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 2020

AND

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

Annual Report of SPP - distribúcia, a. s. for the period 1 August 2019 - 31 July 2020

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FOREWORD FROM THE COMPANY MANAGEMENT

Dear Shareholders,

Dear Colleagues,

We present to you this annual report that summarizes the results of our activities and project implementation from 1 August 2019 to 31 July 2020, which can comprehensively be considered successful. In comparison with the previous accounting period, the volume of gas distributed was approximately at the same level. In the previous years, the already traditional moderate winters caused lower gas distribution during heating periods; however, the cold weather started with some delay in March 2020, which contributed to good results and increased consumption. The crisis connected with the spread of the new coronavirus contributed to a slightly higher volume of natural gas consumption in the segment of Households in the first half of 2020, when most inhabitants stayed at home in order to mitigate the pandemic. The connection of the "corona-crisis" with the unexpected drop in temperature at the beginning of spring meant an increase in natural gas consumption and, as regards total distributed volume, compensation for a warmer winter.

The situation connected with the pandemic verified the reliability and professionalism of our company. Natural gas distribution is among the critical infrastructure elements and must constantly be prepared for various types of risks. Thanks to our action plans for the continuous reduction of risks affecting company operation, we adopted preventive measures within ample time and defined procedures should the company experience an increase in the number of people with COVID-19 or employee unavailability, either due to potential hospitalization or quarantine. Our experience in efficient risk management performance at all levels of the company's organizational structure provided us with a timely reaction to the pandemic situation and we proved to be ready to manage various crisis situations. Thanks to the flexibility of our employees and to the deployed IT instruments which allowed us to manage our work remotely, we were able to effectively adapt our performance to this extraordinary situation. For example, we postponed meter replacement in residential houses and delayed renovations including assembly activities in favour of corrective maintenance. However, the loyalty of our employees and their responsibility to our mission should be especially highlighted.

In an effort to stabilise the level of operating expenses, we further optimised our operating activities, in particular by increasing work productivity in maintenance and procurement. The condition of distribution network safety and reliability can also be considered a success. Our company met all the monitored quality standards in the previous period. Thanks to the responsible work of our employees, we prepared the distribution network in such a way as to be able to provide a safe and reliable natural gas supply to our business partners even in the following period. The implementation of all measures proves that the company is able to provide continuous and reliable gas distribution to all households in the Slovak Republic, even in the event of an emergency situation.

We declared our sense of perspective and innovative approach in the area of distribution network operation by launching the H2PILOT project, focused on the verification of our knowledge of hydrogen blending in the distributed natural gas. Within the project, we decided to carry out a series of laboratory tests to identify the possibilities and limitations of our infrastructure in the distribution of hydrogen as an energy carrier in the future.

In the previous period, we continued to support natural gas in the media as an eco-friendly heating medium through the "Natural Gas is 3E" campaign. It remains a key message that natural gas in combination with renewable energy sources can be an effective and cheap solution in the fight against climate change and the effort to improve air quality, playing a key role in the transfer to low-carbon energy in compliance with the "Value for Money" principle.

In the context of new European legislation, several changes can be expected in the near future which will affect our company's activities, and the company will have to respond to them. As regards this, we are closely monitoring the new government's presented intentions and actively participating in the initiatives of the Ministry of Economy of the Slovak Republic or the Regulatory Office of Network Industries with the objective to defend the significance and strategic position of natural gas in the energy mix of the Slovak Republic. It is because we are convinced that natural gas can play a key role in the efficient transition to a low-carbon economy thanks to its undeniable positive features.

We are also increasing the attractiveness of natural gas by constantly improving customer service. Our web applications enjoy ever-increasing interest. We are glad to be able to announce increasing interest in our on-line services. Today, they are used by almost four-fifths of customers connected to the distribution network.

In our company's history, our employees have always proved their ability to respond flexibly to energy market changes and efficiently manage crisis situations. Thanks also to their efforts and professionalism, our company is today able to efficiently create value for its customers, business partners and shareholders, and it deserves to be among the most reliable entities on the Slovak energy market.

Ing. František Čupr, MBA

Ing. Pavol Mertus

Ing. Martin Hollý

COMPANY

COMPANY PROFILE

The company SPP - distribúcia, a. s., as the owner and operator of a gas distribution network of more than 33,000 km, provides natural gas distribution in the territory of the Slovak Republic to more than 1,5 million points of delivery. The volume of such distributed gas accounts for about 98 % of the total natural gas volume distributed in the Slovak Republic for more than 94 % of the Slovak population with access to natural gas.

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

SPP - distribúcia considers a continuous natural gas supply as one of the strategic pillars for maintaining the energy security of the Slovak Republic; therefore, increased attention is paid to it by the company. Furthermore, the company concentrates on the consistent implementation of quality standards and a number of other legislative requirements. SPP - distribúcia is a responsible guarantor of a strategic gas supply for household customers. The company also performs dispatching control and monitoring of the gas distribution system, including its physical balancing.

SPP - distribúcia actively supports the development of an open gas environment through its activities. The company aspires to be a stable and efficient provider of professional services for 31 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 JULY 2020

Ing. František Čupr, MBA

Chairman of the Board of Directors

František Čupr graduated from the Faculty of Business and Economy of Mendel Agricultural and Forestry University Brno with a Masters of Business Administration (MBA) in 2006. After graduating, he worked for seven years with Jihomoravská energetika, a. s., in Brno, in various managerial positions, including Deputy Director of the Sales Division and Strategy Director. In 2005, he started to work for the J&T Investment Group, dealing with energy projects. In the same year, he founded a company trading in electricity and natural gas, EP Energy Trading, a. s. (former United Energy Trading, a. s.), where he executed the function of Chairman of the Board of Directors and CEO until 2012. In the period of 2006 - 2010, he was a member of the Supervisory Board of Pražská energetika, a. s. From 2009 - 2013, he operated as a member of the Supervisory Board of Pražská teplárenská, a. s. In 2013, he became Chairman of the Board of Directors of Stredoslovenská energetika - distribúcia, a. s. Since 24 January 2013, he has held the position of Chairman of the Board of Directors of SPP - distribúcia, a. s.

Ing. Štefan Šebesta

Vice-Chairman of the Board of Directors

Štefan Šebesta completed studies in the Management of Industry and Food Enterprises at the Faculty of Chemical and Food Technology of the Slovak University of Technology in Bratislava in 1993. He began his career in 1991 as Communications Manager in Solid, a. s. In the period of 1992 - 1994, he worked for the investment company DIVIDEND, a. s., in the position of Communication Manager and at the same time as Portfolio Manager. He was appointed Chairman of the Supervisory Board of Záhorácke pekárne and cukrárne, a. s. in 1995. In the years 1994 to 1998 he worked in the polygraphic company DEAL, s. r. o. He was a manager at DEAL & PRINT, s. r. o., between 1998 and 2006. In the years 2006 and 2007 he was Director of the Investment and Acquisitions Office at the Ministry of Defence of the Slovak Republic. He became a Member of the Supervisory Board of Vojenský opravárenský podnik, a. s. in Trenčín in 2007. Since August 2007 he has been the Executive of Cleanlife, s. r. o., and at the same time of DEAL & PRINT, s. r. o. He became Vice-Chairman of the Board of Directors of SPP - distribúcia, a. s. on 12 July 2012.

Ing. František Urbaník

Member of the Board of Directors

František Urbaník graduated from the Faculty of Electrical Engineering of the Brno University of Technology. He obtained his PhD at the VŠB - Technical University of Ostrava, Faculty of Mining and Geology. He started his professional career Vlárské 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 Stredoslovenská energetika - distribúcia, a. s.

Ing. Pavol Mertus

Member of the Board of Directors

In 1987, Pavol Mertus graduated from the Faculty of Mining of the Technical University in Košice and subsequently, he completed his postgraduate studies in economics and management of mining industry. Until 1991, he worked as mine inspector at the Mining Office in Bratislava. In the period from 1992 to 1994, he acted as an adviser to the Prime Minister of the Slovak Republic. From 1994 to 1999 he held the position of General Director of the State Environmental Fund of the Slovak Republic and was a member of the Supervisory Board of Všeobecná úverová banka. In the period of 1999 – 2003 he held the position of Business and Economic Director of Pozagas, a. s., where he was responsible for economic management and business matters of the company. From 2003 to 2005, he acted as an adviser to the Board of Directors and a member of the Supervisory Board of FIN-energy, a. s. Bratislava, where he was in charge of energy and gas projects. In the period of 2008 – 2016, he acted as General Director and Executive Officer of ČKD – Slovensko, a member of the ČKD Group Praha, in charge of the complete operation of the company acting in the energy and gas industries, in the area of technology. From 2007 to 2010, he was a member of the Supervisory Board of SSE, a. s., from 2011 to 2012 a member of the Board of Directors of SSE – distribúcia, a. s., and from 2013 to 2016, a member of the Board of Directors of SSE, a. s. Since December 2016, he has acted as Chairman of the Supervisory Board of SSE – Distribúcia, a. s. in Žilina. Since 2 January 2017, he has been a member of the Board of Directors of SPP - distribúcia, a. s.

TOP MANAGEMENT AS AT 31 JULY 2020

Ing. Martin Hollý

General Director

Martin Holly graduated from the Faculty of Commerce at the University of Economics in Bratislava with a specialization in foreign trade, and from the Universidad de Grenada in Spain. After graduating, he first worked for several years as Senior Auditor and Consultant at Arthur Andersen. In 2003 he took up the position of Director of the Economic Department in NAFTA a.s., where he significantly contributed to the restructuring of the company. From July 2008 to September 2012, he was General Director of NAFTA, a. s., as well as a Member of statutory bodies in POZAGAS a. s. In October 2012 he moved to SPP - distribúcia, a. s., within the SPP Group, where he has held the position of General Director since 1 December 2012.

Ing. Roman Filipoiu, MBA

Head of the Economics and Regulatory Division

Roman Filipoiu completed his Financial Management studies at the Faculty of Business Management at the University of Economics in Bratislava. Later on, he obtained his MBA at Oxford University in Great Britain. After graduating, he started working as an Auditor and Consultant in Deloitte, where he participated in audits of several major banks, financial institutions, and media companies in Slovakia. He started working in the energy sector after joining NAFTA a. s. in 2007. He was responsible for controlling, price regulation, and later also for accounting, procurement, and finance. In the same period he also worked as Chairman of the Supervisory Board in Karotáž a cementace s. r. o. and Naftárska leasingová spoločnosť a. s. Since April 2009, he has been Head of the Economics and Regulatory Division for SPP - distribúcia, a. s. At the same time, he operates as Chairman of the Supervisory Board in SPP - distribúcia Servis, s. r. o., and member of the Supervisory Board in Plynárenská metrológia, s. r. o.

Ing. Rastislav Prelec

Head of the Network Operation and Asset Management

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 Divisionand 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:

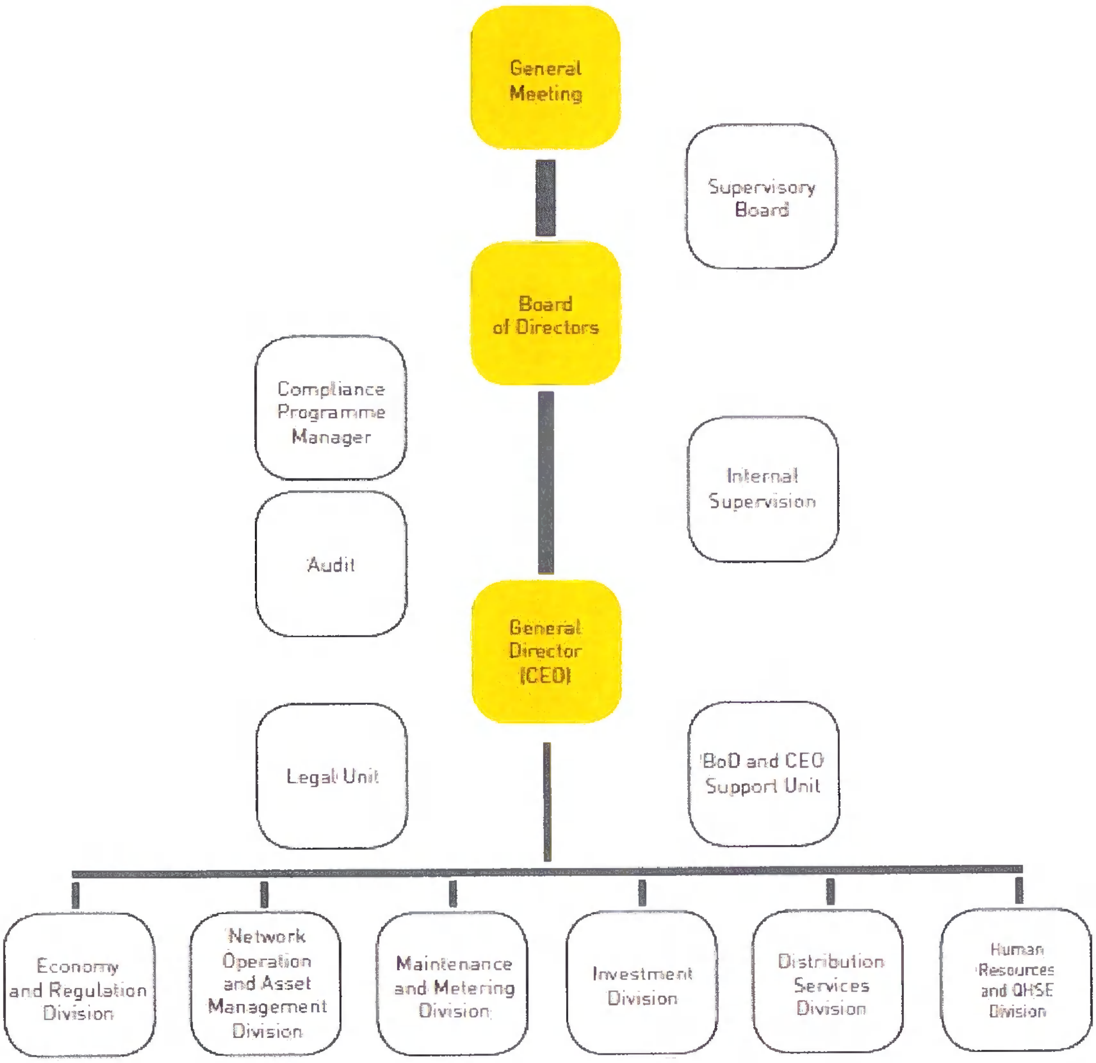
Pavol Korienek, Member of the Supervisory Board

Ing. Robert Procházka, Member of the Supervisory Board

Milan Boris, Member of the Supervisory Board

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

ORGANIZATIONAL STRUCTURE



SAFE AND RELIABLE DISTRIBUTION

OPERATION AND SAFETY OF THE NETWORK

Professional elimination of defects found within the framework of corrective maintenance and the high-quality performance of preventive and inspection activities in required intervals creates a basis for safe and reliable operation of the distribution network. The air inspection of the tightness of high-pressure gas pipelines accessible with difficulty by means of drones also represented an important activity in this area. Since 1 January 2020, we have been checking the tightness of steel medium-pressure and low-pressure gas distribution systems in towns and municipalities at least once a year (previously once per three years for gas pipelines with the lowest risk), which creates preconditions for earlier identification of failures and lower quantities of gas leakage.

