**SPP - distribúcia, a.s.**

# INDEPENDENT AUDITOR'S REPORT AND SEPARATE FINANCIAL STATEMENTS (PREPARED IN ACCORDANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS, AS ENDORSED FOR USE IN THE EU)

**FOR THE FINANCIAL YEAR ENDED 31 JULY 2021**

**AND**

**REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

This is a translation of the original auditor's report issued in the Slovak language to the accompanying financial statements translated into the English language.

**<u>Annual report of SPP – distribúcia, a.s., for the period 1.8.2020 – 31.7.2021</u>**

CONTENTS:

## STATEMENT BY THE COMPANY MANAGEMENT

Dear shareholders,

We are very pleased to present to you the annual report of SPP – distribúcia, a.s., for the financial year from 1 August 2020 to 31 July 2021. Despite the coronavirus pandemic, which has had a significant impact on the Slovak economy, we can consider the past period to have been successful. We had already seen a modest increase in the volume of distributed natural gas during October and November 2020, then a significant drop in temperatures started in February of the following year and the cold weather persisted until May 2021. The volume of gas distributed by our distribution network therefore grew to 5.4 billion cubic metres year-on-year.

Milder temperatures during the meteorological winter have become traditional in recent years, which has a direct impact in the form of lower distribution of gas during the heating period. However, a cold autumn and a colder spring contributed to increased consumption and a good final result. The crisis associated with the spread of the novel coronavirus also contributed to a higher volume natural gas consumption in the Household segment in the first half of 2021, when the majority of the population remained in their homes in order to mitigate the pandemic. The combination of pandemic measures and a cooler spring brought an increase in natural gas consumption and compensation for the milder winter.

It was the pandemic that forced us to adjust the way we do our activities, presenting a test of our reliability and professionalism. With pride in our employees, we can say that we have passed this test with honour, which is the best testament to our 15-year history. Since 2006, we have been the independent operator of the natural gas distribution network, as an element of critical infrastructure that must constantly be prepared for different types of risks. Our action plans to permanently reduce the impacts of risks to the running of the company showed their worth in the first wave of the pandemic. The adoption of preventive measures and the definition of procedures in advance ensured a timely and effective response to the constantly deteriorating pandemic situation, particularly at the beginning of 2021. We flexibly adapted our performance to this extraordinary situation with the help of the flexibility of our employees and the deployment of efficient IT tools for remote management of work.

We stabilised the level of operating costs by optimising our operational activities, especially by increasing labour productivity in maintenance and procurement. In the past period we have also fulfilled all monitored quality standards and we also positively evaluate the high level of safety and reliability of the distribution network. The fulfilment of all measures, including maintenance and implementation activities, shows that we are able to ensure continuous and reliable distribution of gas for our business partners, and also for all households in the Slovak Republic even in the event of an exceptional situation.

We declared our vision for the future of distribution using a mixture of natural gas and renewable gases by carrying out our own laboratory tests for the blending of hydrogen into natural gas. At the same time, we continue to build the necessary know-how through active participation in international technical and commercial-legislative working groups and close cooperation with other gas companies.

In recent years, we have also continued to support natural gas as an environmentally friendly heating medium through the Natural Gas Is 3E campaign. The key message remains that natural gas, including in combination with RES, can be an effective and inexpensive solution in the fight against climate change and the effort to improve air quality, thereby playing a key role in the transition to low-carbon energy in line with the 'value for money' principle. We also increase the attractiveness of natural gas by continuously improving customer services. We are pleased to see we can continue to report increased interest particularly in our web applications.

Forthcoming European legislation will significantly affect the energy sector and therefore the activities of our company in the near future. In mid-July 2021, the European Commission presented the "Fit for 55" package, which includes a number of legislative measures to tackle climate change and reduce emissions by 55% by 2030. The expected consequence of the implementation of green solutions from this package is an increase in expenditure not only for businesses, but also for households. In order to highlight the impending negative social impact on customers and the potential reduction of distributed volumes of natural gas, we will make major comments on this document through the Ministries of Economy and the Environment.

We believe that the role of natural gas in the Central European area is irreplaceable due to its price and ecological impacts. Outside of legislation, two strategy papers have also been adopted in recent years – the Recovery and Resilience Plan, as a strategic tool to support investment and reforms, and the National Hydrogen Strategy "Ready for the Future", which envisages the use of the gas infrastructure for hydrogen projects in the future. In addition to the above documents, we closely monitor the intentions of the government on a continuous basis and actively participate in initiatives of the Ministry of Economy of the Slovak Republic or the Regulatory Office for Network Industries in order to defend the importance and strategic position of natural gas in the energy mix of the Slovak Republic.

This year marks the 15th anniversary of the official establishment of our company, SPP – distribúcia, a.s. However, the roots of what we are managing and working on today go back to a much more distant history. This is undoubtedly the source of our professionalism and pride in the gas industry, which marks 165 years of tradition in Slovakia this year.

Over the past 15 years, we have increased the credit of the SPP – distribúcia brand, providing it with a mark of safety, reliability and, last but not least, successful operations in the gas market. In the history of our company, our employees have always demonstrated the ability to react flexibly to changes in the energy market, but also to effectively manage crisis situations such as the current pandemic. The efforts and professionalism of our employees have been and continue to be a guarantee of effective value creation for our customers, business partners and shareholders.

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

## COMPANY

### COMPANY PROFILE

The company SPP - distribúcia, a. s., as the owner and operator of a gas distribution network of more than 33 354 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 34 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 31/07/2021**

**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.

**JUDr. Ľubomír Schweighofer**
Vice-Chairman of the Board of Directors

In 1981 he graduated from the Faculty of Law of the Comenius University in Bratislava. After his studies, he joined the State Arbitration in Bratislava as an and later worked as an investigator with the police force of the Ministry of Interior of the Slovak Republic. In 1999 he founded the law firm Schweighofer & Partners, where he has worked to this day as a lawyer and founding partner. In the same year he became a member of the Czech Bar Association and the Slovak Bar Association. Since 2017, he has presided over the Disciplinary Board of the Slovak Bar Association. From 2000 to 2009 he was vice-consul of the Honorary Consulate of the Republic of Guinea in Slovakia. Since 23 September 2020, he has been Vice-Chairman of the Board of Directors of SPP – distribúcia, a.s.

**Ing. František Urbaník**
Member of the Board of Directors

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

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

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

**Ing. Pavol Mertus**
Member of the Board of Directors

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

**TOP MANAGEMENT AS AT 31/07/2021**

**Ing. Martin Hollý**
General Director

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

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

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

**Ing. Rastislav Prelec**
Head of the Network Operation and Asset Management 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**
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 AS AT 31/07/2021**

**Ing. Martin Barto, CSc.**
Chairman of the Supervisory Board

He graduated from the Faculty of Chemical Technology of the Slovak University of Technology in Bratislava. Since 1995 he has been active in the financial sector. He first worked as a macroeconomic analyst at ING Bank and from 1999 to 2004 he was a member of senior management of Slovenská sporiteľňa, where he actively participated in the processes of its privatization and transformation. From 2005 to 2010, he held the position of Deputy Governor of the National Bank of Slovakia, directly responsible for the area of financial market supervision. At the same time, he also took part in Slovakia's changeover to the euro currency. From 2010 to 2012 he was a member of the Board of Directors of the Všeobecná Health Insurance Company, where he was responsible for its financial management. From 2012 to 2015 he was an adviser to the Board of Directors of Sberbank Slovensko, a.s. and a member of the Supervisory Board of that company. After Sberbank left Slovakia, he became a consultant. Since February 2021, he has been acting as an adviser to the CEO of Tauris, a.s. Since 2011, he has been chairman of the Review Committee of ÚZ ŽNO. From 2001 to 2010 he served as a member of the Board of Directors of the Open Society Foundation. He is currently a member of the Board of Trustees of the Foundation of the Centre for Contemporary Art. He is a founding member of the Club of Economic Analysts. Since 23 September 2020, he has been chairman of the supervisory board of SPP – distribúcia, a.s.

**Garry Mazzotti B.A. (Hons) A.C.A,** Vice-Chairman of the Supervisory Board

Members:

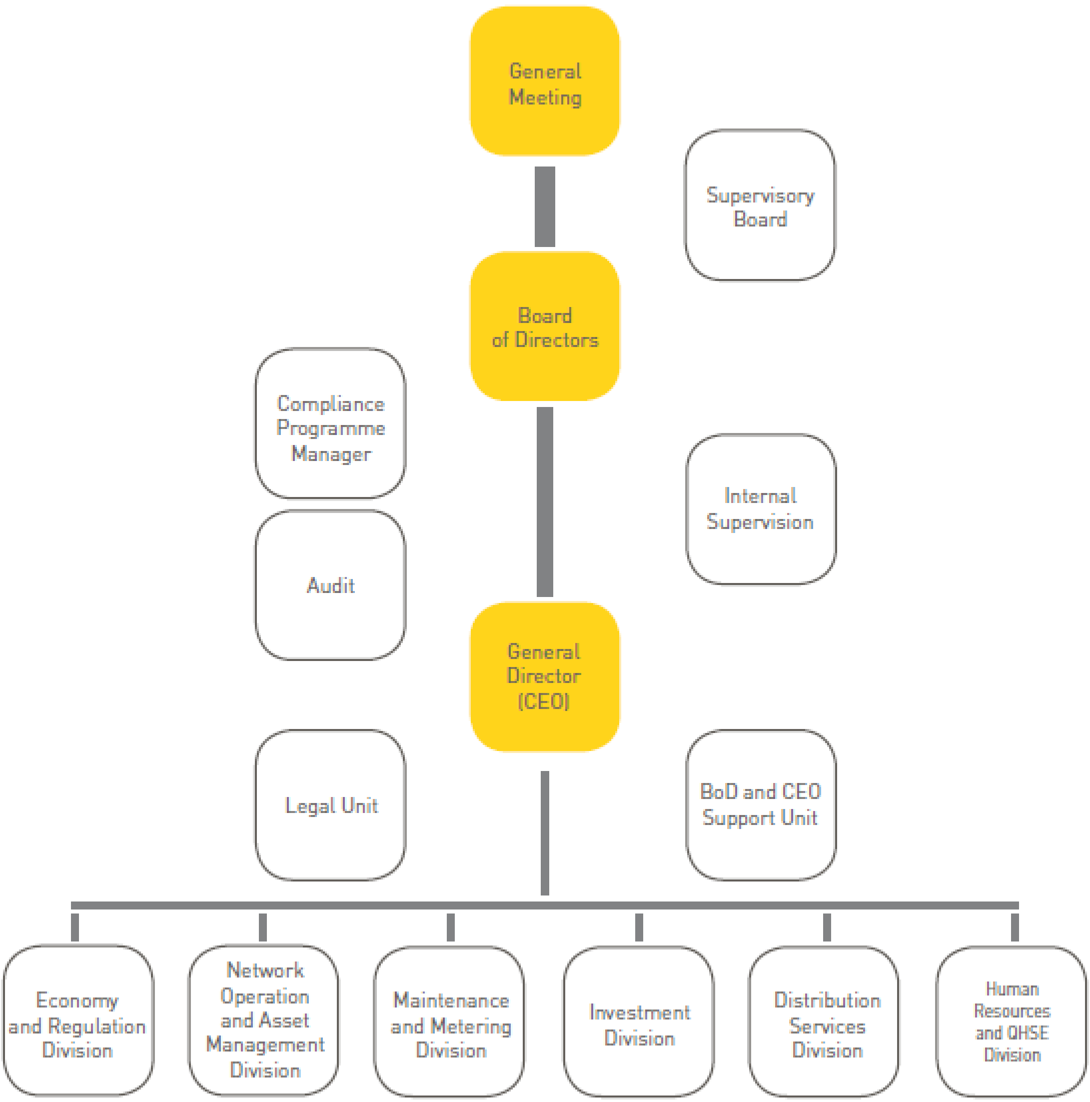
**Pavol Korienek,** Member of the Supervisory Board

**Ing. Branislav Bosák,** Member of the Supervisory Board

**Milan Boris,** Member of the Supervisory Board

**Ing. Juraj Blusk,** Member of the Supervisory Board

**ORGANIZATIONAL STRUCTURE**




**SAFE AND RELIABLE DISTRIBUTION**

## OPERATION AND SAFETY OF THE NETWORK

The introduction of new technologies in the Internet of Things by which we monitor the risk of landslides around the load-bearing parts of high-pressure gas pipelines contributes significantly to increasing the operational safety of the gas infrastructure in Slovakia. The overall safety of distribution is also increased by remote monitoring of the quality of central odorization, which was comprehensively set up during the monitored period.

## PREPARATIONS FOR THE DISTRIBUTION OF THE NATURAL GAS/HYDROGEN MIXTURE

The company continued and further developed activities during the period leading to the future possibility of blending hydrogen into natural gas to distribute a mixture of natural gas and renewable gases. We complemented our own laboratory tests by building the necessary know-how through the participation of representatives of the company in international technical and commercial-legislative working groups and through intensive cooperation with other gas companies in Slovakia and the region.

## SMART METERING DEPLOYMENT

As part of the pilot project, the company began installing G6-sized smart membrane home meters in the network in 2019. The meters, outside of the basic function of measuring the volume of gas flowing through have the possibility of transmitting daily measurement data and selected alarm states of the meter, such as exceeding the maximum hourly flow rate or unauthorized interference with the meter. An important function of these meters from the point of view of effective provision of the service to gas suppliers is the possibility of remote interruption of the supply of natural gas.

These types of meters are so far installed at selected delivery points, where we register multiple requests for interruption of natural gas supply from suppliers, delivery points in the event of suspected unauthorized consumption, or with difficult access to the meter. In the event of a requirement to provide above-standard data (deductions) for final customers the meters will be installed for this purpose in household and small-user consumption tariffs. As of 31 July 2021, 780 smart meters were installed in the network.

## THIRD-PARTY DAMAGE TO GAS FACILITIES

The company recorded a decrease in cases of damage to gas facilities by third parties in the evaluated period, from 1.8.2020 – 31.7.2021. Damages were recorded mainly in the performance of earthworks in the protection zones of gas facilities, with damage occurring predominantly when the gas installation had not been staked out.

In order to eliminate damage to gas facilities, steps were taken to improve existing and implement new procedures in the areas of network monitoring, technical documentation, control of work in the protection zone of gas facilities, web forms and external communications. The company continues in 2021 with free staking up to 100 m. In examining cases of damage to gas facilities, we continue to cooperate with the Slovak Trade Inspectorate (SOI).

## ENSURING A STANDARD FOR SECURITY OF SUPPLY

As the distribution system operator during the 2020/2021 winter season (November 2020 – March 2021), the company provided a standard for security of gas supply for household customers in accordance with the applicable legislation in order to address any emergency and prevent it. In particular, the tool was to use natural gas reserves in an underground storage tank also intended for balancing the network, while security of supply was also ensured through contractually agreed gas supplies to cover the full needs for meeting security standards in line with economic and efficiency criteria. The fulfilment of the above measures, also during the period 11/2020 – 03/2021, shows that the company was and is able to ensure continuous and reliable distribution of gas for all households in the Slovak Republic even in the event of an exceptional situation.

## DETECTION OF THE UNAUTHORIZED CONSUMPTION OF NATURAL GAS

We also continued during this period successfully to detect unauthorised consumption in order to achieve a reduction in losses from the distribution of natural gas. Company employees identified and documented nearly 1 500 cases of unauthorized consumption amounting to more than 6 million $m^3$ of gas.

In order to improve the safety of the facilities operated, we carried out dozens of blanket checks aimed at detecting and documenting unauthorized consumption. To this end, a total of 63 167 delivery points were inspected in the past year, with 763 cases of demonstrable interference with metering instruments or even directly into the pipe. Based on facts indicating that the crime of gas theft had been committed, 19 criminal complaints were filed.

## GAS ACCESS COVERAGE RATE

In Slovakia, gas is delivered to 77% of municipalities, where currently 94% of the population live. In view of the level of coverage achieved in municipalities, further development of the distribution network is no longer required, but due to the significant development of the construction of residential sites, the continuous connection of these sites to the distribution network has been carried out for several years. As a rule, the residential sites in question are situated in already covered municipalities, so the distribution network is becoming denser.

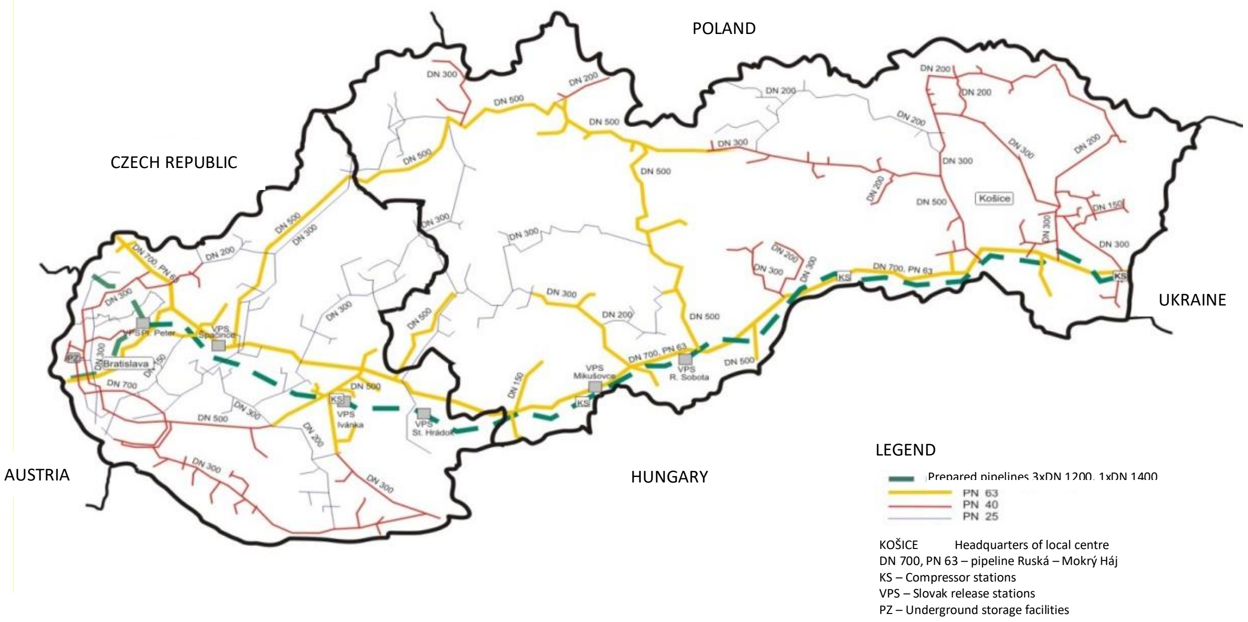
| Distribution of natural gas via the SPP-D distribution network in 2017 – 31.7.2021 (billion m$^3$/15 °C) | | | | | |
|---|---|---|---|---|---|
| | **2017** | **2018*** | **2019**** | **2020**** | **2021**** |
| Distributed volumes | 4.90 | 2.87 | 4.81 | 4.85 | 5.41 |

*7 months period ended 31.7.2018
*12 months period ended 31.7.2019, 31.7.2020, 31.7.2021

In the period 08/2020 – 07/2021, the volume of gas distributed by the SPP-D distribution network was higher compared to the period 08/2019 – 07/2020, with the largest increase in gas distribution recorded during the months of October and November 2020 and the months of February to May 2021, when the temperature was colder than in the previous period.

