

ANNUAL REPORT
for
1 August 2019 - 31 July 2020



ZEMNÝ PLYN

EKOLOGICKY ŠETRÝ
EKONOMICKY VÝHODNÝ
ENERGETICKY HOSPODÁRNÝ

„WE LOVE CLEAN AIR”



ZEMNÝ PLYN

ÉKOLOGICKY ŠETRNÝ
EKONOMICKY VÝHODNÝ
ENERGETICKY HOSPODÁRNÝ

CONTENTS

FOREWORD FROM THE COMPANY MANAGEMENT	4
1. COMPANY	7
Company Profile	7
Board of Directors	8
Top Management	10
Supervisory Board	13
Organizational Structure	14
2. SAFE AND RELIABLE DISTRIBUTION	17
Operation and Safety of the Network	17
H2PILOT Project	17
Damage to Gas Facilities Caused by Third Parties	17
Providing a Standard for the Security of Supplies	17
Discovering Unauthorized Usage of Natural Gas	18
Gasification of Slovakia	18
3. CUSTOMER ORIENTATION	21
Relations with Gas Suppliers, the Liberalized Gas Market	21
Legislation and Regulation	21
Shortening of the Process of Connection of Households and Small Customers	22
Services for Medium and Large Customers	22
Digitalization of Services – Web Applications for Customers	22
4. EMPLOYEES AND DEVELOPMENT OF CORPORATE CULTURE	25
Growing together	25
Educating and Inspiring	25
Corporate Social Responsibility	25
Protecting our Health	26
5. NATURAL GAS – EFFECTIVE AND ECOLOGICAL SOLUTION	27
Natural Gas and the Environment	27
Energy Performance of Buildings	28
Natural Gas and Effectiveness	28
Electricity and heat production in a cogeneration unit	29
Condensing Boilers for Single-Family Houses	29
Compressed Natural Gas (CNG) and its Use in Transport	29
Marketing On-line/Off-line Communication	30
6. REPORT ON BUSINESS ACTIVITIES OF THE COMPANY	33
Asset and Capital Structure	34
Summary Results	36
7. STATEMENT ON COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE	38
8. REPORT ON THE COMPLIANCE PROGRAMME OF THE DISTRIBUTION NETWORK OPERATOR	42
9. INDEPENDENT AUDITOR'S REPORT	45
PROSPECTS OF THE COMPANY	49

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.

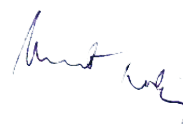
We are also increasing the attractiveness of natural gas by constantly improving customer service. Our web applications enjoy ever-increasing interest. We are glad to be able to announce increasing interest in our on-line services. Today, they are used by almost four-fifths of customers connected to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



Ing. Pavol Mertus
Member
of the Board of Directors



Ing. Martin Hollý
General Director



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Ekologicky šetrný
Ekonomicky výhodný
Energeticky hospodárny

**RESPONSIBLY
&
REASONABLY**

COMPANY

COMPANY PROFILE

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

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

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

BOARD OF DIRECTORS AS AT 31/07/2020



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 pekáreň and cukráreň, a. s. in 1995. In the years 1994 to 1998 he worked in the polygraphic company DEAL, s. r. o. He was a manager at DEAL & PRINT, s. r. o., between 1998 and 2006. In the years 2006 and 2007 he was Director of the Investment and Acquisitions Office at the Ministry of Defence of the Slovak Republic. He became a Member of the Supervisory Board of Vojenský opravárenský podnik, a. s. in Trenčín in 2007. Since August 2007 he has been the Executive of Cleanlife, s. r. o., and at the same time of DEAL & PRINT, s. r. o. He became Vice-Chairman of the Board of Directors of SPP - distribúcia, a. s. on 12 July 2012.



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

František Urbaník graduated from the Faculty of Electrical Engineering of the Brno University of Technology. He obtained his PhD at the VŠB - Technical University of Ostrava, Faculty of Mining and Geology. He started his professional career Vlárské strojírný, s. p. in 1991 as Chief Power-Supply Director. In the period from 1993 to 1995, he was employed with IMC, s. r. o. as system engineer. In 1995 he co-founded AISE, s. r. o., where he worked as a system engineer and marketer. He executed projects of measurement and control implementation, reduction in energy intensity of industrial enterprises and applied development of data collection and distribution methods. In 1997, he became the executive Officer and Director of this company, where he still works. In the period from 1997 to 2008 he was also a manager of ENBI, s. r. o., where, in addition to energy studies and audits, he participated in the projects of EPC, M&C of Johnson Controls, AISYS, ERIS, and SIEMENS systems, and in the application of TEDOM and Caterpillar cogeneration units; till 1999, he also held the position of Executive Officer of the company. In January 2017, he became a member of the Board of Directors of SES BOHEMIA ENGINEERING, a. s. Since 26 May 2017, he has been a member of the Board of Directors of SPP - distribúcia, a. s.