H2PILOT PROJECT

With a view to verify foreign experience in possible blending of up to 20 % of hydrogen in distributed natural gas, our company decided to carry out a series of laboratory tests in order to identify the possibilities and limitations. In the next future, we could proceed to pilot tests of hydrogen influence on gas and gas consumption facilities in real conditions.

DAMAGE TO GAS FACILITIES CAUSED BY THIRD PARTIES

In the evaluated period, we registered an increase in the number of cases where gas facilities were damaged by third parties. Damage occurs in particular during the execution of earthwork in the protective zones of gas facilities; in most of cases, the party performing the earthwork failed to ask our company to stake out the gas facilities.

In order to eliminate damage to gas facilities, in 2020, we keep providing free staking-out up to a distance of 100 m. We continue to cooperate with the Slovak Trade Inspection in dealing with cases of damage to gas facilities.

PROVIDING A STANDARD FOR THE SECURITY OF SUPPLIES

In order to resolve and prevent a possible state of emergency, SPP - distribúcia, as the distribution network operator, continued to provide a standard for the security of gas supplies to household customers in compliance with valid legislation from November 2019 to March 2020. It was carried out in particular through the utilisation of natural gas reserves in the underground storage facility, which is also used for network balancing. The security of gas supplies was also provided through contractually agreed auxiliary gas supplies in a way fully covering the needs for the fulfilment of the security standards in accordance with economic and efficiency criteria.

The implementation of the above measures in the period from 11/2019 to 03/2020 proves that the company was and is able to fulfil its duties concerning the security of gas supplies responsibly and to provide for continuous and reliable gas distribution to all households in the Slovak Republic, even in the event of an emergency situation. In 2019, we also prepared intensively for supplying Slovakia with gas during the winter season 2019/2020 with respect to an uncertain situation in gas transportation from the Russian Federation to Europe through Ukraine from January 2020.

DISCOVERING UNAUTHORIZED USAGE OF NATURAL GAS

In this period, we also continued to successfully detect cases of unauthorized gas consumption with the aim of achieving a reduction in losses from natural gas distribution. Company employees identified and documented 1,564 cases of unauthorized consumption with a volume of more than 6 mil. of cubic metres of gas.

In order to increase the safety of our facilities in operation, we carried out dozens of general checks focused on the detection and documentation of unauthorized gas consumption. For that purpose, over 68,000 points of delivery were checked last year which resulted in finding over 1,000 cases of provable unauthorized tampering with meters or direct intervention into the gas pipeline. Based on facts suggesting the crime of gas theft, we brought dozens of charges.

GASIFICATION OF SLOVAKIA

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

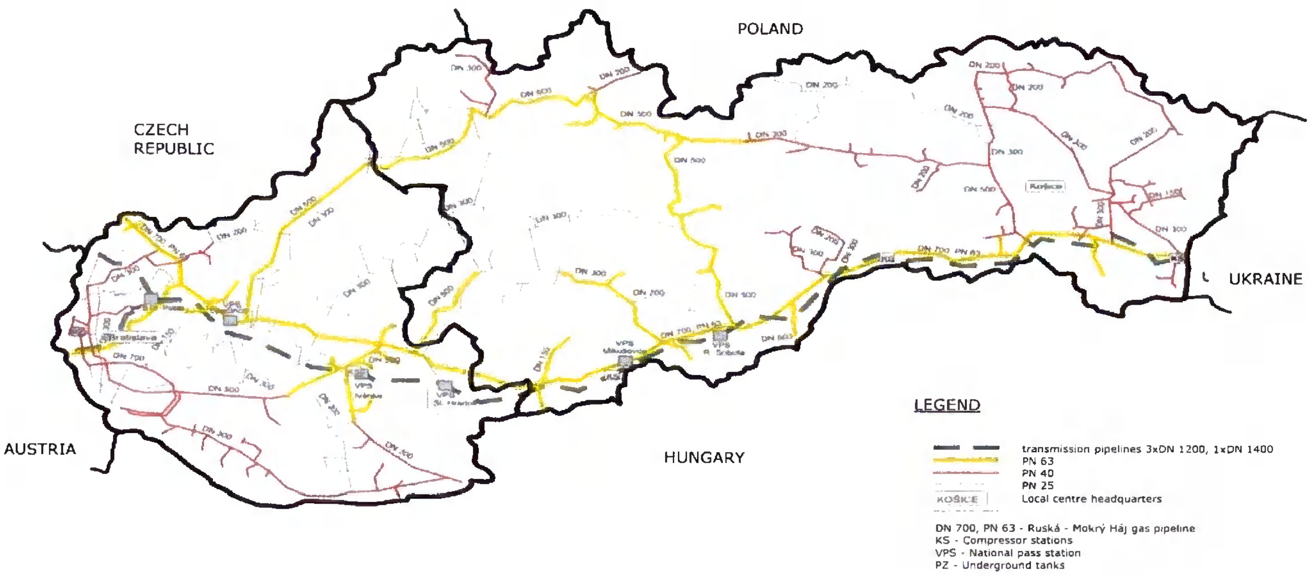
Distribution of natural gas through the SPP-D distribution network in 2016 – 31 July 2020 (billions of cubic metres/15 °C)					
	2016	**2017**	**2018***	**2019****	**2020****
Distributed volumes	4.68	4.90	2.87	4.81	4.85

* a 7-month period ending on 31 July 2018
** a 12-month period ending on 31 July 2019 or 31 July 2020

In the reported period, the volume of gas distributed through the distribution network of SPP - distribúcia in comparison with the previous year was approximately at the same level; the lower gas distribution during warmer months in the heating period (November to March) was compensated by a higher distribution in the other months of the period.

In recent years, the achieved annual gas volumes distributed have been at approximately same levels.

MAP OF THE DISTRIBUTION NETWORK OF SPP - DISTRIBÚCIA, A.S.,



Length of the distribution network in 2015 – 31.07.2020 (km)						
	2015	**2016**	**2017**	**2018***	**2019****	**2020****
High-pressure gas pipelines	6 278	6 274	6 280	6 280	6 281	6 285
Medium and low pressure gas pipelines	27 023	26 996	26 993	27 020	27 077	27 069
Total	**33 301**	**33 270*****	**33 273**	**33 300**	**33 358**	**33 354**
Classification of local gas network in 2015 – 31.7.2020 (km)						
	2015	**2016**	**2017**	**2018***	**2019****	**2020****
Steel	12 509	12 429	12 342	12 298	12 289	12 091
Polyethylene	14 514	14 567	14 651	14 722	14 788	14 978
Investment in the renovation / reconstruction of the network in 2015 – 31.7.2020 (mil. EUR)						
	2015	**2016**	**2017**	**2018***	**2019****	**2020****
Investment in renovation	21	27	24	11	30	32
Number of km of upgraded pipelines of the local area network (low and medium pressure pipelines)	126	129	128	63,4	142	127

* a 7-month period ending on 31 July 2018
** a 12-month period ending on 31 July 2019 or 31 July 2020
*** Updated and accurate lengths of gas pipelines in the transition to the new GIS (Geographic Information System).

CUSTOMER ORIENTATION

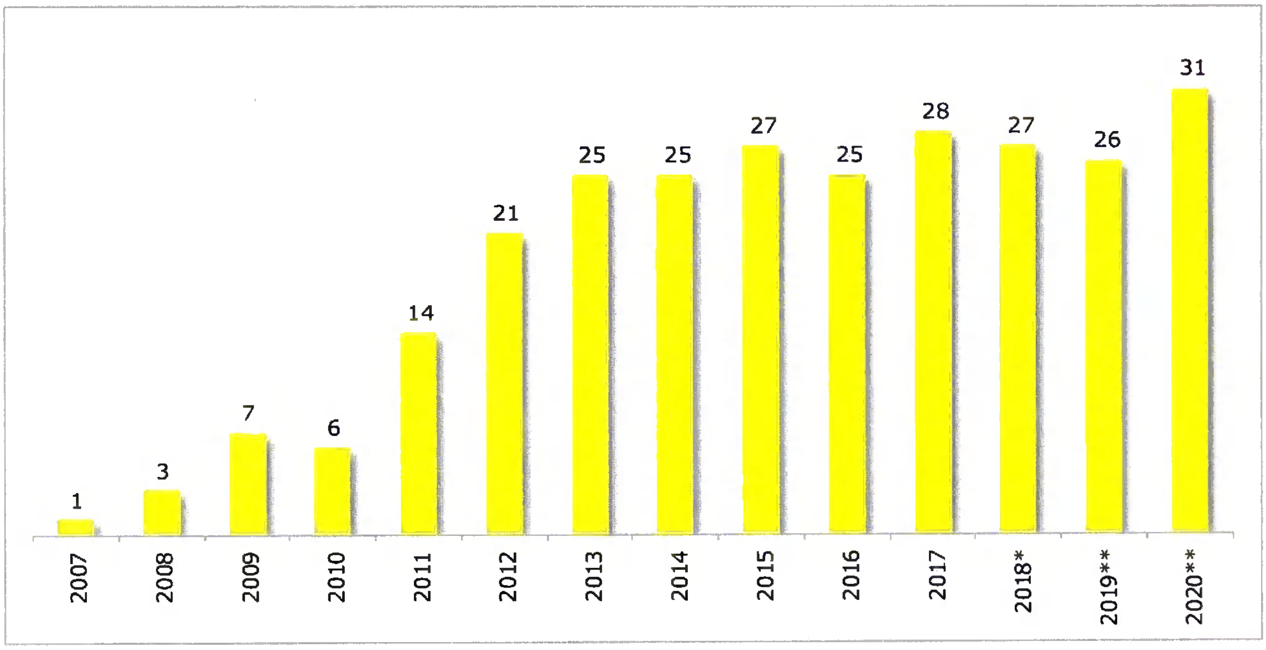
RELATIONS WITH GAS SUPPLIERS, THE LIBERALIZED GAS MARKET

As at 31 July 2020, SPP - distribúcia provided access to the distribution network and distribution of gas for 31 distribution-network users (mostly gas suppliers). We constantly implement improvements in order to contribute to gas market development in Slovakia. We improve and increase efficiency of the IT system user interface utilised by natural gas suppliers, increase transparency and simplify access to information for the users of our distribution network. We are particular about the safety of our customers - during the pandemic caused by the COVID-19 virus disease we provided standard communication as well as introductory trainings for new suppliers in the on-line environment, and we readily responded to changes and adopted measures.

LEGISLATION AND REGULATION

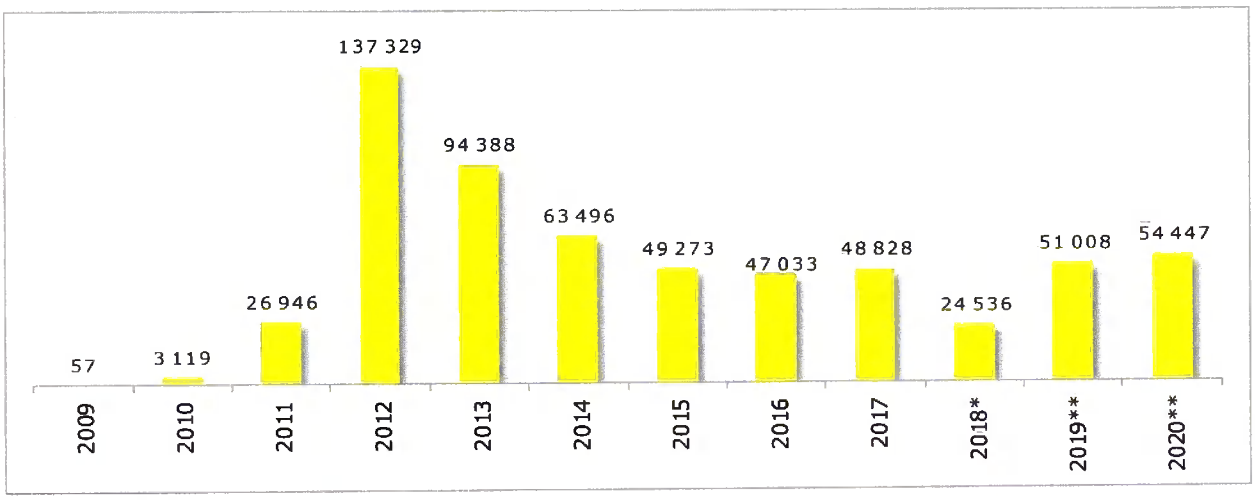
In the first half of 2020, an amendment to Decree of the Regulatory Office for Network Industries No. 24/2013 Coll. laying down the rules of operation of the internal electricity market and rules of operation of the internal gas market as amended was adopted. It will come into effect on 1 September 2020 and on 1 January 2021. The amendment changes the price for gas purchase and sale for commercial balancing on the declaration of a crisis situation in the gas sector.

