

SPP - distribúcia, a.s.

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

**FOR THE 7-MONTH PERIOD ENDED 31 JULY
2018**

AND

**REPORT ON OTHER LEGAL AND REGULATORY
REQUIREMENTS**

Annual Report of SPP – distribúcia, a.s. for the period from 1 January 2018 to 31 July 2018

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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.

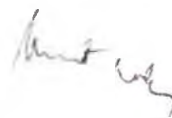
Today, thanks to the long-year effort of our employees and the ability to respond flexibly to energy market changes, SPP - distribúcia is a modern, reliable and efficient entity creating values for its employees, business partners and shareholders and respecting its employees.



Ing. František Čupr



Ing. Štefan Šebesta



Ing. Martin Holý

COMPANY

COMPANY PROFILE

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 31/07/2018



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.



Ing. František Urbaník

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 31/07/2018



Ing. Martin Holý
General Director

Martin Holý 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 and subsequently as Deputy to the Section Head. On 1 July 2013 he was appointed Head of the Maintenance and Metering Division for SPP - distribúcia, a. s.

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

Marek Paál, specialising in the gas industry, completed his studies at the Faculty of Mechanical Engineering of the University of Žilina in 2003. However, he started working in this field in 1996, when he joined the Slovak Gas Dispatching at Slovenský plynárenský priemysel, a. s. (SPP), holding various posts. 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.

**Ing. Irenaj Denkocý, ACCA****Head of the Investment Division**

Irenaj Denkocý 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**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:

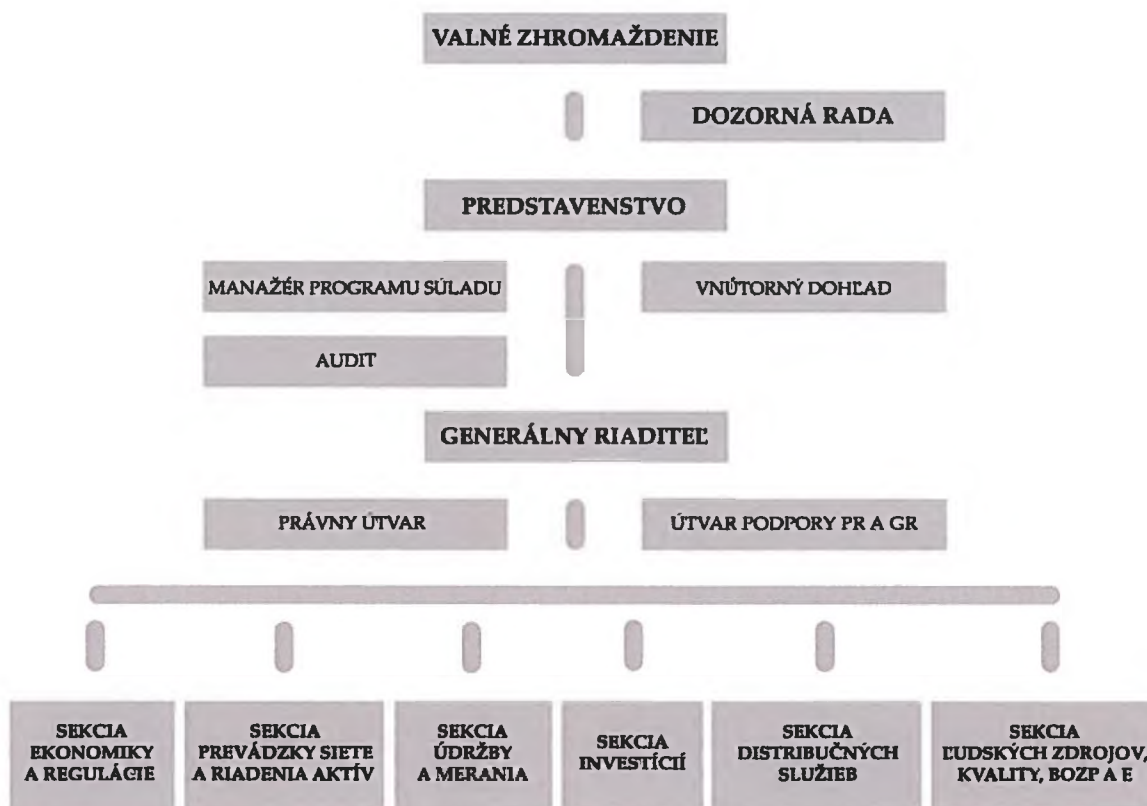
Pavol Korienek, Member of the Supervisory Board

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



Valné zhromaždenie – General Meeting

Dozorná rada – Supervisory Board

Predstavenstvo – Board of Directors

Manažér programu súladu – Compliance Programme Manager

Audit – Audit

Vnútorný dohľad – Internal Supervision

Generálny riaditeľ – General Director (CEO)

Právny útvar – Legal Unit

Útvar podpory PR a GR - BoD and CEO Support Unit

Sekcia ekonomiky a regulácie - Economy and Regulation Division

Sekcia prevádzky siete a riadenia aktív - Network Operation and Asset Management Division

Sekcia údržby a merania - Maintenance and Metering Division

Sekcia investícií - Investment Division

Sekcia distribučných služieb - Distribution Services Division

Sekcia ĽZ, kvality, BOZP a E - Human Resources and QHSE Division

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

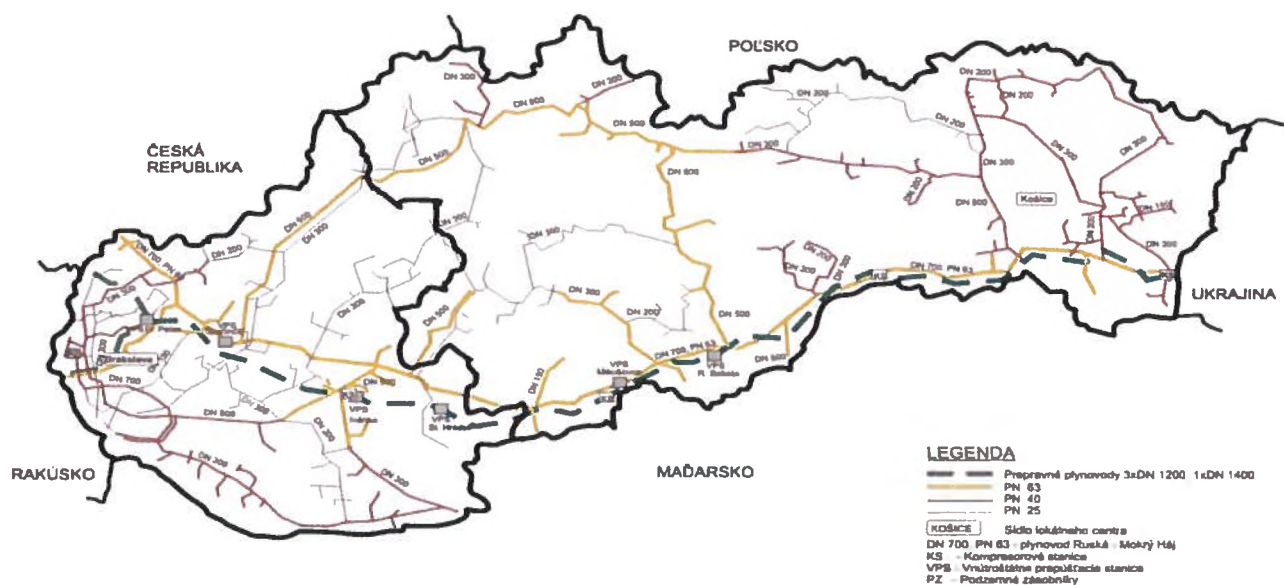
In Slovakia 77% of municipalities, which are home to more than 94% of the country's population, are currently gasified. In terms of the achieved gasification level of municipalities, no further development of the distribution network is required. However, due to the considerable development of residential 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.

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	2018 as at 31 July
Distributed volumes	4.24	4.59	4.68	4.90	2.87

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.

Map of the distribution network of SPP - distribúcia



Česká republika – Czech Republic

Rakúsko – Austria

Maďarsko – Hungary

Ukrajina – Ukraine

Polsko - Poland

Key:

Gas pipelines of transit network 3xDN

Košice - Seat of the local centre

DN 700, PN 63 - gas pipeline Ruská - Mokry Háj

KS – Compressor stations

VPS - Intrastate offtake stations

PZ - Underground storage facilities

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
Total	33,263	33,301	33,270*	33,273	33,300
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
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

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

CUSTOMER ORIENTATION

RELATIONS WITH GAS SUPPLIERS, LIBERALIZED GAS MARKET

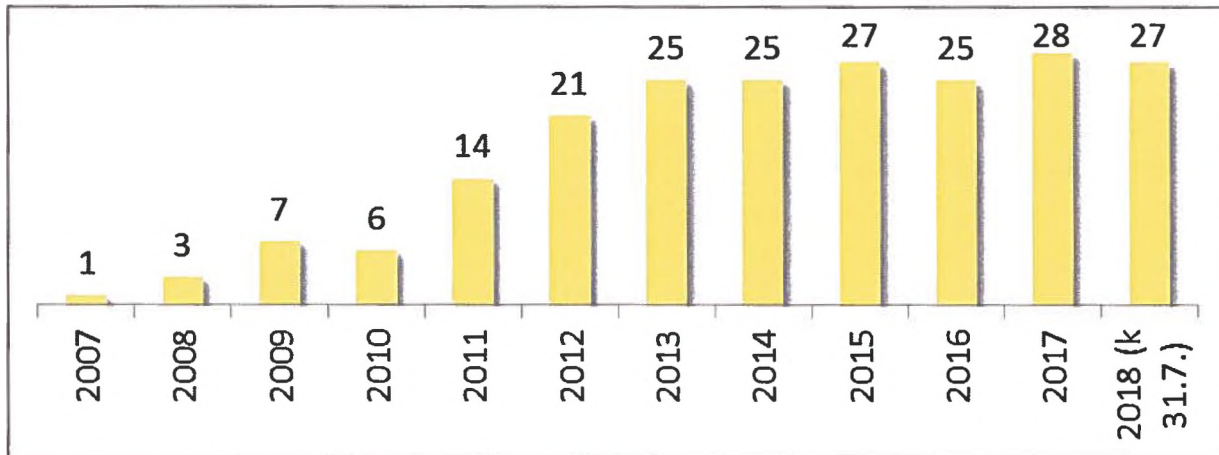
As at 31 July 2018, SPP - distribúcia provided access to the distribution network and distribution of gas for 27 distribution-network users. We continue to introduce novelties and improvements with the objective to contribute to gas market development in Slovakia, in particular by increasing the efficiency 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