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

Marek Štrpka graduated from the Faculty of Commerce of the University of Economics in Bratislava and the Faculty of Law of Comenius University in Bratislava. He started his professional career in 1996 in the St. Nicolaus Group, holding various managerial positions for eight years. In 2003 he started to work for the AGROFERT Group, first holding the position of financial director and member of the Board of Directors of Duslo, a. s., and from 2008 as the CEO and Vice-Chairman of the Board of Directors of this company. At the same time, he operated as Chairman of the Supervisory Board of the Association of Chemical and Pharmaceutical Industry SR, Member of the Board of Directors of the Slovak Agriculture and Food Chamber, member of Klub 500. Since 2013, he has been the CEO of Stredoslovenská energetika - distribúcia, a. s. Since 11 November 2015, he has been a member of the Board of Directors of Stredoslovenská energetika - distribúcia, a. s.



Ing. Pavol Mertus
Member of the Board of Directors

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

TOP MANAGEMENT AS AT 31/07/2020



Ing. Martin Hollý
General Director

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



Ing. Roman Filipoiu, MBA
Head of the Economics
and Regulatory Division

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



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

Rastislav Prelec graduated from the Faculty of Electrical Engineering at the Slovak University of Technology in Bratislava in 1985 and completed his Masters in Industrial Engineering at Fachhochschule Ulm (Germany) in 2005. After completing his studies, he worked in the Chemical Technology Research Institute as Head of the Automation Department until 1991. In the period of 1991 - 1995 he was self-employed in the field of industrial automation. In 1995 he joined Slovenský plynárenský priemysel, a. s. as a Telemetric Equipment Technician. He later worked as Head of the Control Systems Department. Since 1997 he has worked as a Project Manager and Co-Manager on the following projects: Reconstruction and Remote Control of Transfer Stations (SCADA SPD), Remote Monitoring of Regulation Stations (SCADA OZ), Dispatching Control Systems (SCADA), Remote Monitoring of Large Customers, Mobile Workplaces, and the Distribution Information System. In 2009 he was appointed Director of the Maintenance and Metering Division in SPP - distribúcia, a. s., where he served until 1 July 2013, when he became Head of the Network Operation and Asset Management Division in SPP - distribúcia, a. s.



Ing. Miroslav Horváth
Head of the Maintenance
and Metering Division

Miroslav Horváth completed his studies at the Faculty of Mechanical Engineering of the University of Žilina, specializing in the gas industry. After graduating, he started working for Slovenský plynárenský priemysel, š.p., as a Technician of Gasification in 1999. Subsequently he worked in several positions, among others also as Head of the Centre District Gasworks in Považská Bystrica. In July 2004 he became Head of the Local Unit in Prievidza. After the legal unbundling in 2007, he joined SPP - distribúcia, a. s., in the post of Head of the Regional Centre East in Košice. Since 2009, he has worked as Head of the maintenance department in the Maintenance and Metering Division and subsequently as Deputy to the Section Head. On 1 July 2013 he was appointed Head of the Maintenance and Metering Division for SPP - distribúcia, a. s.



Ing. Marek Paál
Head of the Distribution
Services Division

Marek Paál, specialising in the gas industry, completed his studies at the Faculty of Mechanical Engineering of the University of Žilina in 2003. However, he started working in this field in 1996, when he joined the Slovak Gas Dispatching at Slovenský plynárenský priemysel, a. s. (SPP), holding various posts. Since 2004 he worked at SPP as Director of the Distribution Capacities Sales Division. In 2006, he participated in the legal unbundling process of SPP into three separate companies and led the project for the implementation of a distribution information system for liberalised gas trading. After the legal unbundling, he continued to work as Director of the Distribution Capacities Sales Division in the now separated company SPP - distribúcia, a. s. Since the restructuring of the company in 2009, he has held the position of Head of the Distribution Services Division.





