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 FINANCIAL YEAR ENDED 31 JULY 2019

AND

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

Annual Report SPP - distribúcia, a. s., for the period 1.8.2018 - 31.7.2019

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FOREWORD FROM THE MANAGEMENT OF THE COMPANY

Dear shareholders, dear colleagues,

we present to you our annual report summarizing the results of our operations and implementation of projects in the period from 1 August 2018 to 31 July 2019, which can be considered to be comprehensively successful. The results of the company are traditionally affected by the weather. Although the outside temperatures last winter were not as low as in the previous year, the first weeks of 2019 and the end of the heating season in May were quite cold. Between August 2018 and July 2019, the volume of gas distributed by the distribution network of our company was approximately at the same level as over the previous comparable period. The higher volume of gas distributed in the exceptionally cold January and May offset the warmer temperatures of other winter months.

During the reporting period SPP - distribúcia, a.s., continued to optimize its internal processes. In order to stabilize the level of operating costs, we continued to optimize our operational activities, mainly by increasing the productivity of work maintenance and procurement.

We can also evaluate the condition of the safety and reliability of the distribution network as a success. Our company in the concluded period again met all monitored quality standards. Thanks to the conscientious work of our employees, we have prepared the distribution network to ensure a safe and reliable supply of natural gas for business partners in the coming period too. In order to address possible emergencies and prevent them, SPP - distribúcia, as the distribution network operator, ensures a continuous standard of gas supply security for household customers in accordance with applicable legislation. Our tool for this is primarily the use of natural gas in underground storage facilities which also have the purpose of balancing the system, we also have contracted supplies of gas so as to fully cover the need to meet supply security standards in accordance with the criteria of economy and efficiency. By implementing these measures, we have shown that the company is able to provide continuous and reliable gas distribution for all households in the Slovak Republic, including in emergencies.

In the period under review, an amendment to Act no. 251/2012 on Energy came into force as did an amendment to the Regulatory Office for Network Industries' Decree 223/2016 establishing Price Regulation in the Gas Industry. A legislative process is currently underway to amend Act no. 309/2009 on the Promotion of Renewable Energy Sources, which we commented upon at the stage of interdepartmental proceedings. The most important thing in our view is our involvement in the development of Slovakia's low-carbon development strategy up to 2030 with a view to 2050, which we also commented upon. We are convinced that natural gas can play a key role in the effective transition to a low carbon economy, thanks to its undoubted positive attributes. The halving of emissions of CO_2 compared with solid fuels and zero production of solid pollutants in the burning of gas are the basis for a gradual decrease in CO_2 emissions at a sensible price and for replacing dirty sources of heating with natural gas. This additionally increases the quality of our atmosphere.

We are also continuously improving customer service. Our web applications are attracting ever greater interest. We are pleased that we are continuing to record increasing interest in our online services. They are now used by almost three out of four customers who are connected to the distribution network.

A new thing in online communication is the new online forms for connections and technical changes in apartment buildings, a request for removal of a meter before the implementation of the reconstruction of an existing point of delivery, information for customers about the status of their application in the connection process, as well as an expanded "Frequently Asked Questions" section. At the beginning of the year, for customers from the category "Household and Retail" a new online application for "self-reading gas meters" was launched. Customers can use the application for an extraordinary reading, when changing gas supplier or during the normal reading cycle for the point of delivery.

Managing the environmental aspects of our company remains our constant priority, so we maintain the defined operational and control procedures and monitor performance indicators in accordance with ISO 14 001. In addition, in the concluded period we have continued the media promotion of natural gas as a "green" heating fuel. The topic was particularly to intensify media communications about the benefits of natural gas as an energy source that can contribute to improving air quality at an affordable price, and we implemented the media campaign "Natural gas is 3E". The key message of the campaign is that natural gas in combination with renewable energy sources can be an effective and inexpensive solution to combat climate change, in an effort to improve air quality and thus play a key role in the transition to low carbon energy and moreover, it offers value for money. An important step will be to reduce heating using sources that are harmful to the atmosphere and replace them with low emission sources. This is also why the Ministry of the Environment is planning in the near future to focus more on households. It has announced that "Boiler Subsidies" may be the first instrument to get people to switch from obsolete heating systems to low-carbon or zero-emissions. Our company perceives these steps very positively and, as before, will continue to point out the harm of solid fuels and offer natural gas as currently the most affordable environmentally friendly form of heating.

In the period ahead there are therefore a lot of legislative changes coming that affect the functioning of our activities in the future. We appreciate the fact that in the history of our company, our employees have always demonstrated the ability to respond flexibly to changes in the energy market and thanks to their efforts today SPP - distribúcia, a.s., is a modern, reliable and efficient company able to create value for its customers, business partners and shareholders.

Ing. František Čupr	Ing. Pavol Mertus	Ing. Martin Hollý

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 at Vlárské strojírny, 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 SPP - 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 Hollý
General Director

Martin Hollý 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. Irenej Denkocy, ACCA
Head of the Investment Division

Irenej Denkocy graduated from the Faculty of Business Management of the University of Economics in Bratislava with a specialization in financial management. He continued his studies by qualifying for and gaining ACCA membership. After graduating, he first worked as an assistant auditor at Ernst & Young, where he participated in the audits of several significant businesses in Slovakia. In 2009 he joined SPP - distribúcia, a.s., in the position of Senior Controller. Starting from 2011, he worked in the position of Head of Investments Controlling and Asset Registry. From July 2014 to January 2015 he was nominee Head of the Investments Division of SPP - distribúcia a. s. Since 1 February 2015, he has been Head of the Investments Division.

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

František Kajánek graduated from the Mining-Geology Faculty at the Mining College in Ostrava with a specialization in economics and the management of mines, and later studied law at the Comenius University. He has been actively engaged in the area of human resources since 1995, working at NCHZ a. s., Nováky, for the Office for State Services, and for the Ministry of Labour, Social Affairs and Family of the Slovak Republic. Starting from 2007, he worked for NAFTA, a.s., where he held the position of Director of Human Resources from 1 January 2008. In addition to human resources, he was also responsible for corporate culture and internal communication development. Since 1 December 2013, he has been a team-member of SPP - distribúcia as Head of the Human Resources and QHSE Division.

SUPERVISORY BOARD

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:

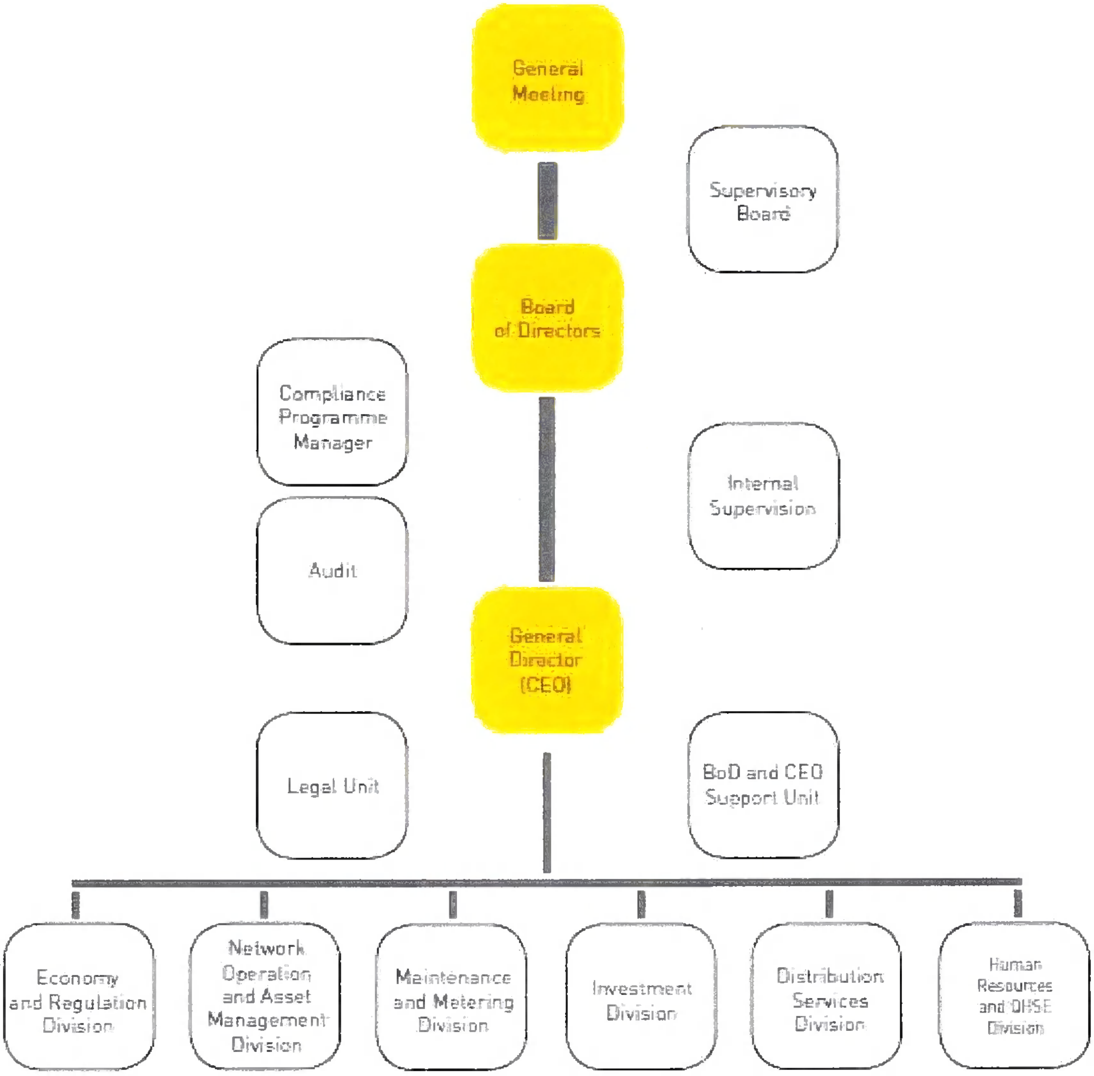
Pavol Korienek, Member of the Supervisory Board

Milan Boris, Member of the Supervisory Board

Ing. Robert Procházka, Member of the Supervisory Board

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

ORGANIZATIONAL STRUCTURE



SAFE AND RELIABLE DISTRIBUTION

OPERATION AND NETWORK SECURITY

An important activity to ensure the reliable and safe operation of the distribution network in 2018 was conducting internal and external inspections of high-pressure gas pipelines. The process of internal inspection checked the technical condition of DN 700 high pressure gas pipelines on routes Mokrý Háj - Zlaté Moravce and Vysoká pri Morave – Jablonica, over a total length of 173 km. Subsequently, in the first half of 2019 the most serious deficiencies were reviewed and removed. In parallel with the internal inspection, there was an external inspection performed over 646 km, which provided an assessment of the condition of insulation, the quality of active corrosion protection, the openness of routes and the removal of undesirable vegetation. In 2019, external inspections are planned on 730 km of other sections of the distribution network. In the coming period, the operator of the distribution network will continue taking steps which are necessary to achieve the reliable distribution of gas to the customers, without regard for the direction of supplies into the Slovak Republic.

DAMAGE TO GAS FACILITIES BY THIRD PARTIES

In the assessed period from 1.8.2018 – 31.7.2019 the company recorded a decline of 20% in cases of damage to gas facilities by third parties. Damage was recorded primarily in the implementation of earthworks in the protective zones of gas facilities.

In 2019 the company again performed free staking out of gas facilities within 100 m to reduce the number of damaged gas facilities. We continue to cooperate with the Slovak Trade Inspectorate (SOI) to solve cases of damage to gas facilities.

ENSURING A STANDARD FOR SECURITY OF SUPPLY

During the 2018/2019 winter season (November 2018 - March 2019) in order to address a possible state of emergency and to prevent one, The company, as the distribution network operator, ensured a standard for security of gas supply for household customers in accordance with applicable legislation. The tool to do this was primarily the use of natural gas from underground storage facilities also intended to balance the system, additionally through contracted gas supply so as to fully cover the need to meet standards for security in accordance with the criteria of economy and efficiency.

Implementing these measures also during the period 11/2018 - 03/2019 testifies that the company is able to provide continuous and reliable gas distribution for all households in the Slovak Republic, including in emergency situations.

DETECTION OF THE UNAUTHORIZED CONSUMPTION OF GAS

Also in this period, we successfully continued in the detection of illegal consumption to achieve a reduction of losses in the distribution of natural gas. Company employees identified and documented 825 cases of unauthorized consumption amounting to more than 4 million cubic metres of gas.

In order to increase the safety of the operated equipment, we conducted dozens of general checks aimed at detecting and documenting illegal consumption. For this purpose, almost 50,000 delivery points were checked over the past year, during which more than 700 cases of proven interventions in meters or even directly into the gas pipeline were detected. Many are now the subject of criminal proceedings.

GASIFICATION OF SLOVAKIA

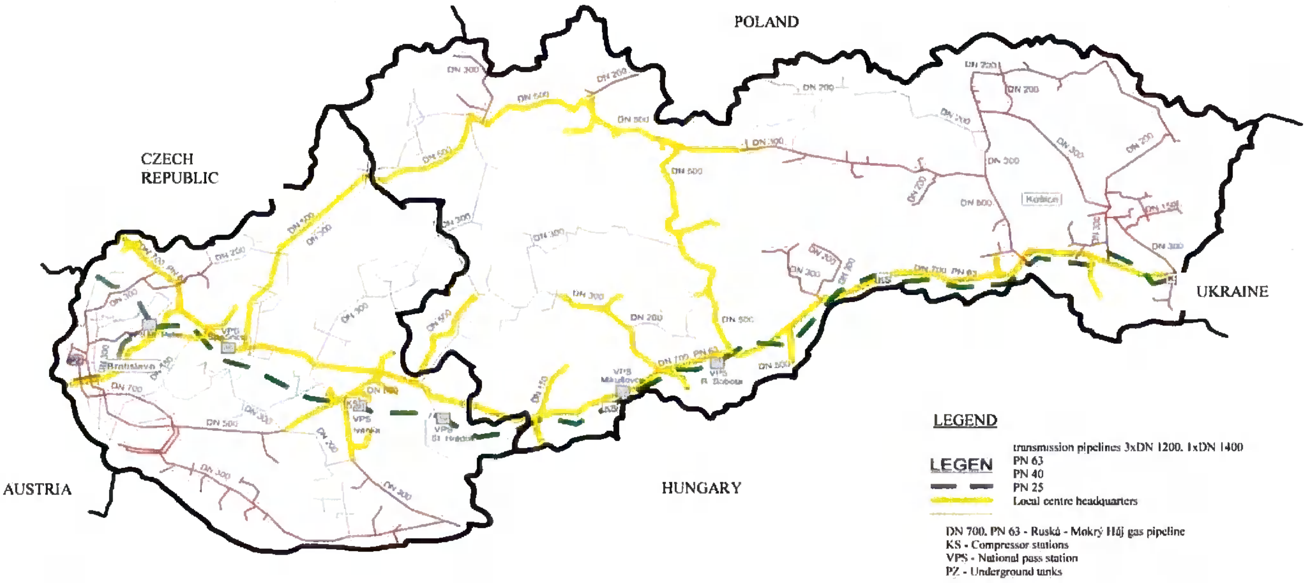
Currently gas is available in 77% of the municipalities in Slovakia, home to more than 94% of the population. In terms of the achieved level of gasification of municipalities, further development of the distribution network is no longer required, but due to the significant development of residential areas for several years we have been gradually connecting these sites to the distribution network. The residential areas are generally located in municipalities which are already gasified, so the distribution network is becoming denser.