In the last period, the annual distributed volume of gas increased compared to previous periods.

**Map of the SPP – distribúcia distribution network**




| Length of distribution network in 2016 – 31.7.2021 (in km) | | | | | | |
|---|---|---|---|---|---|---|
| | **2016** | **2017** | **2018*** | **2019**** | **2020**** | **2021**** |
| High-pressure gas pipelines | 6 274 | 6 280 | 6 280 | 6 281 | 6 285 | 6 274 |
| Medium-pressure and low-pressure gas pipelines | 26 996 | 26 993 | 27 020 | 27 077 | 27 069 | 27 062 |
| **Total** | **33 270***** | **33 273** | **33 300** | **33 358** | **33 354** | **33 336** |
| Classification of local gas network in 2016 – 31.7.2021 (in km) | | | | | | |
| | **2016** | **2017** | **2018*** | **2019**** | **2020**** | **2021**** |
| Steel | 12 429 | 12 342 | 12 298 | 12 289 | 12 091 | 11 907 |
| Polyethylene | 14 567 | 14 651 | 14 722 | 14 788 | 14 978 | 15 155 |
| Investment in the renovation / reconstruction of the network in 2016 – 31.7.2021 (EUR million) | | | | | | |
| | **2016** | **2017** | **2018*** | **2019**** | **2020**** | **2021**** |
| Investment in renovation | 27 | 24 | **11** | **30** | **32** | **33** |
| Number of km of local network pipelines upgraded (low- and medium-pressure pipelines) | 129 | 128 | 63.4 | 142 | 127 | 131 |

*7 months period ended 31.7.2018
**12 months period ended 31.7.2019, 31.7.2020, 31.7.2021
***Updating and accurate pipeline lengths as the company transitions to the new GIS (geographical information system).

**INTERNATIONAL ASSET MANAGEMENT CERTIFICATE**

Based on an audit conducted by TÜV SÜD Slovakia at the end of 2020, it was proved that SPP - distribúcia met the requirements of the ISO 55001:2014 standard in the field of Asset Management.

ISO 55001 is a prestigious international standard for Asset Management systems designed for companies whose business is the use and operation of various types of assets. The granted certificate is a guarantee that the company SPP - distribúcia, a. s., manages assets in accordance with global "best practices". Certified according to ISO 55 001, the Slovak natural gas distributor has been included in the "first league" of companies whose asset management system meets the strictest criteria set by this standard. We are the first gas distribution company in the Central European region with an ISO certificate.

The certification process confirmed a well-established system which we operate our distribution network, specifically highlighting the established system for evaluating the technical condition of our gas facilities, clear and structured data registration system and the process of planning, recording and implementing network renewal and maintenance with information systems support.

TÜV SÜD ISO 55001

ISO 55001

Certified Asset Management System

## CUSTOMER ORIENTATION

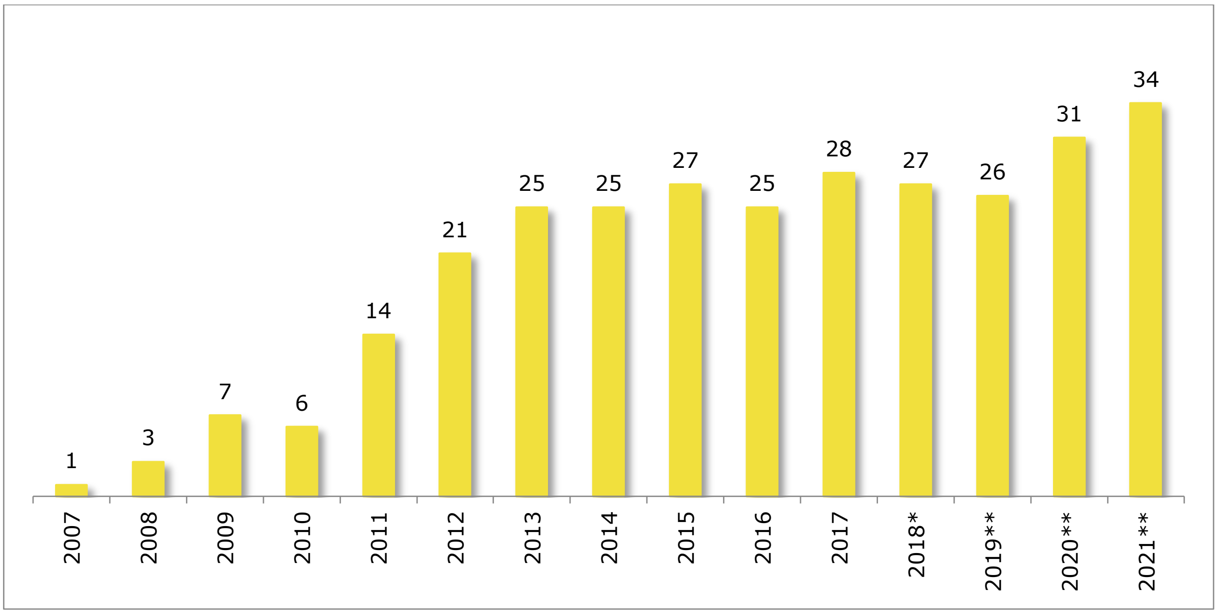
### RELATIONS WITH GAS SUPPLIERS, LIBERALIZED GAS MARKET

SPP – distribúcia provided access to the distribution network and gas distribution for 34 users of the distribution network (gas suppliers and large gas customers with a separate contract on access to the distribution network and gas distribution) as of 31 July 2021. We are constantly making efforts to develop the gas market in Slovakia. We're improving and streamlining the user interface of the key IT system used by natural gas suppliers, increasing transparency and simplify access to information for users of our distribution network. We're continuing to take care of the safety of our customers during the ongoing COVID-19 pandemic, we have provided standard communication and also initial training for new gas suppliers in the online environment, and are also responding promptly to changes and measures taken.

### LEGISLATION AND REGULATION

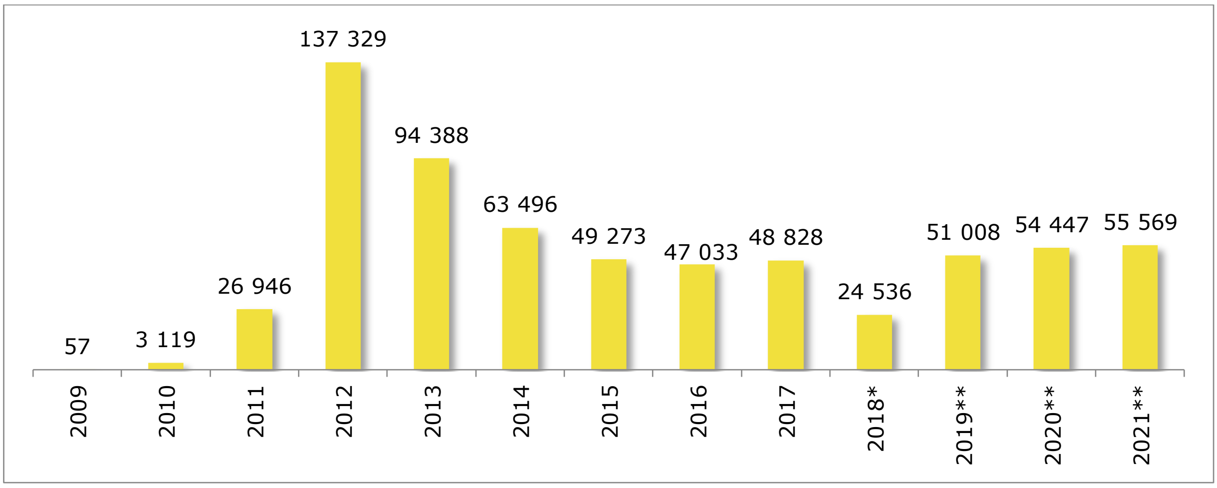
In December 2020, an amendment to Price Decision No 0020/2017/P dated 31.10.2016, as amended by Decision No 0089/2017/P dated 25.01.2017, and Decision No 0005/2019/P dated 19.11.2018, was adopted by the Regulatory Office for Network Industries with effect from 1 January 2021, changing the tariff rates for individual delivery points of the distribution network for gas distribution in groups 9 to 26 (medium and large-scale customers).

**Number of users of the distribution network**



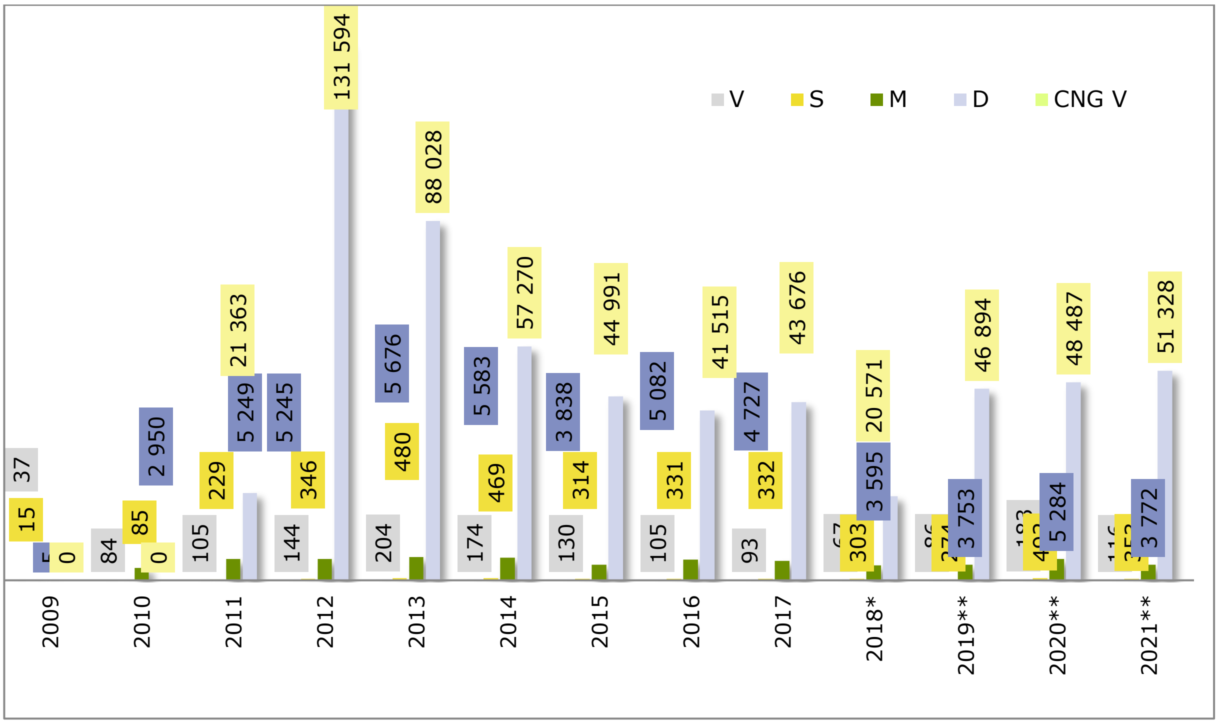

*7 months period ended 31.7.2018
**12 months period ended 31.7.2019, 31.7.2020, 31.7.2021

**Number of vendor changes**




*7 months period ended 31.7.2018
**12 months period ended 31.7.2019, 31.7.2020, 31.7.2021

**Number of vendor changes by category**




*7 months period ended 31.7.2018
**12 months period ended 31.7.2019, 31.7.2020, 31.7.2021

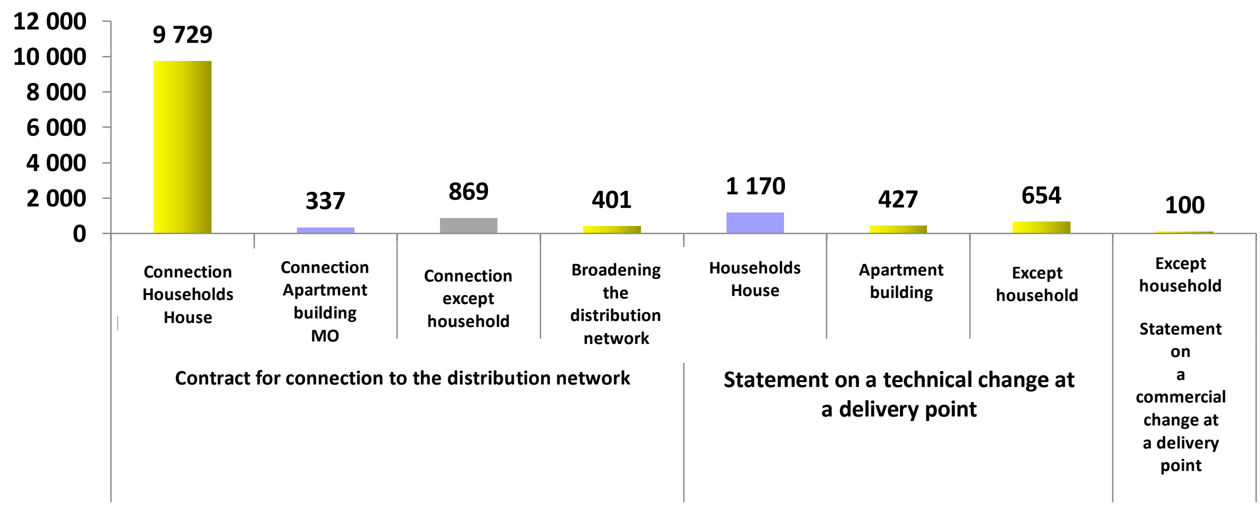
## SHORTENING THE PROCESS OF CONNECTING CUSTOMERS TO THE DISTRIBUTION NETWORK

### Households and small customers

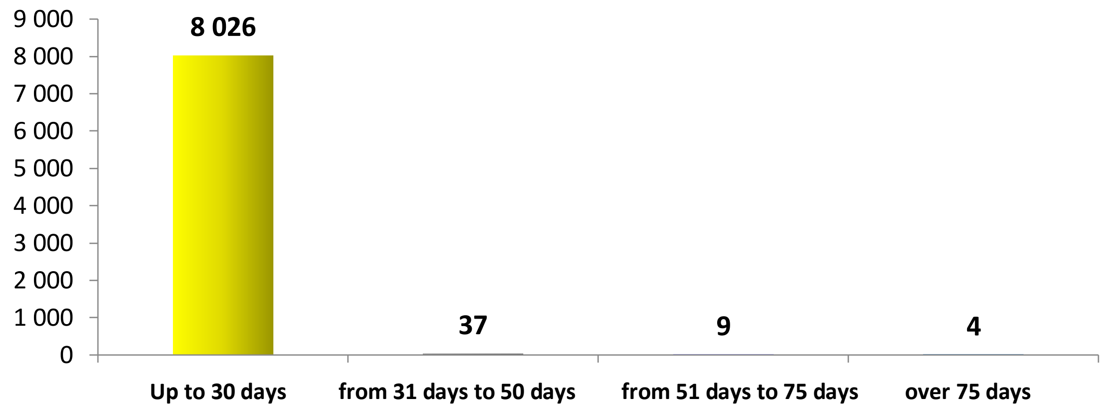
Between 1.8.2020 and 31.7.2021, our company provided applicants for connection to the distribution network with the possibility of personal contact in three Customer Offices in Bratislava, Žilina, and Košice by booking a specific selected date using the Reservation System on our website (except for short periods when personal contact with customers was not possible due to the current pandemic situation and decisions of the Public Health Authority). Applicants for connection could also use postal contact and the online form on our website.

SPP – distribúcia complied with quality standards for (i) setting business and technical conditions for connection at 100% and quality standards for (ii) setting business and technical conditions for changing the delivery parameters at the delivery point (comments on technical changes at the delivery point) at 100% (in accordance with Decree of the Regulatory Office for Network Industries No. 278/2012).
During the period 08/2020 – 07/2021, our company connected 9 025 new delivery points to the distribution network in the categories of household, small use, medium use and large-scale use. We have successfully continued to improve the connection process and have taken care to shorten the connection process overall.

**Number of contracts concluded for connection to the distribution network and number of comments on technical and commercial change at the delivery point from 1.8.2020 – 31.7.2021**



**Fast conclusion of the connection process – contracts for connection to the distribution network in the HOUSEHOLD category – houses and apartment buildings. Installation of meters from 1.8.2020 – 31.7.2021**




**Connection process – main steps of the process on the SPP – distribúcia side:**
- issuing technical conditions of connection and draft contract of connection to the distribution network,
- statement on the project documentation,
- administration of the application for meter installation and the installation of the meter at the delivery point.

**Medium and large customers**

SPP – distribúcia, through key customer managers constantly strives to improve its personal approach to customers with annual natural gas demand exceeding 60 000 $m^3$. Managers provide customers with expert advice and propose suitable technical and business solutions before implementing a new connection to the distribution network or before implementing a technical change at an existing delivery point, in order to provide customers with the greatest possible comfort and an individual approach to the gasification of their project.

## DIGITALIZATION OF SERVICES – WEB APPLICATIONS FOR CUSTOMERS

**Customer account / registration on the SPP-D website**

Registration simplifies the submission of applications and enables the progress monitoring of the application preparation process and possible complaints for the following types of applications: Request for comment on the existence and route of gas facilities and Request for comment on the implementation of activities in the protection and safety zone. This service has been running since February 2021.

Our customers currently have the opportunity to submit a connection request, a request for comment on a technical change at an existing delivery point, a request for the installation of a meter or a request for an addendum to a concluded contract fully electronically. Between 1.8.2020 and 31.7.2021, 18 148 requests were submitted online for connection and technical change at the existing point of delivery, which amounts to 85% of the total number of applications submitted. Our standard is already to send invoices for connection fees from connection contracts electronically to the applicant’s email address.

In 2019, we started sending e-mail notifications to customers, which alert them to the most important upcoming deadlines in the connection process, which are:

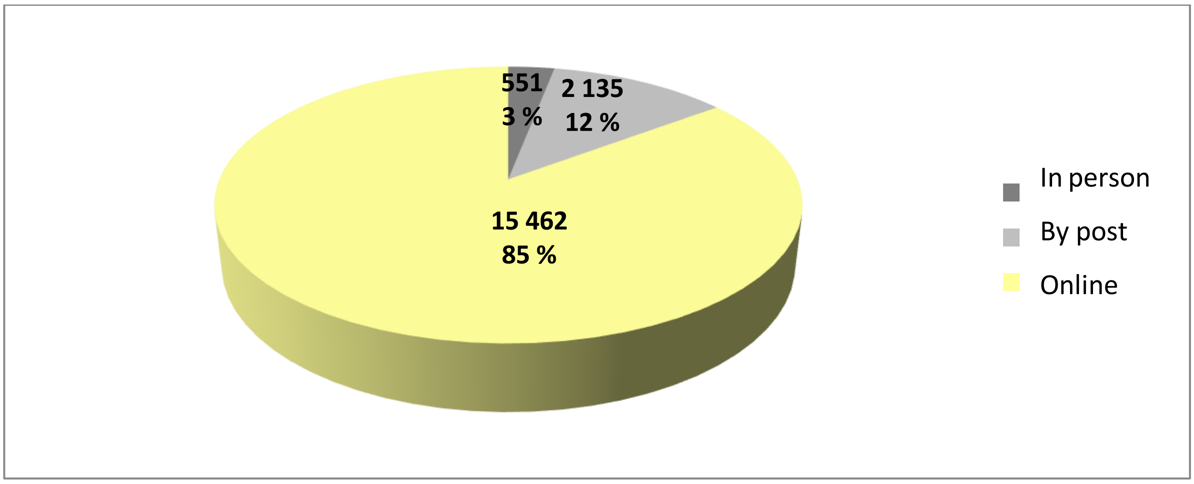
- the time limit for payment of the connection fee invoice,
- the time limit for them to send the signed connection contract,
- the expiry date of the connection contract.