Number of distribution network users



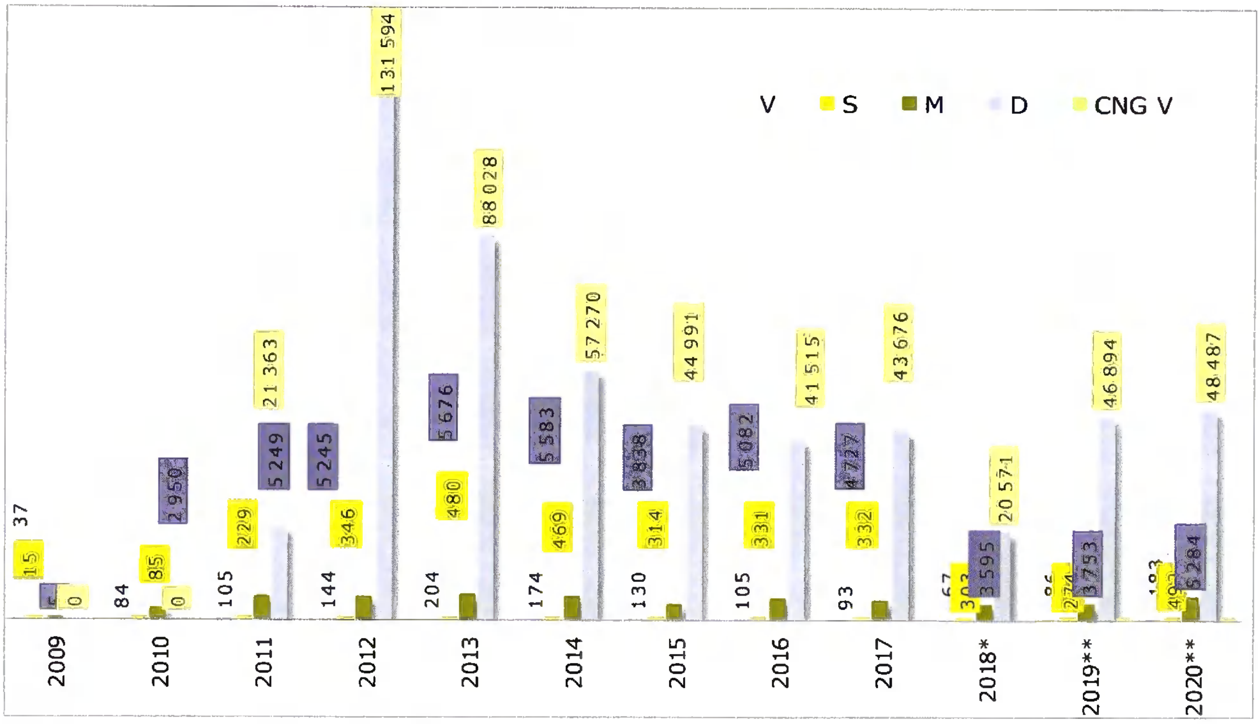
* a 7-month period ending on 31 July 2018
** a 12-month period ending on 31 July 2019 or 31 July 2020

Number of changes of supplier



*a 7-month period ending on 31 July 2018
** a 12-month period ending on 31 July 2019 or 31 July 2020

Number of changes of supplier by category



* a 7-month period ending on 31 July 2018
** a 12-month period ending on 31 July 2019 or 31 July 2020

SHORTENING OF THE PROCESS OF CONNECTION OF HOUSEHOLDS AND RETAIL CUSTOMERS

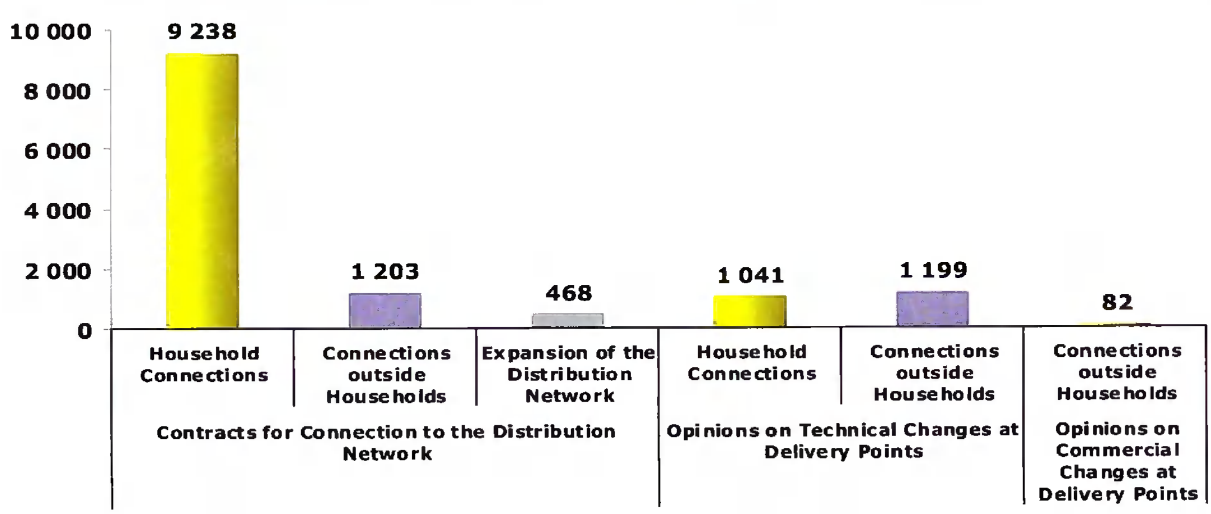
Households and Retail Customers

From 1 August 2019 to 31 July 2020, our company provided applicants for connection to the distribution network with the possibility of personal contact in three Customer Offices in Bratislava, in Žilina, and Košice. At the same time, applicants for connection could also use contact by mail and an on-line form on our website.

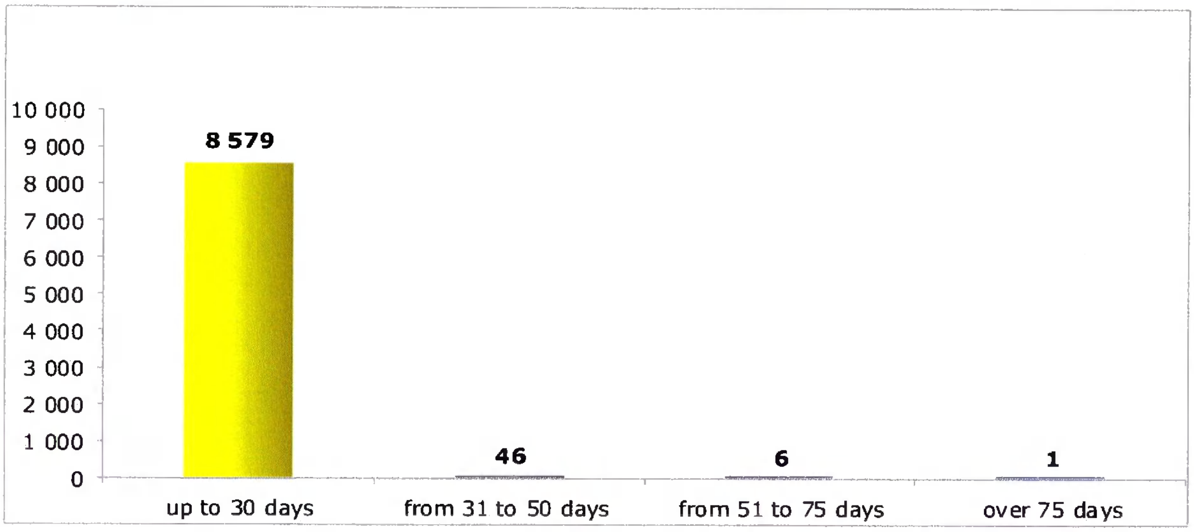
SPP - distribúcia fulfilled the quality standards both for determining business and technical conditions for connection at a level of 100 %, and for determining business and technical conditions for the change of consumption parameters at the point of delivery (opinions on technical changes at the point of delivery) at a level of 100 % (in accordance with Decree of the Regulatory Office for Network Industries No. 278/2012 Coll.).

In this period, our company connected 9,887 new points of delivery to the distribution network in the categories: households, retail, medium, and wholesale customers. We successfully continued to improve and reduce the whole connection process.

Number of concluded contracts on connection to the distribution network and the number of observations on technical and commercial changes at delivery points from 1.8.2019 – 31.07.2020



Evaluation of completed connection process – contract for connection to the distribution network in the Household category Installation of meter between 1 August 2019 and 31 July 2020



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

DIGITALIZATION OF SERVICES – WEB APPLICATIONS FOR CUSTOMERS

Nowadays, our customers can file applications for connection, applications for a statement on technical changes at an existing point of delivery, applications for the installation of meters or applications for an amendment to contract, fully electronically. From 1 August 2019 to 31 July 2020, 12,586 on-line applications for connection and for a technical change at an existing point of delivery were filed, which represents 78.5 % of the total number of applications filed.

We continue to send invoices for the payment of connection fees under connection contracts electronically to applicants' electronic mailboxes.

In 2019, we introduced the sending of e-mail notifications to customers, drawing attention to the approaching expiry of the most important deadlines in the process of connection, which include:

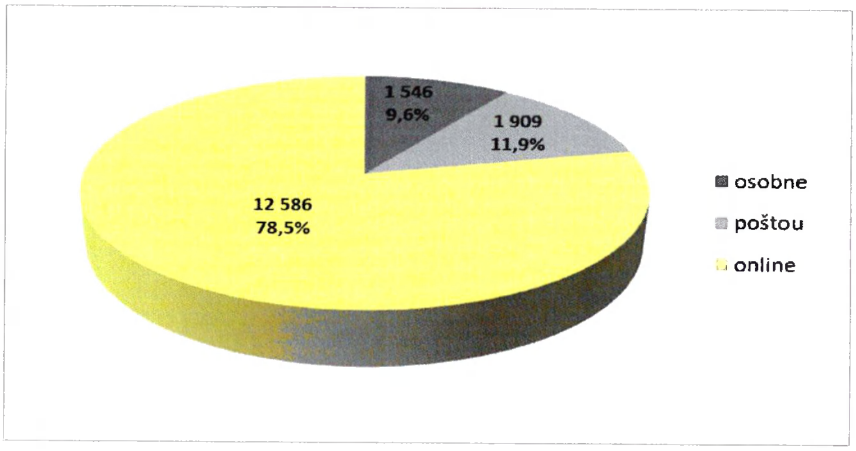
- the deadline for the settlement of connection fee invoice,
- the deadline for sending a signed connection contract by the customers,
- the end of validity of the connection contract.

The customers that had not provided an e-mail address in their application are contacted by phone. These notifications, as we see from customers' feedback, save their time and money to a great extent, and contribute to their comfort in the process of connection.

We also preserved our customers' comfort in the period from March to May 2020, when the Slovak Republic was paralysed by the pandemic of the coronavirus causing the COVID-19 disease. In connection with coronavirus spread prevention, our company also temporarily closed customer offices and eliminated personal contact. The possibilities to file all application types by mail and electronically, as well as the phone contact with call-centre operators remained fully preserved. The periods of handling of applications for connection and for technical changes were not extended during the crisis period. We restored the personal contact with customers in the middle of June 2020, when we opened all customer offices.

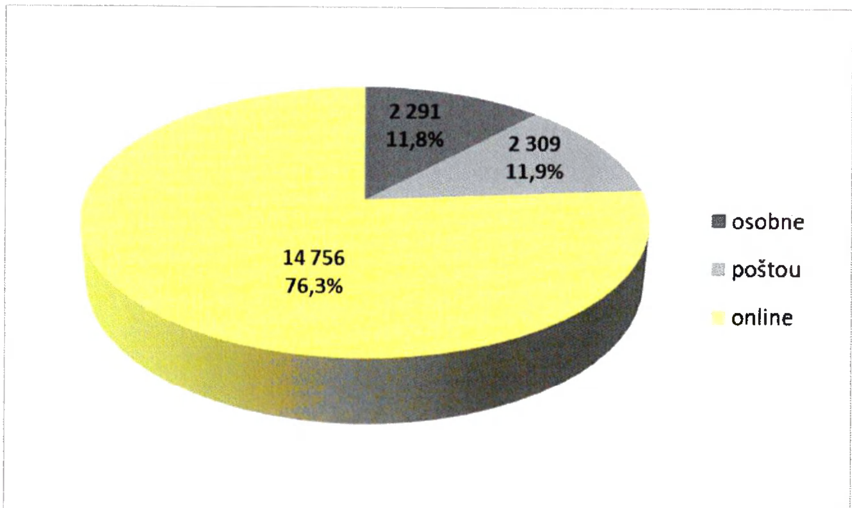
We are glad to be able to state an increasing interest in our on-line services. From 1 August 2019 to 31 July 2020, the possibility to file an application for connection and for a technical change through an on-line app was utilised by as many as 78.5 % applicants and an application for the installation of meter (all types) by as many as 76.3 % applicants.

Requests for connection to the distribution network and for an opinion on a technical change for the period 1 August 2019 – 31 July 2020



Legend:
in person (dark grey)
by post (light grey)
online (yellow)

Applications for installation of the meter for the period 1 August 2019 – 31 July 2020



Legend:
in person (dark grey)
by post (light grey)
online (yellow)

EMPLOYEES AND DEVELOPMENT OF CORPORATE CULTURE

GROWING TOGETHER

SPP – distribúcia is an employer with a clearly specified vision and values and its long-term stability results from the everyday high-quality professional work done by our teams. We pay attention to communication development within the company and the support of team cooperation among the employees. The Intranet represents the main source of internal information in our firm; all important information is available to the employees in a single place - company documents, guidance documents, topical notices of the company, information on current actions and events, etc.

The safety of gas distribution network operation, reliability of natural gas supplies to customers, a willing and correct approach to our customers and business partners is a matter of concern to us. Therefore, in the area of personnel stability, we endeavour to provide our activities by employees with adequate knowledge and skills.

In SPP – distribúcia, we strive for the maximum respect for the environment; therefore, our solutions of efficient heat supplies to Slovak households are not only economical and energy-efficient but also eco-friendly. We lead our teams to consistency in implementing projects, to professionalism and willingness in communication and in providing services to customers. We apply professional ethics and our values in mutual cooperation, appreciate the efficiency and quality of key activities which we perform on the gas market. We appreciate work engagement, fellowship, reliability and loyalty of our employees to the company.

Development Interviews, which took place in June and July 2020, help us support effective communication and cooperation in teams, as well as management. Currently, the data collected are being analysed and will serve as a precious source of impulses for our business improvement and operate as an opportunity for personal and career development of employees. We are bound to our employees for every good idea and stimulus.

EDUCATING AND INSPIRING

We know that continual education, obtaining authorisations and mastering new skills are necessary to improve the expertise and capability of our employees.

