:

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

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

Our audit procedures included, inter alia:

- Discussion of the evaluation process with top management to identify impairment indicators, and of the conclusion that there were no such indicators as at 31 July 2018;
- 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 of 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.

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

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

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

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

### ***Report on Information Disclosed in the Annual Report***

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

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

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

In our opinion, based on procedures performed during the audit of the financial statements:

- Information disclosed in the annual report prepared for the 7-month period ended 31 July 2018 is consistent with the financial statements for the relevant period; and
- The annual report includes information pursuant to the Act on Accounting.

Furthermore, based on our understanding of the Company and its position, obtained during the audit of the financial statements, we are required to disclose whether material misstatements were identified in the annual report, which we received prior to the date of issuance of this auditor's report. There are no relevant findings which we would be required to disclose.

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

#### **Appointment and Approval of the Auditor**

We were appointed as the statutory auditor by the Company's statutory body on 22 December 2017 based on our approval by the Company's General Meeting held on 22 December 2017. The length of our total uninterrupted engagement including previous renewals of the engagement (extensions of the period for which we were appointed) and our reappointments as the statutory auditors is 9 years.

#### **Consistency with the Additional Report to the Audit Committee**

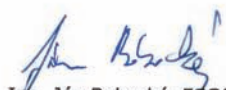
Our audit opinion expressed herein is consistent with the additional report prepared for the Company's Audit Committee, which we issued on the same date as the date of this audit report.

#### **Non-Audit Services**

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

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

Bratislava, 6 September 2018



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

On behalf of  
Deloitte Audit s.r.o.  
Licence SKAu No. 014

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A negligible amount of particulate matter, which cause an air pollution, are generated during the combustion of natural gas.



**ZEMNÝ PLYN**

ÉKOLOGICKY ŠETRŇÝ  
EKONOMICKY VÝHODNÝ  
ENERGETICKY HOSPODÁRNÝ

## PROSPECTS OF THE COMPANY

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Safety level continuous increase is a priority area, which we actively focus on and we will also invest in it 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 stations 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 are going to develop it in the next period, too. Know-how of local network reconstructions performed by our company will be moved to a higher level by managing demanding reconstructions in the centre of Bratislava and other densely populated towns.

As regards the customer services, we will continually focus on increasing the level of provided services in particular digitalization. Thanks to the time-unlimited availability of our on-line forms at our company's website, the connection of our customers to natural gas is much more simpler, more comfortable and, according to the last year's results, ever more attractive. In 2018 and 2019, we are going to extend

our electronic services even more, by implementing a new modern web platform with extended functionalities.

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 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 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.

As regards the existing single-family houses, we will promote heat preparation from natural gas as an ecological alternative instead of solid fuel combustion in obsolete equipment, which is the main problem of poor air quality in Slovakia. We will further intensify the campaign "Natural gas is 3E" to support natural gas through public information on ecological friendliness, cost effectiveness, and energy efficiency

of natural gas utilisation so that the energy mix of Slovakia also thanks to natural gas 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 the low-carbon strategy as well as for the development of the 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 performance of our operating activities, particularly in the area of procurement, increase in work productivity in maintenance, as well as optimisation of costs of real estate and car fleet administration.

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

## CONTACTS

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**SPP - distribúcia, a. s.**

Mlynské nivy 44/b  
825 11 Bratislava 26  
Slovenská republika  
[www.spp-distribucia.sk](http://www.spp-distribucia.sk)

**Emergency line - gas:**

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

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

Tel.: 0850 269 269 (charged at the price of local call)  
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 the 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 services of SPP - distribúcia, a. s.:**

E-mail: [reklamacie@spp-distribucia.sk](mailto:reklamacie@spp-distribucia.sk)

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