We contact customers by phone if they did not specify an e-mail address in their request. These notifications also save significant time and resources based on customer feedback, while also contributing to their comfort in the connection process.

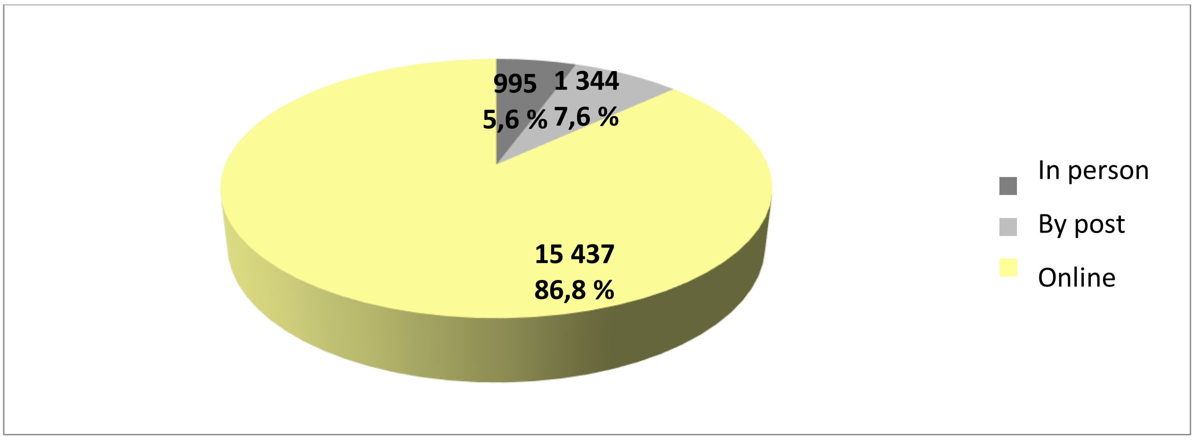
We have maintained the comfort of our customers even during the period when the Slovak Republic was paralyzed by the COVID-19 coronavirus pandemic. Since mid-June 2020, our company has reopened customer offices and resumed personal contact with customers through the Reservation System available on our company’s website. At all times, applicants could also submit all kinds of applications by post and electronically. Telephone contact with our company’s call centre operators has been maintained in full. The time limits for preparing requests for connection and technical changes have not been extended even during the crisis period.

We are pleased to continue to report increased interest in our online services. Between 1.8.2020 and 31.7.2021, as many as 85% of applicants used the online system to submit a connection request and up to 86.8% of applicants used it when registering a technical change.

**Requests for connection to the distribution network and for comments on technical change during 1.8.2020 – 31.7.2021**




**Applications for installation of the meter for 1.8.2020 – 31.7.2021**



## EMPLOYEES AND DEVELOPMENT OF CORPORATE CULTURE

Expertise, responsibility and reliability are an integral part of the operations of SPP – distribúcia. These three basic pillars guarantee the safety and quality that we provide in distributing natural gas to the inhabitants of Slovakia. The long-term stability and reliability of our company result from the professional and high-quality daily work of our teams.

We greatly appreciate the engaged approach of our employees in the performance of their daily work. Because of their expertise and skills, our company enjoys long-term stability and operational safety, which are crucial for gas distribution and for ensuring the country's energy security.

We care about the operational safety of the gas distribution network, the reliability of natural gas supplies to customers, the correct approach to our customers and business partners. For this reason, we strive to perform our activities using quality employees with adequate knowledge and skills. At SPP – distribúcia we strive for maximum environmental consideration, which is why our solutions for efficient heat supply to Slovak households are advantageous not only in terms of economics and energy-efficiency, but also above all, environmentally. When working together, we put professional ethics and our values into practice, we appreciate the efficiency and quality of the key activities we carry out on the gas market. We value the commitment to work, the togetherness and reliability our employees and their loyalty to the company.

SPP – distribúcia supports and develops personal and interactive communication with employees and managers at all levels of management. We regularly develop specific internal communication tools that aim to make current topics from the company's life accessible to all employees. However, since face-to-face meetings have been limited for a long time due to the COVID-19 pandemic, we support communication through Microsoft Teams to try to minimize health risks in our company. We plan to resume nationwide management meetings in the regions and meetings with employees that provide space for valuable feedback from employees as soon as possible.

We also pay attention to the development of communication within the company and the promotion of team cooperation between employees. The main source of internal information in our company is the intranet, where employees have all the important information available in one place, we use emails a lot and our colleagues can find the latest information in the "Distro" employee magazine and the "Z diania" periodical. Distro magazine has undergone changes that have modernised and brought it closer to its readers.

The "Development talks" that took place from March to May 2021 helped us to promote effective communication and cooperation in teams and also in management. This activity is an opportunity for employees at all levels of the company to discuss open issues, matters and topics, and also to put forward their expectations for the coming period.

We are currently analysing the collected data, which will serve as a valuable source of ideas for improving our business and also act as an opportunity for the personal and working development of employees. We thank our employees for every good idea and stimulus. These ideas will help to streamline internal administrative processes.

Our Company adheres to a diversity policy, which is also applied in its administrative, management and supervisory bodies.

### WE EDUCATE AND INSPIRE

At SPP – distribúcia we are aware that continuous education, acquisition of qualifications and acquisition of new skills is essential for the improvement of the expertise and competence of our employees.

At SPP – distribúcia, compulsory and periodical trainings resulting from legislation are the most frequent type of training we do. In addition to them, we also support the development of various specific skills in professional areas or managerial competencies among our employees

Professional growth, and also the personal and career development of our employees, remains one of our main priorities, which we focus on above and beyond legislative requirements. We continue to devote space to the development of currently much-needed IT skills, while we also develop interpersonal skills in our employees.

We also like to share our expertise, knowledge and experience in lectures and contributions at seminars and conferences, and also through electronic and print media.

The "Full Gas" career programme was created with the intention of developing key employees in managerial and expert positions and maintaining valuable specific know-how in the company. The new gas academy development program is designed for employees in fitter's positions who have the ambition and potential to move to positions as technicians or masters. The Full Gas and Gas Academy career programmes have not been implemented due to the pandemic; they will be implemented when the epidemiological situation improves.

We continuously strengthen our teams with young people within the Young Gasworker and Graduate Development programmes, which are operating despite the pandemic, though to a limited extent. We are implementing the Young Gas Project in cooperation with high schools. It is for pupils who have decided to participate in the project during their studies. After they graduate from high school, they can become part of our company. The graduate development program is dedicated to university graduates and enables them, after fulfilling the conditions to get to know the key activities of the company through rotation in the workplaces and thereby improve themselves for their work in the company.

**WE ARE SOCIALLY RESPONSIBLE**

In particular, we combine responsible entrepreneurship and sustainability with the protection and promotion of health, the environment and the working environment and working ethics. We greatly appreciate that our employees have again actively participated in the White Crayon charity collection for the Union of the Visually Impaired and Blind of Slovakia. We are also very pleased with the high level of involvement of our employees in the online advent collection, in which we managed to raise a large amount for the Plamienok non-profit organization.

Unfortunately, our regular activities have been affected by the situation surrounding the COVID-19 pandemic, which has negatively affected our planned internal events. The 2021 Corporate Games were cancelled and there was no regular April "Daffodil Day" fundraiser. At the same time, the crisis situation has had a negative impact on our other regular events and some charitable fundraisers. We managed to move some of them online. We were able to join the regular Bike to Work campaign, with our most successful year to date. During the month of the competition, SPP - distribúcia employees rode a total of 10 445.70 km, which is 5 782.27 km more than last year. A total of 2 528.91 kg of $CO_2$ was successfully saved. We continue to plan activities related to health and environmental protection.

**SAFETY AND ENVIRONMENTAL PROTECTION ARE OUR PRIORITIES.**

By respecting the applicable legal requirements in the field of OHS and the environment, compliance with the obligations arising from internal guidelines and also measures beyond legislation, we are achieving a high level of occupational health and safety. At the same time, we fully respect the protection of individual parts of the environment. Through continuous education, we provide training and qualifications and develop employee awareness in the field of work safety and environmental protection. We also lead our business partners to use safe and environmentally friendly practices. We regularly monitor the working and natural environment and carry out an assessment of the state of occupational health and safety and the environment. We correct any deficiencies identified. Based on identified hazards, dangers, risks and environmental aspects, we provide adequate resources – finances, personnel and time – to eliminate risks that could cause harm to health or the environment. Through appropriate selection, allocation and use of high quality personal protective equipment, we contribute to the elimination of residual risks. In cooperation with the occupational health service, we actively ensure continuous evaluation of the health factors of the working environment and adapt the conditions of work to the current epidemiological situation. We prefer preventive measures and continuously improve conditions for safe working for employees and also in order to protect all parts of the environment.

We have acted responsibly and are taking a responsible approach to managing the COVID-19 pandemic. In addition to legislation, the company arranged the provision of protective respirators and masks, disposable protective clothing and gloves, hand disinfection. Activities related to disinfection of premises and replenishment of disinfectants have been and are carried out regularly. Since the outbreak of the pandemic, we have performed regular antigen testing ourselves of all employees right in the centres.

## NATURAL GAS – AN EFFICIENT AND GREEN SOLUTION

Up to 94% of households and companies in Slovakia have access to natural gas. The reach, affordability, reliability of use, easy operations and automated operations of gas appliances and environmental friendliness are the main prerequisites for long-term use of natural gas in Slovakia.

**NATURAL GAS AND THE ENVIRONMENT**

Although natural gas is a fossil fuel, it has extremely positive ecological characteristics compared to other fuels. Compared to solid fuels, the combustion of natural gas produces significantly less pollutants, in particular producing only a negligible amount of particulate matter, dust particles (PM10 and PM2.5), which at higher concentrations seriously endanger the health of the population. In addition to the low level of particulate matter, the combustion of natural gas produces negligible amounts of sulphur oxides, minimum amounts of carbon monoxide and the level of nitrogen oxides is low. When using natural gas for making heat, up to 50% of $CO_2$ emissions can be saved compared to coal.

An above average number of inhabitants of Slovakia are exposed to extremely harmful fine dust particles. More than 12% of the population of the Slovak Republic is exposed to increased concentrations of PM2.5 particles in the air, which is significantly higher than the average in the OECD countries. The Slovak Republic has the 3rd worst air quality in the whole EU in this regard. The adverse indicator values for PM2.5 particles are confirmed by several sources – EEA, EPI, Eurostat or OECD.

Local heating systems for solid fuels, especially biomass/wood (households), are key sources of fine dust particle air pollution in Slovakia. According to a report by the European Environment Agency, approximately 4 800 inhabitants die prematurely every year due to poor regulation of dust particles in Slovakia.

Even in gas-using regions where air temperatures are low in winter, customers are inclined to burn wood for economic reasons. Addressing the adverse smog situation by reducing the volume of dust particles in the air is possible by responsibly selecting the source of heating energy and a rational approach by the state to promote environmentally friendly heating sources and human health.

**ENERGY PERFORMANCE OF BUILDINGS**

Since 1.1.2021, there has been a requirement in Slovakia for the construction of new buildings to the "nearly zero energy buildings" standard (energy class A0), which represents a completely new phenomenon in terms of design, the actual implementation of the building and finally in the operation of the building. It is not only about the nearly zero-energy buildings themselves, but above all a philosophy of sustainability in architecture and construction with the overall intention of designing, implementing and operating buildings that are energy-efficient, environmentally safe and economic in the future. Natural gas appears to be a suitable fuel for heating and preparing hot water in buildings meeting the A1 and A0 energy performance class for buildings. This is mainly due to the advantageous price ratio of a condensation boiler (including installation), its high efficiency, low operating costs, simplicity, comfort and availability, not to mention the beneficial impact on ecology (where replacing solid fuel), with a plan for the gradual decarbonization of the gas itself (biomethane, hydrogen).

**NATURAL GAS AND EFFICIENCY**

The heating system, which includes the preparation of hot water, is an integral part of a house that must be considered before it is built. The choice of the system affects the thermal comfort in the house, convenience, and also the total financial costs that the user of the house must incur for the installation and operation of the heating system over a long period. Currently, only ultra-low-energy houses (A1 energy performance class for buildings) are being built where they obtained a valid building permit before 1.1.2020 and from 1.1.2021 homes with almost zero energy needs (passive houses, energy performance class A0) are being designed and built. The fact that the preparation of heat from natural gas is objectively advantageous in economic terms can be seen in the following example:

- new house in energy class A0,
- with an area of 120 m2,
- with low-temperature underfloor heating system (hot water),
- heat consumption (heating and hot water) of about 4 600 kWh is considered.

| Fuel type | Natural gas | Heat pump - air/water | Wood pellets |
|---|---|---|---|
| Thermal equipment | Condensing boiler | Heat pump - air/water | Conventional boiler |
| Efficiency | 97% | 300% | 90% |
| Amount of fuel | 440 $m^3$ | 1 753 kWh | 1 013 kg |

| OPEX | Natural gas | Heat pump – air/water | Wood pellets |
|---|---|---|---|
| Total operating costs | € 351/year | € 394/year | € 402/year |

| CAPEX | Natural gas | Heat pump - air/water | Wood pellets |
|---|---|---|---|
| Total investment costs | € 4 070 | € 7 254 | € 6 120 |
| | | | |
| **TCO in 15 years** | **€ 9 333** | **€ 13 196** | **€ 12 157** |

*OPEX — operating costs*
*CAPEX – input/investment costs*
*TCO — 'total cost of ownership' — total cost to the owner*

Two basic parameters enter the economic evaluation of any heating systems:
investment costs (CAPEX) and operating costs over the lifetime of installation or for the evaluation period (OPEX). Natural gas heating is equally advantageous in the case of renovating an older house.

**PRODUCTION OF ELECTRICITY AND HEAT IN A COGENERATION UNIT**

A cogeneration unit is able to produce heat, electricity or even cooling in one installation, which leads to significant savings, up to 40%, of primary energy compared to separate heat and power generation. The direct consequence of saving primary fuel is the decrease in emissions from burning. A cogeneration unit is able to cover multiple energy needs of the customer with one device. Due to the availability of cogeneration in many performance classes, there are wide possibilities for use in industry, in the municipal sphere, in health or social facilities. For those interested in cogeneration, we offer free analysis of the use of cogeneration in the installation of a new heat source or modernization of their existing one.

**CONDENSING BOILERS FOR HOUSES**

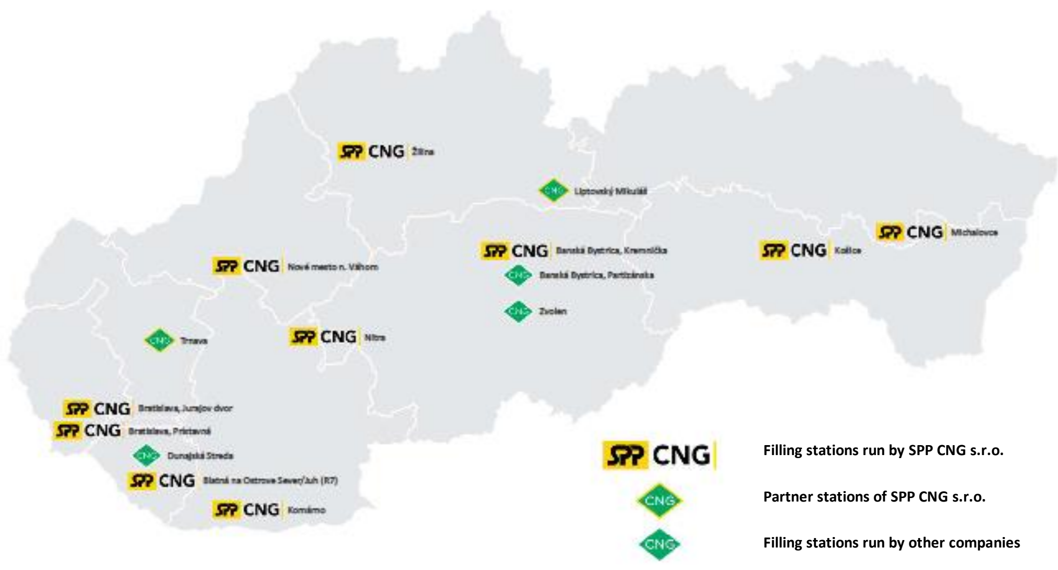
Thermal comfort, safety, user convenience and efficient use of energy contained in natural gas – all this is provided by the progressive technology of condensation boilers. Compared to previous technologies, whether conventional or low-temperature boilers, the condensation boiler can use a larger amount of the energy contained in the gas, which leads to a reduction in the cost of energy consumption.

**COMPRESSED NATURAL GAS (CNG) AND ITS APPLICATION IN TRANSPORT**

The operation of CNG vehicles benefits users in the form of lower fuel costs and also a 50% lower motor vehicle tax compared to vehicles running on conventional fuels. Moreover, the use of CNG significantly reduces emissions of harmful substances and reduces noise, which ultimately benefits society as a whole in the form of a better environment. The use of CNG brings economically advantageous, environmentally friendly and safe transport. Evidence of CNG's prospects in transport is also evidenced by the new fuelLCNG project, which has received support from the European Union and aims to build 14 CNG filling stations on the D1 and D2 motorways with the planned launch in 2025.

SPP – distribúcia is supporting CNG with beneficial tariffs for CNG filling stations and through spp-distribucia.sk and oplyne.info where, in addition to general information on the benefits of natural gas, we also present CNG to the general public as an environmentally friendly fuel with the potential for greater application in transport. We also provide free business and technical advice to those interested in building CNG stations.

## CNG FILLING STATIONS IN SLOVAKIA




**ONLINE/OFFLINE MARKETING COMMUNICATION**

Most (about 80%) of marketing activities took place online through social networks, Facebook, Instagram, YouTube and the company's websites ([www.oplyne.info](http://www.oplyne.info) and [www.spp-distribucia.sk](http://www.spp-distribucia.sk))

The remaining 20% of marketing communication in offline form was performed through the active participation of SPP – distribúcia employees in professional conferences and forums through lectures, advertising stands or direct communication with customers. Furthermore, through charitable activities at Christmas or during the Covid-19 crisis, redesign and updating of leaflets and information prospectuses.