Distribution of natural gas in the distribution network by SPP-D in 2015 – 31.7.2019 (billion m^3 at 15 °C)					
	2015	**2016**	**2017**	**2018 ***	**2019 ****
Distributed volumes	4.59	4.68	4.90	2.87	4.81

* 7-month period ended 31.07.2018
** 12-month period ended 31.07.2019

In the period 08/2018 - 07/2019, the volume of gas distributed by the SPP-D network compared with the period 08/2017 - 07/2018 was at about the same level, where lower distribution during the warmer than normal months of February and March 2019 was offset by higher distribution during colder January 2019. In the longer term, however, the currently lower volumes of gas distributed are mainly due to higher air temperatures in winter months compared to the long-term average.

Map of the distribution network of SPP - distribúcia, a.s.,



Length of the distribution network in 2015 – 31.07.2019 (km)					
	2015	**2016**	**2017**	**2018 ***	**2019 ****
High-pressure gas pipelines	6 278	6 274	6 280	6 280	6 281
Medium and low pressure gas pipelines	27 023	26 996	26 993	27 020	27 077
Total	**33 301**	**33 270*****	**33 273**	**33 300**	**33 358**
Classification of local gas network in 2015 – 31.7.2019 (km)					
	2015	**2016**	**2017**	**2018 ***	**2019 ****
Steel	12 509	12 429	12 342	12 298	12 289
Polyethylene	14 514	14 567	14 651	14 722	14 788
Investment in the renovation / reconstruction of the network in 2015 – 31.07.2019 (in mil. EUR)					
	2015	**2016**	**2017**	**2018 ***	**2019 ****
Investment in renovation	21	27	24	11	30
Number of km of upgraded pipelines of the local area network (low and medium pressure pipelines)	126	129	128	63.4	142

* 7-month period ended 31.7.2018
** 12-month period ended 31.7.2019
*** Updated and accurate lengths of gas pipelines in the transition to the new GIS (Geographic Information System).

CUSTOMER ORIENTATION

RELATIONS WITH GAS SUPPLIERS, THE LIBERALIZED GAS MARKET

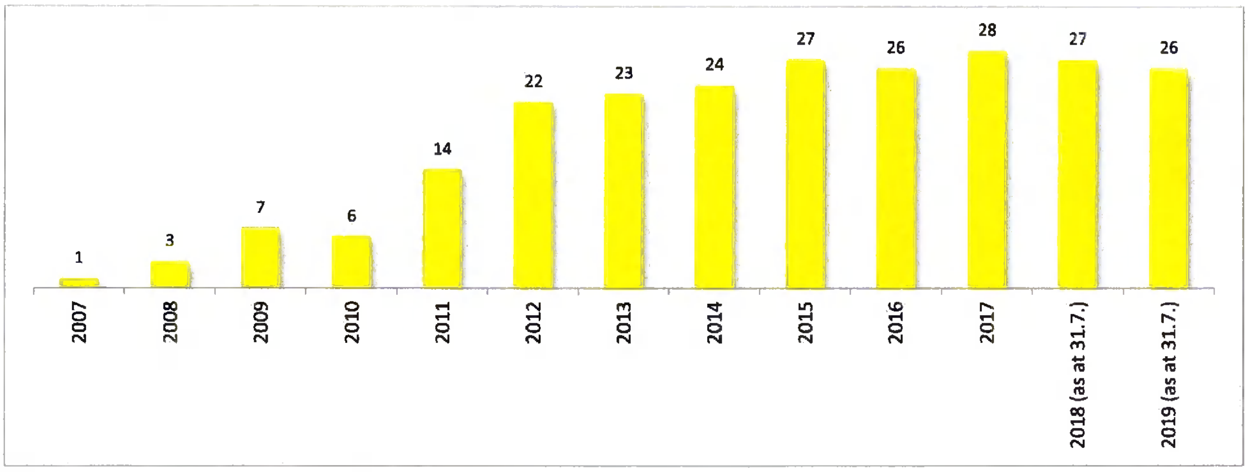
As of 31 July 2019, SPP - distribúcia was providing access to the distribution network and gas distribution for 26 users of the distribution network. We are continuing to present new products and improvements in order to contribute to the development of the gas market in Slovakia, particularly streamlining and upgrading the user interface of the IT system that is used by gas suppliers, increasing transparency and broadening the accessible data about the distribution network and distribution contracts.

LEGISLATIVE AND REGULATORY

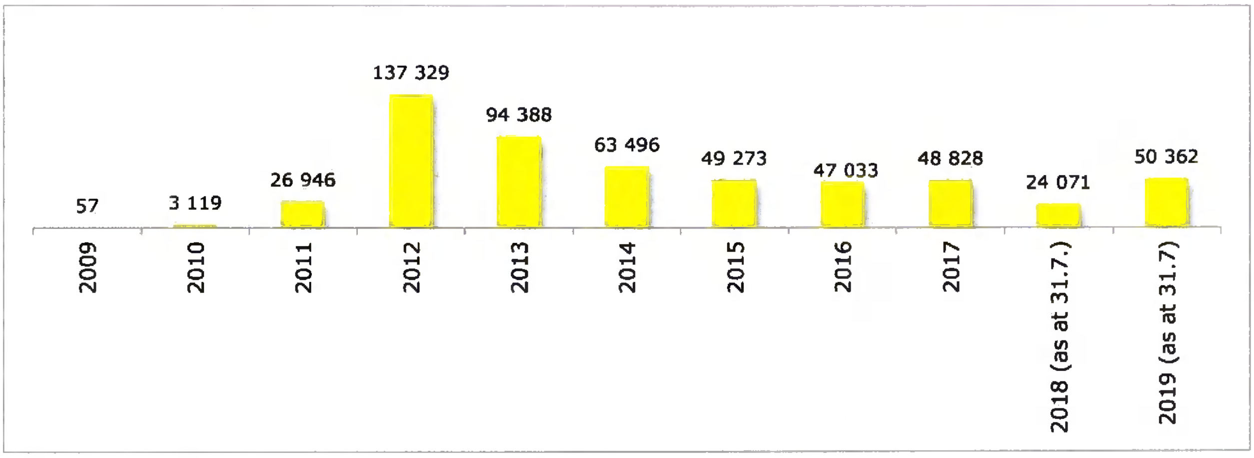
In the first half of 2018 as part of the functioning of the gas market, a number of changes occurred resulting from the amendment of Act no. 251/2012 on Energy and amending some acts, the amendment of the Regulatory Office Decree no. 223/2016 establishing Price Regulation in the Gas Industry and partly also from the adoption of the new Act no. 152/2018 on Metrology and on the amendment of certain acts. SPP - distribúcia, a.s. reacted operationally to the changes by adjusting its internal processes and procedures in relation to other gas market participants. In April 2019 the Regulatory Office for Network Industries finalized the initial draft of its Concept for Protecting Consumers qualifying as being in energy poverty and, following objections to comments made, the draft concept is the subject of further review. In June 2019, preparation began on the new regulatory policy for the years 2022 to 2026 and SPP - distribúcia, a.s., in cooperation with other members of the SPNZ was involved in the development of documentation for the development of this document. At the Ministry of Transport and Construction of the Slovak Republic the process is still ongoing for the preparation of new legislation, specifically the Spatial Planning Act and the Construction Act. In July 2019, the first round of the dispute procedure on comments from entities took place, the second round is scheduled for August 2019.

The period from 1.8.2018 to 31.7.2019 did not bring any more gas related amendments to the stated legislation or to Act no. 250/2012 on Regulation in the Network Industries.

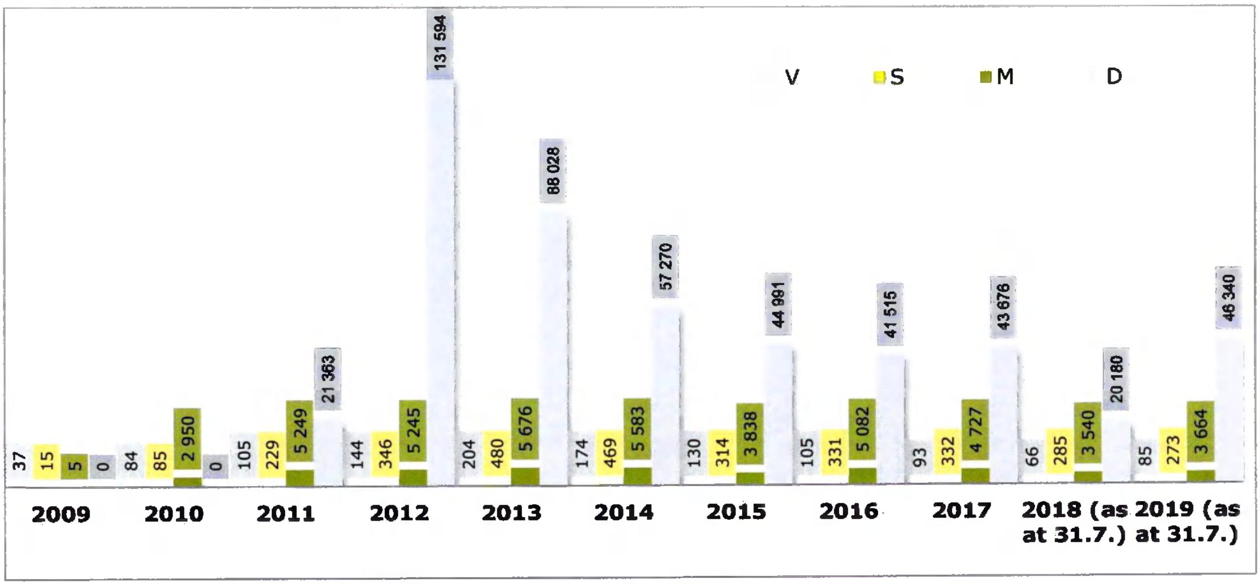
Number of distribution network users



Number of changes of supplier



Number of changes of supplier by category



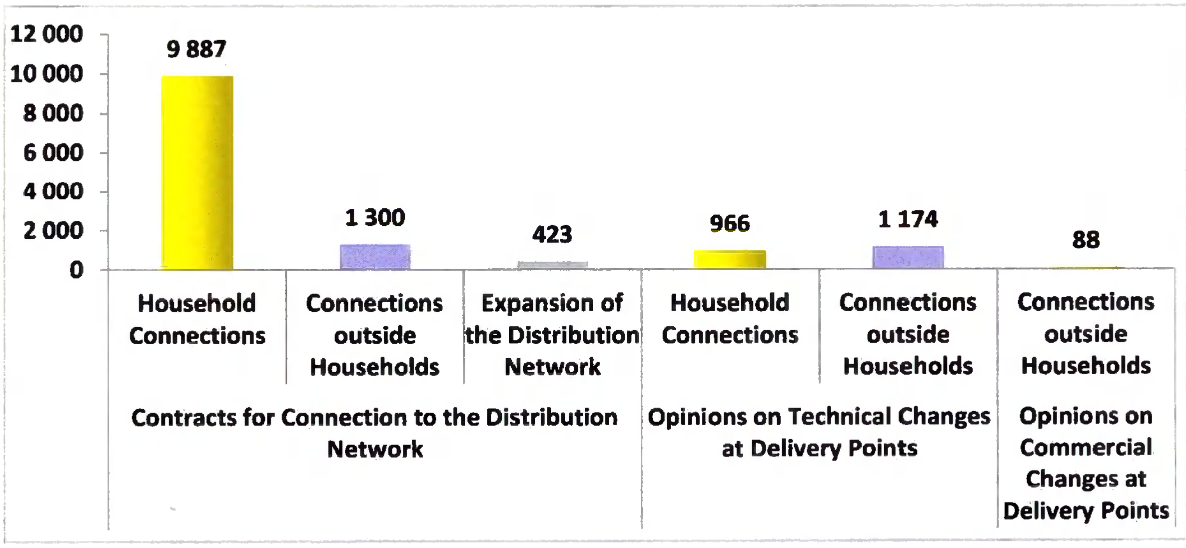
SHORTENING THE PROCESS OF CONNECTING TO THE DISTRIBUTION NETWORK

In the period from 1.8.2018 to 31.7.2019 our company provided by applicants for connection to the distribution network the possibility of personal contact at three customer offices, in Bratislava, Žilina and Košice. Applicants for the connection can also use the contact postal address and the online contact information on our web site.

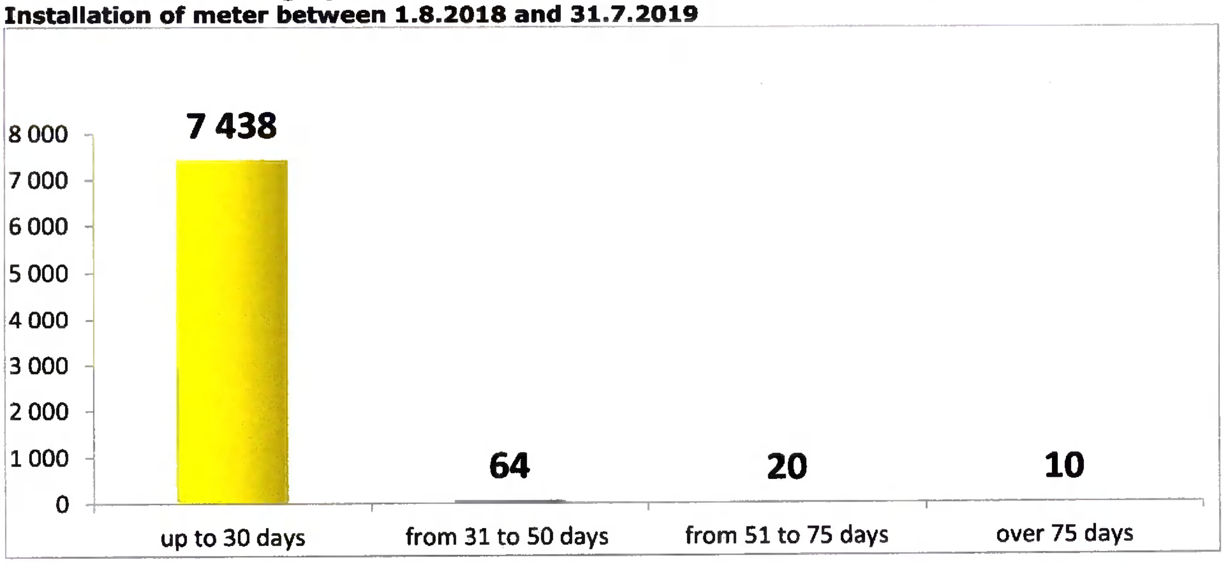
SPP - distribúcia meets quality standards for establishing commercial and technical conditions for connection at a level of 100% and quality standards for determining commercial and technical conditions for change of consumption parameters at delivery points at a level of 100% (Decree of the Regulatory Office for Network Industries no. 278/2012).