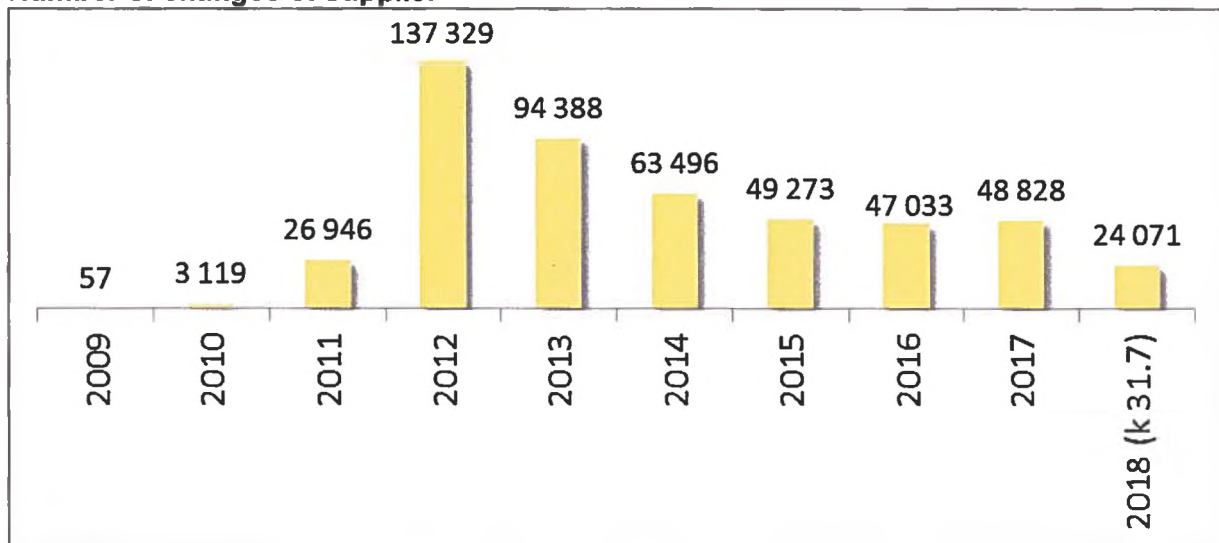
On 1 July 2018, the amendment to Act No. 251/2012 Coll. on energy and on the amendment to certain acts came into effect; it contains several changes of gas market regulation. The most important changes in gas distribution concern the physical readings and reporting of the data measured at the points 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).

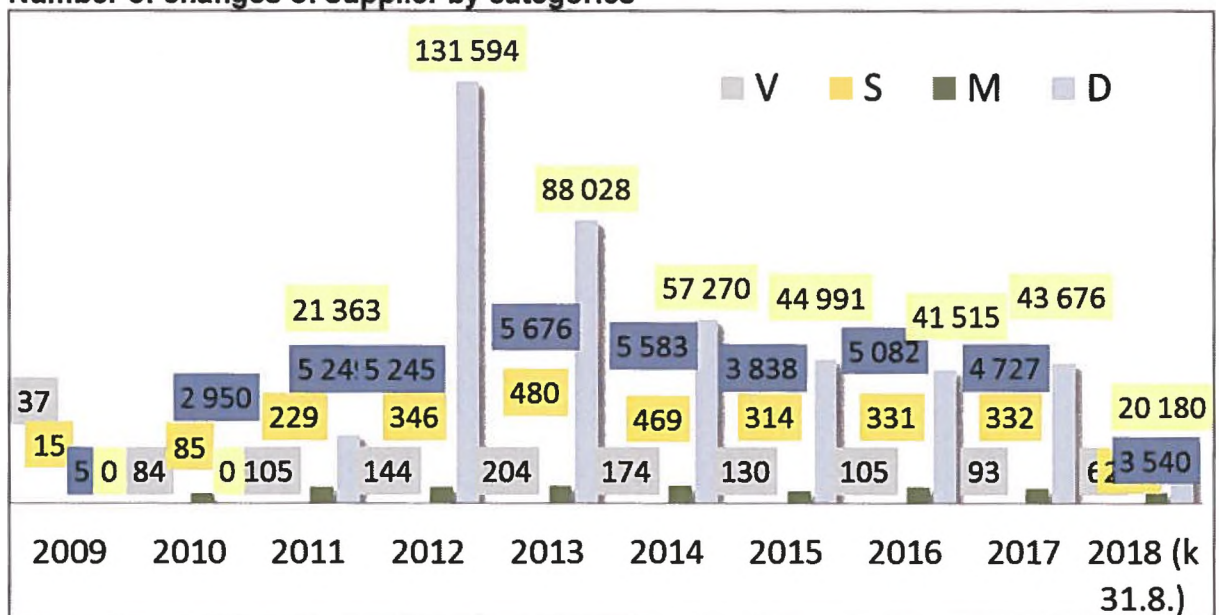
Number of distribution network users



Number of changes of supplier



Number of changes of supplier by categories



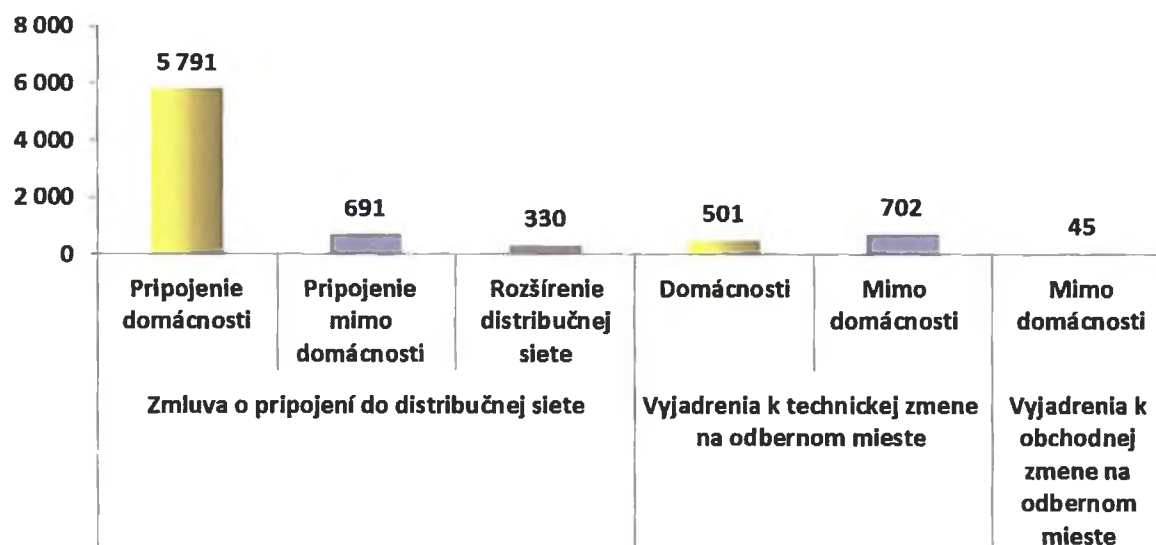
CONNECTION TO THE DISTRIBUTION NETWORK – SHORTENING OF THE PROCESS

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.).

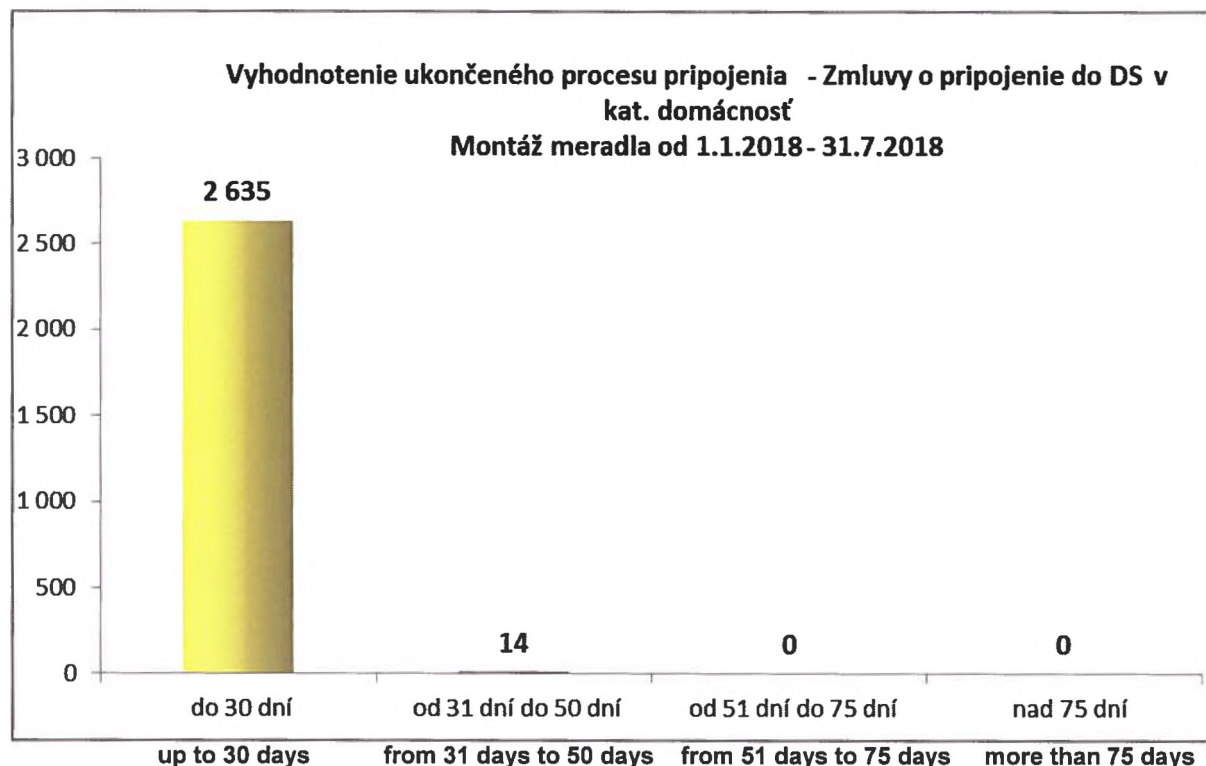
from January to July 2018, our company connected 3,524 new points of delivery to the distribution network in the categories: households, retail, medium, and wholesale customers. We successfully continued to improve the connection process and tried to reduce the total length of the process of connecting.