**The Natural Gas is 3E campaign**

Natural gas heating seems to be the most effective and accessible tool to solve the problem of our polluted air. Our media campaign, entitled "Natural gas is 3E", is aimed at explaining the benefits of natural gas with an emphasis on its ecological friendliness, economic advantages and energy performance.

The 3E logo appears in all external and internal communication activities and also in marketing. Currently, most campaigns are carried out on social networks and in the internet environment in general. With consideration of this fact, we have also adjusted the format of our advertising and started to become much more active on social networks and the YouTube video portal. Our goal is to attract visitors to pages and profiles on social networks through interesting (often new) information, videos, photos, graphics and text. Each target group is approached with something different, so we adapt the content and form to the age, education and focus of each group. Since we focus mainly on the heating segment, the promotion of natural gas as a commodity is closely linked to the construction of houses.

We are implementing the campaign in the form of specialist and general articles in the media, videos on social networks, radio ads and advertising in relevant print and electronic media in order to spread awareness to the general public. In recent years, we have placed emphasis on the presentation of natural gas as a heating medium, which, due to the absence of particulate matter in its combustion, does not spoil the air with smog. Through the messages of three well-known personalities, we pointed to the positive effects of natural gas heating – "a warm home and air without smog". In addition to the main slogan of the "Natural gas is 3E – environmentally friendly, economically advantageous and energy-efficient" campaign, we also used secondary slogans such as "Natural gas – the most affordable ecological heating" and Natural Gas – we like clean air."

A significant campaign is important precisely when changing the mindset of the public, not only in terms of the economic advantage of choosing a heating source, but also in the area of responsibility for the environment in which we live and responsibility for the air we breathe.

## REPORT ON THE COMPANY'S BUSINESS ACTIVITIES

### ECONOMIC AND FINANCIAL PERFORMANCE

### DEVELOPMENT OF THE BUSINESS ENVIRONMENT

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 Lomnicky 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.

In 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.

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.

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.

An amendment to Act no. 157/2018 on metrology and the Decree of the Office for Standardization, Metrology and Testing No. 161/2019 on measuring instruments and metrological control are also in the preparation stage. Those rules are expected partially to revise the rules applicable to the meters used by the company in its activities.

The company also commented on the new building regulations, which are to replace Act no 50/1976 on Spatial Planning and Building Regulations in the future. In the area of infrastructure regulations, Act no 135/1961, the Roads Act, was amended. After the amendment, it contains an explicit modification enabling the renovation of pipelines on bridges and the relocation of pipelines on bridges under statutory conditions.

At the same time, work has begun on transposing the European Winter Package, which will be reflected in the amended version of Act no 251/2012 on Energy (the "Energy Act") and the Utility Regulation Act. According to the Plan of Legislative Tasks of the Government of the Slovak Republic, both laws should be submitted for discussion to the Government of the Slovak Republic in October 2021. Although this amendment primarily concerns regulation of electricity, it can be expected that natural gas undertakings will also be affected to some extent.

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.

At the European level, a revision of Directive 2009/73/EC of the European Parliament and of the Council on common rules for the internal market in natural gas is also in preparation. The European Commission justifies the revision of the directive primarily due to ambitious emission reduction targets.

Two strategic non-legislative documents were also adopted during the period under consideration. The first is the Recovery and Resilience Plan, which is a strategic tool to support investment and reforms. The second, the

National Hydrogen Strategy 'Ready for the Future', which envisages the use of gas infrastructure for hydrogen projects in the future.

Last but not least, 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.

**ECONOMIC RESULTS OF SPP – DISTRIBÚCIA, A.S.**

SPP – distribúcia a.s. achieved revenues from natural gas distribution in the financial year 2021 of 417.30 million euros.

The operating costs incurred by the company to secure the revenues from the sale of the services amounted to 265.10 million euros. The bulk of operating costs were mainly depreciation and amortization, natural gas storage costs and personnel costs.

During the financial year 2021, the Company achieved a profit before tax of 163.92 million euros and a profit after tax of 121.59 million euros.

**Comparison of profit-after-tax structure (million EUR):**

| | **2021*** | **2020*** |
|---|---|---|
| Distribution of natural gas | 417.30 | 401.98 |
| Other income | 25.71 | 19.40 |
| Operating costs | -265.09 | -253.59 |
| Profit/loss on financial activity | -14.00 | -12.18 |
| **Profit before tax** | **163.92** | **155.61** |
| Income tax | -42.33 | -40.33 |
| **Profit after tax** | **121.59** | **115.28** |

*12 consecutive month period ended 31.7.

**ASSET AND CAPITAL STRUCTURE**

**Assets**

On the balance sheet date of the financial statements, the company's total assets were 4 568.25 million euros, representing an increase of 0.68 million euros compared to the previous year, 2020. Long-term assets with a value of 3 917.81 million euros accounted for 85.76% of the total assets. The most important items of long-term assets were mainly distribution pipelines, regulation stations, equipment, distribution system facilities.

In the financial year 2021, 33.21 million euros was spent on the acquisition of long-term assets, which was mainly directed towards the renewal of the distribution network. In the financial year 2021, 353 thousand euros was spend on research and development.

Current assets amounted to 650.41 million euros as of the act balance sheet date, a decrease of 114.51 million euros compared to 2020. The largest share in their structure was mainly receivables and advances granted, inventory, and money and cash equivalents.

**Comparison of the structure of assets (million EUR):**

| | **2021*** | **2020*** | **2021** | **2020** |
|---|---|---|---|---|
| **Long-term assets** | 3 917.81 | 4 031.67 | 85.76% | 88.27% |
| **Current assets** | 650.41 | 535.90 | 14.24% | 11.73% |

*12 consecutive month period ended 31.7.

**Equity and liabilities**

In the capital structure of SPP – distribúcia, a.s. there was no significant change in the share between own and outside sources of financing. Own funds continued to outweigh outside sources of financing, representing 66.10% of the total sources of asset coverage.

Equity increased by EUR 7.73 million compared to the 2020 financial year and 3 019.50 million euros at the balance sheet date. Equity consisted primarily of fixed capital, the legal reserve fund, the revaluation fund, retained earnings and profits from the current accounting period. The registered capital of the company was one share with a nominal value of 1 200 million euros. As of the balance sheet date, the legal reserve fund and other funds consisting of capital contributions and the asset revaluation fund amounted to 1 598.83 million euros.

The profit for 2020 was a profit of 115.28 million euros, which was paid to the company's only shareholder in the form of dividends. The general meeting will decide on the distribution of profit or loss for the financial year 2021.

The company's liabilities accounted for 33.90% of the company's assets and amounted to 1 548.75 million euros as of the balance sheet date in the financial statements. In the 2021 financial year, a bond worth 500 million euros was repaid and a new bond of the same value was issued, thereby transferring 500 million euros from a current to long-term due date, which created an increase in long-term liabilities and a decrease in short-term liabilities. The bulk of the total liabilities consisted of long-term liabilities totalling 1 390.65 million euros and thereby increasing by 430.72 million euros. The most essential items are a deferred tax liability and loans and bonds. Current liabilities decreased by 437.76 million euros as a result of the repayment of the 500-million-euro bond and the issue of a new bond of the same value, however classed with long-term liabilities. As of the balance sheet date, current liabilities amounted to EUR 158.10 million.

**Comparison of structure of equity and liabilities (EUR million)**

| | **2021*** | **2020*** | **2021** | **2020** |
|---|---|---|---|---|
| **Equity** | 3 019.50 | 3 011.77 | 66.10% | 65.94% |
| **Accounts payable** | 1 548.75 | 1 555.80 | 33.90% | 34.06% |

*12 consecutive month period ended 31.7.

The shareholder structure as of 31.07.2021 was as follows:

| | | |
|---|---|---|
| **SPP Infrastructure, a.s.** | 1 share | 100% |

**SUMMARY RESULTS**

Development of the start of assets, capital structure and profit/loss for SPP – distribúcia, a.s., for the years ending 31 July 2021 and 31 July 2020 according to individual financial statements prepared in accordance with international financial reporting standards as approved by the EU.

**Balance sheet (selected data in thousands of euros)**

| | **2021** | **2020** |
|---|---|---|
| **ASSETS:** | | |
| **LONG-TERM ASSETS** | | |
| Buildings, structures, machinery and equipment | 3 781 879 | 3 907 195 |
| Intangible long-term assets and other assets | 10 928 | 11 236 |
| Rights of use | 27 020 | 20 839 |
| Investments in subsidiaries | 1 000 | 1 000 |
| Loans granted | 96 984 | 91 395 |
| **Total long-term assets** | **3 917 811** | **4 031 665** |
| **CURRENT ASSETS** | | |
| Stock | 129 177 | 134 553 |
| Receivables and advances granted | 296 849 | 334 485 |
| Contractual assets | 12 397 | 12 044 |
| Tax receivables and income taxes | 0 | 0 |
| Cash and cash equivalents | 211 922 | 54 746 |
| Loans provided | 67 | 75 |
| **Total current assets** | **650 412** | **535 903** |
| Asset held for sale | 32 | 0 |
| **TOTAL ASSETS** | **4 568 255** | **4 567 568** |

**EQUITY AND LIABILITIES:**

| | | |
|---|---|---|
| **CAPITAL AND RESERVES** | | |
| Share capital | 1 200 000 | 1 200 000 |
| Legal reserve fund and other funds | 1 598 832 | 1 647 350 |
| Retained earnings | 99 077 | 49 139 |
| Profit or loss for the current period | 121 592 | 115 280 |
| **Total equity** | **3 019 501** | **3 011 769** |
| **LONG-TERM LIABILITIES** | 1 390 652 | 959 930 |
| **SHORT-TERM LIABILITIES** | 158 102 | 595 869 |
| **Total liabilities** | **1 548 754** | **1 555 799** |
| **TOTAL EQUITY AND LIABILITIES** | **4 568 255** | **4 567 568** |

**Profit and loss account (selected data in thousands of euros)**
**For the years ended 31 July 2021 and 31 July 2020**

| | 2021 | 2020 |
|---|---|---|
| Distribution of natural gas | 417 304 | 401 983 |
| Other revenues | 25 705 | 19 403 |
| Operating costs | -265 095 | -253 588 |
| **Operating profit** | **177 914** | **167 798** |
| Financial revenues | 2 002 | 2 255 |
| Financing costs | -15 999 | -14 442 |
| **PROFIT BEFORE TAX** | **163 917** | **155 611** |
| Income tax | -42 325 | -40 331 |
| **PROFIT FOR THE PERIOD** | **121 592** | **115 280** |

**Cash flow statement (selected data in thousands of euros)**

| | 2021 | 2020 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Cash flows from operating activities | 347 835 | 311 475 |
| Interest paid | -13 315 | -13 466 |
| Interest received | 409 | 329 |
| Income tax paid | -65 625 | -66 341 |
| **CASH FLOW FROM OPERATING ACTIVITIES** | **269 304** | **231 996** |
| **CASH FLOW FROM INVESTMENT ACTIVITIES** | **-102 162** | **-287 132** |
| **CASH FLOW FROM FINANCIAL ACTIVITIES** | **-9 966** | **-1 586** |
| **NET INCREASE IN CASH** | **157 176** | **-56 722** |
| CASH POSITION AT THE BEGINNING OF THE PERIOD | 54 746 | 111 468 |
| **CASH POSITION AT THE END OF THE PERIOD** | **211 922** | **54 746** |

**EVENTS OF PARTICULAR IMPORTANCE WHICH OCCURRED AFTER THE END OF THE ACCOUNTING YEAR FOR WHICH THE ANNUAL REPORT IS DRAWN UP**

After 31 July 2021, there were no significant events requiring alterations to or disclosures in the annual report.

## STATEMENT ON COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE IN SLOVAKIA

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

### GENERAL MEETING

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

a. The right to participate in the management of the company, to a share in the profit and liquidation balance of the company in case of its winding up with liquidation. The shareholder exercises the right to participate in the management of the company by voting at General Meeting; the shareholder must respect the organizational measures valid for the course of the General Meeting. At the General Meeting the shareholder has the right to request information, explanations relating to matters of the company or issues concerning the controlled persons, to submit proposals to the agenda of the General Meeting and to be elected to bodies of the company;
b. A shareholder is entitled to a share in the profit of the company (a dividend) that the General Meeting has designated for distribution. A shareholder is not obliged to return a dividend received in good faith to the company;
c. To the extent permitted by applicable legislation (including Energy Act No. 251/2012 Coll.), a shareholder is entitled to inspect the minutes of meetings of the Supervisory Board, while being obliged to maintain confidentiality of the information thus obtained;
d. The right to vote at General Meeting - the shareholder's number of votes is determined by the ratio of the nominal value of their shares to the share capital;
e. Any transfer of shares shall be subject to the approval of the General Meeting. The General Meeting may refuse a transfer of shares if it is in conflict with the company's Articles of Association or the shareholders agreement.

The General Meeting performs the following functions:

a. Election and dismissal of members of the Supervisory Board;
b. Election and dismissal of members of the Board of Directors;
c. Changes in the Articles of Association, the statute of the Supervisory Board or the statute of the Board of Directors;
d. Change in the share capital;
e. Merger, fusion, split-up, change of legal form, winding up with liquidation or other significant changes in the corporate structure of the company;
f. Decision on the appointment of a liquidator of the company and determination of remuneration of the liquidator;
g. Decision on the distribution of any dividends by the company or distribution of other payments arising from shares;
h. Decisions on the increase or decrease in the share capital of the company;
i. Approval of ordinary individual, extraordinary individual, ordinary consolidated or extraordinary consolidated financial statements of the company;
j. Decisions on the allocation of profit of the company, including the determination of the amount of dividends and any royalties, and on the method of settlement of any company's losses;
k. Decisions on changes in the rights linked to any type of the company's shares;
l. Decisions on the conversion of registered shares to bearer shares and vice versa;
m. Decisions on the limitation or exclusion of the preferential right of a shareholder to subscribe newly issued shares of the company in accordance with and subject to conditions laid down by law;
n. Approval of a contract on the transfer of the company's business and contract on the transfer of a part of the company's business;
o. Any substantial change in the nature of the core business of the company or in the manner in which the company conducts its core business;
p. Approval of the commencement of any legal or arbitration proceedings against persons who were direct or indirect shareholders of SPP before 23 January 2013 and ceased to be shareholders of SPP no later than on 23 January 2013;
q. Appointment of an auditor.

### BOARD OF DIRECTORS

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

The Board of Directors:

a. Manages the business of the company and ensures all of its operational and organizational matters;
b. Convenes the General Meeting;
c. Exercises employer rights;
d. Implements resolutions of the General Meeting, or written decisions of the sole partner;
e. Ensures prescribed book-keeping and keeping of other records, books and other documents of the company;
f. Submits reports to the General Meeting;
g. Submits materials to the Supervisory Board for consideration;
h. Prepares an annual budget and business plan of the company.

**SUPERVISORY BOARD**

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

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

a. Fulfilment of tasks assigned by the General Meeting to the Board of Directors;
b. Compliance with the Articles of Association of the company and relevant legislation with regard to the company’s activities;
c. Economic and financial activities of the company, accounting, records, accounts, the state of the company’s assets, its liabilities and receivables.

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

a. Proposals by the Board of Directors for the dissolution of the company;
b. Proposals by the Board of Directors for the appointment of a liquidator of the company;
c. Proposals by the Board of Directors regarding an individual annual budget and business plan of the company;
d. Reports of the Board of Directors.

**COMMITTEES**

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

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

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

**MANAGEMENT METHODS**

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

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

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

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

**INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT**

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

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

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

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

**SHARE CAPITAL OF THE COMPANY**

The share capital of the company amounts to EUR 1 200 000 000 and is structured as follows:
Issue No. (CEM): LP0001508566
Nominal value: EUR 1 200 000 000
Type: ordinary share
Form: certificated
Class: registered share
Percentage share in share capital: 100%
Admitted to trading: 0 pc

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

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

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

**REPORT ON THE IMPLEMENTATION OF THE MEASURES TAKEN IN THE DISTRIBUTION SYSTEM OPERATOR’S COMPLIANCE PROGRAMME FOR THE PERIOD 1.8.2020 – 31.7.2021**

1. The compliance programme is an internal regulation of SPP – distribúcia, a.s., which lays down measures to ensure non-discriminatory behaviour on the part of the distribution system operator. Under Act no 251/2012 on energy and on the amendment of certain laws, a compliance programme must be adopted by those network operators that are part of a vertically integrated undertaking. The last update of the compliance programme entered into force on 1.12.2015 and has the regulatory designation: D.RM.04.07.06.

2. SPP – distribúcia, a.s. employees under the compliance programme have:

   (a) obligations ensuring the independence of the distribution system operator from other activities not related to gas distribution,
   (b) obligations ensuring non-discriminatory behaviour on the part of the distribution system operator in the provision of information,
   (c) obligations ensuring non-discriminatory conditions for the provision of distribution system operator services to gas market participants,
   (d) conditions applicable to the compliance programme manager, including his/her appointment and dismissal,
   (e) requirements for the operation of the compliance programme manager and for checking compliance with the compliance programme, including training of the employees of the distribution system operator on the compliance programme,
   (f) obligations ensuring the publication of the compliance programme, checking and drawing up an annual report on the implementation of the compliance programme.

3. The fulfilment of the measures listed in the compliance programme between 1.8.2020 and 31.7.2021 was ensured mainly as follows:

   (a) SPP – distribúcia, a.s. as the distribution system operator is established as a separate company and its organizational structure is arranged in such a way that the independence of all activities of the distribution system operator related to gas distribution from other activities of the vertically integrated enterprise unrelated to gas distribution is ensured,
   (b) compliance with a non-discriminatory approach to the provision of information intended for gas market participants and in the provision of services of the distribution system operator,
   (c) measures to ensure non-discriminatory behaviour in accordance with the compliance programme are implemented in the internal procedures of the distribution system operator,
   (d) publication of the compliance programme to the employees of the distribution system operator in the electronic database of regulations and to the public on the website of the distribution system operator,
   (e) compliance with the compliance programme. For example, between 1.8.2020 and 31.7.2021, the compliance programme manager verified compliance with the non-discriminatory approach of the distribution system operator in providing information, when performing services for users of the distribution network, in examining requests, complaints and customer complaints. Furthermore, compliance with the prohibition on the misuse of confidential information on their own behalf was checked for those employees who had access to such confidential information.

4. On 14.5.2014 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 part of the vertically integrated company of which SPP – distribúcia, a.s. is a part. This has ensured the full independence of the distribution system operator from gas supply activities. In the period from 1.8.2020 to 31.7.2021, on the basis of contracts SPP – distribúcia, a.s. received from Slovenský plynárenský priemysel, a.s. services only in the form of rental of real estate, and was preparing to reduce the volume of services received.

5. Between 1.8.2020 and 31.7.2021, the compliance programme manager of the distribution system operator found no breach of the obligations set out in the compliance programme.

In Bratislava on 10 August 2021

Kachút

Ing. Milan Kachút

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

## COMPANY PROSPECTS

As a modern and dynamic company in the energy market, we will make every effort in information campaigns over the coming period to promote protection of the atmosphere through the use of natural gas and to improve customer service. Regarding customer service, we will continuously focus on increasing the level of services provided with an emphasis on fully digitalizing them. Because of the easy time-unlimited availability of our web forms on our company's website, connecting to natural gas is much easier, more convenient for our customers, and increasingly attractive according to the results from the last year.