For the period 08/2018 - 07/2019, our company connected 10,120 new points of supply into the distribution network in the categories of households, small consumers, moderate consumption and high consumption. We successfully continued to improve the connection process and we took care to shorten the connection process overall.

Number of concluded contracts on connection to the distribution network and the number of observations on technical and commercial changes at delivery points from 1.8.2018 – 31.07.2019



Evaluation of completed connection process – contract for connection to the distribution network in the Household category
Installation of meter between 1.8.2018 and 31.7.2019



Evaluation process for steps for connection on the part of SPP - distribúcia:

- issuing of technical conditions for connection and the draft contract for connection to the distribution network,
- opinion on project documentation,
- administration of an application for meter installation and the installation of the meter at the point of delivery.

SERVICES FOR MEDIUM AND LARGE CUSTOMERS

SPP - distribúcia, through its key account managers, constantly strives to develop an individual approach to customers with annual consumption of natural gas exceeding 60 000 m^3. Managers provide customers with expert advice and propose appropriate technical and business solutions before implementing a new connection to the distribution network or prior to the implementation of technical changes to existing point of delivery, to provide customers with the greatest comfort and an individual approach to the gasification of their project.

DIGITIZATION OF SERVICES - WEB APPLICATIONS FOR CUSTOMERS

Already during 2014 we placed electronic forms on our website, www.spp-distribucia.sk which our customers can use to submit a request for connection, for an opinion on technical changes to an existing point of delivery or a request for installation of a meter, fully electronically from the comfort of their home. Applicants use this service mainly due to the speed of completing the forms and its availability 24 hours a day. In the period from 1.8.2018 to 31.7.2019, 14 233 applications were submitted for connection and for technical change to an existing point of delivery, which represented 74% of the total applications submitted.

We continue to send invoices for connection fees, connection contracts and opinions on technical changes electronically to the email address of the applicant. With this helpful step we have removed the need for the personal receipt of registered mail and greatly accelerated the accessibility of our opinions to ensure the fastest possible gasification of new delivery points or technical changes to existing delivery points. Implementing this new mode of communication was the natural next step to ensure the highest possible operating convenience for present and future customers.

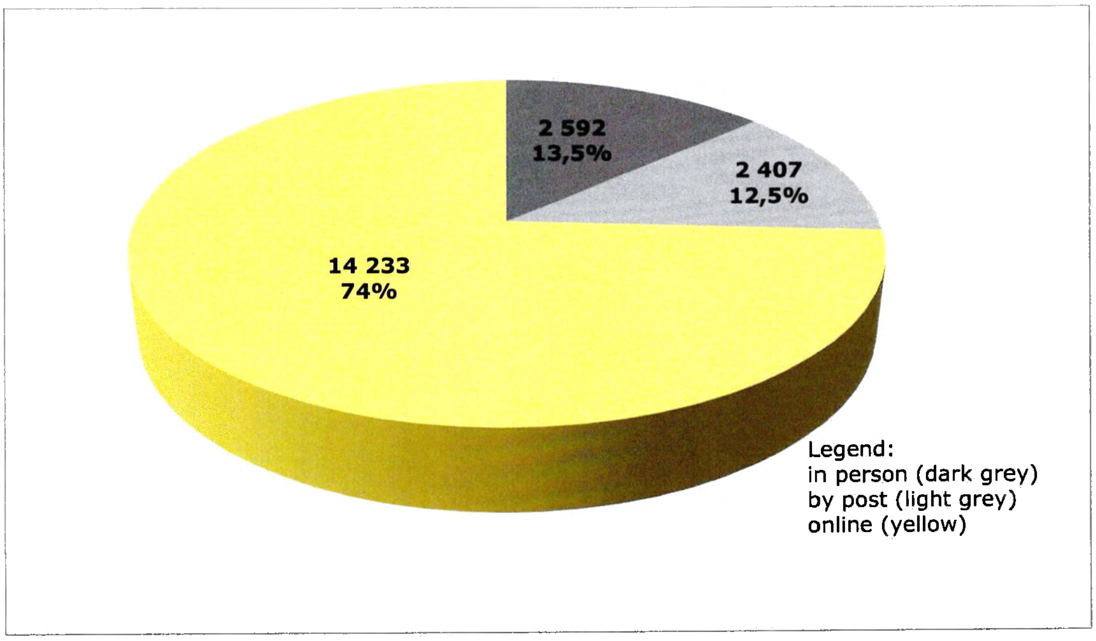
At the beginning of the year, in connection with our new website, we updated the video tutorial*: 7 Steps to a Connection* in order to help our customers better understand and visualize the process of connecting households to the distribution network. The video is available, not only on our website www.spp-distribucia.sk, but also on our new YouTube channel SPP - distribúcia. The site also has a new application "Frequently Asked Questions" for the category of households and small businesses. Customers can find immediate answers to their questions there without needing to visit a Customer Centre or to call the Customer Line.

Something else new for applicants for connection to the distribution network is the new online application that enables them to use a web form submit an application for an addendum to the contract on connection to the distribution network, due to a requested extension to the term of the contract, any change of ownership of the real estate, or because of the requirement to change issued connection specifications.

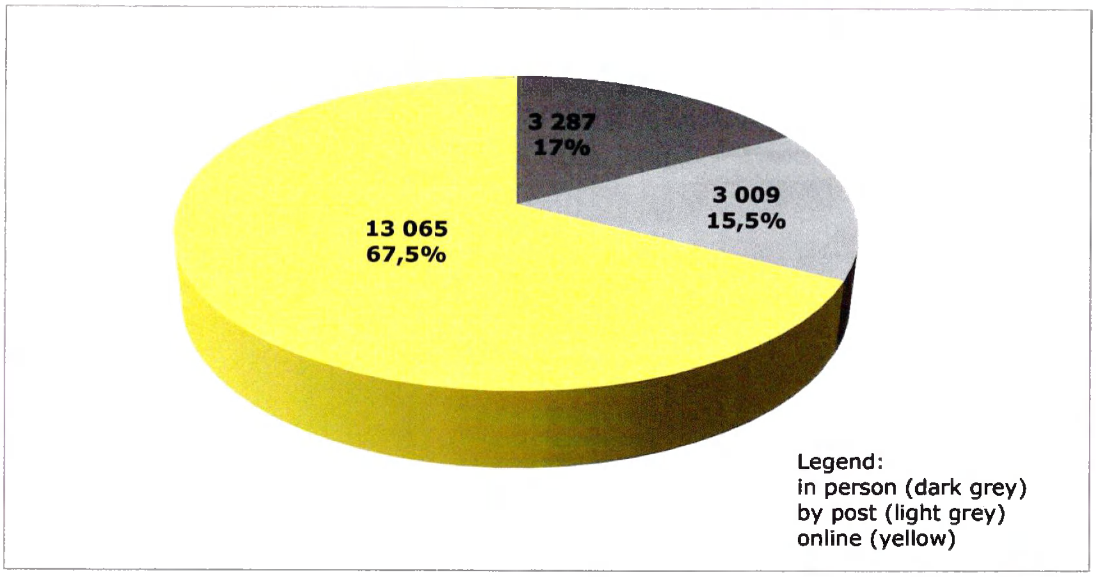
We are pleased that we continue to see increasing interest in our online services. While in 2016 63% of applicants submitted an application for connection and a technical change via the web form, in 2017 it was 67% of applicants and in 2018 the number of such applications submitted increased to 72%.

In the period from 1.8.2018 to 31.7.2019 74% of applicants took advantage of the opportunity to submit their application via the online application.

Requests for connection to the distribution network and for an opinion on a technical change for the period 1.8.2018 – 31.7.2019



Applications for installation of the meter for the period 1.8.2018 - 31.7.2019



EMPLOYEES AND THE DEVELOPMENT OF CORPORATE CULTURE

WE GROW TOGETHER

Our professional teams do a quality job every day. That's how over many years we have been reliably bringing heat to the homes of the Slovak population. We bring environmentally and economically appropriate and energy efficient solutions and that's what guarantees the stability of our business. In mutual communication and cooperation, we follow professional ethics and common values. We carry out our core activities safely, with quality and as efficiently as possible. In our accommodating communication with our customers and partners, we pride ourselves on providing professional services.

WE DEVELOP

As part of the activities to develop and strengthen our corporate culture, last year we implemented the third wave of our employee survey. We obtained information about the current extent of engagement, satisfaction and loyalty of our employees and how employees perceive the company at this time. We have focused on acquiring and introducing employee ideas for the development of the company into our corporate practice.

As of 31 July 2019, our team consisted of 1 294 employees. In order to care for the safe and reliable operation of natural gas distribution networks, it is essential for there to be continuing education and the acquisition of licenses for performing specific gas activities. We place a high priority on professional development, and also personal and career-development, IT skills and the development of soft skills. Through education we constantly improve the expertise of our employees and thereby improve our services.

The Young Gasworker Project and the Graduate Development Programme rejuvenate our teams with the aim of passing knowledge and years of experience in gas work. The Young Gasworker Project in cooperation with high schools is dedicated to students during their studies. After its successful completion, our door is open to them. The Graduate Development Programme enables selected university graduates to get an overview of the key activities of the various departments of the company and acquire a solid foundation for their future career with us.

In terms of developing specific target groups of employees, we addressed the promotion of communication and negotiating skills of operational technicians, which is the first line of communication with our external partners and institutions in order to further improve our contact with each other.

Our company maintains its diversity policy, which it also applies in its administrative, management and supervisory bodies.

WE REWARD INDIVIDUAL PERFORMANCE

Our corporate culture is targeted at performance and commitment, initiative and teamwork. We support it through incentives to improve the quality and efficiency of performance. Remuneration is inextricably linked with the individual approach of our employees to fulfilling the visions and goals of the company. The methodology for calculating the relevant attributes of quality and efficiency performances maintenance of gas facilities is continuously updated in order to give a real and objectively effective link to reward performance.

In promoting good communication and cooperation in teams and management, we are helped by development interviews. These are opportunities for personal and working development and efficient planning of our individual development goals. They are a valuable source of suggestions for improving our business and for every good idea we are grateful to our employees.

WE ARE SOCIALLY RESPONSIBLE

We do business responsibly and we connect sustainability mainly with the protection and promotion of health, the environment in which we live and with working ethics.

We have again joined the nationwide "to work on a bike" campaign to protect the environment and for a healthier lifestyle in our cities. We appreciate the participation of 90 active cyclists who are supporting our common goal of an ecological approach to life in Slovakia and are also working on their health and fitness.

We are very pleased that our base of voluntary blood donors is expanding from year to year. And we really appreciate that our employees are once again actively involved in the "white crayon" charitable collection for the Union of the Visually Impaired and Blind of Slovakia, the Daffodil Day for the League Against Cancer, Mission – Celebrity Couriers 2019 and internal collections for the Plamienok Hospice. We appreciate the support and volunteering of our employees in the employee grant program under the auspices of the EPH "In my neighbourhood" Foundation and their voluntary participation in the collection of seeds for planting trees in the Bratislava region.

The successful 2018 was completed a joint celebration during the "Our Christmas" event, which is an opportunity for teams from all over Slovakia to meet up.

In summer 2019 we opened together the Company Games in Banská Bystrica. The event was organized to promote sport, health, and as an opportunity to meet colleagues from different parts of Slovakia. In Banská Bystrica we again welcomed our employees and their families. We are pleased to see the annually increasing number of supporters and we thank all participants very much for the pleasant atmosphere and response.

WE PROTECT OUR HEALTH

Caring for the occupational health and safety of workers is our major priority. It is based in the company policy, the various internal management acts and practices. Fulfilment of programs of occupational health and promoting safety culture create favourable conditions for the safe performance of work, elimination of identified risks and prevent incidents. In cooperation with the occupational health service we provide continuous assessment of health factors in the working environment and we adapt working conditions to the physiological and ergonomic needs of employees.

As part of caring for the health of our employees, we provide medical examinations in relation to work. In the period from 1.8.2018 to 31.7.2019 these check-ups were attended by 1 042 employees. Extraordinary preventive check-ups were attended by 22 employees. Our goal is to improve the performance of our employees and ensure the prevention of potential negative effects that might pose a risk to their health. This is why we have a social programme under which we provide employees with an opportunity to undergo a high standard medical examination, vaccination or offer advantages for recuperative medical care. The above-standard medical check-up under the provisions of the Collective Agreement was attended by 72 employees. The possibility of measles vaccination during the outbreak in Eastern Slovakia in 2018 was used by 23 employees and 214 employees were vaccinated against tick-borne encephalitis.

Through regular training in new knowledge in the field of health and safety at work we have increased employee awareness and promoted safety culture. In the interest of safety, by informing them of the requirements of health and safety and by performing inspections on construction sites we are also managing our suppliers. For individual construction sites already in the process of reconstruction of pipelines we prepare OHS plans. Appropriate selection, allocation and use of personal protective equipment contribute to the elimination of residual risks. High attention is paid to the environment. Monitoring compliance with environmental requirements is therefore part of the daily activities in repair, reconstruction, maintenance or cleaning work on technological facilities. All findings are continuously analysed, then appropriate measures are taken. The continual care for health and safety at work and environmental protection eliminate the influence of individual factors in the working process and achieve an appropriate and safe environment for employees.

NATURAL GAS – EFFECTIVE AND ECOLOGICAL SOLUTION

In Slovakia, 94% of households and firms have access to natural gas. The easy availability, reliability of use, simple control of gas appliances and environmental friendliness are key factors supporting the sustainable use of natural gas in Slovakia.

NATURAL GAS AND THE ENVIRONMENT

Despite the fact that natural gas is a fossil fuel, it has extremely positive environmental characteristics compared with other fuels. Compared with solid fuels, the combustion of natural gas produces significantly lower levels of pollutants and produces only negligible amounts of particulate matter - dust particles which at higher concentrations dramatically threaten the health of people.

In addition to the low level of particulate matter (PM) emissions resulting from the combustion of natural gas, negligible amounts of sulfur, a minimal amount of carbon monoxide, the level of nitrogen oxides is also low.