Thanks to the fulfilment of these visions, the quality of our services is constantly growing. The professional growth as well as personal and career development of our employees remain among our main priorities which we pay attention to beyond the legislative requirements.

We keep developing the necessary IT skills and also develop soft, interpersonal skills of our employees. We also like to share our expertise, knowledge, and experience in lectures and contributions at workshops and conferences, as well as through electronic and print media. Our company observes the policy of diversity, which is also applied in its administration bodies, management bodies, and supervisory bodies. In the first half of 2020, we launched another year of the development programme Career at Full Throttle. The programme was created with the objective of developing key employees in managerial and expert positions and retaining precious specific know-how in the company. In 2020, we also launch a new development programme - "Gas Academy" - intended for employees working as fitters who have an ambition and potential to move to the positions of technicians or foremen. We continuously strengthen our teams with young people as part of the Young Gasman and Graduate Development Programme projects with the objective to hand over knowledge and long-term gas practice experience. The Young Gasman Project is implemented in cooperation with secondary schools. It is focused on students who already decided to join the project during their studies. After completing their studies successfully, they can become part of our company. The Graduate Development Programme is devoted to university graduates, allowing them, after they have met the conditions, to get to know key activities of our company through rotations directly in the workplaces, thus improving their skills for their work in the company. In the area of development of specific target groups of employees, we provided communication support to our employees in the call centre, customer offices and registry, and developed negotiation skills of employees in the second half of 2019.

CORPORATE SOCIAL RESPONSIBILITY

We connect responsible entrepreneurship and sustainability particularly with the protection and support of health and the environment we live in, and with work ethics. We are glad to see that the base of voluntary blood donors among our employees is increasing annually. We appreciate greatly that our employees again actively participated in charity fund-raising for the Union of the Blind and Partially Sighted of Slovakia, "The White Crayon",

The year 2019 was concluded by the "Heavenly Christmas" gala event, in which teams from whole Slovakia gathered together in a pleasant atmosphere.

The first half of 2020 was greatly affected by the situation caused by the COVID-19 pandemic which also had an adverse impact on our scheduled internal events. The Corporate Games 2020 were cancelled and the regular April Daffodil Day collection did not take place either. The crisis situation also negatively influenced other regular events and charity collections.

PROTECTING OUR HEALTH

Taking care of our employees in the area of occupational health and safety is among our most significant priorities. We create favourable conditions for safe work performance, risk elimination and prevention of incidents by means of health protection at work and support for safety culture.

In cooperation with the occupational health service, we provide a continual evaluation of working environment health factors and adapt the working conditions to the physiological and ergonomic needs of our employees.

Within employee healthcare, we provide for occupational medical examinations. Our objective is to improve the work performance of our employees and provide prevention against possible negative impacts which could represent a health risk. Therefore, we implement a social programme providing our employees with the possibility of above-standard medical examinations and vaccinations. We also provide advantages for convalescent and therapeutic care in compliance with this social programme.

We organise regular occupational health and safety trainings for our employees. In the interest of safety, we also manage our suppliers by informing them of OHS requirements and performing checks at workplaces. We contribute to residual risk elimination through the suitable selection, allocation and use of high-quality personal protective equipment. We pay increased attention to the environment. Therefore, everyday activities during repairs, reconstruction, maintenance or cleaning operations on technological equipment include the monitoring of compliance with environmental requirements. All findings are continuously analysed and efficient measures are subsequently taken.

The fact that our employees' health and safety is among our main priorities was confirmed during the extraordinary situation caused by the new coronavirus pandemic. Our company made maximum effort to be able to fulfil all our clients' as well as business partners' tasks and requirements, even at the time of the greatest crisis, and spent considerable resources on the safety of our employees. At the beginning of March, our company started taking the necessary steps to prevent the spread of the disease among employees and acted expeditiously in order to purchase face masks, disinfecting devices, protective shields, as well as to supply disinfecting agents and germicidal lamps for common premises.

Through constant attention to occupational health and safety and environmental protection, we continue to eliminate the influence of individual working process factors and provide a suitable and safe environment for our employees.

NATURAL GAS – EFFECTIVE AND ECOLOGICAL SOLUTION

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

NATURAL GAS AND THE ENVIRONMENT

Although natural gas is a fossil fuel, it has very positive environmental characteristics in comparison with other fuels. Compared to solid fuels, significantly fewer harmful substances and a negligible amount of particulate matter - dust particles, which in higher concentrations can endanger human health, are generated during the combustion of natural gas.

In addition to low levels of particulate matter (PM), natural gas combustion produces negligible amounts of sulphur oxides and minimum amounts of carbon monoxide, and the level of nitrogen oxides is also very low.

As compared with firewood and coal, natural gas combustion produces significantly lower physical emissions of carbon dioxide. When using natural gas for heat preparation, it is possible to save up to 50 % of CO_2 emissions compared to coal. In heating with wood, approximately 8-times more PM is released (PM10 and PM2.5) than with natural gas, and when coal is fired, 34-times more PM is released. The adverse impacts of PM on the population's health are alarming. An increased PM concentration increases the occurrence of respiratory diseases and has general strong adverse impacts on human health. The level of air pollution in Slovakia by particulate matter (PM) has been characterised as serious in the long term. The Slovak Hydrometeorological Institute declared first degree smog warnings for various locations in Slovakia several times last year; a second degree smog warning was declared once.

As measurements showed PM10 concentration threshold exceeded for two consecutive days, the Slovak Hydrometeorological Institute issued the signal "warning" – which is the first degree in the smog warning system. According to a report issued by the European Environment Agency, due to poor regulation of particulate matter in Slovakia, about 4,800 citizens die prematurely each year. No effective measures to reduce particulate matter emissions have been adopted in Slovakia so far. This applies mainly to local heating. In the past, heating using black coal in particular contributed to pollution, whereas today wood combustion also represents an environmental problem.

Even in gasified regions with low temperatures in winter, for economic reasons consumers tend to fire wood. Thus, adverse smog situations can be solved by reducing the volume of particulate matter based on the responsible selection of an energy source for heating and on the rational approach of the state to support heating sources that are friendly to the environment and human health.

ENERGY PERFORMANCE OF BUILDINGS

After 2020, in line with the EU Action Plan 20/20/20, only nearly-zero energy buildings will be constructed, which will represent a fully new phenomenon in terms of design, construction and, last but not least, operation of buildings. The ultimate goal is not only the construction of nearly-zero energy buildings, but also the implementation of sustainable architecture and construction with the overall aim to design, implement and operate energy-active, environmentally safe and economically effective buildings in the future. The obligation to implement nearly-zero energy buildings results from Directive 2010/31/EU of the European Parliament and of the Council on the energy performance of buildings (hereinafter "EPBD"). According to this directive, all new buildings in the EU will have to have nearly-zero energy consumption after 31 December 2020 (this does not apply to the public sector). For the public sector, an earlier date was determined - 1 January 2019. Natural gas seems to be a suitable fuel for heating and hot-water preparation in buildings belonging to the A1 and A0 classes of building energy performance. This is in particular due to the advantageous ratio of the price of condensing boilers (including installation), their high efficiency, low operating costs, simplicity, real comfort and affordability, not to mention the favourable environmental impact (if it replaces fossil fuels). Thus, the above mentioned should be taken into account in determining the factor of natural gas as a primary energy.

NATURAL GAS AND EFFECTIVENESS

Heating systems including hot-water preparation are an integral part of single-family houses and should be taken into account before construction. System selection influences the thermal comfort in the house, the general comfort, as well as the total sum of money which the user must pay for the installation and operation of the heating system over a long period. Nowadays only ultra-low energy single-family houses (building energy performance class A1) are being designed and built; in the future they will be replaced by nearly-zero energy buildings (passive houses, building energy performance class A0). The following example shows that heat preparation from natural gas is objectively economical:

- a new single-family house with an A1 class of building energy performance rating,
- with an area of 120 m^2,
- with a low-temperature floor (hot-water) heating system,
- the estimated heat (heating and hot water) consumption is 10,000 kWh.

Fuel type	Natural gas	HP - air/water	Electricity (direct heating)	Electricity (hot water)	Wood pellets
Heat installation	Condensing boiler	HP - air/water	mats	Electric boiler	Conventional boiler
Efficiency	97 %	300 %	99 %	99 %	90 %
Fuel quantity	758 m³	2,620 kWh	7,939 kWh	7,939 kWh	1,747 kg

OPEX	Natural gas	HP - air/water	Electricity (direct heating)	Electricity (hot water)	Wood pellets
Total operating expense	€487/year	€529/year	€1,103/year	€1,200/year	€412/year

CAPEX	Natural gas	HP - air/water	Electricity (direct heating)	Electricity (hot water)	Wood pellets
TOTAL	€10,680	€17,230	€7,960	€9,260	€12,930

TCO OVER 15 YEARS	€17,986	€24,465	€22,158	€25,564	€19,108

OPEX – Operating Expense

CAPEX – Capital Expense

TCO – Total Cost of Ownership

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

ELECTRICITY AND HEAT PRODUCTION IN A COGENERATION UNIT

A cogeneration unit is able to produce heat, electricity, or even cold in a single device, resulting in significant savings in primary energy compared to the separate production of heat and electricity by up to 40 %. The direct consequence of primary fuel savings is a reduction in emissions produced in the combustion process. A cogeneration unit is able to cover all a customer's energy needs using only a single appliance. Given the availability of cogeneration in many power classes, it has a wide range of applications in industry, in the municipal sector, and in health or social care services. Customers interested in cogeneration are offered a free analysis of cogeneration usage when installing a new or renovating their existing heat source.

CONDENSING BOILERS FOR SINGLE-FAMILY HOUSES

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

COMPRESSED NATURAL GAS (CNG) AND ITS USE IN TRANSPORT

Natural gas continues to gradually find its application in transport, as well, and an increasing number of car producers have CNG vehicles in their portfolios. The operation of such vehicles provides users with advantages regarding lower fuel cost as well as a 50 % lower motor vehicle tax compared to vehicles using conventional fuels. Moreover, by using CNG, the emission of pollutants is significantly reduced, along with decreased noise, which in the end is beneficial for the entire society in the form of a cleaner environment. The use of CNG brings economically advantageous, ecological and safe transport; therefore, we see a possibility of efficient greening of urban mass transportation in the introduction of a public support of current diesel vehicles replacement by their low-emission variant - using compressed natural gas. The new fueLCNG project has been supported by the European Union with the objective of building 14 CNG fuelling stations on the D1 and D2 highways, representing evidence that CNG offers good prospects in transport. SPP - distribúcia supports CNG through preferential distribution charges for CNG fuelling station points of delivery and through the websites spp-distribucia.sk and oplyne.info, where in addition to general information on the advantages of natural gas, we also present CNG to the general public as an ecological fuel with the potential for wider application in transport. Customers interested in building CNG stations are also provided with free business and technical consulting.

Map of CNG and LNG stations of the fueLCNG project

Existujúce stanice CNG od SPP CNG	Existing CNG stations from SPP CNG	Čerpacie stanice CNG aj LNG	CNG and LNG fuelling stations
Čerpacie stanice CNG projektu fueLCNG	CNG fuelling stations of the fueLCNG Project	Ostatné verejne prístupné čerpacie stanice CNG	Other publicly accessible CNG fuelling stations

MARKETING ON-LINE/OFF-LINE COMMUNICATION

The majority of marketing activities (about 80 %) took place in the on-line environment through the social networks Facebook, Instagram and the company's websites.

The remaining 20 % of marketing communication, which was off-line, represented the active participation of SPP - distribúcia employees in professional conferences and forums through lectures, advertising stands or direct communication with customers. Further, this meant charity events at the time of Christmas or the coronavirus crisis, the re-design and update of leaflets and information booklets.

During the year, plastic bags were completely replaced by ecological paper bags with a reference to the 3E brand and the oplyne.info microsite. The paper bags will be supplemented with diaries, scribbling pads and pens made of ecological and recyclable materials.

YELLOW BLANKET PROJECT

With the Yellow Blanket charity project, SPP - distribúcia decided to help homeless people who are not lucky enough to stay warm thanks to heat from natural gas at home. Therefore, we handed over yellow blankets produced in Slovakia to organisations working with the homeless.

NATURAL GAS IS 3E CAMPAIGN

Heating using natural gas appears to be the most efficient and readily available tool for solving the problem of our polluted air. Our "Natural Gas is 3E" mass media campaign explains natural gas' advantages, pointing out its environmental friendliness, economic efficiency and energy performance.

The 3E Logo appears in all activities of external and internal communication, as well as in marketing. Today, most campaigns are carried out on social networks and generally in the environment of the internet. We adapted our advertising formats to this fact and started being much more active on social networks and on the YouTube video portal. We endeavour to attract social network site and profile visitors' attention through interesting (often new to the public) information, videos, photos, graphics and texts. Every target group is interested in something else, therefore, we adapt the content and form to the age, education and activity focus of individual groups. As we focus mainly on the heating segment, the promotion of natural gas as a commodity is closely connected with the construction of single-family houses.

The campaign is executed in the form of professional and lay articles in mass media, videos on social networks, and radio spots and advertising in relevant print and electronic media with the objective to spread the edification in the general public. A strong campaign is important in changing the thinking of the public both in the area of the economic efficiency of heating source selection and in the area of responsibility for the environment we live in and responsibility for the air we breath.

REPORT ON BUSINESS ACTIVITIES OF THE COMPANY

ECONOMIC AND FINANCIAL PERFORMANCE

DEVELOPMENT OF THE BUSINESS ENVIRONMENT

A western flow of sea air prevailed in our territory in winter 2019/2020 and brought warmer weather in the winter season. Cold winter weather started with delay in March 2020 thanks to the cold Arctic air which penetrated to our territory from beyond the Polar Circle. According to the Slovak Hydrometeorological Institute, it was the coldest month in the whole cold half-year of 2019/2020 (October – March). This drop of temperatures also contributed to our good financial results and increased consumption.

According to an official press release of the World Meteorological Organization (WMO), the calendar year 2019 was the second warmest year since record-keeping began in 1880 (the year 2016 was the hottest one). The WMO report also states that the period from 2015 to 2019 and the last decade from 2010 to 2019 were the warmest periods on record at least for the last 140 years.

Global environmental interests also brought new activities of the Government of the Slovak Republic which SPP – distribúcia, a.s. actively participated in.