Number of issued statements on connection to the distribution network contracts and to technical and commercial changes at a point of delivery from 1 January 2018 to 31 July 2018



Connection of households	Connection out of households	Extension of the distribution network	Households	Out of households	Out of households
Contracts on connection to the distribution network			Statement on technical changes at a point of delivery		Statement on commercial changes at a point of delivery

**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**



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, 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. 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.

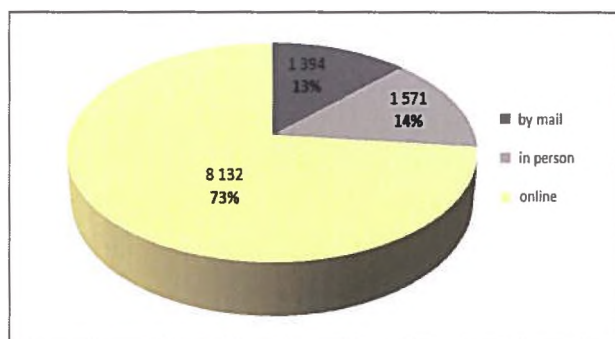
We have a novelty in on-line communication - new on-line forms for the connection and technical change of residential houses and applications for disassembly of meters before any reconstruction of the existing point of delivery.

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 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.

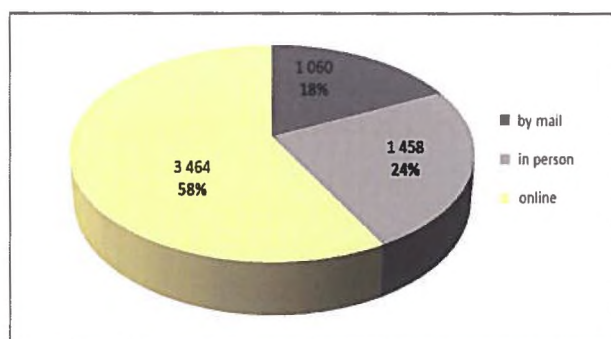
This February, a new online application providing "Information on the progress of attending to application in the process of connection" was started on the web for applicants for the connection to the distribution network. The new application provides customers with a comfort and fast way of getting 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 and for a statement on technical changes for the period 1 January 2018 to 31 July 2018



Applications for installation of meters from 1 January 2018 to 31 July 2018



EMPLOYEES AND DEVELOPMENT OF CORPORATE CULTURE

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 CO₂ 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.

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 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 objectively economical:

- a new single-family house with A1 class of energy performance of buildings ,
- with an area of 120 m²,
- 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.

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 ³	2,222 kg	3,682 kg	3,636 kWh

Operating expense (OPEX)	Natural gas	Wooden pellets	Firewood	HP - air/water
TOTAL	€590/year	€624/year	€456/year	€584/year

Capital expense (CAPEX)	Natural gas	Wooden pellets	Firewood	HP - air/water
TOTAL	€4,880	€5,180	€2,480	€11,230

COSTS FOR 15 YEARS	€13,734	€14,547	€9,322	€19,987
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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.

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 CO₂ emissions compared to coal. In heating with wood, approximately 8-times more PM is released (PM₁₀ and PM_{2.5}) 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 PM₁₀ 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.

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 and oplyne.info, where in addition to general information on the advantages of natural gas, we also present CNG to the general public as an ecological fuel with the potential 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".



3E NATURAL GAS
ECOLOGICAL FRIENDLINESS
COST EFFECTIVENESS
ENERGY EFFICIENCY

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 an increase in natural gas consumption.

In 2018, SPP - distribúcia 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	2017
Natural gas distribution	231.58	397.87
Other revenues	18.07	33.12
Operating expenses	-108.40	-200.70
Profit/loss on financial operations	-10.39	-17.40
Profit before taxation	130.86	212.89
Income tax	-33.23	-59.63
After-tax profit	97.63	153.26

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)

	Year ending 31 July 2018	Year ending 31 December 2017
ASSETS:		
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
Total non-current assets	2,251,645	2,293,042
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
Total current assets	435,816	446,364
TOTAL ASSETS	2,687,461	2,739,406

SHAREHOLDER'S EQUITY AND LIABILITIES

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
Total shareholder's equity	1,586,512	1,640,871
NON-CURRENT LIABILITIES	999,576	994,608
CURRENT LIABILITIES	101,373	103,927
Total liabilities	1,100,949	1,098,535
TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES	2,687,461	2,739,406

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
Operating profit	141,256	230,290
Financial revenues	172	654
Costs of financing	-10,563	-18,056
PROFIT BEFORE TAXATION	130,865	212,888
Income tax	-33,230	-59,632
PROFIT FOR PERIOD	97,635	153,256

Cash flow statement (selected data in thous. EUR)

	Year ending 31 July 2018	Year ending 31 December 2017
OPERATING ACTIVITIES		
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
CASH FLOWS FROM OPERATING ACTIVITIES	145,898	257,192
CASH FLOWS FROM INVESTMENTS	-153,093	-273,969
CASH FLOWS FROM FINANCIAL ACTIVITIES	-1,815	-6,104
NET INCREASE OF CASH	-9,010	-22,881
BALANCE OF CASH AT THE BEGINNING OF THE PERIOD	54,635	77,516
BALANCE OF CASH AT THE END OF THE PERIOD	45,625	54,635

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. 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;
- 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;
- o. Any substantial change in the nature of the core business of the company or in the manner in which the company conducts its core business;
- p. Approval of the commencement of any legal or arbitration proceedings against persons who were direct or indirect shareholders of SPP before 23 January 2013 and ceased to be shareholders of SPP no later than on 23 January 2013;
- q. Appointment of an auditor.

BOARD OF DIRECTORS

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

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

- a. Fulfilment of tasks assigned by the General Meeting to the Board of Directors;
- b. Compliance with the Articles of Association of the company and relevant legislation with regard to the company's activities;
- c. Economic and financial activities of the company, accounting, records, accounts, the state of the company's assets, its liabilities and receivables.

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

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

COMMITTEES

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

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).
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) 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.
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 and its organizational structure is arranged in such a way as to ensure the independence of all activities of the distribution network operator associated with gas distribution from other activities in the vertically integrated company which are not related to gas distribution;
 - (b) Maintaining a non-discriminatory approach to the provision of information meant for the gas market participants and in providing services of the distribution network operator;
 - (c) The internal procedures of the distribution network operator include measures implemented to ensure non- discriminatory behaviour in accordance with the Compliance Programme;
 - (d) Publication of the Compliance Programme, which is accessible to employees of the

distribution network operator in the electronic database of regulations, and for other market participants on the website of the distribution network operator;

- (e) Carrying out checks of observance of the Compliance Programme. From 1 August 2017 to 31 July 2018, the manager of the Compliance Programme verified, for example, the observance of 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.

PROSPECTS OF THE COMPANY

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

SPP - distribúcia, a. s.

Mlynské nivy 44/b
825 11 Bratislava 26
Slovak Republic

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

On-line forms: 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

Microsite on natural gas:

www.oplyne.info

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

E-mail: reklamacie@spp-distribucia.sk

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Final title

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INDEPENDENT AUDITORS' REPORT

The report (scan 1x A4) will be added here after the auditor's assessment.

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

This is an English language translation of the original Slovak language document.

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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.

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

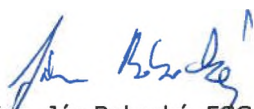
Our audit opinion expressed herein is consistent with the additional report prepared for the Company's Audit Committee, which we issued on the same date as the date of this audit report.