Compared with wood and coal, burning natural gas produces significantly lower carbon dioxide emissions. Using natural gas for heating can save up to 50% of CO_2 emissions compared with coal. Heating using timber releases about 8 times as much particulate matter (PM10 and PM2.5) as does heating with gas and burning coal releases up to 34 times as much PM. The negative impact of PM on public health in the Slovak Republic is alarming. The increased concentration of particulate matter increases the incidence of respiratory diseases and has a negative impact on the development of the human foetus.

The level of air pollution with dust particles in Slovakia has long been characterized as serious. The Slovak Hydrometeorological Institute, during the evaluated period 20 times issued a warning (first level of smog) and 5 times issued an alert (the second level of smog) for different locations in Slovakia. According to the current report of the European Environment Agency, the poor regulation of dust particles in Slovakia causes around 5,200 inhabitants per year to die prematurely. Slovakia has so far not adopted effective measures to reduce dust emissions. This concerns in particular local heating. While in the past the main source of pollution was heating with black coal, currently main environmental problem is burning wood in homes. In gasified regions too, where there are low winter air temperatures, the customers tend to burn wood for economic reasons. Addressing the unfavourable smog by reducing the amount of dust particles in the air is possibly by responsibly selecting the energy source for heating and rational approach on the part of the state for supporting sources of heating that are friendly to the environment and human health.

ENERGY PERFORMANCE OF BUILDINGS

In accordance with European legislation, after 2020 only buildings with almost zero energy needs will be constructed, representing and an entirely new phenomenon in terms of the design and construction of buildings and not least in the operation of buildings. This is not only about the buildings themselves having nearly zero energy needs, but it is mainly about the philosophy of sustainable architecture and construction with the overall objective in the future to design, implement and operate buildings that are energetically active, environmentally safe and economically efficient. The obligation to construct buildings with nearly zero energy needs stems from Directive of the European Parliament and Council 2010/31/EC on the energy performance of buildings (also known as the "EPBD"). Under this directive, all new buildings in the EU from 31 December 2020 will need to have nearly zero energy requirements (not for the public sector). An earlier deadline has been set for the public sector - from 1 January 2019.

Natural gas appears to be a suitable fuel for heating and hot water in buildings meeting energy performance class A1 and A0. This is mainly due to the favourable price of a condensing boiler (including installation), its high efficiency, low operating costs, simple, genuine convenience and accessibility, not to mention the almost negligible impact on ecology. This should therefore be taken into account when determining the primary energy factor of natural gas.

NATURAL GAS AND EFFICIENCY

A heating system, which includes the hot water is an integral part of the house, which should be considered before the actual construction. The choice of the system affects the thermal comfort in the house, as well as the overall financial costs which the home user needs to pay for the installation and operation of the heating system over a long period. Currently, only ultra-low-energy homes (Class A1 Energy Performance of Buildings) are being built and in the future, it will only be buildings with nearly zero energy requirements (passive houses, energy performance class A0). The fact that the preparation of heat from natural gas is objectively economical can be seen in the following example:

New house energy class A1,

- area 120 m^2.
- with low temperature underfloor heating system (hot water)
- consumption of heat (heating and hot water) is assumed at **8762 kWh**.

Fuel type	Natural gas	Wood pellets	Wood	Heat pump - air/water
Thermal equipment	Condensing boiler	Conventional boiler	Conventional boiler	Heat pump - air / water
Efficiency	97%	90%	70%	300%
Amount of fuel	845 m^3	1947 kg	3226 kg	2921 kWh
Operating expenses (OPEX)	**Natural gas**	**Wood pellets**	**Wood**	**Heat pump - air/water**
TOTAL	**€524 / year**	**€550 / year**	**€422 / year**	**€509 / year**
CAPEX Capital expenditure set (CAPEX)	**Natural gas**	**Wood pellets**	**Wood**	**Heat pump - air/water**
TOTAL	**€10,922**	**€12,872**	**€10,172**	**€20,366**
COSTS FOR 15 YEARS	**€18 786**	**€21,121**	**€16,501**	**€27,998**

In the economic evaluation of heating systems there are two basic parameters:

Investment costs and costs over the lifetime of the equipment or during the evaluation period. As for the total cost of the heating system, if in the evaluation we include user comfort and health aspects (threat of carcinogenic emissions of particulate pollutants from the combustion of wood) then heating with natural gas appears to be the most appropriate option. Heating with natural gas is equally advantageous in the case of renovating an older house. As for the total cost of the heating system, the order of heating systems does not change.

PRODUCING ELECTRICITY AND HEAT IN COGENERATION UNITS

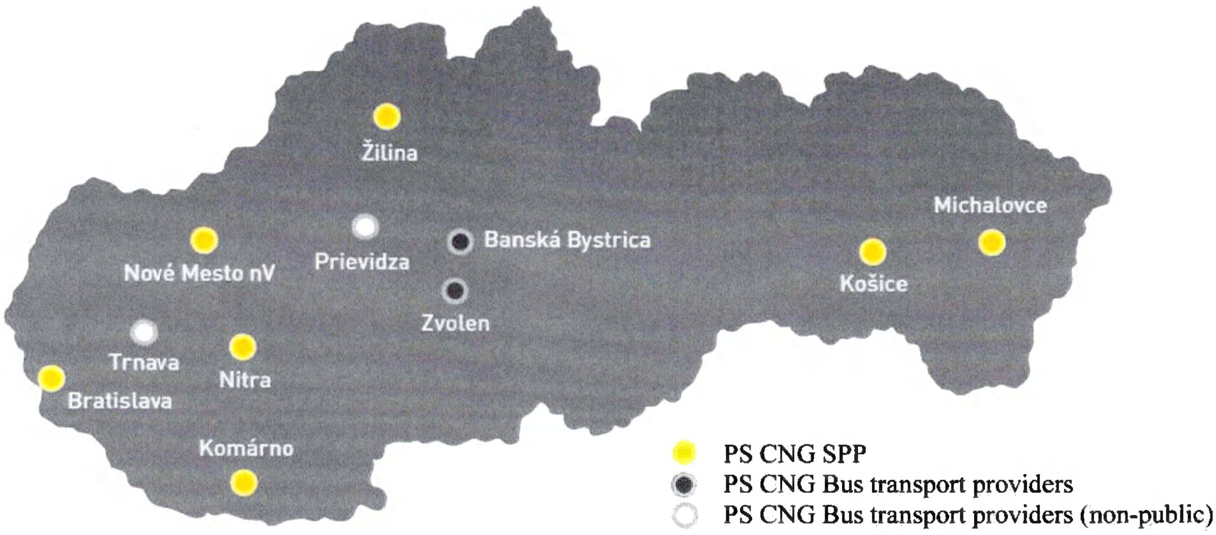
A cogeneration unit is able to produce heat, electricity or even cooling in one device, leading to significant primary energy savings of up to 40% compared with separate production of heat and electricity. A direct result of the saving of the primary fuel is a reduction of emissions generated by combustion. A cogeneration unit is able to cover the energy needs of multiple customers with single device. Due to the availability of cogeneration in various output classes, it has a wide range of applications in industry, the municipal sector, in health or social facilities. We offer those interested in cogeneration a free analysis of the use of cogeneration in the installation of new or renovation of existing energy resources.

CONDENSING BOILERS FOR HOUSES

Thermal comfort, safety, user-friendliness and efficient use of the energy contained in natural gas - all this is provided by the progressive technology of condensing boilers. A condensing boiler can, in comparison with a conventional, classical or low temperature boiler, use a larger amount of the energy contained in the gas, thereby reducing the costs for energy consumption.

COMPRESSED NATURAL GAS (CNG) AND ITS APPLICATION IN TRANSPORT

Natural gas continues to find increasing application in transport and an increasing number of automobile manufactures offer a portfolio of CNG vehicles. The actual operation of these vehicles brings users benefits in terms of lower fuel costs and 50% lower tax on motor vehicles compared to vehicles using conventional fuels. By using CNG, moreover, there are significant reductions in harmful emissions and reduced noise, which ultimately brings benefit to society as a whole in the form of a better quality of the environment. The use of CNG brings cost-effective, environmentally friendly and safe transport. Further proof of the future viability of CNG in transport is also the new fuelLCNG project, which received support from the European Union and aims to build 14 CNG filling stations on the D1 and D2 motorways. SPP - distribúcia, supports the distribution of CNG through preferential tariffs for delivery points at CNG filling stations and through the website spp-distribucia.sk and oplyne.info, where, in addition to general information about the benefits of natural gas, we also introduce the general public to CNG as a sustainable fuel with the potential for greater application in transport. Those interested in building CNG stations are also provided with free commercial and technical advice.



NATURAL GAS IS 3E

Natural gas is currently fighting for its position in the energy mix in fierce competition with other energy sources. On the one hand there is a "boom" of expensive equipment based on renewable resources that are wrongly perceived as the main solution to the problems of climate change, on the other hand, there is the factor of energy poverty, which forces consumers to choose sources that are harmful to health and the environment. Somewhere between these extremes is the almost forgotten natural gas, which does not want to be and is not an enemy of renewables, but an appropriate partner in the common fight to mitigate the effects of global warming.

Heating with natural gas appears to be the most efficient and affordable tool in tackling our air pollution. Little is known about it in general, and therefore our media campaign entitled "Natural gas is 3E" focuses on explaining the benefits of natural gas, with emphasis on eco-friendliness, economic advantages and energy efficiency.

The 3E Logo is gradually appearing in all the activities of external and internal communications as well as marketing. Based on the analysis of the media environment in Slovakia we have focused the campaign on several target groups and we have chosen the principal types of media through which to spread our message. At present, most of campaigns are carried out on social networks and in the online environment generally. There is a growing number of people spending a substantial part of the day in the online environment. We determined the formats of our advertising based on this fact and we have started to be much more active on the social networks Facebook, Instagram and the YouTube video portal. Our aim is to interest visitors to the site and our profiles on social networks through interesting (often new) information, videos, photos, graphics and text. Something different, however, appeals to each target group, therefore we adapt the content and form based on age, education and targeting particular groups. Since we focus mainly on the segment of heating, promotion of natural gas as a commodity it is closely linked with the construction of houses.

We will address each of the target groups in turn throughout the year. In spring 2019, we launched the first video promo and we are presenting others at intervals of 5-6 weeks. During the heating season, we place more emphasis on ecology and health, during the summer we emphasise the economic benefits, the availability of natural gas and preparing for the winter in the form of ensuring comfortable heating for oneself and one's parents. These attributes of natural gas will be promoted through educational and animated videos.

We are implementing the campaign "Natural gas is 3E" through professional and non-specialist media articles, videos, social networks, radio spots and ads in relevant print and broadcast media to raise awareness among the general public. This significant campaign is important for changing the public mindset not only in terms of the economic benefits of this source of heating, but also in terms of responsibility for the environment we live in, and responsibility for the air that we breathe.

REPORT ON THE BUSINESS ACTIVITIES OF THE COMPANY

ECONOMIC AND FINANCIAL PERFORMANCE

DEVELOPMENT OF THE BUSINESS ENVIRONMENT

The results of the company are largely influenced by the weather, because the cold weather increases demand for heating and therefore also for natural gas, while hot weather increases the demand for cooling, and thus demand for electricity. Fluctuations in weather bringing cold temperatures therefore have a positive impact on the consumption of natural gas and high temperatures outside the norm conversely do not have as much impact because the demand for natural gas outside of heating is balanced.

Winter 2019 did not deviate significantly from normal long-term annual air temperature, however this did not apply to the month of May, which was the fourth coldest since 1953. According to the Slovak Hydrometeorological Institute, the average temperature for the first 15 days of May did not exceed 10.4 degrees Celsius. It had only been cooler in the first half of May 1953, when the temperature dropped to 9.7 degrees Celsius. This contributed to exceptionally good results and the increased consumption of natural gas in the first half of the calendar year 2019.

The increased consumption of natural gas this year was also due to the combined cycle power plant in Malženice, which in the summer of 2018 successful completed restart and testing, and since January 2019 has been launched in full operation.

SPP - distribúcia, a.s., in 2019 continued to optimize its internal processes. The level of operating expenses was largely stable, but the company continues to optimize its operational activities, mainly by increasing the productivity of maintenance and procurement.

In the first half of 2018 a number of changes occurred in the functioning of the gas market resulting from the amendment of Act no. 251/2012 on Energy and amending certain acts, the amendment to Decree of the Regulatory Authority no. 223/2016 Establishing Price Regulation in the Gas Industry and partly also from the adoption of a new law, Act no. 152/2018 on Metrology and on the amendment of certain acts. SPP - distribúcia, a.s., responded operationally to changes in responded by adjusting its internal processes and procedures in relation to other gas market participants. During the period from 1.8.2018 to 31.7.2019 there were no further gas-related amendments to the stated legislation or to Act no. 250/2012 on Regulation in Network Industries.

On 17 October 2018 the Slovak Parliament approved the "big" amendment to Act no. 309/2009 on the Promotion of Renewable Energy Sources and High Efficiency Cogeneration with the comments made by SPP - distribúcia, a.s. in interdepartmental comment procedure. At the end of the year there was a parliamentary proposal to further amend this act concerning the combustion of biomass.

At the end of 2018 a legislative process was initiated to amend Act no. 235/2012 on the Special Levy on Business in Regulated Sectors and on amendments to certain acts, the main objective of which was to be a review of rules on the application and effectiveness of the special levy on businesses in regulated industries. There is currently an ongoing analysis of technical proposals for solutions within the framework of consultations on the amendment as introduced by concerned parties.

In April 2019 the Regulatory Office for Network Industries finalized the initial draft Concept of Protection of Consumers qualifying as in energy poverty and, following comments made on the material, the draft concept is the subject of further evaluation.

In June 2019, preparation began on a new regulatory policy for the years 2022 to 2026 and SPP - distribúcia, a.s., also in cooperation with other members of the SPNZ, was involved in the development of ideas for the development of this document.

At the Ministry of Transport and Construction of the Slovak Republic the process is still ongoing for the preparation of new legislation, specifically the Spatial Planning Act and the Construction Act. In July 2019, the first round of the dispute procedure on comments from entities took place, the second round is scheduled for August 2019.

At the end of 2018 the Ministry of Economy of the Slovak Republic presented a draft Integrated National and Climate plan, which was prepared in conformance with Regulation of the European Parliament and Council (EU) 2018/1999 on the Management of the Energy Union and on Climate. SPP - distribúcia, a.s. commented on the draft plan first individually and after its submission to the EC it subsequently commented upon its cooperation with SPP a.s., eustream a.s. and NAFTA a.s. The plan is currently being finalized.

In February 2019 the Slovak Government has approved a new strategy for the environmental policy of the Slovak Republic in 2030, called "Greener Slovakia".