The situation connected with the spread of coronavirus (COVID-19) in the Slovak Republic also contributed to a part of an increase in natural gas consumption in the segment of households in the first half of 2020 when a crisis situation occurred in our country and forced the majority of inhabitants to stay at home in quarantine.

In 2020, SPP - distribúcia, a. s. continued to optimise the internal processes. Despite the fact that the level of operating expense is stabilised to a great extent, the company further optimised its operating activities, in particular by increasing work productivity in maintenance and procurement.

The period from 1 August 2019 to 31 July 2020 brought no essential amendments to gas-related legal regulations which would significantly affect the company's activity.

The amendment to Decree of the Regulatory Office for Network Industries No. 24/2013 Coll. laying down the rules of operation of the internal electricity market and rules of operation of the internal gas market, which contains a new regulation of the price setting mechanism for gas purchase for commercial balancing on the declaration of a crisis situation in the gas sector, will come into effect on 1 September 2020.

As a follow-up to the gradual implementation of new Regulation (EU) 2017/1938 of the European Parliament and of the Council concerning measures to safeguard the security of gas supply, SPP – distribúcia, a. s. started participating in the preparation of agreements between the Slovak Republic a other EU Member States on the application of the solidarity mechanism to safeguard the security of gas supply in the event of a crisis situation.

In the context of a new European legislation, several changes can be expected in the next future, which will affect the activities of SPP – distribúcia, a. s., and the company will have to respond to them. A new legislative package with the title Clean Energy Package aims to achieve the goals of the Paris Agreement through decarbonised energy and contribute to the building of the Energy Union. The package has several priorities, such as energy performance of buildings, renewable energy, energy efficiency, and electricity market. The implementation of these priorities is also reflected by the strategic documents: "Low-Carbon Development Strategy of the Slovak Republic until 2030" and "Integrated National Energy and Climate Plan for 2021 - 2030"; SPP – distribúcia, a. s. actively participated in their preparation. Additional changes within the Clean Energy Package will also be brought by a prepared set of legislative regulations G2020 focused on a deeper integration of gas markets and electric energy markets and their more consistent liberalisation. The future gas regulation will be increasingly affected by environmental interests and political goals concerning the climate change with the expected interconnection of the gas sector and the electric energy sector. Moreover, taking into account a lack of alternative technologies, the sector integration combined with the production of renewable and decarbonised gases appears the only possibility of decarbonisation in certain industrial activities.

Last but not least, SPP - distribúcia, a. s. closely monitors the new government's intentions presented and actively participates in various initiatives of the Ministry of Economy of the Slovak Republic or Regulatory Office of Network Industries with the objective to defend the significance and strategic position of natural gas in the energy mix of the Slovak Republic.

Economic results of SPP - distribúcia, a. s.

In the accounting period of 2020, SPP - distribúcia, a. s. generated revenues from natural gas distribution in the amount of EUR 401.98 million.

Operating costs incurred by the company through the securing of revenues from the sale of services amounted to EUR 253.59 million. The prevailing items of operating costs included depreciation and amortization, costs of gas storage and personnel costs.

Thus, the company reached profit before taxation in the amount of EUR 155.61 million and concluded the financial year 2020 with an after-tax profit amounting to EUR 115.28 million.

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

	2020*	2019*
Natural gas distribution	401.98	400.09
Other revenues	19.40	22.95
Operating costs	-253.59	-295.95
Profit/loss on financial operations	-12.18	-17.79
Profit before taxation	**155.61**	**109.30**
Income tax	-40.33	-31.52
After-tax profit	**115.28**	**77.78**

* 12-month period ending 31 July

ASSET AND CAPITAL STRUCTURE

Assets

As at the balance sheet date of the financial statements, the total assets of the company amounted to EUR 4,567.57 million, which represents a decrease by EUR 31.45 million in comparison with the previous year 2019. Non-current assets of EUR 4,031.67 million accounted for 88.27 % of total assets. The most significant items of non-current assets included in particular gas distribution pipelines, regulation stations, technologies and equipment of distribution networks.

In 2020, costs of acquisition of non-current assets amounted to EUR 33.71 million and were directed mostly to network renovation. This year, no funds were spent on research and development activities by the company.

In comparison with 2019, current assets decreased by EUR 22.39 million and as at the balance sheet date of the financial statements, they reached a value of EUR 535.9 million, which represents 11.73 % of total assets. Receivables and advance payments, inventory and cash and cash equivalents represented major current assets.

Comparison of asset structure (in mil. EUR)

	2020*	2019*	2020*	2019*
Non-current assets	4,031.67	4,040.72	88.27%	87.86 %
Current assets	535.90	558.30	11.73%	12.14 %

* 12-month period ending 31 July

Equity and liabilities

In the capital structure of SPP - distribúcia, a.s., no serious change occurred in the share of own and foreign financing resources. The own resources prevailed over the foreign financing resources and represented 65.94 % of the total resources of asset coverage.

The shareholder's equity amounted to EUR 3,011.77 million this year, which represents a decrease by 0.43 % in comparison with the previous period. The shareholder's equity consisted in particular of share capital, statutory reserve fund, retained earnings and profit or loss from the current accounting period. The share capital of the company recorded in the Commercial Register represents one share with a nominal value of EUR 1,200 million. As at the balance sheet date, the statutory reserve fund and other funds created from capital contributions amounted to EUR 1,647.35 million.

The retained earnings for 2019 - a profit of EUR 77.78 million – was paid to the sole shareholder of the company in the form of dividends. The General Meeting will decide on the distribution of profit for the accounting period of 2020 in the amount of EUR 115.28 million. The statutory body proposes that the General Meeting pay the profit to the sole shareholder in full amount, in the form of a dividend.

As at the balance sheet date of financial statements, the company's liabilities represented 34.06 % of coverage of the company's assets and amounted to EUR 1,555.80 million. The liability structure was dominated by non-current liabilities in a total amount of EUR 959.93 million. In particular a deferred tax liability, loans and bonds representing 96.29 % of non-current liabilities are the most important part of them. As at the balance sheet date, the current liabilities amounted to EUR 595.87 million, which represents an increase by EUR 426.17 million in comparison with the previous year. The increase is caused by bond re-classification from long-term to short-term.

Comparison of liability structure (in mil. EUR)

	2020*	2019*	2020*	2019*
Equity	3,011.77	3,024.80	65.94%	65.77%
Liabilities	1,555.80	1,574.22	34.06%	34.23%

* 12-month period ending 31 July

The structure of shareholders as at 31 July 2020 was as follows:

SPP Infrastructure, a.s.	1 share	100%

SUMMARY RESULTS

Progress of the assets, capital structure, and profits of SPP - distribúcia, a. s., for the year ending 31 July 2020 and 31 July 2019 according to the individual financial statements prepared in accordance with the International Financial Reporting Standards as adopted by the EU.

Balance sheet (selected data in thous. EUR)

	2020*	2019*
ASSETS:		
NON-CURRENT ASSETS		
Property, plant and equipment	3,907,195	4,027,294
Investments in subsidiaries	1,000	1,000
Intangible assets and other assets	11,236	12,025
Rights of use assets	20,839	0
Loans provided	91,395	405
Total non-current assets	**4,031,665**	**4,040,724**
CURRENT ASSETS		
Inventories	134,553	146,199
Receivables and prepayments provided	334,485	289,449
Contract receivables	12,044	11,107
Tax receivables and income taxes	0	0
Cash and cash equivalents	54,746	111,468
Loans provided	75	75
Total current assets	**535,903**	**558,298**
TOTAL ASSETS	**4,567,568**	**4,599,022**

EQUITY AND LIABILITIES:

CAPITAL AND RESERVES		
Registered capital	1,200,000	1,200,000
Legal reserve fund and other funds	1,647,350	1,697,044
Retained earnings	49,139	49,978
Profit or loss for the current period	115,280	77,775
Total equity	**3,011,769**	**3,024,797**
NON-CURRENT LIABILITIES	959,930	1,404,529
CURRENT LIABILITIES	595,869	169,696
Total liabilities	**1,555,799**	**1,574,225**
TOTAL EQUITY AND LIABILITIES	**4,567,568**	**4,599,022**

* 12-month period ending 31 July

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

Years ending 31 July 2020 and 31 July 2019

	2020*	2019*
Natural gas distribution	401,983	400,088
Other revenues	19,403	22,951
Operating costs	-253,588	-295,945
Operating profit	**167,798**	**127,094**
Financial revenues	2,255	262
Financing cost	-14,442	-18,052
PROFIT BEFORE TAXATION	**155,611**	**109,304**
Income tax	-40,331	-31,529
PROFIT FOR PERIOD	**115,280**	**77,775**

* 12-month period ending 31 July

Cash flow statement (selected data in thous. EUR)

	2020*	2019*
OPERATING ACTIVITIES		
Cash flows from operating activities	311,474	316,523
Interest paid	-13,466	-13,629
Interest received	329	244
Income tax paid	-66,341	-49,792
CASH FLOWS FROM OPERATING ACTIVITIES	**231,996**	**253,346**
CASH FLOWS FROM INVESTMENTS	**-287,132**	**-178,078**
CASH FLOWS FROM FINANCING ACTIVITIES	**-1,586**	**-9,425**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**-56,722**	**65,843**
CASH AND EQUIVALENTS AT BEGINNING OF PERIOD	111,468	45,625
CASH AND EQUIVALENTS AT END OF PERIOD	**54,746**	**111,468**

* 12-month period ending 31 July

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

After 31 July 2020 no important events occurred which would require changes or disclosure in the annual report.

STATEMENT ON COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE IN SLOVAKIA

In administration and management, SPP - distribúcia complies with the Code of Corporate Governance in Slovakia issued by the Central European Corporate Governance Association. The Code is publicly available at the Association's website www.cecga.org. Our aim is the implementation of and compliance with the various principles of the Code, demonstration of the process of their implementation, while issuing a statement on corporate governance. In the financial year 2018, the company applied the Code of Corporate Governance without deviations. Pursuant to Article 20 (6) of Act No. 431/2002 Coll. on accounting as amended, the company presents the following Statement:

GENERAL MEETING

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

a. The right to participate in the management of the company, to a share in the profit and liquidation balance of the company in case of its winding up with liquidation. The shareholder exercises the right to participate in the management of the company by voting at General Meeting; the shareholder must respect the organizational measures valid for the course of the General Meeting. At the General Meeting the shareholder has the right to request information, explanations relating to matters of the company or issues concerning the controlled persons, to submit proposals to the agenda of the General Meeting and to be elected to bodies of the company;

b. A shareholder is entitled to a share in the profit of the company (a dividend) that the General Meeting has designated for distribution. A shareholder is not obliged to return a dividend received in good faith to the company;

c. To the extent permitted by applicable legislation (including Energy Act No. 251/2012 Coll.), a shareholder is entitled to inspect the minutes of meetings of the Supervisory Board, while being obliged to maintain confidentiality of the information thus obtained;

d. The right to vote at General Meeting - the shareholder's number of votes is determined by the ratio of the nominal value of their shares to the share capital;

e. Any transfer of shares shall be subject to the approval of the General Meeting. The General Meeting may refuse a transfer of shares if it is in conflict with the company's Articles of Association or the shareholders agreement.

The General Meeting performs the following functions:

a. Election and dismissal of members of the Supervisory Board;

b. Election and dismissal of members of the Board of Directors;

c. Changes in the Articles of Association, the statute of the Supervisory Board or the statute of the Board of Directors;

d. Change in the share capital;

e. Merger, fusion, split-up, change of legal form, winding up with liquidation or other significant changes in the corporate structure of the company;

f. Decision on the appointment of a liquidator of the company and determination of remuneration of the liquidator;

g. Decision on the distribution of any dividends by the company or distribution of other payments arising from shares;

h. Decisions on the increase or decrease in the share capital of the company;

i. Approval of ordinary individual, extraordinary individual, ordinary consolidated or extraordinary consolidated financial statements of the company;

j. Decisions on the allocation of profit of the company, including the determination of the amount of dividends and any royalties, and on the method of settlement of any company's losses;

k. Decisions on changes in the rights linked to any type of the company's shares;

l. Decisions on the conversion of registered shares to bearer shares and vice versa;

m. Decisions on the limitation or exclusion of the preferential right of a shareholder to subscribe newly issued shares of the company in accordance with and subject to conditions laid down by law;

n. Approval of a contract on the transfer of the company's business and contract on the transfer of a part of the company's business;

o. Any substantial change in the nature of the core business of the company or in the manner in which the company conducts its core business;

p. Approval of the commencement of any legal or arbitration proceedings against persons who were direct or indirect shareholders of SPP before 23 January 2013 and ceased to be shareholders of SPP no later than on 23 January 2013;

q. Appointment of an auditor.

BOARD OF DIRECTORS

The Board of Directors is a statutory body of the company acting on behalf of the company. The Board of Directors makes decisions on all matters related to the company. The Board of Directors has five members. Members of the Board of Directors are appointed and dismissed by the General Meeting for the period of four years. When electing or dismissing a member of the Board of Directors, the General Meeting may determine that their election to or dismissal from the office is effective at a later date than on the date when the decision of the General Meeting was taken.

The Board of Directors:

a. Manages the business of the company and ensures all of its operational and organizational matters;

b. Convenes the General Meeting;

c. Exercises employer rights;

d. Implements resolutions of the General Meeting, or written decisions of the sole partner;

e. Ensures prescribed book-keeping and keeping of other records, books and other documents of the company;

f. Submits reports to the General Meeting;

g. Submits materials to the Supervisory Board for consideration;

h. Prepares an annual budget and business plan of the company.

SUPERVISORY BOARD

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

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

a. Fulfilment of tasks assigned by the General Meeting to the Board of Directors;

b. Compliance with the Articles of Association of the company and relevant legislation with regard to the company's activities;

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

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

a. Proposals by the Board of Directors for the dissolution of the company;

b. Proposals by the Board of Directors for the appointment of a liquidator of the company;

c. Proposals by the Board of Directors regarding an individual annual budget and business plan of the company;

d. Reports of the Board of Directors.

COMMITTEES

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

The Audit Committee established at the level of the parent company SPP Infrastructure, a. s. performs its activities for SPP - distribúcia, a. s. on the basis of a business and legal contract on the provision of services.