Regarding marketing support for connecting new supply points to the natural gas distribution network, in the upcoming accounting period we will focus mainly on promoting the benefits of natural gas under the established 3E campaign brand, which describes the ecological friendliness, economic advantages and energy performance of natural gas, while also emphasising the fourth advantage of natural gas, which is its availability.

It will also be crucial for us to play an active role in continuing the public debate on the transition of the Slovak economy to low-carbon (decarbonization process), while promoting the value-for-money approach. The potential for reducing greenhouse gas emissions in the energy sector of the Slovak Republic in terms of the value for money approach lies both in the replacement of coal and in projects increasing energy efficiency. The final solution to the decarbonization of the heating and cooling sector in the long term is the greening of gas (biomethane, hydrogen, synthetic methane), but this requires additional state support, both in research and development and in the implementation of green gases.

Our successful laboratory tests for the mixing of hydrogen into distributed natural gas have created the prerequisites for carrying out tests of the effect of hydrogen on gasworks and gas appliances under real-world conditions in the coming period.

As a stable, trustworthy and efficient provider of natural gas distribution services, we are making every effort to increase efficiency and seek synergies within the company. Our self-performed renovations of local networks have proven themselves and we will continue to build on our successful investment projects in the future. Safety is our top priority and where we will continue to invest in the future.

Not only during the pandemic restrictions have the employees of SPP – distribúcia proven themselves to be professional, flexible and reliable, even in crisis situations. With this approach to our mission, we will continue to be a solid pillar of critical infrastructure in the coming period, ensuring the safe and reliable distribution of energy.

## CONTACTS

**SPP - distribúcia, a. s.**
Mlynské nivy 44/b
825 11 Bratislava 26
Slovak Republic
www.spp-distribucia.sk

**Emergency line - gas:**
Tel.: 0850 111 727 (charged at the price of local call)

**Customer line for connection to the distribution network:**
Tel.: 0850 269 269 (charged at the price of local call)

Customer line is in operation on working days from 7:00 a.m. to 8:00 p.m.

E-mail: pripajanie@distribuciaplynu.sk
On-line forms: www.spp-distribucia.sk/sk_online-aplikacie

**Contract relations between SPP - distribúcia, a. s. and gas suppliers:**
Tel.: +421 2 2040 2011 Secretariat of the Distribution Services
E-mail: distribucia@spp-distribucia.sk

**Microsite on natural gas:**
www.oplyne.info

**Facebook:**
www.facebook.com/SPPdistribucia

**Complaints regarding services of SPP - distribúcia, a. s.:**
E-mail: reklamacie@spp-distribucia.sk

**Public relations:**
Mgr. Milan Vanga, External Communication Manager
Tel.: +421 2 2040 2020
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## Final title

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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 2021, 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 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union (EU).

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the provisions of Act No. 423/2015 Coll. on Statutory Audit and on Amendment to and Supplementation of Act No. 431/2002 Coll. on Accounting, as amended (hereinafter the "Act on Statutory Audit") related to ethical requirements, including the Code of Ethics for Auditors that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Description of the most significant assessed risks of material misstatement, including assessed risks of material misstatement due to fraud | Summary of the auditor's response to the risks |
|---|---|
| **Estimated Revenues from Gas Distribution** | |
| The Company recognises revenues from natural gas distribution based on regulated prices and the quantity of distributed gas to end customers. A portion of revenues from natural gas distribution to retail customers and households is recognised based on estimates, as the volume of natural gas distributed to such customers is determined by a meter reading of the consumed gas after the end of the reporting period.<br><br>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:<br><br>a) Estimated quantity of distributed natural gas depending on measured temperatures in individual off-take categories;<br>b) Own consumption estimate;<br>c) Changes in natural gas accumulation in the distribution network. | Our audit procedures included, inter alia:<br><br>• An assessment of the appropriateness and reliability of the procedure and method used by management to determine the estimates;<br>• 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;<br>• Testing whether the assumptions used are appropriate given the measurement objective in compliance with accounting standards;<br>• An assessment of the effectiveness of the design and operation of the controls over the estimate determination by management and controls over implementation;<br>• An assessment of changes to the relevant information system, assessment of IFRS requirements to recognise the accounting estimate in the financial statements. |

This is a translation of the original auditor's report issued in the Slovak language to the accompanying financial statements translated into the English language.

<table>
<tr><th colspan="2">Impairment Assessment</th></tr>
<tr><td>See Note 3d) to the financial statements<br><br>The Company owns property, plant and equipment, which comprises the natural gas distribution network in Slovakia in the amount of EUR 3,78 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:<br>• Future fees the Company is entitled to charge for its distribution services under the price regulation regime;<br>• Natural gas volumes that will be distributed in the future;<br>• The discount rate specific to the assets owned by the Company;<br>• Associated capital and operating expenditures.<br><br>The above assumptions require management to make highly-subjective judgments regarding long-term periods.</td><td>Our audit procedures included, inter alia:<br>• 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 2021;<br>• 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;<br>• An examination of the model’s mathematical basis;<br>• A retrospective review of the assumptions used in the model in the previous year;<br>• 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.</td></tr>
</table>

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

Management of the Company is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS as adopted in the EU, and for such internal control as management of the Company determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

## Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### *Report on Information Disclosed in the Annual Report*

The statutory body is responsible for information disclosed in the annual report prepared under the requirements of the Act on Accounting No. 431/2002 Coll. as amended (the “Act on Accounting”). Our opinion on the financial statements stated above does not apply to other information in the annual report.

In connection with the audit of financial statements, our responsibility is to gain an understanding of the information disclosed in the annual report and consider whether such information is materially inconsistent with the financial statements or our knowledge obtained in the audit of the financial statements, or otherwise appears to be materially misstated.

We assessed whether the Company’s annual report includes information whose disclosure is required by the Act on Accounting.

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

- Information disclosed in the annual report prepared for the year ended 31 July 2021 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 30 September 2021. 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 12 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, 14 December 2021

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

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

## CONTENTS

**SPP - distribúcia, a.s.**
**Statement of Financial Position**
**As at 31 July 2021 and 31 July 2020**
**(EUR '000)**

| | Note | 31 July 2021 | 31 July 2020 |
|---|---|---|---|
| **ASSETS:** | | | |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 7 | 3 781 879 | 3 907 195 |
| Non-current intangible assets and other assets | 8 | 10 928 | 11 236 |
| Right-of-use assets | 9 | 27 020 | 20 839 |
| Investments in subsidiaries | 10 | 1 000 | 1 000 |
| Other non-current assets | 10 | 96 984 | 91 395 |
| Total non-current assets | | 3 917 811 | 4 031 665 |
| CURRENT ASSETS | | | |
| Inventories | 11 | 129 177 | 134 553 |
| Cash and cash equivalents | | 211 922 | 54 746 |
| Receivables and prepayments | 12 | 296 849 | 334 485 |
| Contract receivables, current | 13 | 12 397 | 12 044 |
| Other current assets | 11 | 67 | 75 |
| Total current assets | | 650 412 | 535 903 |
| Held-for-sale assets | | 32 | 0 |
| **TOTAL ASSETS** | | **4 568 255** | **4 567 568** |
| **EQUITY AND LIABILITIES:** | | | |
| CAPITAL AND RESERVES | | | |
| Registered capital | 17 | 1 200 000 | 1 200 000 |
| Legal reserve fund and other funds | 18 | 288 529 | 287 109 |
| Revaluation reserve | 18 | 1 310 303 | 1 360 241 |
| Retained earnings | 18 | 220 669 | 164 419 |
| Total equity | | 3 019 501 | 3 011 769 |
| NON-CURRENT LIABILITIES | | | |
| Loans and bonds | 15 | 582 978 | 136 650 |
| Contract liabilities, non-current | 13 | 16 853 | 13 394 |
| Deferred tax liability and deferred special levy | 23 | 762 808 | 787 675 |
| Deferred income | | 70 | 74 |
| Obligation under finance lease | 9 | 22 645 | 16 648 |
| Retirement and other long-term employee benefits | 14 | 5 298 | 5 489 |
| Total non-current liabilities | | 1 390 652 | 959 930 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 16 | 62 730 | 51 016 |
| Contract liabilities, current | 13 | 33 034 | 35 510 |
| Loans and bonds | 15 | 50 729 | 500 481 |
| Obligation under finance lease | 9 | 5 340 | 5 027 |
| Income tax | 23 | 5 805 | 3 486 |
| Retirement payments and other short-term employee benefits | 14 | 464 | 349 |
| Total current liabilities | | 158 102 | 595 869 |
| Total liabilities | | 1 548 754 | 1 555 799 |
| **TOTAL EQUITY AND LIABILITIES** | | **4 568 255** | **4 567 568** |

The financial statements on pages 6 to 40 were signed on 14 December 2021 on behalf of the Board of Directors:

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

**Ing. Pavol Mertus**
Member of the Board of Directors

**(EUR '000)**

| | ***Note*** | ***Year ended 31 July 2021*** | ***Year ended 31 July 2020*** |
|---|---|---|---|
| REVENUES FROM SALES OF SERVICES: | | | |
| Natural gas distribution | | 417 304 | 401 983 |
| Other revenues | | 25 705 | 19 403 |
| Total revenues | | 443 009 | 421 386 |
| | | | |
| OPERATING EXPENSES: | | | |
| Depreciation, amortisation and impairment losses on assets, net | 7, 8 | (167 139) | (160 141) |
| Storage of natural gas and other services | | (48 071) | (48 398) |
| Staff costs | 19 | (49 770) | (47 995) |
| Purchases of natural gas and consumables and services | | (12 766) | (9 962) |
| Own work capitalised | | 10 707 | 10 230 |
| Provisions and impairment losses, net | | (341) | (14) |
| Provisions for receivables and inventories, net | | (11) | (158) |
| Other, net | 21 | 2 296 | 2 850 |
| Total operating expenses | | (265 095) | (253 588) |
| | | | |
| OPERATING PROFIT | | 177 914 | 167 798 |
| | | | |
| Financial revenues | | 2 002 | 2 255 |
| Financial costs | 22 | (15 999) | (14 442) |
| | | | |
| PROFIT BEFORE INCOME TAXES | | 163 917 | 155 611 |
| | | | |
| INCOME TAX | 23 | (42 325) | (40 331) |
| | | | |
| **NET PROFIT FOR THE PERIOD** | | **121 592** | **115 280** |

**(EUR '000)**

| | ***Year ended 31 July 2021*** | ***Year ended 31 July 2020*** |
|---|---|---|
| NET PROFIT FOR THE PERIOD | 121 952 | 115 280 |
| OTHER COMPREHENSIVE INCOME/(LOSS) (may be reclassified to profit or loss in the future): | | |
| Hedging derivatives (cash flow hedging) | 1 728 | (1 160) |
| Other | 46 | 235 |
| Deferred tax related to items of other comprehensive income for the period | (354) | 182 |
| OTHER COMPREHENSIVE INCOME/(LOSS) (cannot be reclassified to profit or loss in the future): | | |
| Increase in asset revaluation reserve | 0 | 188 |
| Deferred tax and deferred special levy related to other comprehensive income/(loss) for the period | | |
| OTHER NET COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD | 1 420 | (555) |
| **TOTAL NET COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD** | **123 012** | **114 725** |

**SPP - distribúcia, a.s.**
**Statement of Changes in Equity**
**For the reporting periods ended 31 July 2021 and 31 July 2020**
**(EUR '000)**

| | ***Registered capital*** | ***Legal reserve fund*** | ***Other reserves*** | ***Hedging reserve*** | ***Revaluation reserve*** | ***Retained earnings*** | ***Total*** |
|---|---|---|---|---|---|---|---|
| Balance at 31 July 2019 | **1 200 000** | **291 484** | **(203)** | **(3 429)** | **1 409 192** | **127 753** | **3 024 797** |
| Net profit for the period | - | - | - | - | - | 115 280 | 115 280 |
| Other net comprehensive income for the period | - | - | 174 | (917) | 188 | - | (555) |
| Dividends paid | - | - | - | - | - | (127 753) | (127 753) |
| Changes in the registered capital | - | - | - | - | - | - | - |
| Transfer to retained earnings | - | - | - | - | (49 139) | 49 139 | - |
| **Balance at 31 July 2020** | **1 200 000** | **291 484** | **(29)** | **(4 346)** | **1 360 241** | **164 419** | **3 011 769** |
| Net profit for the period | - | - | - | - | - | 121 592 | 121 592 |
| Other net comprehensive income for the period | - | - | 55 | 1 365 | - | - | 1 420 |
| Dividends paid | - | - | - | - | - | (115 280) | (115 280) |
| Changes in the registered capital | - | - | - | - | (49 938) | 49 938 | |
| Transfer to retained earnings | - | - | - | - | | | |
| **Balance at 31 July 2021** | **1 200 000** | **291 484** | **26** | **(2 981)** | **1 310 303** | **220 669** | **3 019 501** |

**(EUR '000)**

| | *Note* | *Year ended 31 July 2021* | *Year ended 31 July 2020* |
|---|---|---|---|
| OPERATING ACTIVITIES | | | |
| Cash flows from operating activities | 25 | 347 835 | 311 474 |
| Interest paid | | (13 315) | (13 466) |
| Interest received | | 409 | 329 |
| Income tax paid | | (65 625) | (66 341) |
| Net cash flows from operating activities | | 269 304 | 231 996 |
| INVESTING ACTIVITIES | | | |
| Acquisition of property, plant and equipment | | (22 493) | (24 111) |
| Proceeds from/repayments of borrowings received from the Group companies – cash pooling | | (80 000) | (265 000) |
| Non-current borrowings provided | | - | - |
| Non-current borrowings provided – received repayments | | 66 | 64 |
| Proceeds from the sale of property, plant and equipment and intangible assets | | 265 | 43 |
| Received dividends | | 0 | 1 872 |
| Net cash inflow/(outflow) from investing activities | | (102 162) | (287 132) |
| FINANCING ACTIVITIES: | | | |
| Received bank loans and borrowings | | - | 59 940 |
| Repaid bank loans and borrowings | | - | (55 000) |
| Bond repayment | | (500 000) | - |
| Proceeds from issue of bonds | | 496 281 | - |
| (Expenditures for)/proceeds from derivative transactions | | (1 100) | (2 116) |
| Expenditures for the settlement of finance lease obligations | | (5 147) | (4 410) |
| Paid dividends | | - | - |
| Net cash flows from financing activities | | (9 966) | (1 586) |
| NET (DECREASE)/INCREASE IN CASH | | 157 176 | (56 722) |
| EFFECTS OF FOREIGN EXCHANGE FLUCTUATIONS | | | |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD | | 54 746 | 111 468 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD** | | **211 922** | **54 746** |

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

**(EUR '000)**

## 1. GENERAL

### 1.1. General Information

In accordance with Act No. 431/2002 Coll. on Accounting as amended, SPP – distribúcia, a.s., (hereinafter also the "Company") is required to prepare separate financial statements as at 1 January 2008 in accordance with the International Financial Reporting Standards ("IFRS"), as adopted by the European Union ("EU").

These financial statements were prepared for the reporting period ended 31 July 2021. The comparable period is 1 August 2019 to 31 July 2020.

The financial statements are statutory financial statements intended for general use and information; they are not intended for the purposes of any specific user or consideration of any specific transactions. Accordingly, users should not rely exclusively on these financial statements when making decisions.

The Company was founded on 26 November 2004 and incorporated in the Business Register on 10 December 2004.

On 1 July 2006, Slovenský plynárenský priemysel, a.s. (hereinafter also "SPP") contributed to SPP-distribúcia, a.s. a part of its business, including assets and liabilities of the original Distribution Division.

Since 1 July 2006, the Company has assumed the performance of activities related to natural gas distribution, as well as assets and liabilities related to the gas distribution business.

SPP Infrastructure, a.s. is the 100% owner of the Company. The shareholders of SPP Infrastructure, a.s. are Energetický a průmyslový holding, a.s. ("EPH") with a near 49% share and management control, and Slovenský plynárenský priemysel, a.s. ("SPP") with a 51% share.

The financial statements of SPP – distribúcia, a.s. for the reporting period ended 31 July 2020 were approved by the decision of the sole shareholder on 30 September 2020.

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

### 1.2. Principal Activities

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

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

### 1.3. Employees

The full-time equivalent of the employees of SPP – distribúcia, a.s. for the year ended 31 July 2021 was 1 302, of which executive management: 8 (for the year ended 31 July 2020: 1 293, of which executive management: 8).

As at 31 July 2021, the actual headcount was 1 293 (31 July 2020: 1 293).

### 1.4. Registered Address

Mlynské nivy 44/b
825 11 Bratislava
Slovak Republic

## 2. NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS AND CHANGES IN ESTIMATES

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

- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** – Definition of Material – adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020),

- **Amendments to IFRS 3 "Business Combinations"** – Definition of a Business – adopted by the EU on 21 April 2020 (effective for business combinations for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of this period),

- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures"** – Interest Rate Benchmark Reform – adopted by the EU on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020),

- **Amendments to IFRS 16 "Leases"** – Covid-19-Related Rent Concessions – adopted by the EU on 9 October 2020 (effective for annual periods beginning on or after 1 January 2020, no later than on 1 June 2020),

- **Amendments to References to the Conceptual Framework in IFRS Standards** – adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020).

The adoption of other standards and amendments stated above had no material impact on the Company's financial statements.

**New and amended IFRS standards issued by the IASB and adopted by the EU but not yet effective**

At the date of authorisation of these financial statements, the following amendments to the existing standards were issued by the IASB and adopted by the EU and are not yet effective:

- **Amendments to IFRS 4 "Insurance Contracts" –** Extension of the Temporary Exemption from Applying IFRS 9 – adopted by the EU on 15 December 2020 (effective for annual periods beginning on or after 1 January 2021.

- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial Instruments: Disclosures", IFRS 4 "Insurance Contracts" and IFRS 16 "Leases"** – Interest Rate Benchmark Reform – Phase 2 – adopted by the EU on 13 January 2021 (effective for annual periods beginning on or after 1 January 2021).

The Company does not expect a material impact on the separate financial statements as regards these amendments to the standards.

**New and amended IFRS standards issued by the IASB but not yet adopted by the EU**

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the IASB, except for the following new standards and amendments to the existing standards, which were not endorsed for use in the EU (the effective dates stated below are for IFRS as issued by the IASB):

- **IFRS 17 "Insurance Contracts" and Amendments to IFRS 17** (effective for annual periods beginning on or after 1 January 2023),

- **Amendments to IAS 1 "Presentation of Financial Statements"** – Classification of Liabilities as Current or Non-current (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 1 "Presentation of Financial Statements"** – Disclosure of Accounting Policies (effective for annual periods beginning on or after 1 January 2023),

- **Amendments to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** – Definition of Accounting Estimates (effective for annual periods beginning on or after 1 January 2023),

- **Amendments to IAS 16 "Property, Plant and Equipment"** – Proceeds before Intended Use (effective for annual periods beginning on or after 1 January 2022),

- **Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"** – Onerous Contracts – Cost of Fulfilling a Contract (effective for annual periods beginning on or after 1 January 2022),

- **Amendments to IFRS 3 "Business Combinations"** – Reference to the Conceptual Framework with amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2022),

- **Amendments to various standards due to "Annual Improvements to IFRS Standards (2018 – 2020 Cycle)"** resulting from the annual IFRS improvement project (IFRS 1, IFRS 9, IFRS 16 and IAS 41) primarily with a view to removing inconsistencies and clarifying wording (The amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022. The amendment to IFRS 16 only relates to an illustrative example, so no effective date is stated.),

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,

- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (the effective date deferred indefinitely until the research project on the equity method has been concluded).