SPP - distribúcia, a.s., through its working groups became involved in the preparation of the low-carbon development strategy, SR 2030 with a view to 2050 for selected sectors of economic activities.

It is important that all the mentioned documents (Strategy for Environmental Policy in 2030, low-the carbon study as a basis for low-carbon strategies of the Slovak Republic up to 2030 with a view to 2050 and the design of integrated national and Climate Plan) take into account the medium-term extremely positive role of natural gas in tackling poor Slovak air quality and reducing greenhouse gas emissions (mainly through compensation of high-emissions solid fuel with low-emissions natural gas). In the long term, the challenge for the gas sector for "greening" of natural gas through the development of support for biomethane or hydrogen or the integration of syn-methane manufactured with electricity from carbon-free sources.

Economic results of the company SPP - distribúcia, a.s.

SPP - distribúcia, a.s., achieved in the financial year 2019 revenues from the distribution of natural gas of 400.09 million euros.

To ensure revenues from sales of services, the Company incurred operating expenses, which reached a level of 295.95 million euros. The predominant items of operating expenses were mainly depreciation and amortization, costs of gas storage and personnel costs.

The company therefore achieved profit before tax of EUR 109.3 million and so ended the fiscal year 2019 with a profit after tax of 77.78 million EUR.

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

	2019 **	**2018 ***
Natural gas distribution	400.09	231.58
Other revenue	22.95	18.07
Operating costs	-295.95	-108.4
Profit/loss from financial activities	-17.79	-10.39
Pre-tax profit	**109.30**	**130.86**
Income tax	-31.52	-33.23
Profit after tax	**77.78**	**97.63**

* 7-month period ended 31.7.2018
** 12-month period ended 31.7.2019

ASSET AND CAPITAL STRUCTURE

Assets

Total assets of the company as of the balance sheet date of the financial statements amounted to 4 599.02 million euros, compared to 2018 this was an increase of 1 911.56 million euros. The increase was due to changes in accounting policies - the transition from the "cost model" to the "fair value model" for gas in accordance with the international standards of IFRS and IAS. Other items of assets are stated at historical cost less accumulated depreciation and accumulated losses from impairment. Fixed assets with a value of 4 040.72 million euros accounted for 87.86% of total assets. The most significant items of property were the main distribution pipelines, control stations, technologies and facilities of the distribution networks.

In the 2019 financial year, the company spent 32.36 million euros on the acquisition of fixed assets, directed mainly at the renovation of the network. The company did not spend any funds on activities in research and development this year.

Compared to 2018, current assets increased by 122.49 million euros and as of the balance sheet date of the financial statements had reached the value of 558.30 million, representing 12.14% of total assets. The largest share in their structure was mainly receivables and prepayments, inventories and cash or cash equivalents.

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

	2019 **	2018 *	2019 **	2018 *
Non-current assets	4 040.72	2 251.65	87.86%	83.78%
Current assets	558.30	435.81	12.14%	16.22%

* 7-month period ending 31.7.2018
** 12-month period ending 31.7.2019

Equity and liabilities

There was also a change in the capital structure of SPP - distribúcia, a.s., specifically in capital funds. The proportion between own and outside sources of funding increased, with own resources continuing to outweigh outside sources of funding and accounting for 65.77% of total sources of coverage of assets.

Equity this year reached a value of 3 024.80 million euros, representing an increase of 90.66% over the previous period. The increase was due to changes in accounting policies - the transition from the "cost model" to "fair value model" for gas in accordance with the international standards of IFRS and IAS. Other items of assets are stated at historical cost reduced by accumulated depreciation and accumulated impairment losses. The equity consisted mainly of share capital, the legal reserve fund, retained earnings and results of operations for the period. The share capital entered in the Commercial Register is one share with a nominal value of 1 200 million euros. The statutory reserve fund and other funds from capital contributions reached, as of the balance sheet date, 1 697.04 million euros.

The economic result for 2018 was a profit of 97.63 million euros and it was paid to the sole shareholder of the company in the form of a dividend. The distribution of profit for the year 2019 amounting to EUR 77.78 million euros is to be decided by the General Meeting. The board's proposal to the general meeting is the payment of profit in full to the sole shareholder, in the form of a dividends.

The liabilities of the company accounted for 34.23% coverage of the company's assets as of the balance sheet date of the financial statements amounting to EUR 1 574.22 million euros. The bulk of the total liabilities consisted of long-term liabilities totalling 1 404.53 million euros. Their most substantial items were deferred tax liabilities and loans and bonds, which made up 98.63% of long-term liabilities. Current liabilities amounted, as of the balance sheet date, to a value of 169.70 million euros, in comparison with the previous year this was an increase of 68.32 million EUR.

Comparison of the structure of liabilities (in million euros

	2019 **	**2018 ***	**2019 ****	**2018 ***
Equity	3 024.80	1 586.51	65.77%	59.03%
Liabilities	1 574.22	1 100.95	34.23%	40.97%

* 7-month period ended 31.7.2018
** 12-month period ended 31.7.2019

The structure of shareholdings as of 31.7.2019 was as follows:

SPP Infrastructure, a.s.	1 share	100%

SUMMARY RESULTS

The development of the state of assets, capital structure and results of operations for SPP - distribúcia, a.s., for the years ending 31 July 2019 and 31 July 2018 in accordance with the separate financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU.

Balance sheet (data in thousands EUR)

	2019 **	2018 *
ASSETS:		
FIXED ASSETS		
Property, plant and equipment	4 027 294	2 235 709
Investments in subsidiaries	1 000	1 000
Intangible assets and other assets	12 025	14 936
Loans provided	405	0
Fixed assets total	**4 040 724**	**2 251 645**
CURRENT ASSETS		
Stock	146 199	135 569
Receivables and prepayments provided	289 449	236 038
Contractual assets	11 107	10 217
Tax receivables and income tax	0	8 367
Cash and cash equivalents	111 468	45 625
Loans provided	75	0
Total current assets	**558 298**	**435 816**
TOTAL ASSETS	**4 599 022**	**2 687 461**
EQUITY AND LIABILITIES:		
CAPITAL AND RESERVES		
Shareholder equity	1 200 000	1 200 000
Legal reserve fund and other funds	1 697 044	288 877
Retained earnings	49 978	0
Profit or loss for the current period	77 775	97 635
Total equity	**3 024 797**	**1 586 512**
LONG-TERM LIABILITIES	1 404 529	999 576
CURRENT LIABILITIES	169 696	101 373
Total liabilities	**1 574 225**	**1 100 949**
EQUITY AND LIABILITIES	**4 599 022**	**2 687 461**

* 7-month period ended 31.07.2018
** 12-month period ended 31.07.2019

Income statement (data in thousands EUR)

	2019 **	2018 *
Natural Gas Distribution	400 088	231 581
Other revenue	22 951	18 072
Operating costs	- 295 945	-108 397
Operating profit	**127 094**	**141 256**
Financial revenue	262	172
Financing costs	-18 052	-10 563
PRE-TAX PROFIT	**109 304**	**130 865**
Income tax	-31 529	-33 230
PROFIT FOR THE PERIOD	**77 775**	**97 635**

* 7-month period ended 31.07.2018
** 12-month period ended 31.07.2019

Statement of cash flows (data in thousands EUR)

	2019 **	2018 *
OPERATING ACTIVITIES		
Cash flows from operating activities	316 523	200 226
Interest paid	-13 629	-13 409
Interest received	244	236
Income tax paid	-49 792	-41 155
CASH FLOW FROM OPERATING ACTIVITIES	**253 346**	**145 898**
CASH FLOW FROM INVESTMENT ACTIVITIES	**-178 078**	**-153 093**
CASH FLOW FROM FINANCING ACTIVITIES	**- 9 425**	**-1 815**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**65 843**	**-9 010**
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	45 625	54 635
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**111 468**	**45 625**

* 7-month period ended 31.07.2018
** 12-month period ended 31.07.2019

EVENTS OF SPECIAL IMPORTANCE THAT OCCURRED AFTER THE END OF THE ACCOUNTING PERIOD FOR WHICH THIS ANNUAL REPORT IS PREPARED

After 31 July 2019 there were no events that would require alteration to 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 2019, 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 PROGRAM OF THE DISTRIBUTION NETWORK OPERATOR FOR THE PERIOD 1.8.2018 – 31.7.2019

1. The Compliance Program is an internal regulation the distribution network operator SPP - distribúcia, a.s., which in accordance with the requirements of Act no. 251/2012 on Energy and amendments to certain acts, determines measures to ensure non-discriminatory behaviour of the distribution network operator, which is part of a vertically integrated undertaking. The compliance programme defines the specific obligations of employees aiming to eliminate possible discriminatory behaviour by the distribution network. The last updated compliance programme entered into force on 1.12.2015 and has regulation no: D.RM.04.07.06.

2. The compliance programme sets out the following measures:

   (a) obligations ensuring the independence of the distribution network operator from the other activities not related to distribution of gas,

   (b) obligations ensuring non-discriminatory behaviour of the distribution network operator in providing information,

   (c) obligations ensuring non-discriminatory conditions of service of the distribution network operator for gas market participants,

   (d) conditions relating to the manager of the compliance programme, including appointment and removal,

   (e) activities of the manager of the compliance programme including training of employees of the distribution network operator about the compliance programme and the operations staff focused on compliance with the compliance programme,

   (f) obligations ensuring disclosure of the compliance programme, control and preparation of an annual report on the implementation of the compliance programme.

3. The fulfilment of measures in the compliance programme in the period from 01.8.2018 to 31.7.2019 was ensured mainly as follows:

   (a) SPP - distribúcia, a.s. as the distribution network operator is set up as a separate company and its organizational structure is arranged so as to ensure independence of all the activities of the distribution network related to gas distribution from other activities of vertically integrated undertakings that are not related to gas distribution,

   (b) compliance with the non-discriminatory approach in providing information intended for participants of the gas market and in the provision of the services of the distribution network operator,

   (c) the internal procedures of the distribution networks implement measures to ensure non-discriminatory behaviour in accordance with the programme of compliance,

   (d) Disclosure of the compliance programme; for employees of the distribution network operator it is available in an electronic database of legislation and to other gas market participants on the website of the distribution network operator,

   (e) carrying out checks for compliance with the compliance program. In the period from 1.8.2018 to 31.7.2019, the compliance program manager, for example, verified compliance with non-discriminatory access to the distribution network for the provision of information in the performance of services for distribution system users for handling requests, claims and customer complaints. It also checked compliance with the prohibition of insider information in its own name for those employees that have access to such confidential information.

4. Based on the decision of the shareholder on 14.5.2014 SPP Infrastructure, a.s. became the sole shareholder of SPP - distribúcia, a.s. and the supplier of gas to the company Slovenský plynárenský priemysel, a.s. and it is no longer part of a vertically integrated company which includes SPP - distribúcia, a.s. this will ensure complete independence of the distribution system operator from the activities related to gas supply. In the period from 1.8.2018 to 31.7.2019, on the basis of contracts, SPP - distribúcia, a.s. received only rental services from Slovenský plynárenský priemysel, a.s.

5. The manager of the compliance programme of the distribution network operator in the period from 1.8.2018 to 31.7.2019 found no breach of the obligations set out in the compliance program.

In Bratislava, dated 6.8.2019

Kachút

Ing. Milan Kachút

manager of the compliance program

distribution network operator SPP - distribúcia, a.s.

PROSPECTS OF THE COMPANY

Increasing efficiency and finding synergies within the company is another important area where we were successful last year and we will continue developing this in the future. Know-how of implementation of the reconstruction of local networks performed in-house is moving to a higher level of mastery of demanding reconstruction in larger cities and other densely populated areas.

Continuously improving safety is our priority area to which are very actively devoting energy and we will invest in it in the future. We see safety as a strategic priority; therefore, we are emphasizing the development of models that enable us to define an adequate scope of maintenance based on the state of a particular asset and the level of risk that is associated with its operation. Modelling risk has been successful for us in the past, for example in terms of maintenance of control stations, therefore we will continue to invest in the development of innovative approaches to determine the technical condition of our assets.

We will continuously focus customer service on increasing the level of services mainly by digitizing them. Due to the accessibility of our online form 24/7 on the website of our company, our customers find connecting to natural gas much easier, more comfortable, and according to the results of last year it is also still attractive. In the second half of 2019 and especially in 2020, we plan to extend these new functionalities aiming to further simplify and making the process of connecting to the distribution network more pleasant for our customers.

In terms of marketing support, connecting new points of supply to the distribution network of natural gas in the second half of 2019 and 2020, will focus mainly on the promotion of the objective economic benefit from preparing heat from natural gas in new and renovated family houses of the new energy class A1 and the promotion of the exceptional environmental friendliness of preparing heat from natural gas. This promotion will be implemented by strengthening communication through modern communication channels such as social networks, Google and YouTube. In the campaign "Natural gas is 3E" we will continue in the form of professional and non-specialist media articles, videos on social networks, radio spots and ads in relevant print and broadcast media to continue to raise awareness among the general public.

Another key piece of information that will be communicated to the public through modern electronic means is that the production of heat through efficient and ecological facilities based on natural gas qualifies for the design and construction of buildings in energy class A1.

As for the existing houses, the preparation of heat from natural gas will be promoted as an environmentally friendly alternative to burning fossil fuels in obsolete equipment, which is the main source of poor air quality in Slovakia.

The Strategy of Slovak Environmental Policy up to 2030, low-carbon study as a basis for low-carbon strategies SR 2030 with a view to 2050 and the draft Integrated National and Climate Plan, the creation of which was participated in through working groups, we take into account the medium- the extremely positive role natural gas in tackling poor air quality in Slovakia and reducing greenhouse gas emissions (mainly through replacement of high emission solid fuel by low-emission natural gas). In 2019 and 2020 we will also vigorously pursue internal analysis of options for "greening" natural gas distributed by our company, either through development of support for biomethane or hydrogen syn-methane manufactured with electricity from carbon-free sources, which at the same time we perceive as a challenge for the whole gas sector in Slovakia.

Streamlining the performance of our operating activities remains our permanent effort. Specifically, in the areas of procurement, improving labour productivity in the maintenance and optimization of the cost of managing real estate property and the fleet.

In the future we also want to continue to be flexible in responding to our customers' needs and to developments in the energy market. The objectives of the forthcoming financial year will be achieved by ensuring a high level of safety of our operating activities, continuously improving operational efficiency and investment, improving access for customers and increasing the involvement of our employees. Implementation of information campaigns to promote air protection through the use of natural gas will continue to educate the general public and identify the environmental friendliness, cost advantages and energy efficiency of natural gas. As a stable, reliable and efficient provider of natural gas distribution services we will make every effort to create value 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

Public relations:

Mgr. Milan Vanga, External Communication Manager

Tel.: +421 2 2040 2020

GSM: +421 903 510 505

E-mail: milan.vanga@spp-distribucia.sk

Final title

SPP - distribúcia, a. s.