Ing. Irenej Denkocy, ACCA
Head of the Investment Division

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



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

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



SUPERVISORY BOARD



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

In 2002, Rastislav Chovanec completed his International Business studies at the Faculty of Business Management at the University of Economics in Bratislava, where in 2006 he also obtained his PhD. He started working in 2004 as a project manager at Foreign Direct Investment Section of the Slovak Investment and Trade Development Agency (SARIO), where he worked until 2006. Between 2006 and 2010 he worked as an Adviser to the Prime Minister for Foreign Investment. In the years 2008 - 2012, he was CEO of Ceptra, s.r.o. In 2012 he returned to the Government Office of the Slovak Republic, where he worked two years as an Adviser to the Prime Minister for Investment. In 2014, he was appointed State Secretary of the Ministry of the Economy of the Slovak Republic, where he operates up to now. Since 2012, he has been Chairman of the Supervisory Board for SPP - distribúcia, a. s.

William Price

Vice-Chairman of the Supervisory Board

Members:

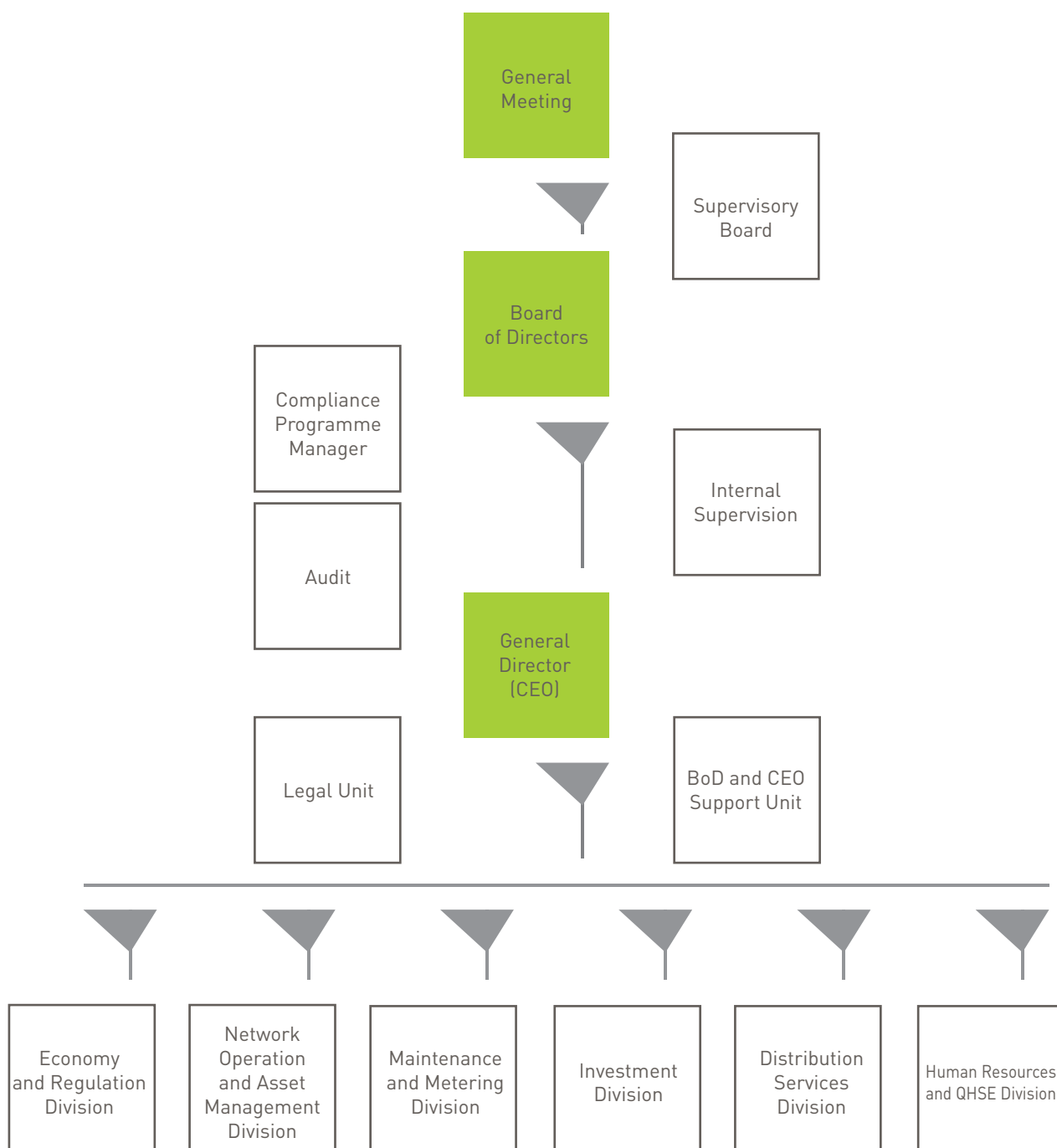
Pavol Korienek

Ing. Robert Procházka

Milan Boris

JUDr. Mgr. Matej Šimášek, PhD.