The Audit Committee must have at least 3 members. The committee members are appointed by the General Meeting. At least one Committee member must have professional experience in the area of accounting or statutory audit and all members as a whole must have qualifications suitable for the sector in which the accounting entity operates. An absolute majority of members as well as the chairman of the Committee (elected by members of the Committee or by the Supervisory Board) must be independent. An independent member is an individual who is not connected by property or personally with the accounting entity or its subsidiary, its partners, members of statutory bodies and statutory auditor of the accounting entity, and who is not their close person and does not receive from the accounting entity or its subsidiary any other income than the remuneration for the work in the Supervisory Board or Audit Committee.

MANAGEMENT METHODS

For its management, the company mainly uses methods of direct management, methods combining direct and professional (indirect) management, and project management methods.

Direct management is generally based on setting goals, tasks and directions, and on the operational guidance of activities of the managed organizational unit or employee.

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

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

INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT

Internal control at all levels of the organizational structure serves to reveal preventively any potential risk occurrence in the company. The internal control system includes all the forms of continuous control measures, procedures and mechanisms in individual departments.

The internal control system of SPP - distribúcia was implemented through the adoption of internal management acts which regulate the performance of internal controls and internal audits by internal employees. The controls are performed by employees directly participating in individual processes, managers of individual units or employees authorized by them, who are responsible for controlled processes and control results, or by internal auditors.

Control results are submitted to relevant bodies of the company on a regular basis. Timely adoption of preventive measures ensures the effective adjustment of key processes.

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

SHARE CAPITAL OF THE COMPANY

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

Issue No. (CEM): LP0001508566

Nominal value: EUR 1,200,000,000

Type: ordinary share

Form: certificated

Class: registered share

Percentage share in share capital: 100%

Admitted to trading: 0 pc

The share capital structure does not include shares whose owners would have special rights of inspection. The company has no knowledge of any agreements between holders of securities which may result in restrictions as to the transferability of securities and the limitation of voting rights.

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

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

REPORT ON THE IMPLEMENTATION OF MEASURES ADOPTED IN THE COMPLIANCE PROGRAMME OF THE DISTRIBUTION NETWORK OPERATOR FOR THE PERIOD FROM 1 AUGUST 2019 TO 31 JULY 2020

1. The Compliance Programme is an internal regulation of SPP - distribúcia, a. s. which defines measures to ensure the non-discriminatory behaviour of the distribution network operator. Pursuant to Act No. 251/2012 Coll. on energy and on the amendment to certain acts, a compliance programme must be adopted by a network operator that is a part of a vertically integrated business. The latest update of the Compliance Programme came into effect on 1 December 2015 and is identified as: D.RM.04.07.06.

2. For employees of SPP – distribúcia, a.s., the Compliance Programme lays down:

   (a) Obligations to ensure the independence of the distribution network operator from other activities not related to gas distribution;

   (b) Obligations to ensure non-discriminatory behaviour of the distribution network operator in providing information;

   (c) Obligations to ensure non-discriminatory conditions of providing services by the distribution network operator to gas market participants;

   (d) Conditions relating to the manager of the Compliance Programme, including appointment and dismissal;

   (e) Requirements for the activity of the Compliance Programme manager and for checks of observance of the Compliance Programme, including the training of the distribution network operator's staff in the Compliance Programme,

   (f) Obligations ensuring publicity about the Compliance Programme, control and execution of the annual report on the implementation of the Compliance Programme.

3. From 1 August 2019 to 31 July 2020, the implementation of measures listed in the Compliance Programme was performed in mainly the following way:

   (a) SPP - distribúcia, a. s. as the distribution network operator is established as a separate company and its organizational structure is arranged in such a way as to ensure the independence of all activities of the distribution network operator associated with gas distribution from other activities in the vertically integrated company which are not related to gas distribution;

   (b) Maintaining a non-discriminatory approach to the provision of information meant for the gas market participants and in providing services of the distribution network operator;

   (c) The internal procedures of the distribution network operator include measures implemented to ensure non- discriminatory behaviour in accordance with the Compliance Programme;

   (d) Publication of the Compliance Programme for employees of the distribution network operator in the electronic database of regulations, and for the public on the website of the distribution network operator;

   (e) Carrying out checks of observance of the Compliance Programme. In the period from 1 August 2019 to 31 July 2020, for example, the Compliance Programme manager verified the application of a non-discriminatory approach of the distribution network operator in in providing information, in performing services ordered by distribution network users, in solving applications, claims and complaints from customers. Further checks concerned the prohibition of insider trading for employees who have access to confidential information.

4. On 14 May 2014, on the basis of the shareholder's decision, the company SPP Infrastructure, a. s. became the sole shareholder of SPP - distribúcia, a.s. and the gas supplier Slovenský plynárenský priemysel, a.s. is no longer a part of the vertically integrated company that includes SPP - distribúcia, a.s. This has provided for the full independence of the distribution network operator from the activities relating to the gas supply. Based on contracts, from 1 August 2019 to 31 July 2020 SPP - distribúcia, a.s. took over only property rental services from Slovenský plynárenský priemysel, a.s.

5. The manager of the Compliance Programme of the distribution network operator did not identify any breach of obligations set by the Compliance Programme during the period from 1 August 2019 to 31 July 2020.

In Bratislava on 7 August 2020

Kachút

Ing. Milan Kachút

Compliance Programme Manager

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

PROSPECTS OF THE COMPANY

Our current experience and analyses of customer satisfaction survey results lead us to continue even more intensively in the information campaigns for air protection support through the use of natural gas. Within our main goals in the upcoming period, we will educate the general public and point out the environmental friendliness, economic efficiency and energy performance of natural gas. In addition to our 3E brand, which represents the environmental friendliness, economic efficiency and energy performance of natural gas, we will also emphasise its other advantages, such as availability. The summary objective of the marketing activities will be to preserve the majority share of natural gas in the number of new (approved) single-family houses in 2020 and 2021. As regards the existing single-family houses, we will further present heat preparation from natural gas as an ecological alternative instead of fossil fuel combustion in obsolete equipment, which is the main source of air pollution in Slovakia.

An excellent emission profile of the Slovak energy sector creates preconditions for a "sober" approach to a gradual transition to low-carbon economy in the next decades. Despite that we will work on the natural gas "greening" in the long term (biomethane, hydrogen, syn-methane), however, it will require an additional state support both in the area of research and development and in the area of green gas implementation. We believe that our successful laboratory tests of blending hydrogen into distributed natural gas within the H2PILOT project will create a real precondition for the tests of hydrogen impact on gas and consumption facilities in real conditions in the close future.

As a stable, credible, and effective provider of natural gas distribution services, we will make maximum effort to create values for our customers, employees, and shareholders. This expects a continual increase in efficiency and search for synergies in the company. Our know-how of local network reconstruction performed by our company proved good during demanding reconstruction in larger towns and other densely populated towns. In the future, we will prepare new projects as a follow-up to our successful projects.

We will keep striving constantly for the improvement of efficiency of our operating activities. This will cover particularly the areas of procurement, maintenance work productivity increasing, as well as the optimisation of costs of property and fleet administration.

Safety was and is our highest priority which we actively focus on and will continue to invest in in the following periods. We place emphasis on developing models allowing us to define an adequate scope of maintenance according to the state of a particular asset and the risk level regarding its operation. Risk modelling has already proved itself; therefore, we will further invest in the development of innovative approaches in determining the technical state of our assets.

As regards customer services, we will continually focus on increasing the level of services provided, particularly the completion of their full digitalization. Thanks to the unlimited time availability of our on-line forms on our website, the connection of our customers to natural gas is much simpler, more comfortable and, according to last year's results, more attractive with an increasing trend.

We will achieve the objectives of the upcoming accounting period through the provision of a high level of safety for our operating activities, continuous improvement of operating and investment efficiency, improvement of our approach to customers, and an increase in the engagement of our employees. The current pandemic crisis also confirms that people working at SPP - distribúcia are those who Slovakia can rely on even in crisis situations. With a professional approach and performance in providing the safety and reliability of gas network operation we will represent a strong pillar of the strategic infrastructure of Slovakia in the future, as well.

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

Facebook:

www.facebook.com/SPPdistribucia

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

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FINAL TITLE

SPP - distribúcia, a. s.

Mlynské nivy 44/b

825 11 Bratislava

Slovak Republic

www.spp-distribucia.sk

Deloitte.

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Registered in the Business
Register of the District Court Bratislava I
Section Sro, File 4444/B
Company ID: 31 343 414
VAT ID: 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 2020, 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 2020, 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.

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

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 3.9 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 2020; • 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.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management of the Company 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 of the Company 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 assessed 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 2020 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 16 June 2020. 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 11 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, 4 September 2020

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 2020 and 31 July 2019
(EUR '000)

	Note	31 July 2020	31 July 2019
ASSETS:			
NON-CURRENT ASSETS			
Property, plant and equipment	7	3 907 195	4 027 294
Non-current intangible assets and other assets	8	11 236	12 025
Right-of-use assets	9	20 839	-
Investments in subsidiaries	10	1 000	1 000
Other non-current assets	10	91 395	405
Total non-current assets		4 031 665	4 040 724
CURRENT ASSETS			
Inventories	11	134 553	146 199
Cash and cash equivalents		54 746	111 468
Receivables and prepayments	12	334 485	289 449
Contract receivables, current	13	12 044	11 107
Other current assets	11	75	75
Total current assets		535 903	558 298
TOTAL ASSETS		**4 567 568**	**4 599 022**
EQUITY AND LIABILITIES:			
CAPITAL AND RESERVES			
Registered capital	17	1 200 000	1 200 000
Legal reserve fund and other funds	18	287 109	287 851
Revaluation reserve	18	1 360 241	1 409 193
Retained earnings	18	164 419	127 753
Total equity		3 011 769	3 024 797
NON-CURRENT LIABILITIES			
Loans and bonds	15	136 650	574 781
Contract liabilities, non-current	13	13 394	13 628
Deferred tax liability and deferred special levy	23	787 675	810 550
Deferred income	13	74	79
Obligation under finance lease	9	16 648	-
Retirement and other long-term employee benefits	14	5 489	5 491
Total non-current liabilities		959 930	1 404 529
CURRENT LIABILITIES			
Trade and other payables	16	51 016	70 548
Contract liabilities, current	13	35 510	35 411
Loans and bonds	15	500 481	56 417
Obligation under finance lease	9	5 027	-
Income tax	23	3 486	7 202
Retirement payments and other short-term employee benefits	14	349	118
Total current liabilities		595 869	169 696
Total liabilities		1 555 799	1 574 225
TOTAL EQUITY AND LIABILITIES		**4 567 568**	**4 599 022**

The financial statements on pages 6 to 39 were signed on 4 September 2020 on behalf of the Board of Directors:

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

Ing. Pavol Mertus
Member of the Board of Directors

SPP – distribúcia, a.s.
Income Statement
For the reporting periods ended 31 July 2020 and 31 July 2019
(EUR '000)

	Note	***Year ended 31 July 2020***	***Year ended 31 July 2019***
REVENUES FROM SALES OF SERVICES:			
Natural gas distribution		401 983	400 088
Other revenues		19 403	22 951
Total revenues		421 386	423 039
OPERATING EXPENSES:			
Depreciation, amortisation and impairment losses on assets, net	7, 8	(160 141)	(199 142)
Storage of natural gas and other services		(48 398)	(52 340)
Staff costs	19	(47 995)	(45 583)
Purchases of natural gas and consumables and services		(9 962)	(12 676)
Own work capitalised		10 230	10 598
Provisions and impairment losses, net		(14)	(240)
Provisions for receivables and inventories, net		(158)	(44)
Other, net	21	2 850	3 482
Total operating expenses		(253 588)	(295 945)
OPERATING PROFIT		167 798	127 094
Financial revenues		2 255	262
Financial costs	22	(14 442)	(18 052)
PROFIT BEFORE INCOME TAXES		155 611	109 304
INCOME TAX	23	(40 331)	(31 529)
NET PROFIT FOR THE PERIOD		**115 280**	**77 775**

(EUR '000)

	Year ended 31 July 2020	***Year ended 31 July 2019***
NET PROFIT FOR THE PERIOD	115 280	77 775
OTHER COMPREHENSIVE INCOME/(LOSS) (may be reclassified to profit or loss in the future):		
Hedging derivatives (cash flow hedging)	(1 160)	(1 028)
Other	235	(270)
Deferred tax related to items of other comprehensive income for the period	182	273
OTHER COMPREHENSIVE INCOME/(LOSS) (cannot be reclassified to profit or loss in the future):		
Increase in asset revaluation reserve	188	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	(555)	1 458 145
TOTAL NET COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	**114 725**	**1 535 920**

(EUR '000)

	Registered capital	*Legal reserve fund*	*Other reserves*	*Hedging reserve*	*Revaluation reserve*	*Retained earnings*	*Total*
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**
Net profit for the period	-	-	-	-	-	115 280	115 280
Other net comprehensive income for the period	-	-	174	(917)	188	-	(555)
Dividends paid	-	-	-	-	-	(127 753)	(127 753)
Changes in the registered capital	-	-	-	-	-	-	-
Transfer to retained earnings	-	-	-	-	(49 139)	49 139	-
Balance at 31 July 2020	**1 200 000**	**291 484**	**(29)**	**(4 346)**	**1 360 241**	**164 419**	**3 011 769**

(EUR '000)

	Note	*Year ended 31 July 2020*	*Year ended 31 July 2019*
OPERATING ACTIVITIES			
Cash flows from operating activities	25	311 474	316 523
Interest paid		(13 466)	(13 629)
Interest received		329	244
Income tax paid		(66 341)	(49 792)
Net cash flows from operating activities		231 996	253 346
INVESTING ACTIVITIES			
Acquisition of property, plant and equipment		(24 111)	(20 146)
Proceeds from/repayments of borrowings received from the Group companies – cash pooling		(265 000)	(158 000)
Non-current borrowings provided		-	(480)
Non-current borrowings provided – received repayments		64	-
Proceeds from the sale of property, plant and equipment and intangible assets		43	548
Received dividends		1 872	-
Net cash inflow/(outflow) from investing activities		(287 132)	(178 078)
FINANCING ACTIVITIES:			
Received bank loans and borrowings		59 940	-
Repaid bank loans and borrowings		(55 000)	(3 350)
Proceeds from issue of bonds		-	-
(Expenditures for)/proceeds from derivative transactions		(2 116)	(2 377)
Expenditures for the settlement of finance lease obligations		(4 410)	(3 698)
Paid dividends		-	-
Net cash flows from financing activities		(1 586)	(9 425)
NET (DECREASE)/INCREASE IN CASH		(56 722)	65 843
EFFECTS OF FOREIGN EXCHANGE FLUCTUATIONS			
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		111 468	45 625
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**54 746**	**111 468**

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 the reporting period ended 31 July 2020. The comparable period is 1 August 2018 to 31 July 2019.