Mlynské nivy 44/b

825 11 Bratislava

Slovak Republic

www.spp-distribucia.sk

Deloitte.

Deloitte Audit s.r.o.
Digital Park II, Einsteinova 23
851 01 Bratislava
Slovak Republic

Tel: +421 2 582 49 111
Fax: +421 2 582 49 222
deloitteSK@deloitteCE.com
www.deloitte.sk

Registered in the Commercial
Register of the District Court Bratislava I
Section Sro, File 4444/B
Id. Nr.: 31 343 414
VAT Id. Nr.: SK2020325516

SPP – distribúcia, a.s.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders, Supervisory Board and Board of Directors 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 2019, the income statement and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 July 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted in 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.

Description of the most significant assessed risks of material misstatement, including assessed risks of material misstatement due to fraud	Summary of the auditor's response to the risks
Estimated Revenues from Gas Distribution	
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 retail customers and households is recognised based on estimates, as the volume of natural gas distributed to such customers is determined by a meter reading of the consumed gas after the end of the reporting period. Revenue estimates are software-based using input data from management and an external data provider. Revenue estimate calculations require Company management to apply a significant degree of judgment, especially as regards the following assumptions: a) Estimated quantity of distributed natural gas depending on measured temperatures in individual off-take categories; b) Own consumption estimate; c) Changes in natural gas accumulation in the distribution network.	Our audit procedures included, inter alia: • An assessment of the appropriateness and reliability of 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; • An assessment of the effectiveness of the design and operation of the controls over the estimate determination by management and controls over implementation; • An assessment of changes to the relevant information system, assessment of IFRS requirements to recognise the accounting estimate in the financial statements.

Impairment Assessment	
See Note 3d) to the financial statements The Company owns property, plant and equipment, which comprises the natural gas distribution network in Slovakia in the amount of EUR 4.1 billion (after the fair value remeasurement of gas pipelines). As at each reporting date, the Company makes an assessment 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 determining the 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 volumes that will be distributed in the future; • The discount rate specific to the assets owned by the Company; • Associated capital and operating expenditures. The above assumptions require management to make highly-subjective judgments regarding long-term periods.	Our audit procedures included, inter alia: • A discussion with senior management of the assessment of the existence of impairment indicators, management conclusion that there were no such indicators as at 31 July 2019; • An assessment of the assumptions and methods used by the Company when calculating the distribution network's value, mainly those relating to the discount rate and future revenue growth forecast; • An examination of the model's mathematical basis; • A retrospective review of the assumptions used in the model in the previous year; • An assessment as to whether available information regarding the outlook of the regulation regime to be applied in the future is adequately reflected in the model.
Fair Value Revaluation of Gas Pipelines	
See Note 3d) to the financial statements In the 2019 financial year, the gas pipelines are recognised in the balance sheet at a remeasured value representing their fair value as at the remeasurement date less potential subsequent accumulated depreciation and subsequent accumulated losses from permanent impairment. The first remeasurement was made as at 1 August 2018. The asset remeasurement was carried out by an independent expert. The revaluation surplus amounting to EUR 1 955 million was credited to the revaluation reserve as at 1 August 2018. The decrease in the net book value of the gas pipelines arising from the remeasurement was charged to profit and loss in the amount of EUR 39 million.	Our audit procedures included, inter alia: • A verification of the independence of the expert who prepared the expert opinion; • An assessment of the methods and assumptions used by the expert to determine the fair value of assets and a review of average prices used for the fair value calculation; • A review of the approach used by the expert to determine the remaining useful lives of assets; • An assessment of the mathematical correctness of the fair value calculation for gas pipelines; • A reconciliation of the completeness and accuracy of gas pipeline data provided to the expert for the remeasurement; • A reconciliation of the correctness of the calculation and recognition of the revaluation reserve as at 1 August 2018; • An evaluation of the correct assessment of tax impacts of the remeasurement; • An evaluation of the presentation of the remeasurement in the notes and its compliance with IFRS requirements.

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 by the Act on Accounting.

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

- Information disclosed in the annual report prepared for the year ended 31 July 2019 is consistent with the financial statements for the relevant year; and

- The annual report includes information pursuant to the Act on Accounting.

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

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 of the Auditor

We were appointed as the statutory auditor by the Company's General Meeting on 31 July 2019. 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 10 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 financial statements, we provided no other services to the Company and its controlled undertakings.

Bratislava, 6 September 2019

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

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

CONTENTS

SPP - distribúcia, a.s.
Statement of Financial Position
As at 31 July 2019 and 31 July 2018
(EUR '000)

	Note	31 July 2019	31 July 2018
ASSETS:			
NON-CURRENT ASSETS			
Property, plant and equipment	7	4 027 294	2 235 709
Non-current intangible assets and other assets	9	12 025	14 936
Investments in subsidiaries	8	1 000	1 000
Other non-current assets	8	405	-
Total non-current assets		4 040 724	2 251 645
CURRENT ASSETS			
Inventories	10	146 199	135 569
Cash and cash equivalents		111 468	45 625
Receivables and prepayments	11	289 449	236 038
Contract receivables, current	12	11 107	10 217
Tax assets	23	-	8 367
Other current assets	8	75	-
Total current assets		558 298	435 816
TOTAL ASSETS		**4 599 022**	**2 687 461**
EQUITY AND LIABILITIES:			
CAPITAL AND RESERVES			
Registered capital	17	1 200 000	1 200 000
Legal reserve fund and other funds	18	287 851	288 877
Revaluation reserve	18	1 409 193	-
Retained earnings	18	127 753	97 635
Total equity		3 024 797	1 586 512
NON-CURRENT LIABILITIES			
Loans and bonds	14	574 781	632 195
Contract liabilities, non-current	12	13 628	13 145
Deferred tax liability and deferred special levy	23	810 550	348 984
Deferred income	12	79	121
Retirement and other long-term employee benefits	13	5 491	5 131
Total non-current liabilities		1 404 529	999 576
CURRENT LIABILITIES			
Trade and other payables	16	70 548	60 715
Contract liabilities, current	12	35 411	34 718
Loans and bonds	14	56 417	1 419
Obligation under finance lease	15	-	4 417
Income tax	23	7 202	-
Retirement payments and other short-term employee benefits	13	118	104
Total current liabilities		169 696	101 373
Total liabilities		1 574 225	1 100 949
TOTAL EQUITY AND LIABILITIES		**4 599 022**	**2 687 461**

The financial statements on pages 6 to 39 were signed on 6 September 2019 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

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

(EUR '000)

	Note	***Year ended 31 July 2019***	***Period ended 31 July 2018***
REVENUES FROM SALES OF SERVICES:			
Natural gas distribution		400 088	231 581
Other revenues		22 951	18 072
Total revenues		423 039	249 653
OPERATING EXPENSES:			
Depreciation, amortisation and impairment losses on assets, net	7,9	(199 142)	(53 828)
Storage of natural gas and other services		(52 340)	(29 290)
Staff costs	19	(45 583)	(25 199)
Purchases of natural gas and consumables and services		(12 676)	(6 576)
Own work capitalised		10 598	5 458
Provisions and impairment losses, net		(240)	(155)
Provisions for receivables and inventories, net		(44)	(116)
Other, net	21	3 482	1 309
Total operating expenses		(295 945)	(108 397)
OPERATING PROFIT		127 094	141 256
Financial revenues		262	172
Financial costs	22	(18 052)	(10 563)
PROFIT BEFORE INCOME TAXES		109 304	130 865
INCOME TAX	23	(31 529)	(33 230)
NET PROFIT FOR THE PERIOD		**77 775**	**97 635**

(EUR '000)

	Year ended 31 July 2019	***Period ended 31 July 2018***
NET PROFIT FOR THE PERIOD	77 775	97 635
OTHER COMPREHENSIVE INCOME/(LOSS) (may be reclassified to profit or loss in the future):		
Hedging derivatives (cash flow hedging)	(1 028)	1 581
Change in actuarial assumptions	(270)	17
Deferred tax related to items of other comprehensive income for the period	273	(336)
OTHER COMPREHENSIVE INCOME/(LOSS) (can not be reclassified to profit or loss in the future):		
Increase in asset revaluation reserve	1 954 840	-
Deferred tax and deferred special levy related to other comprehensive income/(loss) for the period	(495 670)	-
OTHER NET COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	1 458 145	1 262
TOTAL NET COMPREHENSIVE INCOME FOR THE PERIOD	**1 535 920**	**98 897**

SPP - distribúcia, a.s.
Statement of Changes in Equity
For the reporting periods ended 31 July 2019 and 31 July 2018
(EUR '000)

	Registered capital	*Legal reserve fund*	*Other reserves*	*Hedging reserve*	*Revaluation reserve*	*Retained earnings*	*Total*
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**
Net profit for the period	-	-	-	-	-	77 775	77 775
Other net comprehensive income for the period	-	-	(213)	(812)	1 459 170	-	1 458 145
Dividends paid	-	-	-	-	-	(97 635)	(97 635)
Changes in the registered capital	-	-	-	-	-	-	-
Transfer to retained earnings	-	-	-	-	(49 978)	49 978	-
Balance at 31 July 2019	**1 200 000**	**291 484**	**(203)**	**(3 429)**	**1 409 192**	**127 753**	**3 024 797**

(EUR '000)

	Note	***Year ended 31 July 2019***	***Period ended 31 July 2018***
OPERATING ACTIVITIES			
Cash flows from operating activities	25	316 523	200 226
Interest paid		(13 629)	(13 409)
Interest received		244	236
Income tax paid		(49 792)	(41 155)
Net cash flows from operating activities		253 346	145 898
INVESTING ACTIVITIES			
Acquisition of property, plant and equipment		(20 146)	(7 148)
Proceeds from/repayments of borrowings received from the Group companies – cash pooling		(158 000)	(146 000)
Non-current borrowings provided		(480)	-
Proceeds from the sale of property, plant and equipment and intangible assets		548	55
Received dividends		-	-
Proceeds from the sale of long-term securities and shares in other entities		-	-
Net cash inflow/(outflow) from investing activities		(178 078)	(153 093)
FINANCING ACTIVITIES:			
Decrease in the legal reserve fund		-	-
(Repaid)/received bank loans and borrowings		(3 350)	-
Proceeds from issue of bonds		-	-
(Expenditures for)/proceeds from derivative transactions		(2 377)	(1 551)
Expenditures for the settlement of finance lease obligations		(3 698)	(264)
Paid dividends		-	-
Net cash flows from financing activities		(9 425)	(1 815)
NET (DECREASE)/INCREASE IN CASH		65 843	(9 010)
EFFECTS OF FOREIGN EXCHANGE FLUCTUATIONS			
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		45 625	54 635
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**111 468**	**45 625**

If necessary, the Company offsets the distribution of profit for the current period against a cash pooling receivable.

(EUR '000)

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 12-month reporting period ended 31 July 2019. The comparable period was a shortened 7-month reporting period ended 31 July 2018.

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.

The financial statements of SPP – distribúcia, a.s. for the shortened reporting period ended 31 July 2018 were approved by the Extraordinary General Meeting held on 28 September 2018.

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

1.2. Principal Activities

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

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

1.3. Employees

The average number of employees of SPP – distribúcia, a.s. for the year ended 31 July 2019 was 1 289, , of which executive management: 8 (for the 7-month period ended 31 July 2018: 1 289, of which executive management: 8).

As at 31 July 2019, the actual headcount was 1 294 (31 July 2018: 1 287).

1.4. Registered Address

Mlynské nivy 44/b
825 11 Bratislava
Slovak Republic

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

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:

- **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),

  The Company will start to apply IFRS 16 "Leases" in the annual period beginning on 1 August 2019. The Company calculated the estimated impact of the new standard as at 1 August 2019 as follows: the amount of assets recognised in the balance sheet as right-of-use assets is EUR 21 622 thousand and the amount of liabilities recognised in the balance sheet as a lease liability is EUR 21 809 thousand.

- 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),

- 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).

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 Company's financial statements 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 new interpretation, which were not endorsed for use in the EU as at the reporting date (effective dates stated below are for IFRS in full):

- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2021),
- Amendments to IFRS 3 "Business Combinations" – Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period),
- 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 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" – Definition of Material (effective for annual periods beginning on or after 1 January 2020),
- Amendments to References to the Conceptual Framework in IFRS Standards (effective for annual periods beginning on or after 1 January 2020).

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, except for the remeasurement of gas pipelines to their fair value. 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.

(EUR '000)

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

In the 2019 financial year, gas pipelines are recognised in the balance sheet at a remeasured value representing their fair value as at the remeasurement date less potential subsequent accumulated depreciation and subsequent accumulated losses from permanent impairment. The first remeasurement was made as at 1 August 2018. The remeasurement was prepared by an independent expert. Remeasurements will be performed on a regular basis so that the net book value does not differ significantly from the amount that would be recognised as at the balance sheet date using fair values. The remeasurement of gas pipelines is made on a prospective basis and has no impact on the previous reporting period.
An increase, if any, in the revaluation surplus arising from the remeasurement of gas pipelines is credited to revaluation reserves and reflects the amount that potentially cancels the decrease in the revaluation surplus for the same asset item originally recognised and reported in the income statement in the preceding period; in such a case the increase is credited to the income statement in the amount of the previously-recognised decrease. A decrease in the net book value resulting from the revaluation of gas pipelines is debited to profit and loss in an amount exceeding the balance, if any, of asset revaluation reserves related to the previous remeasurement of such an asset item. Depreciation of remeasured gas pipelines is recognised as an expense in the income statement. The revaluation reserves are gradually dissolved in retained earnings over the depreciation period of the related remeasured assets. In such a case, the amount of the transferred surplus corresponds to the difference between the depreciation charge calculated from the remeasured carrying amount of the assets and the depreciation charge calculated from the original cost of the assets. Upon the subsequent sale or disposal of remeasured assets, the relevant revaluation difference that remains in the revaluation reserves is transferred directly to retained earnings.

Other items of property, plant and equipment are recognised at historical cost less accumulated depreciation and accumulated impairment losses.

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 so as to amortise the assets to their estimated residual value over their remaining useful lives. The useful lives of property, plant and equipment and intangible assets are as follows:

Type of assets	***Useful life from 2019***	***Useful life until 2018***
Regulation stations	15 – 50 years	15 – 50 years
Gas pipelines	50 – 60 years	40 – 60 years
Structures	30 – 50 years	15 – 60 years
Machines, tools and equipment	4 – 40 years	4 – 40 years
Other non-current assets	4 – 15 years	3 – 8 years

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 provision for impairment of property, plant and equipment and intangible assets is recognised as described above. 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 2019 and 1 August 2018 (at the moment of gas pipelines remeasurement), the Company prepared an analysis of the expected value-in-use of assets based on which no impairment of property, plant and equipment and intangible 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 also as a contract liability recognised under non-current liabilities. The contract liability 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.