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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SPP - distribúcia, a.s.
Statement of Financial Position
As at 31 July 2018 and 31 December 2017
(EUR '000)

	<i>Note</i>	<i>31 July 2018</i>	<i>31 December 2017</i>
ASSETS:			
NON-CURRENT ASSETS			
Property, plant and equipment	7	2 235 709	2 275 351
Non-current intangible assets and other assets	9	14 936	16 691
Investments in subsidiaries	8	1 000	1 000
Total non-current assets		2 251 645	2 293 042
CURRENT ASSETS			
Inventories	10	135 569	140 597
Cash and cash equivalents		45 625	54 635
Receivables and prepayments	11	246 255	251 132
Tax assets	23	8 367	0
Total current assets		435 816	446 364
TOTAL ASSETS		2 687 461	2 739 406
EQUITY AND LIABILITIES:			
CAPITAL AND RESERVES			
Registered capital	17	1 200 000	1 200 000
Legal reserve fund and other funds	18	288 877	287 615
Retained earnings	18	97 635	153 256
Total equity		1 586 512	1 640 871
NON-CURRENT LIABILITIES			
Loans and bonds	14	632 195	631 635
Deferred tax liability	23	348 984	344 948
Deferred income	12	13 266	12 892
Obligation under finance lease	15	0	271
Retirement and other long-term employee benefits	13	5 131	4 862
Total non-current liabilities		999 576	994 608
CURRENT LIABILITIES			
Trade and other payables	16	95 433	88 961
Loans and bonds	14	1 419	6 903
Obligation under finance lease	15	4 417	4 437
Income tax	23	0	3 260
Retirement payments and other short-term employee benefits	13	104	366
Total current liabilities		101 373	103 927
Total liabilities		1 100 949	1 098 535
TOTAL EQUITY AND LIABILITIES		2 687 461	2 739 406

The financial statements on pages 6 to 38 were signed on 6 September 2018 on behalf of the Board of Directors:


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


Ing. Pavol Mertus
Member of the Board of Directors

SPP – distribúcia, a.s.
Income Statement
For the reporting periods ended 31 July 2018 and 31 December 2017
(EUR '000)

	<i>Note</i>	<i>Year ended 31 July 2018</i>	<i>Year ended 31 December 2017</i>
REVENUES FROM SALES OF SERVICES:			
Natural gas distribution		231 581	397 868
Other revenues		18 072	33 119
Total revenues		<u>249 653</u>	<u>430 987</u>
OPERATING EXPENSES:			
Depreciation and amortisation	7,9	(53 828)	(100 547)
Storage of natural gas and other services		(29 290)	(50 967)
Staff costs	19	(25 199)	(43 193)
Purchases of natural gas and consumables and services		(6 576)	(17 252)
Own work capitalised		5 458	9 585
Provisions and impairment losses, net		(155)	(758)
Provision for bad and doubtful debts, obsolete and slow-moving inventory, net		(116)	25
Other, net	21	1 309	2 410
Total operating expenses		<u>(108 397)</u>	<u>(200 697)</u>
OPERATING PROFIT		<u>141 256</u>	<u>230 290</u>
Financial revenues		172	654
Financial costs	22	(10 563)	(18 056)
PROFIT BEFORE INCOME TAXES		<u>130 865</u>	<u>212 888</u>
INCOME TAX	23	(33 230)	(59 632)
NET PROFIT FOR THE PERIOD		<u>97 635</u>	<u>153 256</u>

SPP – distribúcia, a.s.
Statement of Comprehensive Income
For the reporting periods ended 31 July 2018 and 31 December 2017
(EUR '000)

	<i>Year ended 31 July 2018</i>	<i>Year ended 31 December 2017</i>
NET PROFIT FOR THE PERIOD	97 635	153 256
OTHER COMPREHENSIVE INCOME/(LOSS) (may be reclassified to profit or loss in the future):		
Hedging derivatives (cash flow hedging)	1 581	3 825
Change in actuarial assumptions	17	115
Deferred tax related to items of other comprehensive income for the period	(336)	(827)
OTHER NET COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	1 262	3 113
TOTAL NET COMPREHENSIVE INCOME FOR THE PERIOD	98 897	156 369

SPP - distribúcia, a.s.
Statement of Changes in Equity
For the reporting periods ended 31 July 2018 and 31 December 2017
(EUR '000)

	<i>Registered capital</i>	<i>Legal reserve fund</i>	<i>Other reserves</i>	<i>Hedging reserve</i>	<i>Retained earnings</i>	<i>Total</i>
Balance at 31 December 2016	1 200 000	291 484	(94)	(6 888)	142 951	1 627 453
Net profit for the period	-	-	-	-	153 256	153 256
Other net comprehensive income for the period	-	-	-	3 022	-	3 113
Dividends paid	-	-	91	-	(142 951)	(142 951)
Changes in the registered capital	-	-	-	-	-	-
Changes in the legal reserve fund	-	-	-	-	-	-
Balance at 31 December 2017	1 200 000	291 484	(3)	(3 866)	153 256	1 640 871
Net profit for the period	-	-	-	-	97 635	97 635
Other net comprehensive income for the period	-	-	13	1 249	-	1 262
Dividends paid	-	-	-	-	(153 256)	(153 256)
Changes in the registered capital	-	-	-	-	-	-
Changes in the legal reserve fund	-	-	-	-	-	-
Balance at 31 July 2018	1 200 000	291 484	10	(2 617)	97 635	1 586 512

SPP – distribúcia, a.s.
Statements of Cash Flows
For the reporting periods ended 31 July 2018 and 31 December 2017
(EUR '000)

	<i>Note</i>	<i>Year ended 31 July 2018</i>	<i>Year ended 31 December 2017</i>
OPERATING ACTIVITIES			
Cash flows from operating activities	25	200 226	340 249
Interest paid		(13 409)	(13 595)
Interest received		236	173
Income tax paid		(41 155)	(69 635)
Net cash flows from operating activities		145 898	257 192
INVESTING ACTIVITIES			
Acquisition of property, plant and equipment		(7 148)	(21 113)
Proceeds from/repayments of borrowings received from the Group companies – cash pooling		(146 000)	(253 400)
Non-current borrowings provided		-	-
Proceeds from the sale of property, plant and equipment and intangible assets		55	118
Received dividends		-	81
Proceeds from the sale of long-term securities and shares in other entities		-	345
Net cash inflow/(outflow) from investing activities		(153 093)	(273 969)
FINANCING ACTIVITIES:			
Decrease in the legal reserve fund		-	-
(Repaid)/received bank loans and borrowings		-	-
Proceeds from issue of bonds		-	-
(Expenditures for)/proceeds from derivative transactions		(1 551)	(2 405)
Expenditures for the settlement of finance lease obligations		(264)	(3 699)
Paid dividends		-	-
Net cash flows from financing activities		(1 815)	(6 104)
NET (DECREASE)/INCREASE IN CASH		(9 010)	(22 881)
EFFECTS OF FOREIGN EXCHANGE FLUCTUATIONS			
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		54 635	77 516
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		45 625	54 635

1. GENERAL

1.1. General Information

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

These financial statements were prepared for a shortened 7-month reporting period ended 31 July 2018. The comparable period is from 1 January 2017 to 31 December 2017. The Company's Board of Directors decided to change the reporting period from a calendar year to a financial year beginning 1 August and ending 31 July.

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

The Company was founded on 26 November 2004 and incorporated in the Business Register on 10 December 2004.

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

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

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

On 31 May 2018, the Extraordinary General Meeting approved the Company's 2017 financial statements.

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

1.2. Principal Activities

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

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

1.3. Employees

The average number of employees of SPP – distribúcia, a.s. for the 7-month period ended 31 July 2018 was 1 288.9, of which executive management: 8 (for the year ended 31 December 2017: 1 302.7, of which executive management: 8).

As at 31 July 2018, the actual headcount was 1 287 (31 December 2017: 1 292).

1.4. Registered Address

Mlynské nivy 44/b
825 11 Bratislava
Slovak Republic

2. NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS AND CHANGES IN ESTIMATES

Initial application of new amendments to the existing standards effective for the current reporting period

The following amendments to the existing standards and new interpretations issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

- **IFRS 9 "Financial Instruments"** – adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018). This standard supersedes IAS 39 "*Financial Instruments: Recognition and Measurement*".

The basic requirements of the new standard can be summarised in the following three areas:

Classification and Measurement – IFRS 9 introduces a new approach to the classification of financial assets, which is driven by cash flow characteristics and the business model.

The classification of debt instruments depends on the business model used by the reporting entity for management of financial assets and on the fact whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held for the collection of cash flows, it can only be measured at amortised cost if it meets the SPPI requirement. Debt instruments that meet the SPPI requirement and which are part of the portfolio held by the reporting entity for the collection of cash flows and, at the same time, financial assets from that portfolio are available for sale, may be classified as FVOCI. Financial assets whose cash flows do not represent the SPPI, must be measured at FVTPL (eg financial derivatives). Embedded derivatives are no longer recognised separately from financial assets, but are considered when evaluating the SPPI test.

Impairment – IFRS 9 has introduced a new, expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new standard requires reporting entities to account for expected credit losses from the moment when financial instruments are recognised for the first time and to recognise full lifetime expected losses on a more timely basis.

Hedge accounting – IFRS 9 introduces a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activities. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities.

- **IFRS 15 "Revenue from Contracts with Customers"** and amendments to IFRS 15 "Effective Date of IFRS 15" – adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018). This standard supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations.

The new standard introduces the principle under which revenues shall be recognised at a transaction price at the time when the goods or services are transferred to the customer. Any bundle of goods, or services which are distinct, must be recognised separately and discounts or refunds of the selling price must be allocated to individual items. If the consideration is variable for any reason, a minimum amount that is highly probable not to be reversed must be recognised. Costs of obtaining a contract with a customer must be capitalised and amortised in the period during which economic benefits flow to the Company.

The Company applied a simplified method of transition with effect from 1 January 2018.

The adoption of new standards IFRS 9 and IFRS 15 has not led to any material changes in the Company's financial statements.

- Amendments to IFRS 2 "Share-based Payment" – Classification and Measurement of Share-based Payment Transactions – adopted by the EU on 27 February 2018 (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 4 "Insurance Contracts" – Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" – adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied for the first time);
- Amendments to IFRS 15 "Revenue from Contracts with Customers" – Clarifications to IFRS 15 "Revenue from Contracts with Customers" – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018);

- Amendments to IAS 40 "Investment Property" – Transfers of Investment Property – adopted by the EU on 14 March 2018 (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 1 and IAS 28 as part of "Improvements to IFRSs (cycle 2014 – 2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018);
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" – adopted by the EU on 28 March 2018 (effective for annual periods beginning on or after 1 January 2018).

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

Standards and amendments to the existing standards issued by IASB and adopted by the EU but not yet effective

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

- IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IFRS 9 "Financial Instruments" – Prepayment Features with Negative Compensation – adopted by the EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019).