The Company anticipates that the adoption of these standards and amendments to the existing standards and interpretations will have no material impact on its financial statements in the period of initial application.

Hedge accounting for a portfolio of financial assets and liabilities whose principles have not been adopted by the EU remains unregulated.

According to the Company's estimates, the application of hedge accounting to a portfolio of financial assets or liabilities pursuant to IAS 39 "Financial Instruments: Recognition and Measurement" would not significantly impact the financial statements if applied as at the reporting date.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### a) Basis of Accounting

These separate financial statements have been prepared in accordance with IFRS as adopted by the EU. IFRS as adopted by the EU do not currently differ from IFRS as issued by the International Accounting Standards Board (IASB).

The financial statements have been prepared under the historical cost convention, except for the remeasurement of gas pipelines to their fair value. Information on the applied principal accounting policies is provided below. The reporting currency and functional currency of the Company is the euro (EUR). These separate financial statements were prepared under the going concern assumption.

### b) Information about Operating Segments

Operating segments are recognised in accordance with the internal system of management reporting provided for the highest executive decision-making body. The highest executive decision-making body that is responsible for the allocation of resources and for evaluating the performance of these operating segments has been identified to be the Board of Directors, which makes strategic decisions.

### c) Research and Development

Research and development costs are recognised as expenses except for costs incurred for development projects, which are recognised as non-current intangible assets to the extent of the expected economic benefits. However, development costs initially recognised as expenses are not recognised as assets in a subsequent period.

**(EUR '000)**

## d) Property, Plant and Equipment and Intangible Assets

In the 2021 and 2020 financial years, gas pipelines are recognised in the balance sheet at a remeasured value representing their fair value as at the remeasurement date less potential subsequent accumulated depreciation and subsequent accumulated losses from permanent impairment. The first remeasurement was made as at 1 August 2018. The remeasurement was prepared by an independent expert. Remeasurements will be performed on a regular basis so that the net book value does not differ significantly from the amount that would be recognised as at the balance sheet date using fair values. The remeasurement of gas pipelines is made on a prospective basis and has no impact on the previous reporting period.

An increase, if any, in the revaluation surplus arising from the remeasurement of gas pipelines is credited to revaluation reserves and reflects the amount that potentially cancels the decrease in the revaluation surplus for the same asset item originally recognised and reported in the income statement in the preceding period; in such a case the increase is credited to the income statement in the amount of the previously-recognised decrease. A decrease in the net book value resulting from the revaluation of gas pipelines is debited to profit and loss in an amount exceeding the balance, if any, of asset revaluation reserves related to the previous remeasurement of such an asset item. Depreciation of remeasured gas pipelines is recognised as an expense in the income statement. The revaluation reserves are gradually dissolved in retained earnings over the depreciation period of the related remeasured assets. In such a case, the amount of the transferred surplus corresponds to the difference between the depreciation charge calculated from the remeasured carrying amount of the assets and the depreciation charge calculated from the original cost of the assets. Upon the subsequent sale or disposal of remeasured assets, the relevant revaluation difference that remains in the revaluation reserves is transferred directly to retained earnings.

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

Items of property, plant and equipment and intangible assets that are retired or otherwise disposed of are eliminated from the balance sheet at net book value. Any gain or loss resulting from such retirement or disposal is included in the income statement.

Other items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. Depreciation charges are recognised in the income statement so as to amortise the assets to their estimated residual value over their remaining useful lives. The useful lives of property, plant and equipment and intangible assets are as follows:

| ***Type of assets*** | ***31 July 2021*** | ***31 July 2020*** |
|---|---|---|
| Regulation stations | 15 – 50 years | 15 – 50 years |
| Gas pipelines | 50 – 60 years | 50 – 60 years |
| Structures | 30 – 50 years | 30 – 50 years |
| Machines, tools and equipment | 4 – 40 years | 4 – 40 years |
| Other non-current assets | 4 – 15 years | 4 – 15 years |

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

If the Company recognised non-current tangible assets used for natural gas distribution at historical cost less accumulated depreciation and accumulated impairment losses, the historical net book value of such non-current tangible assets used for natural gas distribution would amount to EUR 2 081 million as at 31 July 2021 (31 July 2020: EUR 2 123 million).

Intangible assets with limited useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. The estimated useful lives are reviewed at the end of each reporting period. Costs of connection to the distribution network are capitalised and amortised over the estimated remaining useful life of the related equipment used for natural gas distribution.

At each reporting date an assessment is made as to whether there is any indication that the recoverable amount of the Company's property, plant and equipment and intangible assets is less than the carrying amount. Where there is such an indication, the recoverable amount of the asset, being whichever is the higher of the fair value less costs of sale and the present value of future cash flows, is estimated. The provision for impairment of property, plant and equipment and intangible assets is recognised as described above. The discount rates used to calculate the net present value of future cash flows reflect current market assessments of the time value of money and the risks specific to the asset. In the event that a decision is made to abandon a construction project in progress or significantly to postpone the planned completion date, the carrying amount of the asset is reviewed for potential impairment and a provision is recorded, if appropriate. As at 31 July 2021, the Company prepared an analysis of the expected value-in-use of assets based on which no impairment of non-current assets was identified.

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

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

Free-of-charge transfers of gas facilities by municipalities to the Company's assets are deemed to be non-monetary grants. They are recognised at the fair value of the assets received and also as a contract liability recognised under non-current liabilities. The contract liability is recognised in the income statement on a straight-line basis over the useful lives of the assets transferred.

Free-of-charge transfers of gas facilities from customers relating to the connection of customers to the distribution network are charged to revenues for the relevant period and are recognised at the fair value of the received assets.

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

### f) Lease

Accounting procedures valid from 1 August 2019:

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

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

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

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

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

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

### g) Inventories

Inventories are stated at the lower of the cost and the net realisable value. The cost of natural gas stored in underground storage facilities and raw materials and other inventories is calculated using the weighted arithmetic average method. The cost of raw materials and other inventories includes the cost of acquisition and related costs and the cost of inventories developed internally includes materials, other direct costs and production overheads. Appropriate provisions are made for obsolete and slow-moving inventories. Natural gas in acquisition is valued at cost. Other costs related to the acquisition of natural gas are immaterial.

### h) Financial Assets

Financial assets are classified as follows: financial assets subsequently measured at amortised cost, financial assets subsequently measured at fair value through other comprehensive income (FVOCI), and financial assets subsequently measured at fair value through profit or loss (FVTPL).

The Company only recognises financial assets subsequently measured at amortised cost. Financial assets are subsequently measured at amortised cost using the effective interest rate method, less any impairment, and include trade receivables and borrowings with fixed or variable payments.

Interest income is recognised using the effective interest rate, except for short-term receivables for which the recognition of interest is immaterial.

Impairment of Financial Assets

The Company applies a simplified model for the assessment and recognition of impairment losses on financial assets under which a provision is recognised in the amount of expected credit losses over the entire useful life of trade receivables at the moment of their initial recognition. Such estimates are updated as at the balance sheet date.

The carrying amount of the financial asset is reduced for the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of a provisions account. When a trade receivable is considered uncollectible, it is written off against the provisions account. Subsequent recoveries of amounts previously written off are recognised as a release of provisions. Changes in the carrying amount of the provisions account are recognised in profit or loss.

Derecognition of Financial Assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

### i) Financial Liabilities

Financial liabilities are classified as financial liabilities measured at amortised cost and as financial liabilities “at fair value through profit or loss” (FVTPL).

The Company only recognises financial liabilities in the “financial liabilities measured at amortised cost” category. Financial liabilities (including borrowings) are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected economic life of the financial liability, or a shorter period, to the net carrying amount on initial recognition.

### j) Derivative Financial Instruments

The Company enters into financial derivative contracts to manage its exposure to interest rate fluctuation risk.

Derivative financial instruments are contracts: (i) whose value changes in response to a change in one or more identifiable variables; (ii) that require no significant net initial investment; and (iii) that are settled at a certain future date.

Derivative financial instruments are initially measured at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised directly in profit or loss unless the derivative instrument is designated or effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedging relationship.

Hedge accounting

The Company applies hedge accounting for interest rate swaps which were entered into to manage its exposure to movements in interest rates of received loans, and are recognised as cash flow hedges.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised directly in profit or loss.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the income statement as the recognised hedged item.

Hedge accounting is discontinued when the Company terminates the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the anticipated transaction is ultimately recognised in profit or loss. When another hedge transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised directly in profit or loss.

### k) Subsidiaries

Investments in subsidiaries are measured at cost. The costs of an investment in a subsidiary are based on the expenses related to the acquisition of an investment representing the fair value of the consideration, including direct incidental transaction costs.

### l) Cash and Cash Equivalents

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

### m) Provisions for Liabilities

A provision is recognised when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. The amount of the provision is the present value of the risk-adjusted expenditures expected to be required to settle the obligation, determined using the estimated risk-free interest rate as a discount rate. Where discounting is used, the carrying amount of the provision increases in each period to reflect the unwinding of the discount by the passage of time.

### n) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are recognised as part of the cost of the related asset. Other borrowing costs are recognised as an expense in the period in which they are incurred.

### o) Issued Debt Securities

Issued debt securities are initially measured at fair value plus transaction costs, and then measured at amortised cost using the effective interest rate method.

### p) Revenue Recognition

Sales are recorded upon the delivery of products or the performance of services, net of value added tax and discounts. The Company records revenues from distribution and other activities on an accrual basis. Moment of revenue recognition: revenues are recognised at the moment (or when) goods and services are transferred to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Revenues from core business activities include fees for natural gas distribution. From the Company’s perspective, this activity represents a primary activity and, therefore, these revenues are recognised separately. Revenues from core business activities also include natural gas losses in the distribution network totalling EUR 19 863 thousand (for the period ended 31 July 2020: EUR 20 264 thousand) in connection with a valid price decision issued by the Regulatory Office for Network Industries. To calculate distribution network losses, the Company applies methodology consistent with the methodology applied in 2020. Revenues from natural gas distribution are recognised during the provision of distribution services ordered by customers according to daily nominations. The volume of distributed natural gas consumed by end customers connected to the distribution network includes estimates for customers in the household and small customer groups, where a meter reading of the consumed gas consumption is performed on an annual basis.

Other revenues mainly include fees for additional procurement of capacities, fines, connection fees, and fees for other activities which are not core Company activities. The Company recognises revenues from such activities during the provision of services to the customer, or for fines at the moment the Company is entitled to a consideration from the customer.

### q) Social Security and Pension Schemes

The Company is required to make contributions to various mandatory government insurance schemes, together with contributions by employees. The cost of social security payments is charged to the income statement in the same period as the related salary cost.

### r) Retirement and Other Long-Term Employee Benefits

The Company has a long-term employee benefit program comprising a lump-sum retirement benefit, social assistance benefit in material deprivation and life and work jubilee benefits, for which no individual financial funds were earmarked. In accordance with IAS 19, the employee benefits costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the income statement so as to spread the regular cost over the service period of employees. The benefit obligation is measured at the present value of the estimated future cash flows discounted by market yields on Eurozone government bonds, which have terms to maturity approximating the terms of the related liability. All actuarial gains and losses are recognised in the comprehensive income statement. Past service costs are recognised when incurred and are directly expensed.

### s) Taxation

Income tax is calculated from the profit/loss before tax recognised pursuant to International Accounting Standards adjusted to the profit/loss recognised pursuant to the accounting procedures valid in the Slovak Republic reflecting individual items increasing or decreasing the tax base pursuant to Act No. 595/2003 Coll. on Income Tax, as amended, using the effective income tax rate of 21%. The income tax rate is valid from 1 January 2017.

Deferred tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax is recognised in the income statement, except when it relates to items directly credited or charged directly to equity, in which case the deferred tax is also recognised in equity. The income tax rate valid from 1 January 2017 is 21%.

The principal temporary differences arise from the depreciation of non-current assets and various provisions. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is recognised in the case of temporary differences arising from financial investments in subsidiaries, associates and joint ventures, except when the settlement of temporary differences can be controlled and temporary differences will not be realised in the foreseeable future.

**Current and Deferred Tax for the Year**
Current and deferred tax are recognised through profit and loss, except when they relate to items recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity.

**Special Levy on Businesses in Regulated Industries**
Pursuant to the requirements of International Accounting Standards, the Company's income tax also includes a special levy pursuant to Act No. 235/2012 Coll. on a Special Levy on Businesses in Regulated Industries and on the Amendment to and Supplementation of Certain Acts. The special levy is recognised through profit and loss.

The Company is a regulated entity and is obliged to pay a special levy during the validity of the Act. Under the original wording of the Act on a Special Levy on Businesses in Regulated Industries, the last levy period was December 2016. An amendment to the Act (effective from 1 January 2017) was adopted and the special levy will continue to be applied without time limitation. The levy period was a calendar month and as of 1 January 2017, the levy rate was 0.00726 for 2017 and 2018. The special levy has gradually been reduced, so that from 2019, the monthly levy rate was 0.00545. In 2021, it will revert to 0.00363, ie to its original amount, which was valid until 31 December 2016. For SPP – distribúcia, a.s., the new rate becomes effective on 1 August 2021. The levy is based on the profit/loss before tax recognised pursuant to International Accounting Standards, adjusted to the profit/loss recognised pursuant to the accounting procedures valid in the Slovak Republic, and further adjusted pursuant to the Act on a Special Levy. The special levy is recognised as part of income taxes.

Due to the amendment to the Act on Special Levy on Businesses in Regulated Industries that abolished the time limit on the validity of the special levy payment, the Company must recognise a deferred special levy. A deferred special levy is recognised on all temporary differences between the carrying amount of assets and liabilities recognised under International Accounting Standards and the carrying amount of assets and liabilities recognised in accordance with Slovak accounting procedures. The deferred special levy is calculated by applying the special levy rate expected to apply in the period in which it is expected that the temporary difference from which the deferred special levy arises will be realised. The deferred special levy is recognised in the income statement.

### t) Foreign Currencies

Transactions in foreign currencies are initially recorded at the rates of the European Central Bank (ECB) pertaining on the dates of the transactions. Monetary assets, receivables and payables denominated in foreign currencies are translated as at the reporting date at the ECB exchange rates valid on the reporting date. Gains and losses arising on exchange as at the reporting date are included in the income statement.

## 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

*Impairment of property, plant and equipment*

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

*Revaluation of property, plant and equipment*

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

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

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

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

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

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

*Estimated useful lives*

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

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

See Note 7 for more details. The useful lives of non-current assets are based on accounting estimates, which are specified in Note 3 (d), and their carrying amounts are presented in Note 7 and Note 8. A change to the useful lives of non-current assets by 10 years would have an impact on the depreciation charge in the amount of EUR 52 million.

*Revenues from natural gas distribution*

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

## 5. FINANCIAL INSTRUMENTS

### a) Financial risk management

The Company is not exposed to severe financial risks that would include the effects of changes in foreign currency exchange rates. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial position.

(1) Foreign currency risk

The Company is not exposed to severe foreign currency risk arising from foreign currency transactions since it does not recognise significant financial assets and liabilities denominated in a foreign currency as at 31 July 2021. The Company recognised no significant financial assets and liabilities denominated in a foreign currency as at 31 July 2020.

Sensitivity to foreign exchange changes

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

(2) Commodity price volatility risk

The Company has entered into contracts for natural gas storage and natural gas purchases to cover losses in the distribution network. The contract for natural gas storage is concluded for 30 years and is at a fixed price. Natural gas purchase prices to cover losses are subject to tender for one year in advance. Currently, a fixed unit price for natural gas purchases is agreed for 2021; the same trend is expected also in the future. The current effective legislation of the Regulatory Office for Network Industries allows one to transfer the effect of natural gas price changes to cover losses to the price for natural gas distribution; thus, the Company does not consider the commodity price volatility risk significant.

(3) Interest rate risk

The Company is not exposed to significant concentration of interest rate risk.

The Company's management concluded loan contracts with a floating interest rate that changes based on changes in market conditions.

As at 31 July 2021, the Company recognised two loans received from banks with a face value of EUR 76.65 million and EUR 60 million; the loans bear a variable interest rate. The interest rate of these long-term loans amounts to 3M EURIBOR + a margin in % p.a. (Note 15).

(4) Credit risk and credit risk related to receivables

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in a financial loss to the Company. The Company has adopted a policy of only dealing with credit-worthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

**(EUR '000)**

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

(5) Liquidity risk

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

The table below summarises the maturity of the financial liabilities as at 31 July 2021 and 31 July 2020, based on contractual undiscounted payments:

| ***As at 31 July 2021*** | ***On demand*** | ***Less than 3 months*** | ***3 to 12 months*** | ***1 to 5 years*** | ***> 5 years*** | ***Total*** |
|---|---|---|---|---|---|---|
| Bonds | - | | 5 000 | 20 000 | 525 000 | 550 000 |
| Loans | - | 15 | 50 032 | 27 003 | 60 792 | 137 842 |
| Obligations under finance leases | - | 1 345 | 4 035 | 21 362 | 1 661 | 28 403 |
| Trade and other payables | - | 76 430 | | | | 76 430 |

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

## b) Capital risk management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity ratio.

The Company's capital structure consists of equity attributable to the Company's owners, comprising registered capital, the legal reserve fund and retained earnings as disclosed in Notes 17 and 18 and interest-bearing borrowings as disclosed in Note 15. The gearing ratio as at 31 July 2021 was 15% (31 July 2020: 20%).

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

| | ***31 July 2021*** | ***31 July 2020*** |
|---|---|---|
| Debt (i) | 661 692 | 658 806 |
| Cash and cash equivalents | 211 922 | 54 746 |
| Net debt | 449 770 | 604 060 |
| Equity (ii) | 3 019 501 | 3 011 769 |
| **Net debt to equity ratio** | **15%** | **20%** |

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

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

## c) Categories of financial instruments

| | ***31 July 2021*** | ***31 July 2020*** |
|---|---|---|
| **Financial assets** | | |
| Loans and receivables (including cash and cash equivalents) | 618 152 | 492 670 |
| **Financial liabilities** | | |
| Financial liabilities carried at amortised costs | 738 122 | 731 391 |
| Financial derivatives recognised as hedges | 3 774 | 4 860 |

### d) Estimated fair value of financial instruments

The fair value hierarchy:

Level 1 of the fair value measurement represents those fair values that are deduced from the prices of similar assets or liabilities listed on active markets.

Level 2 of the fair value measurement represents those fair values that are deduced from input data other than listed prices included in Level 1, which are observable on the market for assets or liabilities directly (eg prices) or indirectly (eg deduced from prices).