ORGANIZATIONAL STRUCTURE



ECO-FRIENDLY & SMART CHOICE



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ENERGETICKY HOSPODÁRNÝ

NEW ONLINE RESERVATION SYSTEM



Distribúcia **SPP**



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EKONOMICKY VÝHODNÝ
ENERGETICKY HOSPODÁRNY

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.

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.

Distribution of natural gas through the SPP-D distribution network in 2016 – 31 July 2020 (billions of cubic metres/15 °C)

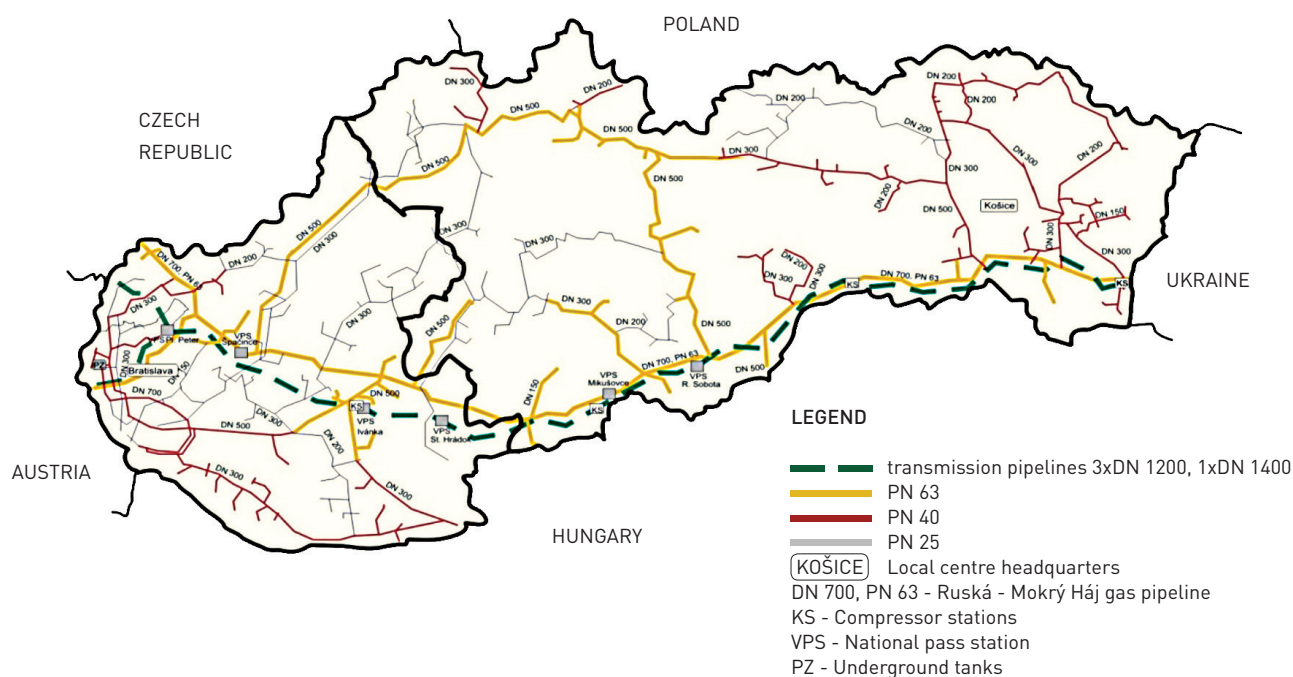
	2016	2017	1-7/2018*	2019**	2020**
Distributed volumes	4,68	4,90	2,87	4,81	4,85

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

Investment in the renovation / reconstruction of the network in 2015 – 31.7.2020 (mil. EUR)

	2015	2016	2017	2018 until 31.7.	2019 until 31.7.	2020 until 31.7.
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

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 until 31.7.	2019 until 31.7.	2020 until 31.7.
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

* Updated and accurate lengths of gas pipelines in the transition to the new GIS (Geographic Information System).