The Company has elected not to adopt these new standards and amendments to the existing standards in advance of their effective dates. The Company anticipates that the adoption of these standards and amendments to the existing standards will have no material impact on the financial statements of the Company in the period of initial application.

New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and a new interpretation, which were not endorsed for use in EU as at the reporting date (effective dates stated below are for IFRS in full):

- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard;
- IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2021);
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded);
- Amendments to IAS 19 "Employee Benefits" – Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" – Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019);
- Amendments to various standards due to "Improvements to IFRSs (cycle 2015 – 2017)" resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019);

- IFRIC 23 "Uncertainty over Income Tax Treatments" (effective for annual periods beginning on or after 1 January 2019).

Hedge accounting for a portfolio of financial assets and liabilities whose principles have not been adopted by the EU remains unregulated.

According to the Company's estimates, the application of hedge accounting to a portfolio of financial assets or liabilities pursuant to IAS 39: "Financial Instruments: Recognition and Measurement" would not significantly impact the financial statements if applied as at the reporting date.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Accounting

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

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

b) Information about Operating Segments

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

c) Research and Development

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

d) Property, Plant and Equipment and Intangible Assets

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

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

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

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

Type of assets	Useful life from 2018	Useful life until 2017
Regulation stations	15 – 50 years	15 – 50 years
Gas pipelines	40 – 60 years	40 – 60 years
Structures	15 – 60 years	15 – 60 years
Machines, tools and equipment	4 – 40 years	4 – 40 years
Other non-current assets	3 – 8 years	3 – 8 years

As at 1 August 2011, for the purposes of their inclusion in the consolidation, the Company carried out a new revaluation of the buildings, plant, machinery and other equipment used in the distribution of natural gas under IAS 16, based on findings of significant changes in the assumptions, which were used in the revaluation model performed by independent appraisers. Based on an independent valuation report, the Company changed the economic useful lives of buildings, machinery and equipment used for natural gas distribution with effect from 1 January 2011. As at 31 July 2018 and 31 December 2017, the Company concluded that there was no significant change in the estimated useful lives of the buildings, machinery and equipment.

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

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

At each reporting date an assessment is made as to whether there is any indication that the recoverable amount of the Company's property, plant and equipment and intangible assets is less than the carrying amount. Where there is such an indication, the recoverable amount of the asset, being whichever is the higher of the fair value less costs of sale and the present value of future cash flows, is estimated. The resulting provision for an impairment loss is recognised fully in the income statement in the year in which the impairment occurs. The discount rates used to calculate the net present value of future cash flows reflect current market assessments of the time value of money and the risks specific to the asset. In the event that a decision is made to abandon a construction project in progress or significantly to postpone the planned completion date, the carrying amount of the asset is reviewed for potential impairment and a provision is recorded, if appropriate. As at 31 July 2018, the Company prepared an analysis of the expected value-in-use of assets based on which no impairment of non-current assets was identified.

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

e) Non-Current Assets Acquired Through Free-of-Charge Transfer

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

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

f) Inventories

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

g) Financial Assets

Financial assets are classified as follows: financial assets subsequently measured at amortised cost, financial assets subsequently measured at fair value through other comprehensive income (FVOCI), and financial assets subsequently measured at fair value through profit or loss (FVTPL).

The Company only recognises financial assets subsequently measured at amortised cost. Financial assets are subsequently measured at amortised cost using the effective interest rate method, less any impairment, and include trade receivables and borrowings with fixed or variable payments.

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

Impairment of Financial Assets

The Company applies a simplified model for the assessment and recognition of impairment losses on financial assets under which a provision is recognised in the amount of expected credit losses over the entire useful life of trade receivables at the moment of their initial recognition. Such estimates are updated as at the balance sheet date.

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

Derecognition of Financial Assets

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

h) Financial Liabilities

Financial liabilities are classified as financial liabilities measured at amortised cost and as financial liabilities "at fair value through profit or loss" (FVTPL).

The Company only recognises financial liabilities in the "financial liabilities measured at amortised cost" category. Financial liabilities (including borrowings) are subsequently measured at amortised cost using the effective interest method.

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

i) Derivative Financial Instruments

The Company enters into financial derivative contracts to manage its exposure to interest rate fluctuation risk.

Derivative financial instruments are contracts: (i) whose value changes in response to a change in one or more identifiable variables; (ii) that require no significant net initial investment; and (iii) that are settled at a certain future date.

Derivative financial instruments are initially measured at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised directly in profit or loss unless the derivative instrument is designated or effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedging relationship.

Hedge accounting

The Company applies hedge accounting for interest rate swaps which were entered into to manage its exposure to movements in interest rates of received loans, and are recognised as cash flow hedges.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised directly in profit or loss.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the income statement as the recognised hedged item.

Hedge accounting is discontinued when the Company terminates the hedging relationship, when the
These notes form an integral part of the separate financial statements.

hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the anticipated transaction is ultimately recognised in profit or loss. When another hedge transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised directly in profit or loss.

j) Subsidiaries

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

k) Cash and Cash Equivalents

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

l) Provisions for Liabilities

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

m) Borrowing Costs

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

n) Issued Debt Securities

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

o) Revenue Recognition

Sales are recorded upon the delivery of products or the performance of services, net of value added tax and discounts. The Company records revenues from distribution and other activities on an accrual basis. Moment of revenue recognition: revenues are recognised at the moment (or when) goods and services are transferred to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Revenues from core business activities include fees for natural gas distribution. From the Company's perspective, this activity represents a primary activity and, therefore, these revenues are recognised separately. Revenues from core business activities also include natural gas losses in the distribution network totalling EUR 14 442 thousand (31 December 2017: EUR 26 442 thousand) in connection with a valid price decision issued by the Regulatory Office for Network Industries. To calculate distribution network losses, the Company applies methodology consistent with the methodology applied in 2017. Revenues from natural gas distribution are recognised during the provision of distribution services ordered by customers according to daily nominations. The volume of distributed natural gas consumed by end customers connected to the distribution network includes estimates for customers in the household and small customer groups, where a meter reading of the consumed gas consumption is performed on an annual basis.

Other revenues mainly include fees for additional procurement of capacities, fines, connection fees, and fees for other activities which are not core Company activities. The Company recognises revenues from such activities during the provision of services to the customer, or for fines at the moment the Company is entitled to a consideration from the customer.

p) Social Security and Pension Schemes

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

q) Retirement and Other Long-Term Employee Benefits

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

r) Finance and Operating Lease

Finance lease

A finance lease is a lease under which all the risks and rewards arising from the ownership of an asset are transferred (economic substance of the arrangement). The accounting treatment of a lease is not dependent on which party is the legal owner of the leased asset. An operating lease is a lease other than a finance lease.

Operating lease

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

s) Taxation

Income tax is calculated from the profit/loss before tax recognised pursuant to International Accounting Standards adjusted to the profit/loss recognised pursuant to the accounting procedures valid in the Slovak Republic reflecting individual items increasing or decreasing the tax base pursuant to Act No. 595/2003 Coll. on Income Tax, as amended, using the effective income tax rate of 21%. The income tax rate is valid from 1 January 2017.

Deferred tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax is recognised in the income statement, except when it relates to items directly credited or charged directly to equity, in which case the deferred tax is also recognised in equity. The income tax rate valid from 1 January 2017 is 21%.

The principal temporary differences arise from the depreciation of non-current assets and various provisions. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is recognised in the case of temporary differences arising from financial investments in subsidiaries, associates and joint ventures, except when the settlement of temporary differences can be controlled and temporary differences will not be realised in the foreseeable future.

Current and Deferred Tax for the Year

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

Special Levy on Businesses in Regulated Industries

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

The Company is a regulated entity and is obliged to pay a special levy during the validity of the Act. Under the original wording of the Act on a Special Levy on Businesses in Regulated Industries, the last levy period was December 2016. An amendment to the Act (effective from 1 January 2017) was adopted

and the special levy will continue to be applied without time limitation. The levy period is a calendar month and as of 1 January 2017, the levy rate is 0.00726 for 2017 and 2018. It will be reduced gradually so that the monthly levy rate amounts to 0.00545 in 2019 and in 2020, and in 2021 it will be reduced to the original rate, ie 0.00363 (valid until 31 December 2016). The levy is based on the profit/loss before tax recognised pursuant to International Accounting Standards, adjusted to the profit/loss recognised pursuant to the accounting procedures valid in the Slovak Republic, and further adjusted pursuant to the Act on a Special Levy. The special levy is recognised as part of income taxes.

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

t) Foreign Currencies

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Impairment of Property, Plant and Equipment

The Company re-assessed the provision for the impairment of property, plant and equipment on the basis of an evaluation of their planned disposal or sale. When assessing the recoverable amount of property, plant, and equipment, certain assumptions and estimates were considered that may be subject to changes in the future. The recoverable amount of property, plant, and equipment for non-current assets used for natural gas distribution depends, inter alia, on the future development of gas consumption in Slovakia and on future tariffs for individual distribution services, which are subject to regulation. Refer to Note 7 and 26 for details on the impairment of property, plant and equipment.

Useful Life of Property, Plant and Equipment

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

5. FINANCIAL INSTRUMENTS

a) Financial risk management

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

(1) Foreign currency risk

The Company is not exposed to severe foreign currency risk arising from foreign currency transactions since it does not recognise significant financial assets and liabilities denominated in a foreign currency as at 31 July 2018. The Company recognised no significant financial assets and liabilities denominated in a foreign currency as at 31 December 2017.

Sensitivity to foreign exchange changes

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

(2) Commodity price volatility risk

The Company has entered into contracts for natural gas storage and natural gas purchases to cover losses in the distribution network. The contract for natural gas storage is concluded for 30 years and is at

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a fixed price. Natural gas purchase prices to cover losses are subject to tender for one year in advance. Currently, a fixed unit price for natural gas purchases is agreed for 2018; the same trend is expected also in the future. The current effective legislation of the Regulatory Office for Network Industries allows one to transfer the effect of natural gas price changes to cover losses to the price for natural gas distribution; thus, the Company does not consider the commodity price volatility risk significant.

