

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

Entire calendar year of 2021 was marked by temperature records. There was significantly cold winter weather in February 2021 (source: Slovak Hydrometeorological Institute), unusually cold weather during the months of March and April, and then July 2021 ranked among the warmest months in the history of meteorological measurement and observation in Slovakia since 1951. The second half the weather patterns stayed mostly normal in terms of average winter temperatures, however with turbulent changes in weather conditions, e.g. very cool temperatures during Christmas reaching as low as -20.4 °C in the eastern part of Slovakia and then rising up to as high as +16.9 °C on New Year's Eve in Bratislava.

Both, cold half-years of 2021 contributed to exceptional financial results and increased consumption of natural gas. Secondly, COVID-19 pandemic still kept some of the household customers working from home which had partial impact on increased household consumption. And thirdly, increased consumption of natural gas can be attributed to one of the major CCGT power plant operation. The power plant has been fully operational since 2019, and during the year of 2021 increased the consumption by app. 1/3rd compared to year 2020.

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, no material changes were made to this Decree until October 2021, when it was again amended. The company commented extensively on this decree in the interdepartmental comment procedure, however many of those comments were not taken into account by RONI. Among other changes, there was a slight adjustment to the calculation of maximum price for access to the distribution network and gas distribution.

The current regulatory period from 1 January 2017 to 31 December 2022 as extended is still valid, and the new regulatory policy, which should be valid for the period 2023 to 2027 is in progress of preparation by RONI, which has taken its time to be able to incorporate the European Commission's Winter Package into the regulatory framework in full.

RONI has also published a new decreased WACC rate for the year of 2022 at 4.36 per cent. This was among other factors reflected in the most recent price decision for SPP – distribúcia, a.s., that came into effect at the end of the year 2021, and shall be valid for calendar year 2022.

At the European level, in December 2021, the so-called Hydrogen and Decarbonised Gas Package has been introduced. Its aim is, among other things, to present a greener internal market for the European Union's gas. The package includes a proposal for a Directive on common rules for the internal market in renewable gases, natural gas and hydrogen and a Regulation on the internal market in renewable gases, natural gas and hydrogen. Several decarbonisation changes are planned, mainly in the form of measures aimed at increasing the use of hydrogen in the gas industry.

During the 12 month consecutive period of 31st December 2021 vs. 31st December 2020, natural gas consumption increased by 500.7 million m³ (+10.0%).

Total revenues compared to 31st December 2020 increased by 7.2%, EBITDA increased by 6.5% and reached level of €352.7 million. Financial results for the calendar year 2021 confirm SPP - distribúcia, a.s. again as profitable and financially stable company.

Operating profit in 2021 amounted to €186.1 million, which was €17.5 million higher than was seen in 12 consecutive months' period to 31st December 2020. Increase of the operating profit was mainly caused by higher revenues.

SPP – distribúcia, a.s. continued in its efforts to optimize its operating activities also during the calendar 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 €175.4 million and € 129.9 million, respectively.

Total assets increased by €68.3 million compared to 31st December 2020. The increase was driven mainly by:

- Decrease in non-current assets by €122.0 million driven by depreciation and amortization;
- Increase in right of use assets €6.0 million;
- Increase in loans provided in total amount of €172.4 million;
- Increase in inventories in total amount of €4.3 million;
- Increase in receivables and prepayments €77.5 million;
- Decrease of cash and cash equivalents by €70.4 million compared to end of calendar year 2020.

Total equity increased by €131.7 million, which was caused by the change in legal reserve fund and other funds of €48.0 million and increase in retained earnings by €179.7 million.

Total liabilities decreased by €63.4 million compared to 31st December 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 non-current loans and bond due to earlier repayment of loan in an amount €50.0 million;
- Increase in non-current Contract liability by €3.7 million;
- Increase in obligation under finance lease by €6.3 million;
- Decrease in deferred tax liability by €24.6 million;
- Increase in current income tax by €9.3 million;
- Decrease in current loans and bonds due to maturity of bond in June 2021 in nominal amount of €500.0 million;
- Decrease in current bonds due to amortization and time deferral in an amount of €7.1 million.

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

ASSETS (in € million)	31.12.2021	31.12.2020
Property, plant and equipment	3 736.2	3 858.1
Non-current intangible assets and other assets	10.7	10.9
Investments in subsidiaries	1.0	1.0
Right of use assets	24.9	18.9
Loans provided	269.0	96.6
Total non-current assets	4 041.8	3 985.5
Inventories	136.5	132.2
Receivables and prepayments	291.1	213.6
Contract assets	23.1	21.5
Income tax assets	0.0	0.9
Investments in securities current	0.1	0.1
Other current assets	0.0	0.1
Cash and cash equivalents	54.8	125.2
Total current assets	505.6	493.6
TOTAL ASSETS	4 547.4	4 479.1

EQUITY AND LIABILITIES (in € million)	31.12.2021	31.12.2020
Registered capital	1 200.0	1 200.0
Legal reserve fund and other funds	1 578.7	1 626.7
Retained earnings	294.9	115.2
Total equity	3 073.6	2 941.9
Loans and bonds	583.1	136.7
Contract liability	17.0	13.3
Deferred income	0.1	0.1
Retirement and other long-term employee benefits	5.4	5.5
Lease liabilities	20.6	14.3
Deferred tax liability	753.9	778.5
Total non-current liabilities	1 380.1	948.4
Trade and other payables	57.1	55.6
Contract liability short-term	18.7	21.5
Current income tax	9.3	0.0
Loans and bonds	2.8	506.3
Lease liabilities	5.3	5.0
Provisions and other current liabilities	0.5	0.4
Total current liabilities	93.7	588.8
TOTAL EQUITY AND LIABILITIES	4 547.4	4 479.1

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 Period ended 31 December 2021

INCOME STATEMENT (in € million)	(12M) 31.12.2021	(12M) 31.12.2020
Natural gas distribution	415.4	408.8
Other revenues	42.2	17.9
Total revenues	457.6	426.7
Own work capitalised	10.2	10.8
Purchases of natural gas and consumables	-19.8	-12.5
Storage of natural gas and other services	-48.7	-47.4
Depreciation and amortisation	-165.4	-162.3
Staff costs	-48.9	-48.9
Provision for bad and doubtful debts. net	-0.9	-0.2
Provisions and impairment losses. net	-0.3	-0.1
Other, net	2.3	2.5
Total operating costs	-271.5	-258.1
OPERATING PROFIT	186.1	168.6
Financial revenues	2.2	2.6
Financial costs	-12.9	-13.5
PROFIT BEFORE INCOME TAXES	175.4	157.7
Income tax	-45.5	-41.4
NET PROFIT FOR THE PERIOD	129.9	116.3

INVESTOR RATIOS		(12M) 31.12.2021	(12M) 31.12.2020
EBITDA	€ million	352.7	331.2
CAPEX	€ million	-34.4	-34.9
FCF	€ million	238.76	223.5
FCF / EBITDA	multiple	0.7	0.7
EBITDA / Interest	multiple	27.3	24.5

Useful link:

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

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