Classification of local gas network in 2015 – 31.7.2020 (km)

	2015	2016	2017	2018 until 31.7.	2019 until 31.7.	2020 until 31.7.
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



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CUSTOMER ORIENTATION

RELATIONS WITH GAS SUPPLIERS, THE LIBERALIZED GAS MARKET

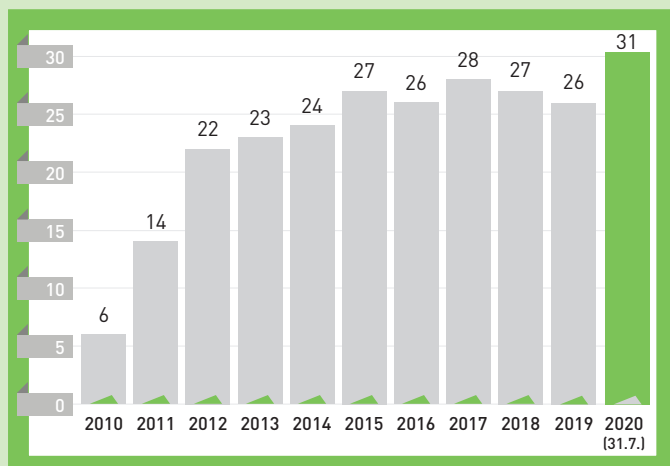
As at 31 July 2020, SPP - distribúcia provided access to the distribution network and distribution of gas for 31 distribution-network users (mostly gas suppliers). We constantly implement improvements in order to contribute to gas market development in Slovakia. We improve and increase efficiency of 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.

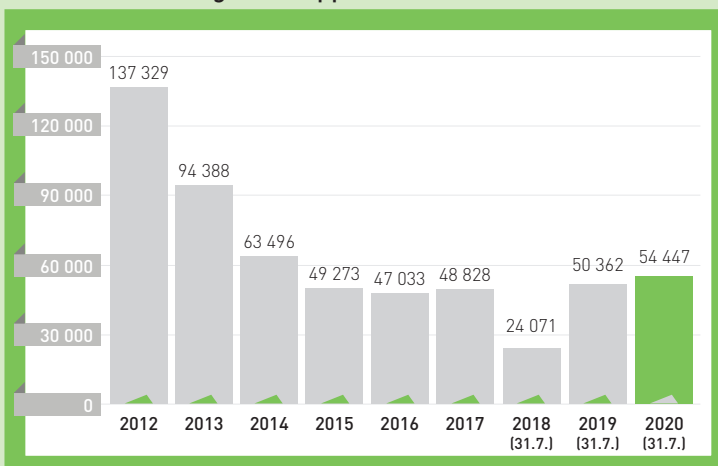
LEGISLATION AND REGULATION

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



Number of changes of supplier



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.

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.

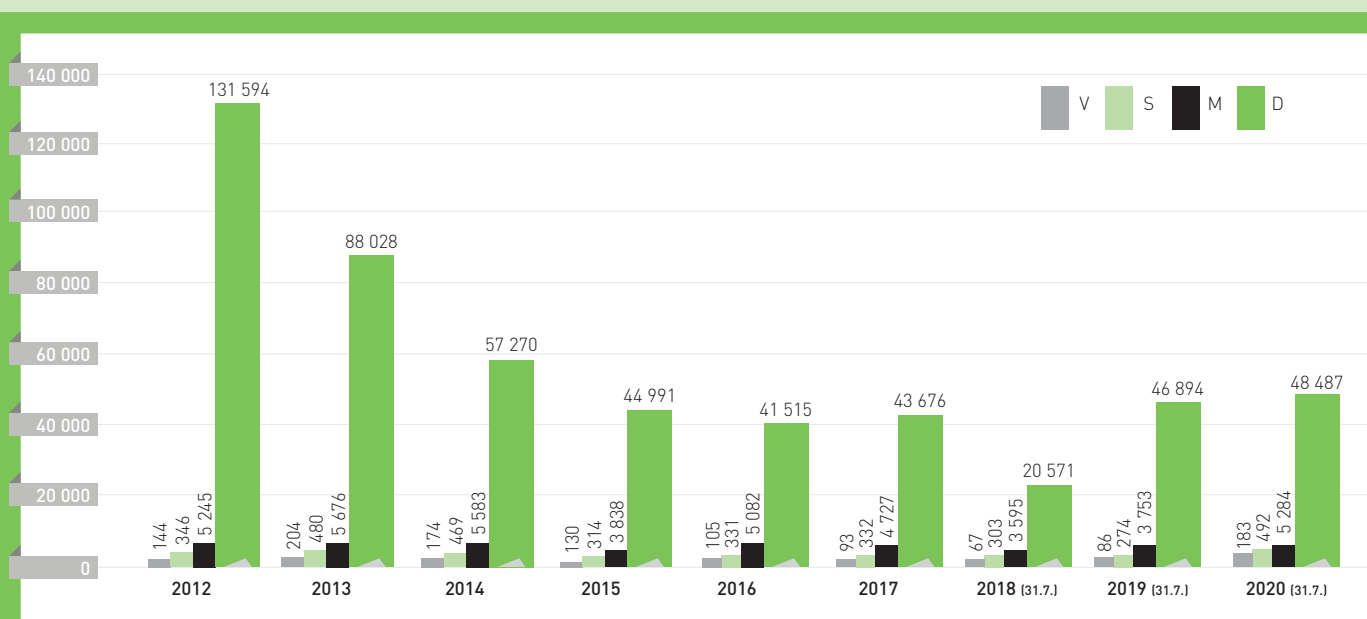
DIGITALIZATION OF SERVICES – WEB APPLICATIONS FOR CUSTOMERS

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.