(3) Interest rate risk

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

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

As at 31 July 2018, the Company recognised two loans received from banks with a face value of EUR 80 million and EUR 55 million; the loans bear a variable interest rate. The interest rate of these long-term loans amounts to 3M EURIBOR + a margin in % p.a. (Note 14).

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

(4) Credit risk

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

The Company sells its services to customers; SPP, a.s., the majority shareholder of the parent company SPP Infrastructure, a.s., is the major customer, which means that the risk that receivables will remain unpaid is considerably eliminated.

(5) Liquidity risk

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

The table below summarises the maturity of the financial liabilities as at 31 July 2018 and 31 December 2017, based on contractual undiscounted payments:

As at 31 July 2018	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Bonds	0	0	13 125	526 250	0	539 375
Loans	0	225	675	57 300	80 708	138 908
Trade and other payables	0	82 216	0	0	0	82 216
Obligations under finance lease	0	0	4 417	0	0	4 417
As at 31 December 2017	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Bonds	-	-	13 125	539 375	-	552 500
Loans	-	225	675	57 533	81 000	139 433
Trade and other payables	-	64 003	-	-	-	64 003
Obligations under finance lease	-	-	4 437	317	-	4 754

b) Capital risk management

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

The Company's capital structure consists of equity attributable to the Company's owners, comprising registered capital, the legal reserve fund and retained earnings as disclosed in Notes 17 and 18 and interest-bearing borrowings as disclosed in Note 14. The gearing ratio as at 31 July 2018 was 37% (2017: 36%).

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

	31 July 2018	31 December 2017
Debt (i)	638 031	643 246
Cash and cash equivalents	45 625	54 635
Net debt	592 406	588 611
Equity (ii)	1 586 512	1 640 871
Net debt to equity ratio	37%	36%

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

(ii) Page 6

c) Categories of financial instruments

	31 July 2018	31 December 2017
Financial assets		
Loans and receivables (including cash and cash equivalents)	291 880	305 767
Financial liabilities		
Financial liabilities carried at amortised costs	720 213	707 201
Financial derivatives recognised as hedges	4 605	5 572

d) Estimated fair value of financial instruments

The fair value hierarchy:

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

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

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

As at 31 July 2018, the Company has no financial instruments measured at fair value except for financial liabilities from derivative instruments (interest swaps). The fair value of such instruments is estimated based on their present value of future cash flows discounted at the market interest rate. The measurement of interest swaps represents Level 2 of the fair value measurement.

Embedded derivative instruments

The Company assessed all significant contracts and agreements for embedded derivatives that should be recorded and concluded that there are no embedded derivatives in these contracts and agreements that are required to be measured and separately recognised as at 31 July 2018 and 31 December 2017 under the requirements of IAS 39 (as revised in 2009).

6. OPERATING SEGMENTS

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

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7. PROPERTY, PLANT AND EQUIPMENT

	<i>Regulation stations</i>	<i>Gas pipelines</i>	<i>Land, buildings and structures</i>	<i>Plant, machinery and equipment</i>	<i>Other non-current tangible assets</i>	<i>Assets in the course of construction</i>	<i>Total</i>
Year ended 31 December 2017							
Opening net book value	95 789	2 214 932	526	6 947	134	27 808	2 346 136
Additions	-	1 277	-	-	-	26 243	27 520
Placed into service	2 793	37 652	33	779	7	(41 904)	(640)
Reclassifications	(14)	14	-	-	-	-	-
Disposals	-	(29)	-	(39)	-	(2 817)	(2 885)
Depreciation charge	(7 954)	(86 551)	(16)	(2 932)	(31)	-	(97 484)
Change in provisions	58	(41)	-	16	-	2 671	2 704
Closing net book value	90 672	2 167 254	543	4 771	110	12 001	2 275 351
Balance as at 31 December 2017							
Cost	174 830	2 930 620	625	28 026	979	12 987	3 148 067
Accumulated depreciation and provisions	(84 158)	(763 366)	(82)	(23 255)	(869)	(986)	(872 716)
Net book value	90 672	2 167 254	543	4 771	110	12 001	2 275 351
7-month period ended 31 July 2018							
Opening net book value	90 672	2 167 254	543	4 771	110	12 001	2 275 351
Additions	11	553	-	36	-	12 045	12 645
Placed into service	95	5 364	-	727	13	(6 205)	(6)
Reclassifications	-	-	-	-	-	-	-
Disposals	-	(95)	-	(2)	-	(1)	(98)
Depreciation charge	(4 372)	(46 087)	(8)	(1 563)	(16)	-	(52 046)
Change in provisions	(23)	(116)	-	(12)	-	14	(137)
Closing net book value	86 383	2 126 873	535	3 957	107	17 854	2 235 709
Balance as at 31 July 2018							
Cost	174 613	2 932 498	625	28 625	977	18 825	3 156 163
Accumulated depreciation and provisions	(88 230)	(805 625)	(90)	(24 668)	(870)	(971)	(920 454)
Net book value	86 383	2 126 873	535	3 957	107	17 854	2 235 709

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As at 31 July 2018, the Company used assets in the course of construction at a cost of EUR 31 867 thousand. A depreciation charge of EUR 733 thousand was recorded in 2018 in respect of these assets.

In 2015, the Company acquired hardware and software under a finance lease. Hardware is classified as machines and equipment and its net book value amounts to EUR 1 616 thousand as at 31 July 2018 (net book value as at 31 December 2017: EUR 2 487 thousand).

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

<i>Insured object</i>	<i>Type of insurance</i>	<i>Cost of insured assets</i>		<i>Name and seat of the insurance company</i>
		<i>2018</i>	<i>2017</i>	
Buildings, halls, structures (except for gas pipelines), machinery, equipment, fixtures & fittings, low-value non-current TA, other non-current TA, works of art, inventories	Insurance of assets	191 582	191 582	MSIG Insurance Europe AG

The cost of fully depreciated non-current assets (includes also non-current intangible assets), which were in use as at 31 July 2018, amounts to EUR 138 519 thousand (31 December 2017: EUR 131 099 thousand).

8. INVESTMENTS IN SUBSIDIARIES**At 31 July 2018****Subsidiaries**

Opening balance, net	1 000
Additions	-
Reclassification	-
Disposals	-
Impairment	-
Closing balance, net	1 000
Cost	1 000
Impairment	-
Closing balance, net	1 000

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

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

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

Information on the subsidiaries of SPP – distribúcia as at 31 July 2018 can be summarised as follows:

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

Additional information on the subsidiaries:

<i>Business name and seat of the entity</i>	<i>Equity</i>		<i>Profit/loss</i>	
	<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>
SPP – distribúcia Servis, s.r.o.				
Seat: Oslobodenia 1068/50, Malacky	859	1 070	(173)	(2)

Profit/(loss) represents an estimate for the 7-month period of 2018 as the final financial statements of the subsidiary were not available to SPP – distribúcia, a.s. (parent company) as at the reporting date.

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9. NON-CURRENT INTANGIBLE ASSETS AND OTHER ASSETS

	<i>Software</i>	<i>Other non-current intangible assets</i>	<i>Assets in the course of construction</i>	<i>Total</i>
Year ended 31 December 2017				
Opening net book value	8 621	11 047	18	19 686
Additions	-	-	73	73
Placed into service	11	3	(19)	(5)
Disposals	-	-	-	-
Amortisation	(2 816)	(247)	-	(3 063)
Change of provisions	-	-	-	-
Closing net book value	5 816	10 803	72	16 691
At 31 December 2017				
Cost	11 653	14 630	72	26 355
Provision and impairment loss	(5 837)	(3 827)	-	(9 664)
Net book value	5 816	10 803	72	16 691
7-month period ended 31 July 2018				
Opening net book value	5 816	10 803	72	16 691
Additions	-	-	21	21
Placed into service	33	11	(38)	6
Disposals	-	-	-	-
Amortisation	(1 642)	(140)	-	(1 782)
Change of provisions	-	-	-	-
Closing net book value	4 207	10 674	55	14 936
At 31 July 2018				
Cost	11 686	14 641	55	26 382
Provision and impairment loss	(7 479)	(3 967)	-	(11 446)
Net book value	4 207	10 674	55	14 936

In 2015 and 2016, the Company acquired hardware and software under a finance lease (Note 15). Software is classified as software and its net book value as at 31 July 2018 amounted to EUR 3 056 thousand (31 December 2017: EUR 4 283 thousand).

10. INVENTORIES

	<i>31 July 2018</i>	<i>31 December 2017</i>
Natural gas	134 650	139 648
Raw materials and other inventories	989	1 040
Provision	(70)	(91)
Total	135 569	140 597

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

As at 31 July 2018, provisions were reversed in the amount of EUR 4 thousand (31 December 2017: EUR 37 thousand).

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11. RECEIVABLES AND PREPAYMENTS

	31 July 2018	31 December 2017
Receivables from distribution activities	10 205	16 079
Prepayments and other receivables	12 856	4 603
Cash pooling receivables	223 194	230 450
Receivables from the sale of natural gas	-	-
Total	246 255	251 132

Receivables fall due as follows

	31 July 2018	31 December 2017
Within one year	246 255	251 132
From 1 year to 2 years	-	-
From 2 to 5 years	-	-
More than 5 years	-	-
Total receivables	246 255	251 132

As at 31 July 2018, the Company recorded receivables within maturity and overdue receivables amounting to EUR 245 058 thousand and EUR 623 thousand, respectively. In the comparable period, ie as at 31 December 2017, the Company recorded receivables within maturity and overdue receivables amounting to EUR 250 943 thousand and EUR 929 thousand, respectively. As at 31 July 2018, receivables and prepayments are recognised net of provisions for bad and doubtful debts in the amount of EUR 544 thousand (31 December 2017: EUR 740 thousand).

