

SPP – distribúcia, a.s. annual financial results for financial year 2021

During the winter months of 2020, normal weather conditions mostly prevailed, but the first half of 2021 was marked by temperature records. Significantly cold winter weather started in February 2021, when the coolest temperatures were recorded, for example reaching as low as -29.0 °C on Lomnický Peak, thereby breaking daily records (source: Slovak Hydrometeorological Institute). The record drop in temperature continued even after the end of the meteorological winter, with cold weather persisting in our country into the months of March and April. In April there was an unusual cooling, when the rate of decrease in air temperature was particularly interesting, when one of Slovakia's fastest ever advection temperature drops within an hour was recorded. Records continued into the summer period: July 2021 ranked among the warmest months in the history of meteorological measurement and observation in Slovakia since 1951. Moreover, according to an official press release from the World Meteorological Organization (WMO), 2020 was one of the three warmest years in at least 140 years with a deviation of +1.2 °C compared to the second half of the 19th century. All these extremes contributed to increased consumption of natural gas.

Extreme weather events and also the COVID-19 pandemic were a topic worldwide in 2020/2021. However, as a new report compiled by the WMO shows, even the economic slowdown caused by the COVID-19 pandemic has not been able to slow down the ongoing climate change.

Global environmental interests also led to new activities on the part of the Government of the Slovak Republic, in which SPP – distribúcia, a.s. was actively involved.

Between 1.8.2020 and 31.7.2021, the company had to pay close attention and respond to regularly changing legislation, especially relating to protection against the spread of the COVID-19 pandemic.

Since July 2018, when Slovak Regulatory Office for Network Industries (hereinafter "RONI") amended the Decree of the Office No. 223/2016 establishing price regulation in the gas industry, there were no further changes to this Decree.

However, based on amendment to the current regulatory policy, the current regulatory period valid from 1 January 2017 to 31 December 2021 has been extended to 31 December 2022 as RONI wanted to take more time to be able to incorporate the European Commission's Winter Package into the regulatory framework. The new regulatory policy, which should be valid for the period 2023 to 2027 is still in progress by RONI.

On 1.9.2020, an amendment to Act no. 250/2012 on regulation in network industries (the "Utility Regulation Act") entered into force. In the context of ongoing legislative proceedings, the company's activities are directly affected by the draft amendment to the Decree of the Regulatory Office for Network Industries No. 223/2016, which provides for price regulation in the gas sector. The company made extensive comments in the interdepartmental comment procedure.

On 14.7.2021, the Fit for 55 package was presented at the European level. It aims, among other things, to bring about a greener internal market for the European Union, which will have a significant impact on the energy sector. Fit for 55 presented proposals for legislation relating, inter alia, to emissions trading, taxation of energy commodities, energy efficiency and renewable energy sources. The expected consequence of the implementation of green solutions from the Fit for 55 package is an increase in expenditure, both for businesses and individuals. This expected effect is evidenced by the fact that the package itself includes a regulation establishing the Climate Social Fund to mitigate the impacts of the introduction of fit for 55 measures.

SPP – distribúcia, a.s. is closely monitoring the presented intentions of the government and actively participates in various initiatives of the Ministry of Economy of the Slovak Republic or the Regulatory Office for Network Industries in order to defend the important and strategic position of natural gas in the energy mix of the Slovak Republic.

During financial year of 2021 SPP – distribúcia, a.s. continued to streamline its internal processes. Although the level of operating costs is stable, the Company continues to analyse and evaluate operating activities in an effort to optimize them.

If we compare 12 month consecutive period of 31st July 2021 vs. 31st July 2020, natural gas consumption increased by 555.2 million m³ (10.3 %).

Total revenues increased to €443.0 million, with 5.1% change, EBITDA increased by 5.2% and reached level of €345.3 million. Financial results for the fiscal year 2021 confirm SPP – distribúcia, a.s. again as profitable and financially stable company.

Operating profit in 2021 amounted to €177.9 million, which was €10.1 million higher than was seen in 12 consecutive months' period to 31st July 2020. Increase of the operating profit was caused mainly due to higher sales.

SPP – distribúcia, a.s. continued in its efforts to optimize its operating activities also during the fiscal year 2021 by monitoring work productivity in maintenance activities and savings in procurement to maintain stable level of operating costs.

Company's profit before income tax and net profit were at the level of €163.9 million and €121.6 million, respectively.