Non-current tangible assets received free of charge are recognised in the financial statements as a contract liability in accordance with IFRS 15 "Revenue from Contracts with Customers".

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.

<u>Impairment of Financial Assets</u>

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.

<u>Derecognition of Financial Assets</u>

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 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 21 984 thousand (for the period ended 31 July 2018: EUR 14 442 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 2018. 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

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.

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. The levy rate is reduced gradually so that the monthly levy rate amounts to 0.00545 in 2019 and in 2020; in 2021, the levy rate will be changed to 0.00363, ie to the original amount previously 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

When applying the Company's accounting procedures described in Note 3, the Company made the following decisions concerning uncertainties and estimates that have a significant impact on the amounts recognised in the financial statements. There is a significant risk of material adjustments in future reporting periods related to such matters in the following areas:

Revaluation of property, plant and equipment

As at 1 August 2018, the Company applied the revaluation model under IAS 16 "Property, Plant and Equipment" for gas pipelines. This asset category includes gas pipelines and gas connections owned by the Company that are used for natural gas transit.

The Company chose this model as it believes that as a result, the financial statements will provide more reliable and relevant information about the Company's non-current assets used for natural gas transit.

The remeasurement of these assets was recognised without an impact on previous reporting periods. This remeasurement resulted in an increase in the amount of gas pipelines by EUR 1 954 440 thousand and an increase in the deferred tax liability by EUR 495 669 thousand, and in the creation of revaluation reserves in equity, as well as in a decrease in the amount of gas pipelines by EUR 38 959 thousand recognised in the Income Statement line Depreciation, amortisation and impairment losses on assets, net.

The remeasurement of the Company's assets was performed by an independent expert using the cost method. When determining the fair value of individual items of assets using the cost method, the physical wear and tear of the assets and their technological and economic obsolescence were taken into account.

The remeasurement of gas pipelines resulted in an increase in the amount of assets and in equity. The assumptions used in the revaluation model are based on the independent expert's reports. The resulting reported amounts of such assets and the related asset revaluation surplus do not necessarily represent amounts for which the assets could be or will be sold. Based on the independent expert's opinion, the Company also reassessed the economic useful lives of property, plant and equipment. The assessment of the economic useful lives requires a technical expert's opinion.

There are uncertainties related to future economic conditions, changes in technology and the business environment in the industry, which may lead to future adjustments of the estimated remeasured values and useful lives of assets that will significantly change the reported financial position, equity and profit.

Estimated useful lives

The estimated useful lives of non-current asset items is subject to Company management's judgment, based on its experience with similar assets. When determining the useful lives of assets, Company management takes into account their expected use based on estimates of use, estimated technical obsolescence, physical wear and tear and physical environment where the assets are operated. Changes to any of such conditions or estimates may result in the adjustments of future depreciation rates.

As of 1 August 2018, the Company reassessed the useful lives of property, plant and equipment based on an independent expert's opinion. Changes to the estimates of the remaining useful lives are reflected on a prospective basis.

See Note 7 for more details. The useful lives of non-current assets are based on accounting estimates, which are specified in Note 3 (d), and their carrying amounts as at 31 July 2018 and 31 July 2019 are presented in Note 7 and Note 8. A change to the useful lives of non-current assets by 10 years would have an impact on the depreciation charge in the amount of EUR 54 million.

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 2019. The Company recognised no significant financial assets and liabilities denominated in a foreign currency as at 31 July 2018.

Sensitivity to foreign exchange changes

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

(2) Commodity price volatility risk

The Company has entered into contracts for natural gas storage and natural gas purchases to cover losses in the distribution network. The contract for natural gas storage is concluded for 30 years and is at a fixed price. Natural gas purchase prices to cover losses are subject to tender for one year in advance. Currently, a fixed unit price for natural gas purchases is agreed for 2019; 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 2019, the Company recognised two loans received from banks with a face value of EUR 76.65 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.

(EUR '000)

The table below summarises the maturity of the financial liabilities as at 31 July 2019 and 31 July 2018, based on contractual undiscounted payments:

As at 31 July 2019	*On demand*	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*> 5 years*	*Total*
Bonds	-	-	13 125	513 125	-	526 250
Loans	-	88	55 220	1 822	77 032	134 162
Trade and other payables	-	90 399	-	-	-	90 399

As at 31 July 2018	*On demand*	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*> 5 years*	*Total*
Bonds	-	-	13 125	526 250	-	539 375
Loans	-	225	675	57 300	80 708	138 908
Trade and other payables	-	82 216	-	-	-	82 216
Obligations under finance lease	-	-	4 417	-	-	4 417

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 2019 was 17% (31 July 2018: 37%).

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

	31 July 2019	*31 July 2018*
Debt (i)	631 198	638 031
Cash and cash equivalents	111 468	45 625
Net debt	519 730	592 406
Equity (ii)	3 024 797	1 586 512
Net debt to equity ratio	**17%**	**37%**

(i) Debt is defined as long- and short-term borrowings and finance lease.
(ii) Page 6

The Company's indebtedness did not exceed the threshold defined in the Company's Articles of Association.

c) Categories of financial instruments

	31 July 2019	*31 July 2018*
Financial assets		
Loans and receivables (including cash and cash equivalents)	412 024	291 880
Financial liabilities		
Financial liabilities carried at amortised costs	721 597	720 213
Financial derivatives recognised as hedges	6 654	4 605

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 2019, 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 2019 and 31 July 2018 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.

(EUR '000)

7. PROPERTY, PLANT AND EQUIPMENT

	Regulation stations	*Gas pipelines*	*Other gas facilities*	*Land, buildings and structures*	*Plant, machinery and equipment*	*Other non-current tangible assets*	*Assets in the course of construction*	*Total*
7-month period ended 31 July 2018								
Opening net book value	90 672	2 097 225	70 029	543	4 771	110	12 001	2 275 351
Additions	11	553	-	-	36	-	12 045	12 645
Placed into service	95	4 823	541	-	727	13	(6 205)	(6)
Disposals	-	(95)	-	-	(2)	-	(1)	(98)
Depreciation charge	(4 372)	(44 922)	(1 165)	(8)	(1 563)	(16)	-	(52 046)
Change in provisions	(23)	(116)	-	-	(12)	-	14	(137)
Closing net book value	**86 383**	**2 057 468**	**69 405**	**535**	**3 957**	**107**	**17 854**	**2 235 709**
Balance as at 31 July 2018								
Cost	174 613	2 771 101	161 397	625	28 625	977	18 825	3 156 163
Accumulated depreciation and provisions	(88 230)	(805 625)	(91 992)	(90)	(24 668)	(870)	(971)	(920 454)
Net book value	**86 383**	**2 057 468**	**69 405**	**535**	**3 957**	**107**	**17 854**	**2 235 709**
Year ended 31 December 2019								
Opening net book value	**86 383**	**2 057 468**	69 405	**535**	**3 957**	**107**	**17 854**	**2 235 709**
Asset revaluation through revaluation reserve		1 954 840	-					1 954 840
Asset revaluation through profit and loss		(38 959)	-					(38 959)
Additions	-	1 012	-	-	-	-	32 306	33 318
Placed into service	657	24 555	1 186	13	860	3	(27 279)	(5)
Disposals	(48)	(25)	-	-	(202)	(9)	-	(284)
Depreciation charge	(7 366)	(145 998)	(1 291)	(19)	(2 365)	(51)	-	(157 090)
Change in provisions	(49)	(244)	-	-	(16)	-	74	(235)
Closing net book value	**79 577**	**3 852 649**	**69 300**	**529**	**2 234**	**50**	**22 955**	**4 027 294**
Balance as at 31 July 2019								
Cost	174 967	3 995 113	159 433	621	27 400	886	23 853	4 382 273
Accumulated depreciation and provisions	(95 390)	(142 464)	(90 133)	(92)	(25 166)	(836)	(898)	(354 979)
Net book value	**79 577**	**3 852 649**	**69 300**	**529**	**2 234**	**50**	**22 955**	**4 027 294**

As at 1 August 2018, the Company applied the revaluation model under IAS 16 "Property, Plant and Equipment" for gas pipelines. This category of assets includes gas pipelines and gas connections owned by the Company, which are used for natural gas transit. As a result, the presentation has changed and the category "Gas Pipelines" includes only gas pipelines and gas connections owned by the Company also in the comparable period.

(EUR '000)

As at 31 July 2019, the Company used assets in the course of construction at a cost of EUR 39 067 thousand (31 July 2018: EUR 31 867 thousand). A depreciation charge of EUR 1 081 thousand was recorded in 2019 in respect of these assets.

In 2015, the Company acquired hardware and software under a finance lease. The hardware has a zero net book value as at 31 July 2019 (31 July 2018: EUR 1 616 thousand).

Revaluation of non-current assets for natural gas transit:

The remeasurement of the Company's assets was performed by an independent expert using a cost method. When determining the fair value of individual items of the assets using the cost method, the physical wear and tear of the assets and their technological and economic obsolescence were taken into account.

As at 1 August 2019 and 31 July 2019, the Company assessed the amount of assets using the discounted cash flow method; no impairment was identified.

For more information see Note 4.

Insurance of assets:

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

Insured object	***Type of insurance***	***Cost of insured assets 2019***	***Cost of insured assets 2018***	***Name and seat of the insurance company***
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	215 383	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 2019, amounts to EUR 43 652 thousand (31 December 2018: EUR 138 519 thousand).

8. INVESTMENTS IN SUBSIDIARIES AND OTHER ASSETS

At 31 July 2019	***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.

Information on the subsidiaries of SPP – distribúcia as at 31 July 2019 can be summarised as follows:

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

(EUR '000)

Additional information on the subsidiaries:

Business name and seat of the entity	*Equity* 2019	2018	*Profit/loss* 2019	2018
SPP – distribúcia Servis, s.r.o. Seat: Mlynské Nivy 44/b, Bratislava	385	962	(577)	(69)

Profit/(loss) represents an estimate for the 7-month period of 2019 as the final financial statements of the subsidiary were not available to SPP – distribúcia, a.s. (parent company) as at the reporting date. The 2018 profit/(loss) represents the final information from the financial statements of the subsidiary.

Other non-current and current assets

Other non-current and current assets comprise a loan provided to Plynárenská Metrológia, a.s., (fellow subsidiary). The loan was provided on 24 August 2018 in the amount of EUR 480 thousand with an interest rate of 2.23%. The loan falls due on 24 August 2025.

9. NON-CURRENT INTANGIBLE ASSETS AND OTHER ASSETS

	Software	*Other non-current intangible assets*	*Assets in the course of construction*	*Total*
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**
Year ended 31 July 2019				
Initial net book value	4 207	10 674	55	14 936
Additions	-	-	178	178
Placed into service	115	45	(155)	5
Disposals	-	-	-	-
Amortisation	(2 845)	(249)	-	(3 094)
Change of provisions	-	-	-	-
Closing net book value	**1 477**	**10 470**	**78**	**12 025**
At 31 July 2019				
Cost	11 801	14 686	78	26 565
Provision and impairment loss	(10 324)	(4 216)	-	(14 540)
Net book value	**1 477**	**10 470**	**78**	**12 025**

In 2015 and 2016, the Company acquired hardware and software under a finance lease (Note 15). The software has a zero net book value as at 31 July 2019 (31 July 2018: EUR 3 056 thousand).

(EUR '000)

10. INVENTORIES

	31 July 2019	*31 July 2018*
Natural gas	145 267	134 650
Raw materials and other inventories	991	989
Provision	(59)	(70)
Total	**146 199**	**135 569**

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 2019, provisions were reversed in the amount of EUR 17 thousand (31 July 2018: EUR 4 thousand).

The Company created provisions for slow-moving inventories of raw materials amounting to EUR 6 thousand (31 July 2018: EUR 17 thousand).

11. RECEIVABLES AND PREPAYMENTS

	31 July 2019	*31 July 2018*
Prepayments and other receivables	5 864	12 844
Cash pooling receivables	283 585	223 194
Total	**289 449**	**236 038**

Receivables fall due as follows

	31 July 2019	*31 July 2018*
Within one year	289 449	236 038
From 1 year to 2 years	-	-
From 2 to 5 years	-	-
More than 5 years	-	-
Total receivables	**289 449**	**236 038**

As at 31 July 2019, the Company recorded receivables within maturity and overdue receivables amounting to EUR 289 263 thousand and EUR 769 thousand, respectively. In the comparable period, ie as at 31 July 2018, the Company recorded receivables within maturity and overdue receivables amounting to EUR 235 959 thousand and EUR 929 thousand, respectively. As at 31 July 2019, receivables and prepayments are recognised net of provisions for bad and doubtful debts in the amount of EUR 583 thousand (31 July 2018: EUR 544 thousand).

Movements in the provision for receivables were as follows:

	31 July 2019	*31 July 2018*
Opening value	(544)	(740)
Creation	(94)	(132)
Use	15	328
Reversal	40	-
Closing value	**(583)**	**(544)**

Collateralisation of receivables

Several bank guarantees totalling EUR 35 966 thousand (31 July 2018: EUR 32 560 thousand) were established to secure the Company's receivables from natural gas distribution. In addition, financial funds in the amount of EUR 5 855 thousand (31 July 2018: EUR 7 211 thousand) were deposited in the Company's bank account.

Ageing structure of overdue receivables:

	31 July 2019	*31 July 2018*
Less than 2 months	44	66
2 to 3 months	7	7
3 to 6 months	21	10
6 to 9 months	54	13
9 to 12 months	19	3
More than 12 months	624	524
Total	**769**	**623**

(EUR '000)

12. CONTRACT RECEIVABLES AND LIABILITIES

Contract liabilities, non-current

	31 July 2019	*31 July 2018*
Opening balance, net	13 145	12 382
Assets acquired during the reporting period	1 014	593
Amortisation during the reporting period	(531)	(280)
Closing balance, net	**13 628**	**13 145**

Some gas facilities were obtained "free of charge" from municipal and local authorities. A contract liability from assets acquired free of charge is recognised in the income statement on a straight-line basis in the amount of depreciation charges over the useful life of assets.

Contract liabilities, current

	31 July 2019	*31 July 2018*
Contract liabilities	35 411	34 718
Total	**35 411**	**34 718**

Contract liabilities comprise advance payments received for distribution services that will be charged against revenues from provided services over the following 12 months.

Contract receivables, current

	31 July 2019	*31 July 2018*
Contract receivables	11 107	10 217
Total	**11 107**	**10 217**

Contract receivables comprise receivables from distribution activities.

13. RETIREMENT AND OTHER LONG-TERM EMPLOYEE BENEFITS

The long-term employee benefits programme at the Company was launched in 2006. This is a defined benefit programme, 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 2017, Amendment No. 2 to the Collective Agreement was signed; it is valid for 2018 and 2019 and stipulates that employees are entitled to a retirement benefit based on the number of years worked with the Company at their retirement. Under the Collective Agreement, the retirement benefits range from three to five times the employee's average salary. As at 31 July 2019 and 31 July 2018, the obligation relating to retirement and other long-term employee benefits was calculated on the basis of valid collective agreement.