Number of changes of supplier by category

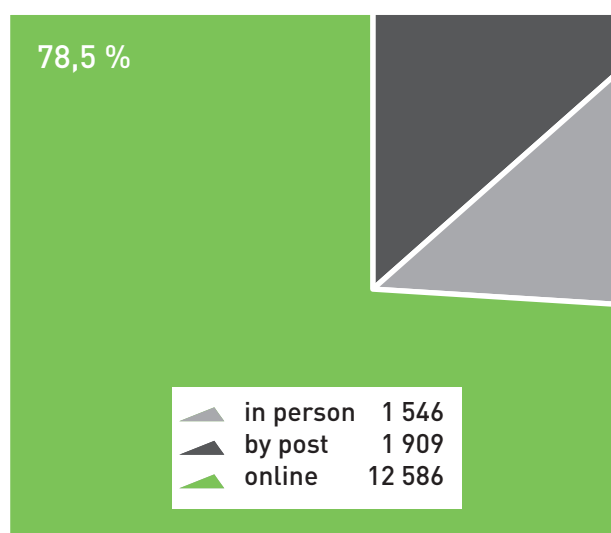


The customers that had not provided an e-mail address in their application are contacted by phone. These notifications, as we see from customers' feedback, save their time and money to a great extent, and contribute to their comfort in the process of connection. We also preserved our customers' comfort in the period from March to May 2020, when the Slovak Republic was paralysed by the pandemic of the coronavirus causing

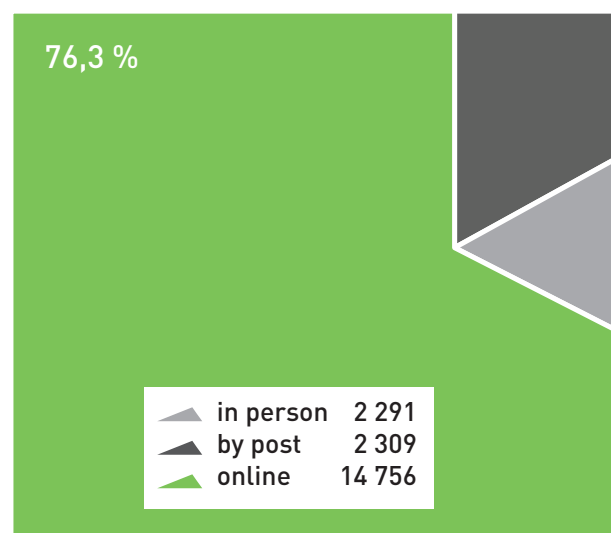
the COVID-19 disease. In connection with coronavirus spread prevention, our company also temporarily closed customer offices and eliminated personal contact. The possibilities to file all application types by mail and electronically, as well as the phone contact with call-centre operators remained fully 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.

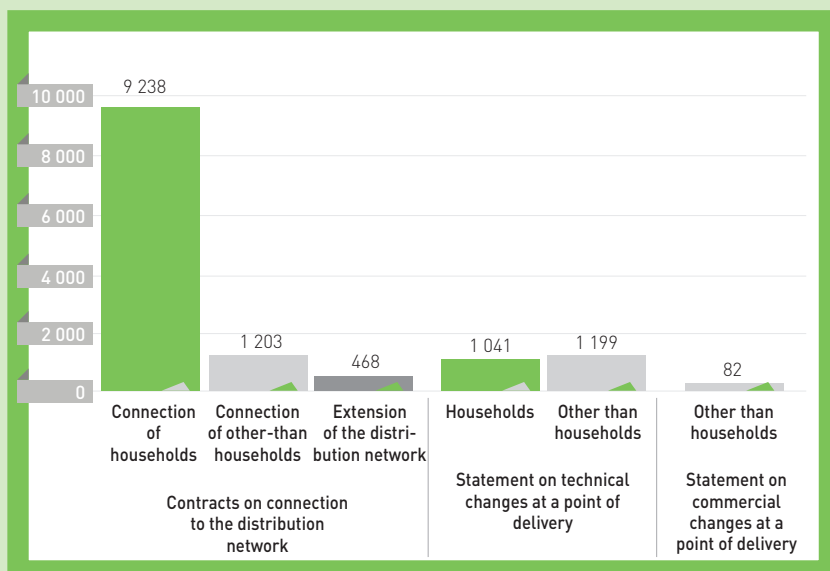
Requests for connection to the distribution network and for an opinion on a technical change for the period 1.8.2019 – 31.7.2020