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 reporting period ended 31 July 2019 were approved by the Extraordinary Annual General Meeting held on 30 September 2019.

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 full-time equivalent of the employees of SPP – distribúcia, a.s. for the year ended 31 July 2020 was 1 293, of which executive management: 8 ((for the year ended 31 July 2019: 1 289, of which executive management: 8).

As at 31 July 2020, the actual headcount was 1 293 (31 July 2019: 1 294).

1.4. Registered Address

Mlynské nivy 44/b
825 11 Bratislava
Slovak Republic

2. NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS AND CHANGES IN ESTIMATES

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

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

- **IFRS 16 "Leases"** – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),

  The standard introduces changes to lease accounting. Significant changes in the standard are related to lease accounting by lessees. Lessees are no longer required to distinguish between operating lease and finance lease. Leased assets (representing the right to use identified assets over the lease term) and a lease liability (representing the obligation to pay lease payments) will be recognised for all leases, except for short-term leases and leases of low-value assets. Lease accounting by lessors remains unchanged. Details of the new requirements are provided in Note 3. The impact of the standard on the financial statements is described below.

  The Company applied IFRS 16 "Leases" with effect from 1 August 2019.

Upon the initial application of IFRS 16, the Company applied the following practical expedients when retrospectively applying the standard to the leases that were previously classified as operating leases under IAS 17.

- The Company applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- As at the date of the initial application of the standard, the Company adjusted the right-of-use asset by the amount of a provision for onerous lease contracts recognised in the balance sheet under IAS 37 as an alternative to the assessment of impairment of the respective assets.
- The Company does not recognise leased assets and lease liabilities for leases with a lease term ending within 12 months of the date of the standard's initial application.
- The Company excluded initial direct costs from the measurement of the right-of-use asset as at the date of the standard's initial application.

The Company applied a cumulative approach, and:

- At the date of the initial application of the new standard for lease accounting, the Company recognised the cumulative effect of the initial application as an adjustment of the opening balance of equity as at 1 January 2019;
- The Company did not apply this standard to contracts not previously designated as contracts containing leases under IAS 17 and IFRIC 4.

When applying IFRS 16, the Company used a modified approach with a cumulative effect. The Company did not adjust comparable data and disclosed data for the previous period, which are in compliance with IAS 17. The accounting procedures for recognition under IAS 17 and IFRS 16 are described below.

By applying a prudence principle, the Company assessed leases whose conditions comprise an option to extend or terminate a lease. The application of IFRS 16 "Leases" had the following impact on the Company's financial statements as at 1 August 2019: an increase in right-of-use assets within non-current assets by EUR 21 622 thousand and an increase in financial liabilities by 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 – adopted by the EU on 13 March 2019 (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 – adopted by the EU on 8 February 2019 (effective for annual periods beginning on or after 1 January 2019);

- **Amendments to various standards due to "Annual Improvements to IFRS Standards (2015 – 2017 Cycle)"** resulting from the annual IFRS improvement project (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 14 March 2019 (effective for annual periods beginning on or after 1 January 2019);

- **IFRIC 23 "Uncertainty over Income Tax Treatments"** – adopted by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).

The adoption of these amendments to the existing standards has not led to any material changes in the Company's financial statements, except for the impact of the new IFRS 16 "Leases" described in the 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 amendments to the existing standards were issued by IASB and adopted by the EU and are not yet effective:

- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** – Definition of Material – adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020);
- **Amendments to References to the Conceptual Framework in IFRS Standards** – adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020);
- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures"** – Interest Rate Benchmark Reform – adopted by the EU on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020).

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"** – Classification of Liabilities as Current or Non-current (effective for annual periods beginning on or after 1 January 2022).

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.

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 and 2020 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.

(EUR '000)

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	***31 July 2020***	***31 July 2019***
Regulation stations	15 – 50 years	15 – 50 years
Gas pipelines	50 – 60 years	50 – 60 years
Structures	30 – 50 years	30 – 50 years
Machines, tools and equipment	4 – 40 years	4 – 40 years
Other non-current assets	4 – 15 years	4 – 15 years

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

If the Company recognised non-current tangible assets used for natural gas distribution at historical cost less accumulated depreciation and accumulated impairment losses, the historical net book value of such non-current tangible assets used for natural gas distribution would amount to EUR 2 123 thousand as at 31 July 2020 (31 July 2019: EUR 2 177 thousand).

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 2020, the Company prepared an analysis of the expected value-in-use of assets based on which no impairment of non-current assets was identified.

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

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

Free-of-charge transfers of gas facilities by municipalities to the Company's assets are deemed to be non-monetary grants. They are recognised at the fair value of the assets received and 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) Lease

Accounting procedures valid from 1 August 2019:

At the inception of a contract, the Company assesses whether the contract is, or contains, a lease. The Company recognises right-of-use assets and a lease liability in accordance with IFRS 16 where the Company is a lessee. An exemption is applied to short-term leases with the lease term of 12 months or less and to leases where the underlying asset is of low value. The Company recognises lease payments as an operating expense on a straight-line basis over the lease term or another systematic basis.

At the application date of the standard, a lessee measures the lease liability at the present value of lease payments outstanding as at that date. Lease payments are discounted using the interest rate implicit in the lease if such a rate can readily be determined. If such a rate cannot readily be determined, the lessee must use the lessee's incremental borrowing rate.

A lessee must remeasure the lease liability to reflect changes in interest rates and lease payments made.

A right-of-use asset is measured in the same amount as the lease liability adjusted for the lease payments recognised before or at the date of initial application, less lease payments received and initial direct costs. Subsequently, a right-of-use asset is measured at cost less accumulated depreciation and provisions.

A right-of-use asset is depreciated over the shorter of the term of the lease contract and the useful life of the underlying asset. If the ownership title to the underlying asset is transferred to the lessee at the end of the lease term, or if it is probable that the lessee will exercise an option to purchase the underlying asset, the right-of-use asset is depreciated over the useful life of the underlying asset. Assets are depreciated starting on the first day of the lease contract.

The Company leases administrative buildings, technical buildings and transportation means. Lease contracts are usually concluded for a definite period of 2 to 10 years, or for an indefinite period. For assets where the contract was set for an indefinite period, the useful life is determined based on the estimated lease term.

g) 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.

h) 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.

i) 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.

j) 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.

k) 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.

l) Cash and Cash Equivalents

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

m) 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.

n) 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.

o) 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.

p) 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 20 264 thousand (for the period ended 31 July 2019: EUR 21 984 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 2019. 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.

q) 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.

r) 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.

s) Finance and Operating Lease where the Company Acts as a Lessee until 31 July 2019

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.

t) 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 was a calendar month and as of 1 January 2017, the levy rate was 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 has been 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.

u) 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:

Impairment of property, plant and equipment

The Company reassessed the amount of an impairment provision for property, plant and equipment based on an assessment of the planned liquidation or sale. When assessing the realisable value of property, plant and equipment, certain assumptions and estimates were taken into account that may change in the future. The recoverability of property, plant and equipment for current assets used for natural gas distribution depends, inter alia, on the future development of natural gas consumption in Slovakia and future tariffs for individual distribution services that are subject to regulation. For more information on the impairment of property, plant and equipment, see Notes 7 and 26.

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 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 52 million.

Revenues from natural gas distribution

The Company recognises revenues from natural gas distribution based on regulated prices and the quantity of distributed gas to end customers. Billed revenues from natural gas distribution for customers in the household and small customer groups include an estimate of the supplied volume of natural gas from the date of the last meter reading, which is performed annually. A revenue estimate is calculated using a model based on the estimated quantity of distributed natural gas depending on measured temperatures in individual off-take categories, own consumption estimate and changes in natural gas accumulation in the distribution network.

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 2020. The Company recognised no significant financial assets and liabilities denominated in a foreign currency as at 31 July 2019.

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 2020; 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 2020, the Company recognised two loans received from banks with a face value of EUR 76.65 million and EUR 60 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).

(4) Credit risk and credit risk related to receivables

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.

(EUR '000)

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

(5) Liquidity risk

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

The table below summarises the maturity of the financial liabilities as at 31 July 2020 and 31 July 2019, based on contractual undiscounted payments:

As at 31 July 2020	***On demand***	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***> 5 years***	***Total***
Bonds	-	-	513 588	-	-	513 588
Loans	-	46	77	77 332	60 423	137 878
Obligations under finance leases	-	1 281	3 841	15 372	1 545	22 041
Trade and other payables	-	72 585	-	-	-	72 585
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

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 2020 was 20% (31 July 2019: 17%).

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

	31 July 2020	***31 July 2019***
Debt (i)	658 806	631 198
Cash and cash equivalents	54 746	111 468
Net debt	604 060	519 730
Equity (ii)	3 011 769	3 024 797
Net debt to equity ratio	**20%**	**17%**

(i) Debt is defined as long- and short-term borrowings and finance lease.
(ii) Page 9

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

c) Categories of financial instruments

	31 July 2020	***31 July 2019***
Financial assets		
Loans and receivables (including cash and cash equivalents)	492 670	412 024
Financial liabilities		
Financial liabilities carried at amortised costs	731 391	721 597
Financial derivatives recognised as hedges	4 860	6 654

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 2020, 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 2020 and 31 July 2019 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*
Year ended 31 July 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**
Year ended 31 July 2020								
Opening net book value	**79 577**	**3 852 649**	**69 300**	**529**	**2 234**	**50**	**22 955**	**4 027 294**
Additions	8	-	-	-	-	-	33 706	33 714
Placed into service	494	27 205	1 939	-	494	17	(30 163)	(14)
Reclassifications	-	246	(246)	-	-	-	-	-
Disposals	(2)	(35)	(7)	-	(5)	-	(22)	(71)
Depreciation charge	(4 763)	(141 900)	(6 059)	(11)	(972)	(9)	-	(153 714)
Change in provisions	41	-	(50)	-	(4)	-	(1)	(14)
Closing net book value	**75 355**	**3 738 165**	**64 877**	**518**	**1 747**	**58**	**26 475**	**3 907 195**
Balance as at 31 July 2020								
Cost	175 266	4 021 920	159 697	621	27 547	880	27 201	4 413 132
Accumulated depreciation and provisions	(99 911)	(283 755)	(94 820)	(103)	(25 800)	(822)	(726)	(505 937)
Net book value	**75 355**	**3 738 165**	**64 877**	**518**	**1 747**	**58**	**26 475**	**3 907 195**

(EUR '000)

As at 31 July 2020, the Company uses assets in the course of construction at a cost of EUR 16 870 thousand (31 July 2019: EUR 39 067 thousand). A depreciation charge of EUR 260 thousand was recorded in 2020 in respect of these assets (2019: EUR 1 081 thousand).

Remeasurement of non-current assets for natural gas distribution:

As at 1 August 2018, 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 31 July 2020, the Company assessed the amount of assets using the discounted cash flow method; no impairment of assets 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***		***Name and seat of the insurance company***
		2020	***2019***	
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	215 383	Allianz-Slovenská poisťovňa

The cost of fully depreciated non-current assets (includes also non-current intangible assets), which were in use as at 31 July 2020, amounts to EUR 73 959 thousand (31 July 2019: EUR 43 652 thousand).

8. NON-CURRENT INTANGIBLE ASSETS AND OTHER ASSETS

	Software	***Other non-current intangible assets***	***Assets in the course of construction***	***Total***
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**
Year ended 31 July 2020				
Initial net book value	1 477	10 470	78	12 025
Additions	-	-	561	561
Placed into service	196	51	(247)	0
Disposals	-	-	-	-
Amortisation	(1 088)	(262)	-	(1 350)
Change of provisions	-	-	-	-
Closing net book value	**585**	**10 259**	**392**	**11 236**
At 31 July 2020				
Cost	11 997	14 737	392	27 126
Provision and impairment loss	(11 412)	(4 478)	-	(15 890)
Net book value	**585**	**10 259**	**392**	**11 236**

(EUR '000)

9. RIGHT-OF-USE ASSETS AND OBLIGATION UNDER FINANCE LEASE

The Company leases buildings and transportation means. Lease contracts are usually concluded for a definite period of 2 to 10 years or for an indefinite period. For assets where the contract was set for an indefinite period, the useful life was determined based on the estimated lease term. Until 31 July 2019, leases of transportation means and administrative buildings were recognised as finance or operating lease. As of 1 August 2019, leases are recognised as right-of-use assets and the corresponding liabilities as of the date the assets became available for the Company's use.

	Buildings	*Transportation means*	*Total*
Balance as at 31 Jul 2020			
Cost	22 302	3 351	25 653
Accumulated depreciation and provisions for assets	(3 476)	(1 338)	(4 814)
Net book value	18 826	2 013	20 839

Obligation under long-term finance lease

Maturity	*Present value of minimum lease payments* *31 July 2020*	*31 July 2019*
Less than 1 year	5 027	-
1 – 5 years	15 125	-
More than 5 years	1 523	-
Total	**21 675**	**-**

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 of finance lease		*Fair value of finance lease*	
	31 July 2020	*31 July 2019*	*31 July 2020*	*31 July 2019*
Obligation under finance lease	21 675	-	22 041	-
Total	**21 675**	**-**	**22 041**	**-**

10. INVESTMENTS IN SUBSIDIARIES AND OTHER ASSETS

At 31 July 2020	*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. which 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 2020 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***		***Profit/loss***	
	2020	***2019***	***2020***	***2019***
SPP – distribúcia Servis, s.r.o. Seat: Mlynské Nivy 44/b, Bratislava	1 877	2 972	777	2 011

Profit/(loss) represents an estimate for the 7-month period of 2020 as the final financial statements of the subsidiary were not available to SPP – distribúcia, a.s. (parent company) as at the reporting date. The 2019 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. Other non-current and current assets also comprise a loan provided to the parent company, SPP Infrastructure, a.s. The credit facility amounts to EUR 350 million and the first tranche was provided on 31 March 2020 in the amount of EUR 91 000 thousand with a floating interest rate of 0.80% + 3M Euribor. The tranche falls due on 31 March 2027.