Movements in the provision for receivables were as follows:

	31 July 2018	31 December 2017
Opening value	(740)	(825)
Creation	(132)	(56)
Use	328	59
Reversal	-	82
Closing value	(544)	(740)

Collateralisation of receivables

Several bank guarantees totalling EUR 32 560 thousand (31 December 2017: EUR 30 321 thousand) were established to secure the Company's receivables from natural gas distribution. In addition, financial funds in the amount of EUR 7 211 thousand (31 December 2017: EUR 7 423 thousand) were deposited in the Company's bank account.

Ageing structure of overdue receivables:

	31 July 2018	31 December 2017
Less than 2 months	66	64
2 to 3 months	7	4
3 to 6 months	10	4
6 to 9 months	13	4
9 to 12 months	3	8
More than 12 months	524	845
Total	623	929

12. DEFERRED INCOME

	31 July 2018	31 December 2017
Opening balance, net	12 892	11 988
Assets acquired during the reporting period	600	1 277
Amortisation during the reporting period	(226)	(373)
Closing balance, net	13 266	12 892

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

13. RETIREMENT AND OTHER LONG-TERM EMPLOYEE BENEFITS

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

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

As at 31 July 2018, there were 1 287 (31 December 2017: 1 292) employees covered by this program. As of that date, it was an un-funded program, with no separately allocated assets to cover the program's liabilities.

Movements in the net liability recognised in the balance sheet for the 7-month period ended 31 July 2018 are as follows:

	Long-term benefits	Post-employment benefits	Total benefits at 31 July 2018	Total benefits at 31 December 2017
Net liability at 1 January	1 168	4 060	5 228	5 385
Net expense recognised	(36)	136	100	133
Change in actuarial assumptions	-	(17)	(17)	(115)
Benefits paid	(36)	(41)	(77)	(175)
Net liabilities	1 096	4 139	5 235	5 228
	Current liabilities (included in other current liabilities)	Non-current liabilities	Total	
At 31 July 2018		104	5 131	5 235
At 31 December 2017		366	4 862	5 228

Key assumptions used in actuarial valuation:

	At 31 July 2018	At 31 December 2017
Market yield on government bonds	1.023%	0.985%
Annual future real rate of salary increases	2%	2%
Annual employee turnover	1.44%	1.44%
Retirement ages (male and female)	See below	See below

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

Current calculation: retirement age in the previous calendar year + the set number of days. The set number of days was 139 based on the Statistical Office data.

14. LOANS AND BONDS

	31 July 2018 Unsecured	31 December 2017 Unsecured
Loans	135 034	135 049
Bonds	498 580	503 489
Total	633 614	638 538
Loans by currency		
EUR		
– with a fixed interest rate	498 580	503 489
– with a floating interest rate	135 034	135 049
Total loans	633 614	638 538
Loans are due as follows:		
Within one year	1 419	6 903
From 1 to 2 years	-	-
From 2 to 5 years	552 195	551 635
More than 5 years	80 000	80 000
Total loans	633 614	638 538

As at 31 December 2017 and 31 July 2018, the Company drew the following loans:

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

The average interest rate of the loans drawn as at 31 July 2018 was 0.339% (31 December 2017: 0.340%).

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

Interest rates of the loans and bonds:

Loans and bonds

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

The carrying amount and face value of loans and bonds:

	Carrying Amount		Face Value	
	31 July 2018	31 December 2017	31 July 2018	31 December 2017
Loans	135 034	135 049	135 000	135 000
Bonds	498 580	503 489	500 000	500 000
Total	633 614	638 538	635 000	635 000

The carrying amount of bonds comprises an accrued coupon in the amount of EUR 1 385 thousand.

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

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

- Net debt and EBITDA ratio may not be higher than 2.65:1 at the end of the reporting period, and
- Net debt and EBITDA ratio may not be higher than 2.65:1 at the end of the reporting period (until 31 December 2017).

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

As at 31 December 2013, the Company drew a loan in the amount of EUR 55 000 thousand. Under the loan agreement, the Company is not required to meet any financial covenants. However, the loan agreement defines the minimum level of the parent company's rating (Moody's: Baa2, Fitch: BBB), as the parent company provided collateral for the loan. If the rating falls below the defined level in either of the two agencies by one grade (while remaining unchanged with the other agency), the interest margin will slightly increase (from 0.08% to 0.15%); if the rating falls by more than one grade below the defined level or if it falls by one grade with both agencies simultaneously, SPP-distribúcia is required to provide additional collateral in the form of a guarantee, cash collateral or any other form of collateral accepted by the bank.

As at 23 December 2014, the Company drew a loan in the amount of EUR 80 000 thousand. Under the loan agreement, the Company is not required to meet any financial covenants. However, the loan agreement defines the minimum level of the Company's rating (Moody's: Baa2, Fitch: BBB). If the rating falls below the defined level at either of the two agencies (while remaining unchanged at the other agency), the interest margin will slightly increase (from 0.15% to 0.22%). If the rating falls by more than one grade below the defined level, or if it falls by one grade at both agencies, SPP-distribúcia is required to provide additional collateral in the form of a guarantee, cash collateral or other form of collateral accepted by the bank.

As at 31 July 2018, the SPP-distribúcia, a.s. rating was A- (Fitch) or Baa2 (Moody's), ie all conditions were met.

15. OBLIGATION UNDER FINANCE LEASE

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

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

Obligation under long-term finance lease:

	Present Value of Minimum Lease Payments	
	31 July 2018	31 December 2017
Maturity		
Less than 1 year	4 417	4 437
1 – 5 years	-	271
More than 5 years	-	-
Total	4 417	4 708

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

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

	Residual Value		Fair Value	
	31 July 2018	31 December 2017	31 July 2018	31 December 2017
Obligation under finance lease	4 417	4 708	4 439	4 776
Total	4 417	4 708	4 439	4 776

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16. TRADE AND OTHER PAYABLES

	31 July 2018	31 December 2017
Payables from distribution activities	34 718	31 024
Trade payables	33 545	24 905
Trade payables for gas purchases	6 369	210
Employee liabilities	5 606	6 908
Social security and other taxes	3 006	12 478
Payables from financial derivatives	4 605	5 572
Other payables	7 584	7 864
Total	95 433	88 961

As at 31 July 2018, the Company recorded payables within maturity in the amount of EUR 95 433 thousand; no overdue payables were recognised. As at 31 December 2017, the Company recorded payables within maturity in the amount of EUR 88 961 thousand; no overdue payables were recognised.

Social fund payables:

	Amount
Opening balance as at 1 January 2018	77
Total creation:	260
<i>from expenses</i>	255
<i>non-mandatory allotment</i>	-
<i>other</i>	5
Total drawing:	(176)
<i>monetary rewards and gifts</i>	(58)
<i>benefit in material deprivation</i>	-
<i>work jubilee benefits</i>	(36)
<i>catering allowance</i>	(64)
<i>other drawing as per CA</i>	(18)
Closing balance as at 31 July 2018	161

Liabilities secured by pledge or other form of collateral

A bank guarantee was established in Tatra banka, a. s., totalling EUR 33 thousand for other payables to the Customs Office (2017: EUR 33 thousand).

17. REGISTERED CAPITAL

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

18. LEGAL RESERVE FUND AND RETAINED EARNINGS

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

The legal reserve fund in the amount of EUR 291 484 thousand (31 December 2017: EUR 291 484 thousand) is created in accordance with Slovak law and is not distributable to shareholders. The reserve is created from retained earnings to cover possible future losses or increases of the registered capital. Transfers of at least 10% of the current year's profit are required to be made until the reserve is equal to at least 20% of the registered capital. The legal reserve fund in the Company has already attained 20% of the registered capital.

Distribution of profit:

Allotment	Profit allotment for 2017	Profit allotment for 2016
To cover losses from previous years	-	-
Dividends	153 256	142 951
Total profit to be distributed	153 256	142 951

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19. STAFF COSTS

	7-month period ended 31 July 2018	Year ended 31 December 2017
Wages, salaries and bonuses	17 625	29 838
Social security costs	6 082	10 778
Other social security costs and severance pay	1 492	2 577
Total staff costs	25 199	43 193

The Company is required to make social security contributions, amounting to 35.2% of salary bases as determined by law, up to a maximum amount ranging from EUR 6 181 thousand (except for accident insurance). The employees contribute an additional 13.4% of the relevant base up to the above limits.

20. COSTS OF AUDIT SERVICES

	7-month period ended 31 July 2018	Year ended 31 December 2017
Audit of financial statements	15	31
Tax advisory services	-	-
Other	14	6
Total	29	37

21. OTHER REVENUES AND EXPENSES

	7-month period ended 31 July 2018	Year ended 31 December 2017
Unauthorised natural gas consumption	1 113	1 941
Other taxes and charges	(219)	(405)
Donated assets	222	366
Profit/(loss) from the sale of raw materials	8	16
Profit/(loss) from the sale of assets	(25)	51
Other	210	441
Total	1 309	2 410

22. FINANCIAL EXPENSE

	7-month period ended 31 July 2018	Year ended 31 December 2017
Interest expense	10 522	17 942
Other	41	114
Total financial expense/(income)	10 563	18 056

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

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23. TAXATION

23.1. Income Tax

Income tax comprises the following:

	7-month period ended 31 July 2018	Year ended 31 December 2017
Current tax related to the current year	22 519	47 421
Refunds and additional assessments of income tax	310	16
Special levy	6 700	18 388
Deferred special levy (Note 23. 2)	207	7
Deferred income tax (Note 23.2)		
– Current year	3 494	(6 199)
Total	33 230	59 632

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

	7-month period ended 31 July 2018	Year ended 31 December 2017
Profit before taxation	130 865	212 888
Income tax at 21%	27 482	44 706
Effect of adjustments from permanent differences between carrying amount and tax value of assets and liabilities	(1 469)	(3 485)
Refunds and additional assessments of income tax	310	16
Special levy on business in regulated industries	6 907	18 395
Income tax for the current year	33 230	59 632

The reported tax rate differs from the standard tax rate stipulated by law in the amount of 21% (2017: 21%) mainly due to adjustments of the current tax base for items increasing and decreasing the tax base pursuant to the valid tax legislation.