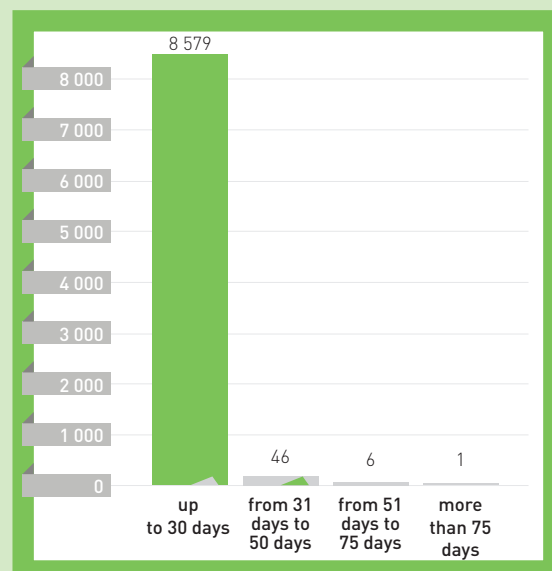
Applications for installation of the meter for the period 1.8.2019 – 31.7.2020



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 1.8.2019 and 31.7.2020



DEVELOPMENT PROGRAMME KARIÉRA NA PLNÝ PLYN



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 CO₂ 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

Druh paliva	Zemný plyn	TČ - vzduch/voda	Elektrina (priamovýhrevné)	Elektrina (teplovodné)	Drevné peletky
Tepelné zariadenie	Kondenzačný kotol	TČ - vzduch/voda	rohože	Elektrokotol	Konvenčný kotol
Účinnosť	97 %	300 %	99 %	99 %	90 %
Množstvo paliva	758 m ³	2 620 kWh	7 939 kWh	7 939 kWh	1 747 kg
Prevádzkové náklady (OPEX)	Zemný plyn	Drevené pelety	Drevo	TČ - vzduch/voda	TČ - vzduch/voda
SPOLU	487 €/rok	529 €/rok	1 103 €/rok	1 200 €/rok	412 €/rok
Investičné náklady komplet (CAPEX)	Zemný plyn	Drevené pelety	Drevo	TČ - vzduch/voda	TČ - vzduch/voda
SPOLU	10 680 €	17 230 €	7 960 €	9 260 €	12 930 €
NÁKLADY ZA 15 ROKOV	17 986 €	24 465 €	22 158 €	25 564 €	19 108 €

OPEX – prevádzkové náklady, CAPEX – vstupné/investičné náklady, TCO – „total cost of ownership“ – celkové náklady pre vlastníka

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 m²,
- with a low-temperature floor (hot-water) heating system,
- the estimated heat (heating and hot water) consumption is 10,000 kWh.

The economic evaluation of any heating system takes into account two basic parameters: 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.