11. INVENTORIES

	31 July 2020	***31 July 2019***
Natural gas	133 254	145 267
Raw materials and other inventories	1 381	991
Provision	(82)	(59)
Total	**134 553**	**146 199**

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 2020, provisions were reversed in the amount of EUR 9 thousand (31 July 2019: EUR 17 thousand).

The Company created provisions for slow-moving inventories of raw materials amounting to EUR 32 thousand (31 July 2019: EUR 6 thousand).

12. RECEIVABLES AND PREPAYMENTS

	31 July 2020	***31 July 2019***
Prepayments and other receivables	4 649	5 864
Cash pooling receivables	329 836	283 585
Total	**334 485**	**289 449**

Receivables fall due as follows

	31 July 2020	***31 July 2019***
Within one year	334 485	289 449
From 1 year to 2 years	-	-
From 2 to 5 years	-	-
More than 5 years	-	-
Total receivables	**334 485**	**289 449**

As at 31 July 2020, the Company recorded receivables within maturity and overdue receivables amounting to EUR 334 363 thousand and EUR 830 thousand, respectively. In the comparable period, ie 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. As at 31 July 2020, receivables and prepayments are recognised net of provisions for bad and doubtful debts in the amount of EUR 708 thousand (31 July 2019: EUR 583 thousand).

(EUR '000)

Movements in the provision for receivables were as follows:

	31 July 2020	*31 July 2019*
Opening value	(583)	(544)
Creation	(133)	(94)
Use	8	15
Reversal	-	40
Closing value	**(708)**	**(583)**

Collateralisation of receivables

Several bank guarantees totalling EUR 39 958 thousand (31 July 2019: EUR 35 966 thousand) were established to secure the Company's receivables from natural gas distribution. In addition, financial funds in the amount of EUR 5 970 thousand (31 July 2019: EUR 5 855 thousand) were deposited in the Company's bank account.

Ageing structure of overdue receivables:

	31 July 2020	*31 July 2019*
Less than 2 months	71	44
2 to 3 months	17	7
3 to 6 months	89	21
6 to 9 months	17	54
9 to 12 months	31	19
More than 12 months	605	624
Total	**830**	**769**

13. CONTRACT RECEIVABLES AND LIABILITIES

Contract liabilities, non-current

	31 July 2020	*31 July 2019*
Opening balance, net	13 628	13 145
Assets acquired during the reporting period	-	1 014
Amortisation during the reporting period	(234)	(531)
Closing balance, net	**13 394**	**13 628**

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 2020	*31 July 2019*
Contract liabilities	35 510	35 411
Total	**35 510**	**35 411**

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 2020	*31 July 2019*
Contract receivables	12 044	11 107
Total	**12 044**	**11 107**

Contract receivables comprise receivables from distribution activities.

(EUR '000)

14. 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 November 2019, a new collective agreement was signed for 2020 to 2021, under which employees are entitled to a retirement benefit based on the number of years worked with the Company upon their retirement. Under the Collective Agreement, the retirement benefits range from two to four times the employee's average salary. As at 31 July 2020, the obligation relating to retirement and other long-term employee benefits was calculated on the basis of the valid collective agreement.

As at 31 July 2020, there were 1 293 (31 July 2019: 1 294) 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 2020 are as follows:

	Long-term benefits	*Post-employment benefits*	*Total benefits at 31 July 2020*	*Total benefits at 31 July 2019*
Net liability at 1 August	1 131	4 478	5 609	5 235
Net expense recognised	43	601	644	269
Change in actuarial assumptions	-	(295)	(295)	(295)
Benefits paid	(52)	(68)	(120)	(165)
Net liabilities	**1 122**	**4 716**	**5 838**	**5 609**

	Current liabilities (included in other current liabilities)	*Non-current liabilities*	*Total*
At 31 July 2020	349	5 489	5 838
At 31 July 2019	118	5 491	5 609

Key assumptions used in actuarial valuation:

	At 31 July 2020	*At 31 July 2019*
Market yield on government bonds	(0.080%)	0.189%
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 2020, the average retirement age is 63 years.

(EUR '000)

15. LOANS AND BONDS

	31 July 2020 Unsecured	***31 July 2019 Unsecured***
Loans	136 668	131 682
Bonds	500 463	499 516
Total	**637 131**	**631 198**
Loans by currency		
EUR		
- with a fixed interest rate	500 463	499 516
- with a floating interest rate	136 668	131 682
Total loans	**637 131**	**631 198**
Loans are due as follows:		
Within one year	500 481	56 417
From 1 to 2 years	-	-
From 2 to 5 years	76 650	498 131
More than 5 years	60 000	76 650
Total loans	**637 131**	**631 198**

As at 31 July 2020, the Company drew a long-term loan in the amount of EUR 76.65 million falling due in 2024 and a long-term loan in the amount of EUR 60 million. This loan was drawn in the 2020 financial year and falls due in 2029. The interest rate of both loans consists of a variable component (3M EURIBOR) and a fixed margin (% p.a.). The loans are not secured by any assets. In the 2020 financial year, the Company repaid a loan in the amount of EUR 55 million.

The average interest rate of the loans drawn as at 31 July 2020 was 0.193% (31 July 2019: 0.351%).

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 2020	***31 July 2019***	***31 July 2020***	***31 July 2019***
Loans	136 668	131 682	136 650	131 650
Bonds	500 463	499 516	500 000	500 000
Total	**637 131**	**631 198**	**636 650**	**631 650**

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 loans.

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, the Company is required to provide additional collateral in the form of a guarantee, cash collateral, or other form of collateral accepted by the bank.

(EUR '000)

On 31 December 2014, the Company drew a loan in the amount of EUR 80 000 thousand, of which an amount of EUR 76 650 thousand was outstanding as at 31 July 2020. Under the loan agreement, the Company is not required to meet any financial covenants. However, the loan agreement defines the minimum rating level for the Company (Moody's: Baa2, Fitch: BBB). If the rating falls below the defined level at one of the two agencies (while remaining unchanged at the other agency), the interest margin will 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, the Company is required to provide additional collateral in the form of a guarantee, cash collateral, or other form of collateral accepted by the bank.

On 23 September 2019, the Company drew a loan in the amount of EUR 60 000 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, the Company 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 2020, the Company rating was A- (Fitch) or Baa2 (Moody's), ie all conditions were met.

16. TRADE AND OTHER PAYABLES

	31 July 2020	***31 July 2019***
Trade payables	25 812	25 175
Trade payables for gas purchases	4 477	23 563
Employee liabilities	5 926	5 824
Social security and other taxes	3 155	3 082
Payables from financial derivatives	4 860	6 654
Other payables	6 786	6 250
Total	**51 016**	**70 548**

As at 31 July 2020, the Company recorded payables within maturity in the amount of EUR 50 617 thousand; no overdue payables were recognised. As at 31 July 2019, the Company recorded payables within maturity in the amount of EUR 70 548 thousand; no overdue payables were recognised.

Social fund payables:

	Amount
Opening balance as at 1 August 2019	176
Total creation:	424
from expenses	*424*
non-mandatory allotment	-
other	-
Total drawing:	(349)
monetary rewards and gifts	*(59)*
benefit in material deprivation	-
work jubilee benefits	*(52)*
catering allowance	*(123)*
other drawing as per CA	*(115)*
Closing balance as at 31 July 2020	**251**

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 (31 July 2019: 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 2019: 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 2019***	***Profit allotment for 2018***
To cover losses from previous years	-	-
Dividends	77 775	97 635
Total profit to be distributed	***77 775***	**97 635**

19. STAFF COSTS

	Year ended 31 July 2020	***Year ended 31 July 2019***
Wages, salaries and bonuses	33 410	31 639
Social security costs	11 729	11 190
Other social security costs and severance pay	2 856	2 754
Total staff costs	**47 995**	**45 583**

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 7 091 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 2020	***Year ended 31 July 2019***
Audit of financial statements	88	65
Tax advisory services	-	-
Other	16	10
Total	**104**	**75**

The year-on-year increase primarily resulted from additional audit procedures that were undertaken during the audit of the consolidated financial statements of the Company's shareholder.

(EUR '000)

21. OTHER REVENUES AND EXPENSES

	Year ended 31 July 2020	***Year ended 31 July 2019***
Revenues from unauthorised natural gas consumption	2 451	2 422
Other taxes and charges	(371)	(349)
Donated assets	234	529
Profit/(loss) from the sale of raw materials	26	33
Profit/(loss) from the sale of assets	6	264
Other	504	583
Total	**2 850**	**3 482**

22. FINANCIAL EXPENSE

	Year ended 31 July 2020	***Year ended 31 July 2019***
Interest expense	13 882	17 971
Other	560	81
Total financial expense/(income)	**14 442**	**18 052**

Interest expense mainly includes expenses for the coupon of a bond issued by the Company in 2014 (Note 15).

23. TAXATION

23.1. Income Tax

Income tax comprises the following:

	Year ended 31 July 2020	***Year ended 31 July 2019***
Current tax related to the current year	48 858	46 912
Refunds and additional assessments of income tax	-	-
Special levy	14 167	18 447
Deferred special levy (Note 23. 2)	(3 251)	(4 688)
Deferred income tax (Note 23.2)		
- Current year	(19 442)	(29 142)
Total	**40 331**	**31 529**

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 2020	***Year ended 31 July 2019***
Profit before taxation	155 611	109 304
Income tax at 21%	32 678	22 954
Effect of adjustments from permanent differences between carrying amount and tax value of assets and liabilities	(3 263)	(5 185)
Refunds and additional assessments of income tax	-	-
Special levy on business in regulated industries	10 915	13 760
Income tax for the current year	**40 331**	**31 529**

The reported tax rate differs from the standard tax rate stipulated by law in the amount of 21% (2019: 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 t).*

(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 2019	*(Charge)/Credit to other comprehensive income/loss*	*(Charge)/Credit to profit for the current period*	*At 31 July 2020*
Difference in NBV of non-current assets	(347 106)	-	14 280	(332 826)
Remeasurement of non-current assets	(388 274)	-	5 604	(382 670)
Items adjusting tax base only when paid	409	-	(143)	266
Provisions for receivables	35	-	17	52
Impairment loss	500	-	(255)	245
Provision for bonuses	817	-	32	849
Provision for employee benefits	1 123	-	110	1 233
Hedging derivative instruments	912	244	-	1 156
Change in actuarial assumptions	55	(62)	-	(7)
Effect of deferred tax on special levy	(79 241)	-	3 251	(75 990)
Other	220	-	(202)	18
Total	**(810 550)**	**182**	**22 694**	**(787 675)**

	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)**

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, paragraph t).*The following table shows the balances (after offsetting) of deferred tax for the purposes of recognition in the balance sheet:

	31 July 2020	*31 July 2019*
Deferred tax liability	(711 685)	(731 309)
Deferred special levy	(75 990)	(79 241)
Total	**(787 675)**	**(810 550)**

(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 2020	***Before tax***	***Tax***	***After tax***
Change in actuarial assumptions	293	(51)	242
Cash flow hedging	(1 160)	255	(905)
Other	130	(22)	108
Other comprehensive loss for the period	**(737)**	**182**	**(555)**

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**

25. CASH FLOWS FROM OPERATING ACTIVITIES

	Year ended 31 July 2020	***Year ended 31 July 2019***
Profit before tax	155 611	109 304
Adjustments:		
Depreciation, amortisation and impairment losses on assets, net	160 141	199 142
Interest income, net	12 681	17 784
Reserves, provisions and other non-cash items	(161)	254
Loss/(profit) from the sale of non-current assets	(6)	(264)
(Increase)/decrease in receivables and prepayments	274	6 065
(Increase)/decrease in inventories	11 603	(10 693)
(Increase)/decrease in trade payables and other payables	(28 689)	(5 144)
Other items not included in non-cash transactions	20	75
Cash flows from operating activities	**311 474**	**316 523**

26. COMMITMENTS AND CONTINGENCIES

Capital Expenditure Commitments

As at 31 July 2020, capital expenditures of EUR 9 729 thousand (31 July 2019: EUR 6 673 thousand) had been committed under contractual arrangements for the acquisition of non-curren assets, but were not recognised in the financial statements.

Operating Lease Arrangements

From 1 August 2019, the Company applies 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 2020				*31 July 2020*	
	Revenues	***Expenses***	***Dividends***	***Other***	***Receivables***	***Payables***
SPP, a.s.	252 763	6 979	-	-	697	35 897
SPP Infrastructure, a.s.	608	4	127 753	-	421 081	-
Other related parties	15 608	35 428	-	8 822	1 294	10 207
Total	**268 979**	**38 925**	**127 753**	**8 822**	**423 072**	**46 104**

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

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

Management considers that the transactions with related parties have been made on an arm's length basis.
Other related parties mainly include the fellow subsidiaries.

	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**

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 2020	***Year ended 31 July 2019***
Remuneration to members of the Board of Directors, Supervisory Board, executive management and former members of the bodies - total	1 753	1 704
Of which:		
Board of Directors and executive management	*1 693*	*1 631*
Supervisory Board	*60*	*73*
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	64	71
Of which:	64	71
Board of Directors and executive management		
Supervisory Board		
Other payments to members of the Board of Directors, Supervisory Board, executive management and former members - total	19	19
Of which:		
Board of Directors and executive management	*19*	*19*
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) Consolidated financial statements

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

The Company applied an exemption set out in IFRS 10 paragraph 10.28 and did not prepare consolidated financial statements as at 31 July 2020. 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).

(EUR '000)

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 2019 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.

At the end of 2019, information on the coronavirus in China was published for the first time. In early 2020, the virus spread to almost the entire world and may also affect the Slovak economy. Company management considers this event to be an event that does not affect nor requires an adjustment to the 2020 financial statements, but rather to be an event that requires disclosure in the notes to the 2020 financial statements. Despite the constantly-changing situation, as at the date of publication of the financial statements, Company management did not register a significant impact on the Company's operations. Company management continues to closely monitor the situation and, if necessary, it will take all possible steps to avert negative impacts of this situation on the Company.

29. POST-BALANCE SHEET EVENTS

After 31 July 2020, there were no other significant events that would require adjustments to or disclosure in the financial statements.

Prepared on: 4 September 2020	***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:***
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		