As at 31 July 2019, there were 1 294 (31 July 2018: 1 287) employees covered by this programme. As of that date, it was an un-funded programme, with no separately allocated assets to cover the programme's liabilities.

Movements in the net liability recognised in the balance sheet for the year ended 31 July 2019 are as follows:

	Long-term benefits	*Post-employment benefits*	*Total benefits at 31 July 2019*	*Total benefits at 31 July 2018*
Net liability at 1 August	1 096	4 139	5 235	5 228
Net expense recognised	91	178	269	100
Change in actuarial assumptions	-	270	270	(17)
Benefits paid	(56)	(109)	(165)	(77)
Net liabilities	**1 131**	**4 478**	**5 609**	**5 235**

(EUR '000)

	Current liabilities (included in other current liabilities)	*Non-current liabilities*	*Total*
At 31 July 2019	118	5 491	5 609
At 31 July 2018	104	5 131	5 235

Key assumptions used in actuarial valuation:

	At 31 July 2019	*At 31 July 2018*
Market yield on government bonds	0.189 %	1.023%
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

Method for Calculating the Retirement Age

Until 31 December 2018, the retirement age was calculated annually based on the development of average life expectancy for men and women as determined by the Statistical Office of the Slovak Republic.

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's data.

The method of determining the retirement age changed with effect from 1 January 2019. The retirement age is determined in years and calendar months and is known five years in advance. The retirement age of insured persons born in the same calendar year is identical.

For 2019, the retirement age is 62 years and 6 months.

14. LOANS AND BONDS

	31 July 2019 Unsecured	*31 July 2018 Unsecured*
Loans	131 682	135 034
Bonds	499 516	498 580
Total	**631 198**	**633 614**
Loans by currency		
EUR		
– with a fixed interest rate	499 516	498 580
– with a floating interest rate	131 682	135 034
Total loans	**631 198**	**633 614**
Loans are due as follows:		
Within one year	56 417	1 419
From 1 to 2 years	-	-
From 2 to 5 years	498 131	552 195
More than 5 years	76 650	80 000
Total loans	**631 198**	**633 614**

As at 31 December 2018 and 31 July 2019, the Company drew the following loans:

A short-term loan denominated in EUR in the amount of EUR 55 million and a long-term loan in the amount of EUR 76.65 million fall due in 2020 and 2024, respectively. In the 2019 financial year, the Company repaid a portion of the principal amounting to EUR 3.35 million. The interest rate of both loans consists of a variable portion (3M EURIBOR) and a fixed margin (% p.a.). The loans are not secured by assets.

On 25 September 2018, the Company signed a new loan agreement in the amount of EUR 60 million with an interest rate consisting of a variable portion (3M EURIBOR) and a fixed margin (% p.a.). The loan was undrawn as at 31 July 2019.

(EUR '000)

The average interest rate of the loans drawn as at 31 July 2019 was 0.351% (31 July 2018: 0.339%).

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 2019	***31 July 2018***	***31 July 2019***	***31 July 2018***
Loans	131 682	135 034	131 650	135 000
Bonds	499 516	498 580	500 000	500 000
Total	**631 198**	**633 614**	**631 650**	**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, except for the above loan.

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.

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 2019, 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 expired in 2019 and did 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.

(EUR '000)

Obligation under long-term finance lease:

Maturity	*Present Value of Minimum Lease Payments* 31 July 2019	31 July 2018
Less than 1 year	-	4 417
1 – 5 years	-	-
More than 5 years	-	-
Total	**-**	**4 417**

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 2019	*31 July 2018*	*31 July 2019*	*31 July 2018*
Obligation under finance lease	-	4 417	-	4 439
Total	**-**	**4 417**	**-**	**4 439**

16. TRADE AND OTHER PAYABLES

	31 July 2019	*31 July 2018*
Trade payables	25 175	33 545
Trade payables for gas purchases	23 563	6 369
Employee liabilities	5 824	5 606
Social security and other taxes	3 082	3 006
Payables from financial derivatives	6 654	4 605
Other payables	6 250	7 584
Total	**70 548**	**60 715**

As at 31 July 2019, the Company recorded payables within maturity in the amount of EUR 70 548 thousand; no overdue payables were recognised. As at 31 July 2018, the Company recorded payables within maturity in the amount of EUR 60 715 thousand; no overdue payables were recognised.

Social fund payables:

	Amount
Opening balance as at 1 August 2018	161
Total creation:	397
from expenses	*397*
non-mandatory allotment	-
other	-
Total drawing:	(382)
monetary rewards and gifts	*(94)*
benefit in material deprivation	-
work jubilee benefits	*(56)*
catering allowance	*(102)*
other drawing as per CA	*(130)*
Closing balance as at 31 July 2019	**176**

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 (2018: EUR 33 thousand).

(EUR '000)

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, OTHER FUNDS 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.

Legal Reserve Fund
The legal reserve fund in the amount of EUR 291 484 thousand (31 July 2018: 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.

Revaluation Reserves
Asset revaluation reserves are not immediately available for distribution to the Company's shareholders. Some revaluation reserves are reclassified to retained earnings based on differences between the depreciation charges for remeasured amounts and original costs of assets. Revaluation reserves are also reclassified to retained earnings upon the sale, contribution of a part of a business, or upon the disposal of assets. Such transfers to retained earnings are distributable.

Other Funds and Retained Earnings
Other funds and reserves in equity are not distributable to the Company's shareholders.

Distribution of profit:

Allotment	***Profit allotment for 2018***	***Profit allotment for 2017***
To cover losses from previous years	-	-
Dividends	97 635	153 256
Total profit to be distributed	**97 635**	**153 256**

19. STAFF COSTS

	Year ended 31 July 2019	***7-month period ended 31 July 2018***
Wages, salaries and bonuses	31 639	17 625
Social security costs	11 190	6 082
Other social security costs and severance pay	2 754	1 492
Total staff costs	**45 583**	**25 199**

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

	Year ended 31 July 2019	***7-month period ended 31 July 2018***
Audit of financial statements	65	15
Tax advisory services	-	-
Other	10	14
Total	**75**	**29**

(EUR '000)

21. OTHER REVENUES AND EXPENSES

	Year ended 31 July 2019	*7-month period ended 31 July 2018*
Unauthorised natural gas consumption	2 422	1 113
Other taxes and charges	(349)	(219)
Donated assets	529	222
Profit/(loss) from the sale of raw materials	33	8
Profit/(loss) from the sale of assets	264	(25)
Other	583	210
Total	**3 482**	**1 309**

22. FINANCIAL EXPENSE

	Year ended 31 July 2019	*7-month period ended 31 July 2018*
Interest expense	17 971	10 522
Other	81	41
Total financial expense/(income)	**18 052**	**10 563**

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

23. TAXATION

23.1. Income Tax

Income tax comprises the following:

	Year ended 31 July 2019	*7-month period ended 31 July 2018*
Current tax related to the current year	46 912	22 519
Refunds and additional assessments of income tax	-	310
Special levy	18 447	6 700
Deferred special levy (Note 23. 2)	(4 688)	207
Deferred income tax (Note 23.2)		
- Current year	(29 142)	3 494
Total	**31 529**	**33 230**

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

	Year ended 31 July 2019	*7-month period ended 31 July 2018*
Profit before taxation	109 304	130 865
Income tax at 21%	22 954	27 482
Effect of adjustments from permanent differences between carrying amount and tax value of assets and liabilities	(5 185)	(1 469)
Refunds and additional assessments of income tax	-	310
Special levy on business in regulated industries	13 760	6 907
Income tax for the current year	**31 529**	**33 230**

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).*

(EUR '000)

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 August 2018	*(Charge)/Credit to other comprehensive income/loss*	*(Charge)/Credit to profit for the current period*	*At 31 July 2019*
Difference in NBV of non-current assets	(355 351)		8 245	(347 106)
Remeasurement of non-current assets	-	(410 516)	22 242	(388 274)
Items adjusting tax base only when paid	333		76	409
Provisions for receivables	24		11	35
Impairment loss	1 500		(1 000)	500
Provision for bonuses	810		7	817
Provision for employee benefits	1 101		22	1 123
Hedging derivative instruments	696	216		912
Change in actuarial assumptions	(2)	57		55
Effect of deferred tax on special levy	1 224	(85 153)	4 688	(79 241)
Other	681		(461)	220
Total	**(348 984)**	**(495 396)**	**33 830**	**(810 550)**

	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)
Effect of deferred tax on special levy	1 432	-	(208)	1 224
Other	995	-	(314)	681
Total	**(344 948)**	**(334)**	**(3 702)**	**(348 984)**

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:

	31 July 2019	*31 July 2018*
Deferred tax liability (Note 23.2)	(731 309)	(350 208)
Deferred special levy	(79 241)	1 224
Total	**(810 550)**	**(348 984)**

(EUR '000)

24. TAX EFFECTS IN THE STATEMENT OF OTHER COMPREHENSIVE INCOME

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

31 July 2019	***Before tax***	***Tax***	***After tax***
Revaluation reserve	1 887 886	(396 456)	1 491 430
Change in actuarial assumptions	(257)	54	(203)
Cash flow hedging	(4 342)	912	(3 430)
Other comprehensive loss for the period	**1 883 287**	**(395 490)**	**1 487 797**

31 July 2018	***Before tax***	***Tax***	***After tax***
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)**

25. CASH FLOWS FROM OPERATING ACTIVITIES

	Year ended 31 July 2019	***7-month period ended 31 July 2018***
Profit before tax	109 304	130 865
Adjustments:		
Depreciation, amortisation and impairment losses on assets, net	199 142	53 828
Interest income, net	17 784	10 388
Reserves, provisions and other non-cash items	254	120
Loss/(profit) from the sale of non-current assets	(264)	25
Income on non-current financial assets	6 065	(2 381)
(Increase)/decrease in receivables and prepayments	(10 693)	5 049
(Increase)/decrease in inventories	(5 144)	2 332
Other items not included in non-cash transactions	75	-
Cash flows from operating activities	**316 523**	**200 226**

26. COMMITMENTS AND CONTINGENCIES

Capital Expenditure Commitments

As at 31 July 2019, capital expenditures of EUR 6 673 thousand (31 July 2018: EUR 7 617 thousand) had been committed under contractual arrangements for the acquisition of non-current assets, but were not recognised in the financial statements.

Operating Lease Arrangements

The Company leases means of transport under a framework operating lease contract concluded in 2010. The framework contract (as per the relevant amendment) is made for four years and the Company has no pre-emptive right to purchase the assets after the expiry of the lease term. The lease payments amounted to EUR 3 479 thousand in the reporting period ended 31 July 2019 (31 July 2018: EUR 1 896 thousand).

From 1 August 2019, the Company will apply the new IFRS 16 "Leases", under which it will recognise the lease of cars and buildings as a finance lease. The effect of the new standard is described in Note 2.

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.

(EUR '000)

27. RELATED PARTY TRANSACTIONS

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

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

	Year ended 31 July 2019				*31 July 2019*	
	Revenues	***Expenses***	***Dividends***	***Other***	***Receivables***	***Payables***
SPP, a.s.	263 250	9 555	-	-	817	36 677
SPP Infrastructure, a.s.	302	44	97 635	-	283 585	-
Other related parties	10 023	34 396	-	24 043	682	27 787
Total	**273 575**	**43 995**	**97 635**	**24 043**	**285 084**	**64 464**

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.

	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**

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.

(EUR '000)

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

	Year ended 31 July 2019	***7-month period ended 31 July 2018***
Remuneration to members of the Board of Directors, Supervisory Board, executive management and former members of the bodies - total	1 704	1 158
Of which:		
Board of Directors and executive management	*1 631*	*1 112*
Supervisory Board	*73*	*46*
Benefits after termination of employment to members of the Board of Directors, Supervisory Board, executive management and former members of the bodies – total	-	-
Of which:		
Board of Directors and executive management	-	-
Other long-term benefits to members of the Board of Directors, Supervisory Board, executive management and former members of the bodies – total	-	-
Of which:		
Board of Directors and executive management	-	-
Benefits after termination of employment to members of the Board of Directors, Supervisory Board, executive management and former members of the bodies – total	-	-
In-kind benefits to members of the Board of Directors and executive management – total	71	45
Of which:	71	
Board of Directors and executive management		*45*
Supervisory Board		-
Other payments to members of the Board of Directors, Supervisory Board, executive management and former members - total	19	9
Of which:		
Board of Directors and executive management	*19*	*9*
Supervisory Board	-	-

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

a) Members of the Company's bodies

Body	***Function***	***Name***
Board of Directors	Chairman	Ing. František Čupr, MBA
	Vice-Chairman	Ing. Štefan Šebesta
	Member	Ing. František Urbaník, PhD.
	Member	Mgr. Ing. 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
	Member	Pavol Korienek
Executive management	General Director	Ing. Martin Hollý
	Director of the Economy and Regulation	Ing. Roman Filipoiu
	Director of the Network Operation and Asset Management	Ing. Rastislav Prelec
	Director of Investments	Ing. Irenej Denkocy, ACCA
	Director of Maintenance and Measurement	Ing. Miroslav Horváth
	Director of Distribution Services	Ing. Marek Paál
	Director of Human Resources, Quality, Health and Safety at Work, and Environment	Mgr. Ing. František Kajánek
	Director of Internal Supervision	
	Director of Internal Supervision	Mgr. Karin Jaššová, PhD.

b) b) Consolidated financial statements

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

(EUR '000)

The Company applied an exemption set out in IFRS 10 paragraph 10.28 and did not prepare consolidated financial statements as at 31 July 2019. Consolidated financial statements presented in accordance with the International Financial Reporting Standards will be prepared by SPP Infrastructure, a.s. with its seat at Mlynské nivy 44/a, 825 11 Bratislava (address of the court of record: District Court Bratislava 1, Záhradnícka 10, 812 44 Bratislava).

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

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

To obtain full information about the financial position, financial performance and cash flow of the Group as a whole by the users of these separate financial statements, the separate financial statements should be read and understood in the context of the information disclosed in the consolidated financial statements presented as at 31 December 2018 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 2019, there were no other significant events that would require adjustments to or disclosure in the financial statements.

Prepared on:	***Signature of a member of the statutory body of the reporting entity or a natural person acting as a reporting entity:***	***Signature of the person responsible for the preparation of the financial statements:***	***Signature of the person responsible for bookkeeping:***
6 September 2019			
Approved on:	Ing. František Čupr, MBA Chairman of the Board of Directors	Ing. Roman Filipoiu	Ing. Peter Duračka
	Ing. Pavol Mertus Member of the Board of Directors		

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