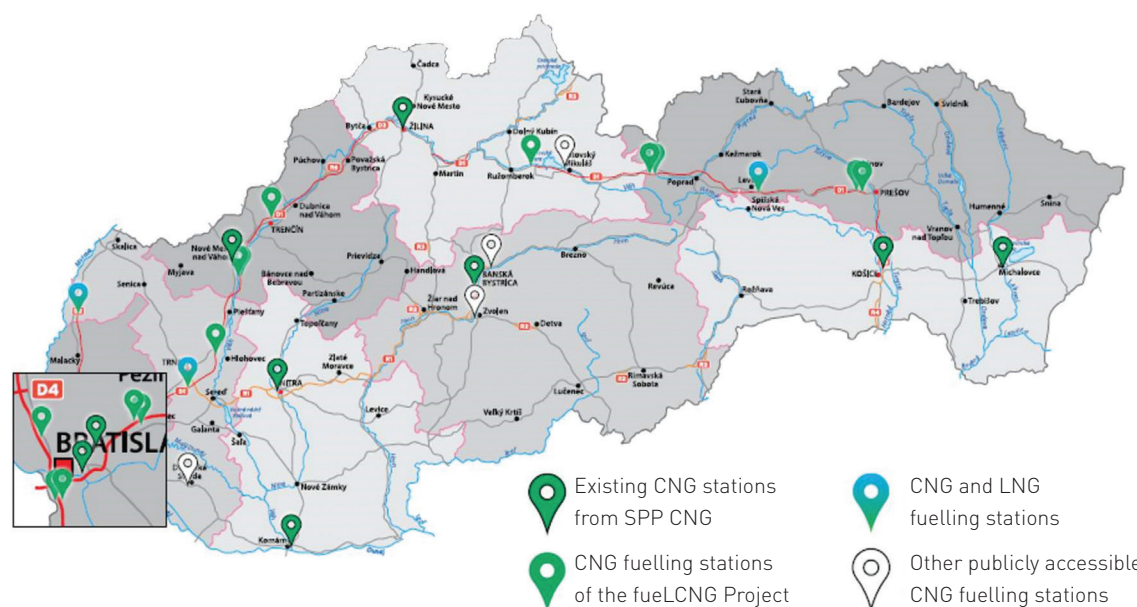
ZEMNÝ PLYN

EKOLOGICKY ŠETRŇÝ
EKONOMICKY VÝHODNÝ
ENERGETICKY HOSPODÁRNÝ

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.

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.



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.

YELLOW BLANKET CHARITY PROJECT



**& STABLE
EFFICIENT**



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 and 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 expenses 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 expenses 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 expenses	-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

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 88.30 % 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 11.70 % 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	88,30 %	87,86 %
Current assets	535,90	558,30	11,70 %	12,14 %

SHAREHOLDER 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
Shareholder equity	3 011,77	3 024,80	65,94 %	65,77 %
Liabilities	1 555,80	1 574,22	34,06 %	34,23 %

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

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

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

ending 31 July 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)

ASSETS	Year ending 31 July 2020	Year ending 31 July 2019
NON-CURRENT ASSETS		
Buildings, structures, machinery and equipment	3 907 195	4 027 294
Investments in subsidiary companies	1 000	1 000
Intangible non-current and other assets	11 236	12 025
Rights to the use of property	20 839	0
Provided loans	91 395	405
Total non-current assets	4 031 665	4 040 724
CURRENT ASSETS		
Inventory	134 553	146 199
Receivables and advance payments	334 485	289 449
Contractual assets	12 044	11 107
Tax receivables and income taxes	0	0
Cash and cash equivalents	54 746	111 468
Provided loans	75	75
Total current assets	535 903	558 298
TOTAL ASSETS	4 567 568	4 599 022
SHAREHOLDER EQUITY And LIABILITIES		
CAPITAL And PROVISIONS		
Share capital	1 200 000	1 200 000
Statutory reserve fund and other funds	1 647 350	1 697 044
Retained profit	49 139	49 978
Profit of the current period	115 280	77 775
Total shareholder 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 SHAREHOLDER EQUITY And LIABILITIES	4 567 568	4 599 022

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

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

Cash flow statement (selected data in thous. EUR)

OPERATING ACTIVITIES	Year ending 31 July 2020	Year ending 31 July 2019
Cash flows from operating activities	311 475	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 FINANCIAL ACTIVITIES	-1 586	-9 425
NET INCREASE OF CASH	-56 722	65 843
BALANCE OF CASH AT THE BEGINNING OF THE PERIOD	111 468	45 625
BALANCE OF CASH AT THE END OF THE PERIOD	54 746	111 468

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.



ZEMNÝ PLYN

EKOLOGICKY ŠETRŇÝ
EKONOMICKY VÝHODNÝ
ENERGETICKY HOSPODÁRNÝ

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.
 - (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.
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;
 - (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;
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;

(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 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



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



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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	
<p>The Company recognises revenues from natural gas distribution based on regulated prices and the quantity of distributed gas to end customers. A portion of revenues from natural gas distribution to 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.</p> <p>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:</p> <ol style="list-style-type: none"> Estimated quantity of distributed natural gas depending on measured temperatures in individual off-take categories; Own consumption estimate; Changes in natural gas accumulation in the distribution network. 	<p>Our audit procedures included, inter alia:</p> <ul style="list-style-type: none"> 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.

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Impairment Assessment	
<p><i>See Note 3d) to the financial statements</i></p> <p>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:</p> <ul style="list-style-type: none"> • 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. <p>The above assumptions require management to make highly-subjective judgments regarding long-term periods.</p>	<p>Our audit procedures included, inter alia:</p> <ul style="list-style-type: none"> • 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.

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- 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

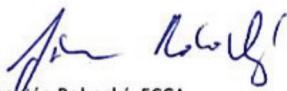
Our audit opinion expressed herein is consistent with the additional report prepared for the Company's Audit Committee, which we issued on the same date as the date of this audit report.

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

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RELIABLY**

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

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