Level 3 of the fair value measurement represents those fair values that are deduced from valuation models including subjective input data for assets or liabilities not based on market data.

As at 31 July 2021, the Company has no financial instruments measured at fair value except for financial liabilities from derivative instruments (interest swaps). The fair value of such instruments is estimated based on their present value of future cash flows discounted at the market interest rate. The measurement of interest swaps represents Level 2 of the fair value measurement.

**Embedded derivative instruments**

The Company assessed all significant contracts and agreements for embedded derivatives that should be recorded and concluded that there are no embedded derivatives in these contracts and agreements that are required to be measured and separately recognised as at 31 July 2021 and 31 July 2020 under the requirements of IAS 39 (as revised in 2009).

## 6. OPERATING SEGMENTS

The Company assesses the segment information for the current and comparative reporting periods in accordance with IFRS 8 Operating Segments. In managing the Company's activities, allocating funds, and making strategic decisions, the Board of Directors considers all activities of the Company to be one segment given the nature of products and services. The strategic business unit offers various services aimed at natural gas distribution. The Company's activities focus on the Slovak Republic where all of its non-current tangible assets are located. The main indicators used by the Board of Directors in its decision-making process are earnings before interest, taxes, depreciation, and amortisation (EBITDA), and the amount of capital expenditures. To make decisions, the Board of Directors uses financial information which is consistent with the information disclosed in these separate financial statements. The Company's management submits a report on the Company's results to the Board of Directors on a monthly basis.

**(EUR ‘000)**

## 7. PROPERTY, PLANT AND EQUIPMENT

| | *Regulation stations* | *Gas pipelines* | *Other gas facilities* | *Land, buildings and structures* | *Plant, machinery and equipment* | *Other non-current tangible assets* | *Assets in the course of construction* | *Total* |
|---|---|---|---|---|---|---|---|---|
| Year ended 31 July 2020 | | | | | | | | |
| Opening net book value | **79 577** | **3 852 649** | **69 300** | **529** | **2 234** | **50** | **22 955** | **4 027 294** |
| Additions | 8 | - | - | - | - | - | 33 706 | 33 714 |
| Placed into service | 494 | 27 205 | 1 939 | - | 494 | 17 | (30 163) | (14) |
| Reclassifications | - | 246 | (246) | - | - | - | - | - |
| Disposals | (2) | (35) | (7) | - | (5) | - | (22) | (71) |
| Depreciation charge | (4 763) | (141 900) | (6 059) | (11) | (972) | (9) | - | (153 714) |
| Change in provisions | 41 | - | (50) | - | (4) | - | (1) | (14) |
| **Closing net book value** | **75 355** | **3 738 165** | **64 877** | **518** | **1 747** | **58** | **26 475** | **3 907 195** |
| Balance as at 31 July 2020 | | | | | | | | |
| Cost | 175 266 | 4 021 920 | 159 697 | 621 | 27 547 | 880 | 27 201 | 4 413 132 |
| Accumulated depreciation and provisions | (99 911) | (283 755) | (94 820) | (103) | (25 800) | (822) | (726) | (505 937) |
| **Net book value** | **75 355** | **3 738 165** | **64 877** | **518** | **1 747** | **58** | **26 475** | **3 907 195** |
| Year ended 31 July 2021 | | | | | | | | |
| Opening net book value | **75 355** | **3 738 165** | **64 877** | **518** | **1 747** | **58** | **26 475** | **3 907 195** |
| Additions | 9 | 3 690 | 112 | - | - | - | 32 815 | 36 626 |
| Placed into service | 664 | 30 933 | 1 611 | - | 692 | 32 | (33 933) | (1) |
| Reclassifications | (32) | - | - | - | 0 | - | - | (32) |
| Disposals | (46) | (66) | - | - | (17) | - | - | (129) |
| Depreciation charge | (4 958) | (150 390) | (5 441) | (12) | (621) | (17) | - | (161 439) |
| Change in provisions | (89) | - | (280) | - | (2) | 0 | 30 | (341) |
| **Closing net book value** | **70 903** | **3 622 332** | **60 879** | **506** | **1 799** | **73** | **25 387** | **3 781 879** |
| Balance as at 31 July 2021 | | | | | | | | |
| Cost | 175 559 | 4 047 458 | 160 525 | 621 | 27 582 | 907 | 26 083 | 4 438 735 |
| Accumulated depreciation and provisions | (104 656) | (425 126) | (99 646) | (115) | (25 783) | (834) | (696) | (656 856) |
| **Net book value** | **70 903** | **3 622 332** | **60 879** | **506** | **1 799** | **73** | **25 387** | **3 781 879** |

**(EUR '000)**

*Remeasurement of non-current assets for natural gas distribution:*

As at 1 August 2018, the remeasurement of the Company's assets was performed by an independent expert using a cost method. When determining the fair value of individual items of the assets using the cost method, the physical wear and tear of the assets and their technological and economic obsolescence were taken into account.

As at 31 July 2021, the Company assessed the amount of assets using the discounted cash flow method; no impairment of assets was identified.

For more information see Note 4.

*Insurance of assets:*

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

| ***Insured object*** | ***Type of insurance*** | ***Cost of insured assets 2021*** | ***Cost of insured assets 2020*** | ***Name and seat of the insurance company*** |
|---|---|---|---|---|
| Buildings, halls, structures (except for gas pipelines), machinery, equipment, fixtures & fittings, low-value non-current TA, other non-current TA, works of art, inventories | Insurance of assets | 215 383 | 215 383 | Allianz-Slovenská poisťovňa |

The cost of fully depreciated non-current assets (includes also non-current intangible assets), which were in use as at 31 July 2021, amounts to EUR 84 619 thousand (31 July 2020: EUR 73 959 thousand).

## 8. NON-CURRENT INTANGIBLE ASSETS AND OTHER ASSETS

| | ***Software*** | ***Other non-current intangible assets*** | ***Assets in the course of construction*** | ***Total*** |
|---|---|---|---|---|
| Year ended 31 July 2020 | | | | |
| Initial net book value | 1 477 | 10 470 | 78 | 12 025 |
| Additions | - | - | 561 | 561 |
| Placed into service | 196 | 51 | (247) | 0 |
| Disposals | - | - | - | - |
| Amortisation | (1 088) | (262) | - | (1 350) |
| Change of provisions | - | - | - | - |
| **Closing net book value** | **585** | **10 259** | **392** | **11 236** |
| At 31 July 2020 | | | | |
| Cost | 11 997 | 14 737 | 392 | 27 126 |
| Provision and impairment loss | (11 412) | (4 478) | - | (15 890) |
| **Net book value** | **585** | **10 259** | **392** | **11 236** |
| Year ended 31 July 2021 | | | | |
| Initial net book value | 585 | 10 259 | 392 | 11 236 |
| Additions | - | - | 474 | 474 |
| Placed into service | 402 | 111 | (512) | 1 |
| Disposals | - | - | - | - |
| Amortisation | (486) | (297) | - | (783) |
| Change of provisions | - | - | - | - |
| **Closing net book value** | **501** | **10 073** | **354** | **10 928** |
| At 31 July 2021 | | | | |
| Cost | 12 399 | 14 848 | 354 | 27 601 |
| Provision and impairment loss | (11 898) | (4 775) | - | (16 673) |
| **Net book value** | **501** | **10 073** | **354** | **10 928** |

**(EUR '000)**

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

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

| | ***Buildings*** | ***Transportation means*** | ***Total*** |
|---|---|---|---|
| Balance as at 31 Jul 2021 | | | |
| Cost | 26 284 | 10 469 | 36 753 |
| Accumulated depreciation and provisions for assets | (2 079) | (7 654) | (9 733) |
| **Net book value** | **24 205** | **2 815** | **27 020** |

Obligation under long-term finance lease

| | ***Present value of minimum lease payments*** | |
|---|---|---|
| Maturity | ***31 July 2021*** | ***31 July 2020*** |
| Less than 1 year | 5 284 | 5 027 |
| 1 – 5 years | 20 315 | 15 125 |
| More than 5 years | 1 517 | 1 523 |
| **Total** | **27 116** | **21 675** |

The difference between the present value of minimum lease payments and gross investment in a lease is not significant.

Information on the residual value and fair value of the obligation under finance lease:

| | ***Residual value of finance lease*** | | ***Fair value of finance lease*** | |
|---|---|---|---|---|
| | ***31 July 2021*** | ***31 July 2020*** | ***31 July 2021*** | ***31 July 2020*** |
| Obligation under finance lease | 27 116 | 21 675 | 28 403 | 22 041 |
| **Total** | **27 116** | **21 675** | **28 403** | **22 041** |

## 10. INVESTMENTS IN SUBSIDIARIES AND OTHER ASSETS

| ***At 31 July 2021*** | ***Subsidiaries*** |
|---|---|
| Opening balance, net | 1 000 |
| Additions | - |
| Reclassification | - |
| Disposals | - |
| Impairment | - |
| **Closing balance, net** | **1 000** |
| | |
| Cost | 1 000 |
| Impairment | - |
| **Closing balance, net** | **1 000** |

SPP – distribúcia Servis, s.r.o. was established on 27 August 2012 by a Memorandum of Association as a 100% subsidiary of SPP – distribúcia, a.s. which was registered in the Business Register of the District Court Bratislava I on 18 September 2012.

Information on the subsidiaries of SPP – distribúcia as at 31 July 2021 can be summarised as follows:

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

**(EUR '000)**

Additional information on the subsidiaries:

| ***Business name and seat of the entity*** | ***Equity*** | | ***Profit/loss*** | |
|---|---|---|---|---|
| | ***2021*** | ***2020*** | ***2021*** | ***2020*** |
| **SPP – distribúcia Servis, s.r.o.** | | | | |
| Seat: Mlynské Nivy 44/b, Bratislava | 1 300 | 2 065 | 200 | 965 |

Profit/(loss) represents an estimate for the 7-month period of 2021 as the final financial statements of the subsidiary were not available to SPP – distribúcia, a.s. (parent company) as at the reporting date. The 2020 profit/(loss) represents the final information from the financial statements of the subsidiary.

*Other non-current and current assets*

Other non-current and current assets comprise a loan provided to Plynárenská Metrológia, a.s., (fellow subsidiary). The loan was provided on 24 August 2018 in the amount of EUR 480 thousand with an interest rate of 2.23%. The loan falls due on 24 August 2025. Other non-current and current assets also comprise a loan provided to the parent company, SPP Infrastructure, a.s. The credit facility amounts to EUR 350 million and the first tranche was provided on 31 March 2020 in the amount of EUR 91 000 thousand with a floating interest rate of 0.80% + 3M Euribor. The tranche falls due on 31 March 2027. The second tranche was provided on 31 October 2020 in the amount of EUR 5 000 thousand with a floating interest rate of 0.80% + 3M Euribor. The tranche falls due on 31 October 2027.

## 11. INVENTORIES

| | ***31 July 2021*** | ***31 July 2020*** |
|---|---|---|
| Natural gas | 127 853 | 133 254 |
| Raw materials and other inventories | 1 412 | 1 381 |
| Provision | (88) | (82) |
| **Total** | **129 177** | **134 553** |

The balance of natural gas represents natural gas used to balance the distribution network and natural gas for own consumption, as well as losses in the distribution network.

As at 31 July 2021, provisions were reversed in the amount of EUR 12 thousand (31 July 2020: EUR 9 thousand).

The Company created provisions for slow-moving inventories of raw materials amounting to EUR 18 thousand (31 July 2020: EUR 32 thousand).

## 12. RECEIVABLES AND PREPAYMENTS

| | ***31 July 2021*** | ***31 July 2020*** |
|---|---|---|
| Prepayments and other receivables | 7 324 | 4 649 |
| Cash pooling receivables | 289 525 | 329 836 |
| **Total** | **296 849** | **334 485** |

| **Receivables fall due as follows** | ***31 July 2021*** | ***31 July 2020*** |
|---|---|---|
| Within one year | 296 849 | 334 485 |
| From 1 year to 2 years | - | - |
| From 2 to 5 years | - | - |
| More than 5 years | - | - |
| **Total receivables** | **296 849** | **334 485** |

As at 31 July 2021, the Company recorded receivables within maturity and overdue receivables amounting to EUR 295 762 thousand and EUR 1 788 thousand, respectively. In the comparable period, ie as at 31 July 2020, the Company recorded receivables within maturity and overdue receivables amounting to EUR 334 363 thousand and EUR 830 thousand, respectively. As at 31 July 2021, receivables and prepayments are recognised net of provisions for bad and doubtful debts in the amount of EUR 701 thousand (31 July 2020: EUR 708 thousand).

**(EUR '000)**

Movements in the provision for receivables were as follows:

| | *31 July 2021* | *31 July 2020* |
|---|---|---|
| Opening value | (708) | (583) |
| Creation | (69) | (133) |
| Use | 50 | 8 |
| Reversal | 26 | - |
| **Closing value** | **(701)** | **(708)** |

*Collateralisation of receivables*

Several bank guarantees totalling EUR 36 334 thousand (31 July 2020: EUR 39 958 thousand) were established to secure the Company's receivables from natural gas distribution. In addition, financial funds in the amount of EUR 9 731 thousand (31 July 2020: EUR 5 970 thousand) were deposited in the Company's bank account.

Ageing structure of overdue receivables:

| | *31 July 2021* | *31 July 2020* |
|---|---|---|
| Less than 2 months | 58 | 71 |
| 2 to 3 months | 62 | 17 |
| 3 to 6 months | 5 | 89 |
| 6 to 9 months | 12 | 17 |
| 9 to 12 months | 10 | 31 |
| More than 12 months | 1 641 | 605 |
| **Total** | **1 788** | **830** |

## 13. CONTRACT RECEIVABLES AND LIABILITIES

***Contract liabilities, non-current***

| | *31 July 2021* | *31 July 2020* |
|---|---|---|
| Opening balance, net | 13 394 | 13 628 |
| Assets acquired during the reporting period | 3 811 | - |
| Amortisation during the reporting period | (352) | (234) |
| **Closing balance, net** | **16 853** | **13 394** |

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

***Contract liabilities, current***

| | *31 July 2021* | *31 July 2020* |
|---|---|---|
| Contract liabilities | 33 034 | 35 510 |
| **Total** | **33 034** | **35 510** |

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

***Contract receivables, current***

| | *31 July 2021* | *31 July 2020* |
|---|---|---|
| Contract receivables | 12 397 | 12 044 |
| **Total** | **12 397** | **12 044** |

Contract receivables comprise receivables from distribution activities.

**(EUR '000)**

## 14. RETIREMENT AND OTHER LONG-TERM EMPLOYEE BENEFITS

The long-term employee benefits programme at the Company was launched in 2006. This is a defined benefit programme, under which the employees are entitled to a lump-sum payment upon old age or disability retirement and, subject to vesting conditions, life and work jubilee payments.

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

As at 31 July 2021, there were 1 294 (31 July 2020: 1 293) employees covered by this programme. As of that date, it was an un-funded programme, with no separately allocated assets to cover the programme's liabilities.

Movements in the net liability recognised in the balance sheet for the year ended 31 July 2021 are as follows:

| | *Long-term benefits* | *Post-employment benefits* | *Total benefits at 31 July 2021* | *Total benefits at 31 July 2020* |
|---|---|---|---|---|
| Net liability at 1 August | 1 122 | 4 716 | 5 838 | 5 609 |
| Net expense recognised | (9) | 212 | 203 | 644 |
| Change in actuarial assumptions | - | (39) | (39) | (295) |
| Benefits paid | (65) | (174) | (239) | (120) |
| **Net liabilities** | **1 048** | **4 715** | **5 763** | **5 838** |

| | *Current liabilities (included in other current liabilities)* | *Non-current liabilities* | *Total* |
|---|---|---|---|
| At 31 July 2021 | 465 | 5 298 | 5 763 |
| At 31 July 2020 | 349 | 5 489 | 5 838 |

**Key assumptions used in actuarial valuation:**

| | *At 31 July 2021* | *At 31 July 2020* |
|---|---|---|
| Market yield on government bonds | 0.001% | (0.080%) |
| Annual future real rate of salary increases | 2% | 2% |
| Annual employee turnover | 1.44% | 1.44% |
| Retirement ages (male and female) | See below | See below |

***Method for Calculating the Retirement Age***

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

For 2020, the average retirement age was 63 years.

The retirement age legislation changed with effect from 1 January 2021 and defines the retirement age for all insured persons. The retirement age valid after 31 December 2020 is stated in a table which forms an annex to the Social Insurance Act.

**(EUR '000)**

## 15. LOANS AND BONDS

| | ***31 July 2021 Unsecured*** | ***31 July 2020 Unsecured*** |
|---|---|---|
| Loans | 136 657 | 136 668 |
| Bonds | 497 050 | 500 463 |
| **Total** | **633 707** | **637 131** |
| | | |
| Loans by currency | | |
| EUR | | |
| – with a fixed interest rate | 497 050 | 500 463 |
| – with a floating interest rate | 136 657 | 136 668 |
| **Total loans** | **633 707** | **637 131** |
| | | |
| Loans are due as follows: | | |
| Within one year | 50 729 | 500 481 |
| From 1 to 2 years | - | - |
| From 2 to 5 years | 26 650 | 76 650 |
| More than 5 years | 556 328 | 60 000 |
| **Total loans** | **633 707** | **637 131** |

As at 31 July 2021, the Company drew a loan in the amount of EUR 76.65 million originally falling due in 2024. Based on a decision of the Company's sole shareholder dated 7 May 2021, a decision was made to repay the loan in two tranches in the amount of EUR 50 million by 31 December 2021 and EUR 26.65 million by 31 December 2023. The Company also has a long-term loan in the amount of EUR 60 million. This loan was drawn in the 2020 financial year and falls due in 2029. The interest rate of both loans consists of a variable component (3M EURIBOR) and a fixed margin (% p.a.). The loans are not secured by any assets.

The average interest rate of the loans drawn as at 31 July 2021 was 0.067% (31 July 2020: 0.193%).

In 2014, the Company issued bonds in the amount of EUR 500 million with a fixed interest rate of 2.625% p.a. The bond was repaid on 18 June 2021.

On 9 June 2021, the Company issued publicly-traded unsecured bonds with a face value of EUR 500 000 thousand from which it received EUR 498 065 thousand at a fixed coupon of 1.000% p.a. The bonds were used to repay bonds issued in 2014 and fall due on 9 June 2031.

Interest rates of the loans and bonds:

| | |
|---|---|
| ***Loans and bonds*** | |
| EUR | |
| – with a fixed interest rate | 1.000% p.a. |
| – with a floating interest rate | 3M EURIBOR + margin |

The carrying amount and face value of loans and bonds:

| | ***Carrying Amount*** | | ***Face Value*** | |
|---|---|---|---|---|
| | ***31 July 2021*** | ***31 July 2020*** | ***31 July 2021*** | ***31 July 2020*** |
| Loans | 136 657 | 136 668 | 136 650 | 136 650 |
| Bonds | 497 050 | 500 463 | 500 000 | 500 000 |
| **Total** | **633 707** | **637 131** | **636 650** | **636 650** |

The carrying amount of bonds comprises an accrued coupon in the amount of EUR 722 thousand.