Total assets increased by €0.7 million compared to 31st July 2020. The increase was driven mainly by:

- Decrease in non-current assets by €125.3 million driven by depreciation and amortization;
- Increase in right of use assets by €6.2 million driven by company's adoption of IFRS 16;
- Increase of loans provided in total amount of €5.6 million;
- Decrease of inventories in total amount of €5.4 million;
- Decrease in receivables and prepayments by €37.7 million mainly driven by decrease in receivable from cash-pooling;
- Increase of cash and cash equivalents by €157.2 million compared to end of financial year 2020.

Total equity increased by €7.7 million, which was influenced by the change in revaluation reserve of €48.6 million and increase in retained earnings by €56.3 million.

Total liabilities decreased by €7.0 million compared to 31st July 2020. The decrease was driven mainly by:

- Increase in non-current loans and bonds due to new bond emissions in June 2021 in nominal amount of €500.0 million;
- Decrease in deferred tax liability by €24.9 million;
- Increase in obligation under finance lease by €6.0 million;
- Increase in trade and other payables by €11.7 million;
- Decrease in current loans and bonds due to maturity of bond in June 2021 in nominal amount of €500.0 million.

SPP – distribúcia, a.s.
FINANCIAL OVERVIEW
 Period ended 31 July 2021

ASSETS (in € million)	31.07.2021	31.07.2020
Property, plant and equipment	3 781.9	3 907.3
Non-current intangible assets and other assets	10.9	11.2
Investments in subsidiaries	1.0	1.0
Right of use assets	27.0	20.8
Loans provided	97.0	91.4
Total non-current assets	3 917.8	4 031.7
Inventories	129.2	134.6
Receivables and prepayments	296.8	334.5
Contract assets	12.4	12.0
Income tax assets	0.0	0.0
Investments in securities current	0.1	0.1
Cash and cash equivalents	211.9	54.7
Total current assets	650.4	535.9
TOTAL ASSETS	4 568.2	4 567.6

EQUITY AND LIABILITIES (in € million)	31.07.2021	31.7.2020
Registered capital	1 200.0	1 200.0
Legal reserve fund and other funds	1 598.8	1 647.4
Retained earnings	220.7	164.4
Total equity	3 019.5	3 011.8
Loans and bonds	583.0	136.7
Contract liability	16.9	13.4
Deferred income	0.1	0.1
Retirement and other long-term employee benefits	5.3	5.5
Obligation under finance lease	22.6	16.6
Deferred tax liability	762.8	787.7
Total non-current liabilities	1 390.7	959.9
Trade and other payables	62.7	51.0
Contract liability short-term	33.0	35.5
Current income tax	5.8	3.5
Loans and bonds	50.7	500.5
Obligation under finance lease	5.3	5.0
Provisions and other current liabilities	0.5	0.4
Total current liabilities	158.0	595.9
TOTAL EQUITY AND LIABILITIES	4 568.2	4 567.6

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FINANCIAL OVERVIEW
 Period ended 31 July 2021

INCOME STATEMENT (in € million)	(12M) 31.07.2021	(12M) 31.07.2020
Natural gas distribution	417.3	402.0
Other revenues	25.7	19.4
Total revenues	443.0	421.4
Own work capitalised	10.7	10.2
Purchases of natural gas and consumables	-12.8	-10.0
Storage of natural gas and other services	-48.1	-48.4
Depreciation and amortisation	-167.1	-160.1
Staff costs	-49.8	-48.0
Provision for bad and doubtful debts. net	0.0	-0.2
Provisions and impairment losses. net	-0.3	0.0
Other. net	2.3	2.9
Total operating costs	-265.1	-253.6
OPERATING PROFIT	177.9	167.8
Financial revenues	2.0	2.3
Financial costs	-16.0	-14.4
PROFIT BEFORE INCOME TAXES	163.9	155.6
Income tax	-42.3	-40.3
NET PROFIT FOR THE PERIOD	121.6	115.3

INVESTOR RATIOS		(12M) 31.07.2021	(12M) 31.07.2020
EBITDA	€ million	345.3	328.1
CAPEX	€ million	33.2	34.1
FCF	€ million	247.1	207.5
FCF / EBITDA	multiple	0.7	0.6
EBITDA / Interest	multiple	21.6	22.7

Useful link:

SPP – distribúcia. a.s. - Annual reports & Audited financial statements:

<https://www.spp-distribucia.sk/annual-reports/>