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

23.2. Deferred Income Tax

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

	At 1 January 2018	(Charge)/Credit to other comprehensive income/loss	(Charge)/Credit to profit for the current period	At 31 July 2018
Difference in NBV of non-current assets	(353 082)	-	(2 269)	(355 351)
Items adjusting tax base only when paid	406	-	(73)	333
Provisions for receivables	33	-	(9)	24
Impairment loss	1 781	-	(281)	1 500
Provision for bonuses	1 363	-	(553)	810
Provision for employee benefits	1 096	-	5	1 101
Hedging derivative instruments	1 028	(332)	-	696
Change in actuarial assumptions	-	(2)	-	(2)
Other	995	-	(314)	681
Total	(346 380)	(334)	(3 494)	(350 208)

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

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

	<i>31 July 2018</i>	<i>31 December 2017</i>
Deferred tax liability (Note 23.2)	(350 208)	(346 380)
Deferred special levy	1 224	1 432
Total	(348 984)	(344 948)

24. TAX EFFECTS IN THE STATEMENT OF OTHER COMPREHENSIVE INCOME

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

<i>31 July 2018</i>	<i>Before tax</i>	<i>Tax</i>	<i>After tax</i>
Change in actuarial assumptions	14	(3)	11
Cash flow hedging	(3 314)	696	(2 618)
Other comprehensive loss for the period	(3 300)	693	(2 607)

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

25. CASH FLOWS FROM OPERATING ACTIVITIES

	7-month period ended 31 July 2018	Year ended 31 December 2017
Profit before tax	130 865	212 888
Adjustments:		
Depreciation and amortisation	53 828	100 547
Interest income, net	10 388	17 759
Reserves, provisions and other non-cash items	120	327
Loss/(profit) from the sale of non-current assets	25	(51)
Income on non-current financial assets	-	(81)
(Increase)/decrease in receivables and prepayments	(2 381)	7 566
(Increase)/decrease in inventories	5 049	7 852
Increase/(decrease) in trade and other payables	2 332	(6 558)
Cash flows from operating activities	200 226	340 249

26. COMMITMENTS AND CONTINGENCIES

Capital Expenditure Commitments

As at 31 July 2018, capital expenditures of EUR 7 617 thousand (31 December 2017: EUR 13 777 thousand) had been committed under contractual arrangements for the acquisition of non-current assets, but were not recognised in the financial statements.

Operating Lease Arrangements

The Company leases means of transport under a framework operating lease contract concluded in 2010. The framework contract (as per the relevant amendment) is made for four years and the Company has no pre-emptive right to purchase the assets after the expiry of the lease term. The lease payments amounted to EUR 1 896 thousand in the reporting period ended 31 July 2018 (31 December 2017: EUR 3 450 thousand).

Non-cancellable operating lease payables amount to:

Period	31 July 2018	31 December 2017
Within 1 year	2 681	2 380
From 1 to 5 years	5 702	6 005
More than 5 years	4	25
Total	8 387	8 410

Liberalisation of the Slovak energy sector and possible regulation risks

Regulation framework on the natural gas market in the Slovak Republic

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

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

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

Tariffs for regulated activities

The RONI approves tariffs for access to the distribution network and gas distribution, and for the provision of auxiliary services, as well as for connection to the distribution network. These tariffs are proposed so that the total planned revenues from the tariffs for access to the distribution network and gas distribution in the regulation year in Euros per gas volume unit do not exceed the maximum price for

the year, calculated under Decree of the RONI No. 223/2016 Coll., which stipulates price regulation in the gas industry.

Maximum allowed revenues are determined based on the eligible costs, including depreciation derived from the regulated assets base as determined by RONI and a margin. The management of the Company believes that property, plant and equipment of the Company is not impaired on the basis of current indicators. There are inherent uncertainties that could impact the determination of future tariffs by RONI, and the future realisable value of property, plant and equipment.

The maximum price for connection to the distribution network in the relevant year of the regulation period, ie for 2017, for gas consumers was determined on the basis of the planned average costs related to the issue of technical conditions for the connection and the planned average costs related to the processing of the application for connecting the gas delivery equipment to the distribution network and installation of the meter incurred by the distribution network operator as part of the standard-scope activities necessary for connecting the gas delivery equipment. The price for connection to the distribution network is determined separately for household customers and separately for gas customers other than household customers.

In accordance with Decree of the RONI No. 223/2016 Coll., the maximum price for connection to the distribution network for the years following the relevant year of the regulation period is calculated by indexing the price for the year preceding the year for which the price proposal is submitted, taking into account the effects of inflation.

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

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

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

Changes in the regulatory laws

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

Taxation

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

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27. RELATED PARTY TRANSACTIONS

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

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

	7-month period ended 31 July 2018				31 July 2018	
	Revenues	Expenses	Dividends	Other	Receivables	Payables
SPP, a.s.	165 923	4 560	-	-	7 383	36 218
SPP Infrastructure, a.s.	189	53	153 256	-	223 227	-
Other related parties	5 127	18 979	-	9 413	632	14 804
Total	171 239	23 592	153 256	9 413	231 242	51 022

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

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

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

Other related parties mainly include the fellow subsidiaries.

	Year ended 31 December 2017				31 December 2017	
	Revenues	Expenses	Dividends	Other	Receivables	Payables
SPP, a.s.	282 874	10 983	-	-	231	34 228
SPP Infrastructure, a.s.	579	118	142 951	-	230 540	24
Other related parties	7 960	31 878	-	18 785	1 148	4 755
Total	291 413	42 979	142 951	18 785	231 919	39 007

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

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

	7-month period ended 31 July 2018	Year ended 31 December 2017
Remuneration to members of the Board of Directors, Supervisory Board, executive management and former members of the bodies - total	1 158	1 706
<i>Of which:</i>		
<i>Board of Directors and executive management</i>	1 112	1 622
<i>Supervisory Board</i>	46	84
Benefits after termination of employment to members of the Board of Directors, Supervisory Board, executive management and former members of the bodies - total	-	-
<i>Of which:</i>		
<i>Board of Directors and executive management</i>	-	-
Other long-term benefits to members of the Board of Directors, Supervisory Board, executive management and former members of the bodies - total	-	-
<i>Of which:</i>		
<i>Board of Directors and executive management</i>	-	-
Benefits after termination of employment to members of the Board of Directors, Supervisory Board, executive management and former members of the bodies - total	-	-
In-kind benefits to members of the Board of Directors and executive management - total	45	67
<i>Of which:</i>		
<i>Board of Directors and executive management</i>	45	67
<i>Supervisory Board</i>	-	-
Other payments to members of the Board of Directors, Supervisory Board, executive management and former members - total	9	14
<i>Of which:</i>		
<i>Board of Directors and executive management</i>	9	14
<i>Supervisory Board</i>	-	-

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

a) Members of the Company's bodies

Body	Function	Name
Board of Directors	Chairman	Ing. František Čupr, MBA
	Vice-Chairman	Ing. Štefan Šebesta
	Member	Ing. František Urbaník, Ph.D.
	Member	Marek Štrpka
	Member	Ing. Pavol Mertus
Supervisory Board	Chairman	Ing. Rastislav Chovanec, PhD.
	Vice-Chairman	William Price
	Member	JUDr. Mgr. Matej Šimášek, PhD.
	Member	Ing. Róbert Procházka
	Member	Milan Boris
Executive management	Member	Pavol Korienek
	General Director	Ing. Martin Holý
	Director of the Economy and Regulation	Ing. Roman Filipoiu
	Director of the Network Operation and Asset Management	Ing. Rastislav Prelec
	Director of Investments	Ing. Irenej Denkocý, ACCA
	Director of Maintenance and Measurement	Ing. Miroslav Horváth
	Director of Distribution Services	Ing. Marek Paál
	Director of Human Resources, Quality, Health and Safety at Work, and Environment	Mgr. Ing. František Kajánek
	Director of Internal Supervision	Mgr. Ing. František Kajánek
	Director of Internal Supervision	Mgr. Karin Jaššová, PhD.

b) Consolidated financial statements

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

The Company applied an exemption set out in IFRS 10 paragraph 10.28 and did not prepare consolidated financial statements as at 31 July 2018. Consolidated financial statements presented in accordance with

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

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This is an English language translation of the original Slovak language document.

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the International Financial Reporting Standards will be prepared by SPP Infrastructure, a.s. with its seat at Mlynské nivy 44/a, 825 11 Bratislava (address of the court of record: District Court Bratislava 1, Záhradnícka 10, 812 44 Bratislava).

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

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

To obtain full information about the financial position, financial performance and cash flow of the Group as a whole by the users of these separate financial statements, the separate financial statements should be read and understood in the context of the information disclosed in the consolidated financial statements presented as at 31 December 2017 by the ultimate reporting entity, Energetický a průmyslový holding, a.s., with its registered office at Pařížská 130/26, Josefov, 110 00 Prague 1, Czech Republic. The consolidated financial statements of Energetický a průmyslový holding, a.s. are available at its registered office and will be deposited with the Business Register of the Municipal Court in Prague, Czech Republic by statutory deadlines.

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

29. POST-BALANCE SHEET EVENTS

After 31 July 2018, there were no significant events that would require adjustments to or disclosure in the financial statements.

Prepared on:

6 September 2018

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

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

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

Ing. Roman Filipou

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

Ing. Peter Duračka

Approved on:

Ing. Pavol Mertus
Member of the Board of
Directors