SPP – distribúcia, a.s has no unused credit lines, except for the above loans.

Based on a loan agreement signed on 12 November 2014, the company is required to comply with the agreed financial covenants, ie - Net debt and EBITDA ratio may not be higher than 2.65:1 at the end of the reporting period.

If the Company's rating with at least one agency falls to or below the following levels: BBB- at Standard and Poor's, BBB- at Fitch, Baa3 at Moody's, the Company is required to provide additional collateral in the form of a guarantee, cash collateral, or other form of collateral accepted by the bank.

**(EUR '000)**

On 23 December 2014, the Company drew a loan in the amount of EUR 80 000 thousand, of which an amount of EUR 76 650 thousand was outstanding as at 31 July 2021. Under the loan agreement, the Company is not required to meet any financial covenants. However, the loan agreement defines the minimum rating level for the Company (Moody's: Baa2, Fitch: BBB). If the rating falls below the defined level at one of the two agencies (while remaining unchanged at the other agency), the interest margin will increase (from 0.15% to 0.22%). If the rating falls by more than one grade below the defined level, or if it falls by one grade at both agencies, the Company is required to provide additional collateral in the form of a guarantee, cash collateral, or other form of collateral accepted by the bank.

On 23 September 2019, the Company drew a loan in the amount of EUR 60 000 thousand. Under the loan agreement, the Company is not required to meet any financial covenants. However, the loan agreement defines the minimum level of the Company's rating (Moody's: Baa2, Fitch: BBB). If the rating falls below the defined level at either of the two agencies (while remaining unchanged at the other agency), the interest margin will slightly increase (from 0.15% to 0.22%). If the rating falls by more than one grade below the defined level, or if it falls by one grade at both agencies, the Company is required to provide additional collateral in the form of a guarantee, cash collateral or other form of collateral accepted by the bank.

As at 31 July 2021, the Company rating was A- (Fitch) or Baa2 (Moody's), ie all conditions were met.

## 16. TRADE AND OTHER PAYABLES

| | *31 July 2021* | *31 July 2020* |
|---|---|---|
| Trade payables | 21 010 | 25 812 |
| Trade payables for gas purchases | 12 147 | 4 477 |
| Employee liabilities | 7 126 | 5 926 |
| Social security and other taxes | 3 666 | 3 155 |
| Payables from financial derivatives | 3 774 | 4 860 |
| VAT and other taxes | 4 768 | - |
| Other payables | 10 239 | 6 786 |
| **Total** | **62 730** | **51 016** |

As at 31 July 2021, the Company recorded payables within maturity in the amount of EUR 62 730 thousand. The Company records no overdue payables. In the comparable period, ie as at 31 July 2020, the Company recorded payables within maturity in the amount of EUR 51 016 thousand. No overdue payables were recorded.

Social fund payables:

| | *Amount* |
|---|---|
| Opening balance as at 1 August 2020 | 251 |
| Total creation: | 428 |
| *from expenses* | *428* |
| *non-mandatory allotment* | |
| other | |
| Total drawing: | (359) |
| *monetary rewards and gifts* | *(39)* |
| *benefit in material deprivation* | - |
| *work jubilee benefits* | *(65)* |
| *catering allowance* | *(152)* |
| *other drawing as per CA* | *(103)* |
| **Closing balance as at 31 July 2021** | **320** |

*Liabilities secured by pledge or other form of collateral*

A bank guarantee was established in Tatra banka, a. s., totalling EUR 33 thousand for other payables to the Customs Office (31 July 2020: EUR 33 thousand).

**(EUR '000)**

## 17. REGISTERED CAPITAL

The registered capital consists of 1 ordinary certificate-form share with the face value of EUR 1 200 000 thousand. SPP Infrastructure, a. s. is the holder of such share. The registered capital was paid up in the full amount.

## 18. LEGAL RESERVE FUND, OTHER FUNDS AND RETAINED EARNINGS

Since 1 January 2008 the Company has been required to prepare separate financial statements in accordance with IFRS as adopted by the EU. Retained earnings represent amounts based on the separate financial statements.

***Legal Reserve Fund***
The legal reserve fund in the amount of EUR 291 484 thousand (31 July 2020: EUR 291 484 thousand) is created in accordance with Slovak law and is not distributable to shareholders. The reserve is created from retained earnings to cover possible future losses or increases of the registered capital. Transfers of at least 10% of the current year's profit are required to be made until the reserve is equal to at least 20% of the registered capital. The legal reserve fund in the Company has already attained 20% of the registered capital.

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

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

Distribution of profit:

| ***Allotment*** | ***Profit allotment for 2020*** | ***Profit allotment for 2019*** |
|---|---|---|
| To cover losses from previous years | - | - |
| Dividends | 115 280 | 77 775 |
| **Total profit to be distributed** | **115 280** | **77 775** |

## 19. STAFF COSTS

| | ***Year ended 31 July 2021*** | ***Year ended 31 July 2020*** |
|---|---|---|
| Wages, salaries and bonuses | 34 740 | 33 410 |
| Social security costs | 12 262 | 11 729 |
| Other social security costs and severance pay | 2 768 | 2 856 |
| **Total staff costs** | **49 770** | **47 995** |

The Company is required to make social security contributions, amounting to 35.2% of salary bases as determined by law, up to a maximum amount ranging from EUR 7 091 thousand (except for accident insurance). The employees contribute an additional 13.4% of the relevant base up to the above limits.

## 20. COSTS OF AUDIT SERVICES

| | ***Year ended 31 July 2021*** | ***Year ended 31 July 2020*** |
|---|---|---|
| Audit of financial statements | 58 | 88 |
| Tax advisory services | - | - |
| Other | 10 | 16 |
| **Total** | **68** | **104** |

The year-on-year decrease primarily resulted from additional audit procedures that were undertaken during the audit of the consolidated financial statements of the Company's shareholder in 2020.

**(EUR '000)**

## 21. OTHER REVENUES AND EXPENSES

| | ***Year ended 31 July 2021*** | ***Year ended 31 July 2020*** |
|---|---|---|
| Revenues from unauthorised natural gas consumption | 1 805 | 2 451 |
| Other taxes and charges | (291) | (371) |
| Donated assets | 352 | 234 |
| Profit/(loss) from the sale of raw materials | 34 | 26 |
| Profit/(loss) from the sale of assets | 137 | 6 |
| Other | 259 | 504 |
| **Total** | **2 296** | **2 850** |

## 22. FINANCIAL EXPENSE

| | ***Year ended 31 July 2021*** | ***Year ended 31 July 2020*** |
|---|---|---|
| Interest expense | 15 728 | 13 882 |
| Other | 271 | 560 |
| **Total financial expense/(income)** | **15 999** | **14 442** |

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

## 23. TAXATION

### 23.1. Income Tax

Income tax comprises the following:

| | ***Year ended 31 July 2021*** | ***Year ended 31 July 2020*** |
|---|---|---|
| Current tax related to the current year | 52 321 | 48 858 |
| Refunds and additional assessments of income tax | - | - |
| Special levy | 15 225 | 14 167 |
| Deferred special levy (Note 23. 2) | (3 249) | (3 251) |
| Deferred income tax (Note 23.2) | | |
| – Current year | (21 972) | (19 442) |
| **Total** | **42 325** | **40 331** |

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

| | ***Year ended 31 July 2021*** | ***Year ended 31 July 2020*** |
|---|---|---|
| Profit before taxation | 163 917 | 155 611 |
| Income tax at 21% | 34 423 | 32 678 |
| Effect of adjustments from permanent differences between carrying amount and tax value of assets and liabilities | (4 074) | (3 263) |
| Refunds and additional assessments of income tax | | - |
| Special levy on business in regulated industries | 11 976 | 10 915 |
| **Income tax for the current year** | **42 325** | **40 331** |

The reported tax rate differs from the standard tax rate stipulated by law in the amount of 21% (2020: 21%) mainly due to adjustments of the current tax base for items increasing and decreasing the tax base pursuant to the valid tax legislation.

Pursuant to the requirements of International Accounting Standards, the income tax also includes a special levy on businesses in regulated industries pursuant to a special regulation. (Note 3, pararaph t).

**(EUR '000)**

### 23.2. Deferred Income Tax

The following are the major deferred tax liabilities and assets recognised by the Company and movements therein, during the current and prior reporting periods:

| | *At 1 August 2020* | *(Charge)/Credit to other comprehensive income/loss* | *(Charge)/Credit to profit for the current period* | *At 31 July 2021* |
|---|---|---|---|---|
| Difference in NBV of non-current assets | (332 826) | - | 7 551 | (325 275) |
| Remeasurement of non-current assets | (382 670) | - | 14 049 | (368 621) |
| Items adjusting tax base only when paid | 266 | - | 21 | 287 |
| Provisions for receivables | 52 | - | (8) | 44 |
| Impairment loss | 245 | - | 72 | 317 |
| Provision for bonuses | 849 | - | 305 | 1 153 |
| Provision for employee benefits | 1 233 | - | (8) | 1 226 |
| Hedging derivative instruments | 1 156 | (363) | - | 793 |
| Change in actuarial assumptions | (7) | 9 | - | 2 |
| Effect of deferred tax on special levy | (75 990) | - | 3 249 | (72 741) |
| Other | 18 | - | (10) | 8 |
| **Total** | **(787 675)** | **(354)** | **25 222** | **(762 808)** |

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

In accordance with the Company's accounting policy, certain deferred tax assets and liabilities were mutually offset. As required by International Accounting Standards, deferred tax also includes a deferred special levy on business in regulated industries under a special regulation. *(Note 3, paragraph t).*The following table shows the balances (after offsetting) of deferred tax for the purposes of recognition in the balance sheet:

| | *31 July 2021* | *31 July 2020* |
|---|---|---|
| Deferred tax liability | (690 068) | (711 685) |
| Deferred special levy | (72 740) | (75 990) |
| **Total** | **762 808** | **(787 675)** |

**(EUR '000)**

## 24. TAX EFFECTS IN THE STATEMENT OF OTHER COMPREHENSIVE INCOME

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

| ***31 July 2021*** | ***Before tax*** | ***Tax*** | ***After tax*** |
|---|---|---|---|
| Change in actuarial assumptions | 39 | 8 | 47 |
| Cash flow hedging | 1 728 | (362) | 1 366 |
| Other | 7 | - | 7 |
| **Other comprehensive loss for the period** | **1 774** | **(354)** | **1 420** |

| ***31 July 2020*** | ***Before tax*** | ***Tax*** | ***After tax*** |
|---|---|---|---|
| Change in actuarial assumptions | 293 | (51) | 242 |
| Cash flow hedging | (1 160) | 255 | (905) |
| Other | 130 | (22) | 108 |
| **Other comprehensive loss for the period** | **(737)** | **182** | **(555)** |

## 25. CASH FLOWS FROM OPERATING ACTIVITIES

| | ***Year ended 31 July 2021*** | ***Year ended 31 July 2020*** |
|---|---|---|
| Profit before tax | 163 917 | 155 611 |
| Adjustments: | | |
| Depreciation, amortisation and impairment losses on assets, net | 167 139 | 160 141 |
| Interest income, net | 14 055 | 12 681 |
| Reserves, provisions and other non-cash items | 328 | (161) |
| Loss/(profit) from the sale of non-current assets | (137) | (6) |
| (Increase)/decrease in receivables and prepayments | (2 032) | 274 |
| (Increase)/decrease in inventories | 5 366 | 11 603 |
| (Increase)/decrease in trade payables and other payables | (817) | (28 689) |
| Other items not included in non-cash transactions | 16 | 20 |
| **Cash flows from operating activities** | **347 835** | **311 474** |

## 26. COMMITMENTS AND CONTINGENCIES

### Capital Expenditure Commitments

As at 31 July 2021, capital expenditures of EUR 2 601 thousand (31 July 2020: EUR 9 729 thousand) had been committed under contractual arrangements for the acquisition of non-current assets, but were not recognised in the financial statements.

### Operating Lease Contracts

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

### Liberalisation of the Slovak Energy Sector and Possible Regulation Risks

*Regulation framework on the natural gas market in the Slovak Republic*

On the basis of the current energy legislation, the natural gas market in the Slovak Republic is fully liberalised. Effective from 1 July 2007, all customers are allowed to freely select a natural gas supplier. The Company, as the gas distribution network operator, is obliged to provide all participants with non-discriminatory treatment and allow access to the distribution network on a transparent and non-discriminatory basis. Moreover, the Company is also obliged to enter into a contract for connection and gas distribution with all customers that fulfils the business and technical conditions.

Distribution of gas, as well as access and connection to the distribution network, are subject to regulation by the Regulatory Office of Network Industries (RONI).

The regulatory period is five years, starting in 2017 and ending in 2021.

*Tariffs for regulated activities*

The RONI approves tariffs for access to the distribution network and gas distribution, and for the provision of auxiliary services, as well as for connection to the distribution network. These tariffs are proposed so that the total planned revenues from the tariffs for access to the distribution network and gas distribution in the regulation year in Euros per gas volume unit do not exceed the maximum price for the year, calculated under Decree of the RONI No. 223/2016 Coll., which stipulates price regulation in the gas industry.

Maximum allowed revenues are determined based on the eligible costs, including depreciation derived from the regulated assets base as determined by RONI and a margin. The management of the Company believes that property, plant and equipment of the Company is not impaired on the basis of current indicators. There are inherent uncertainties that could impact the determination of future tariffs by RONI, and the future realisable value of property, plant and equipment.

The maximum price for connection to the distribution network in the relevant year of the regulation period, ie for 2017, for gas consumers was determined on the basis of the planned average costs related to the issue of technical conditions for the connection and the planned average costs related to the processing of the application for connecting the gas delivery equipment to the distribution network and installation of the meter incurred by the distribution network operator as part of the standard-scope activities necessary for connecting the gas delivery equipment. The price for connection to the distribution network is determined separately for household customers and separately for gas customers other than household customers.

In accordance with Decree of the RONI No. 223/2016 Coll., the maximum price for connection to the distribution network for the years following the relevant year of the regulation period is calculated by indexing the price for the year preceding the year for which the price proposal is submitted, taking into account the effects of inflation.

The calculation of the maximum price for access to the distribution network and for gas distribution for the years following the relevant year of the regulation period is partially based on the indexation of the basis parameters.

Since 2014, the buy-out of gas facilities being the distribution network has also been subject to price regulation in the gas industry.

Based on changes arising from issued price decisions, RONI approved in its decision the corresponding changes to the Operating Rules of SPP – distribúcia, a.s.

*Changes in the regulatory laws*

In March 2016, the Regulatory Board issued the Regulation Policy for 2017 – 2021 which, inter alia, defines the objectives and priorities of regulation in the gas industry for the upcoming regulation period. In July 2016, Decree No. 223/2016 Coll. stipulating price regulation in the gas industry with effect from 27 July 2016 was approved. Decree No. 223/2016 Coll. was amended by decree No. 206/2018 Coll. and Decree no. 376/2021 Coll. An amendment to Decree 24/2013 Coll. laying down common rules for the electricity market and common rules for the gas market was approved. The amendment introduced the option of increasing the fixed component of the total price for gas distribution up to 85%, and broadened the tariff groups.

By Amendment No. 1 to the Regulatory Policy for the 2017 – 2021 Regulatory Period dated 10 November 2020, the Regulatory Board extended the regulatory period by one year until 31 December 2022.

**Taxation**

The Company has significant transactions with the shareholder and other related parties. The tax environment in which the Company operates in the Slovak Republic is dependent on the prevailing tax legislation and practice. As the tax authorities are reluctant to provide official interpretations in respect of the tax legislation, there is an inherent risk that the tax authorities may require, for example, transfer pricing or other adjustments to the corporate income tax base. The tax authorities in the Slovak Republic have broad powers of interpretation of tax laws, which could result in unexpected results from tax inspections. The amount of any potential tax liabilities related to these risks cannot be estimated.

**(EUR '000)**

## 27. RELATED PARTY TRANSACTIONS

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

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

| | *Year ended 31 July 2021* | | | | *31 July 2021* | |
|---|---|---|---|---|---|---|
| | *Revenues* | *Expenses* | *Dividends* | *Other* | *Receivables* | *Payables* |
| SPP, a.s. | 260 610 | 9 024 | - | - | 1 313 | 33 886 |
| SPP Infrastructure, a.s. | 1 091 | 2 | (115 280) | - | 386 561 | - |
| Other related parties | 22 386 | 35 403 | 965 | 9 632 | 2 062 | 11 936 |
| **Total** | **284 087** | **44 429** | **(114 315)** | **9 632** | **389 936** | **45 822** |

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

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

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

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

Since 2013, the Company has applied an exemption from IAS 24 on the non-disclosure of information on related parties through the Ministry of Economy of the Slovak Republic.

**(EUR '000)**

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

| | ***Year ended 31 July 2021*** | ***Year ended 31 July 2020*** |
|---|---|---|
| Remuneration to members of the Board of Directors, Supervisory Board, executive management and former members of the bodies - total | 1 846 | 1 753 |
| *Of which:* | | |
| *Board of Directors and executive management* | *1 727* | *1 693* |
| *Supervisory Board* | *119* | *60* |
| Benefits after termination of employment to members of the Board of Directors, Supervisory Board, executive management and former members of the bodies – total | | |
| *Of which:* | | |
| *Board of Directors and executive management* | | |
| Other long-term benefits to members of the Board of Directors, Supervisory Board, executive management and former members of the bodies – total | | |
| *Of which:* | | |
| *Board of Directors and executive management* | | |
| Benefits after termination of employment to members of the Board of Directors, Supervisory Board, executive management and former members of the bodies – total | | |
| In-kind benefits to members of the Board of Directors and executive management – total | 83 | 64 |
| *Of which:* | | |
| *Board of Directors and executive management* | *83* | *64* |
| *Supervisory Board* | | |
| Other payments to members of the Board of Directors, Supervisory Board, executive management and former members - total | 19 | 19 |
| *Of which:* | | |
| *Board of Directors and executive management* | *19* | *19* |
| *Supervisory Board* | | |

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

### a) Members of the Company's bodies

| ***Body*** | ***Function*** | ***Name*** |
|---|---|---|
| ***Board of Directors*** | Chairman | Ing. František Čupr, MBA |
| | Vice-Chairman | JUDr. Ľubomír Schweighofer (since 23 Sep 2020) |
| | Vice-Chairman | Ing. Štefan Šebesta (until 22 Sep 2020) |
| | Member | Ing. František Urbaník, PhD. |
| | Member | Mgr. Ing. Marek Štrpka |
| | Member | Ing. Pavol Mertus |
| ***Supervisory Board*** | Chairman | Ing. Martin Barto, CSc. (since 23 Sep 2020) |
| | Chairman | Ing. Rastislav Chovanec, PhD. (until 22 Sep 2020) |
| | Vice-Chairman | Gary Mazzotti B.A.(Hons) A.C.A. (since 20 Aug 2020) |
| | Vice-Chairman | William Price (until 19 Aug 2020) |
| | Member | Pavol Korienek |
| | Member | Milan Boris |
| | Member | Ing. Juraj Blusk (since 23 Sep 2020) |
| | Member | JUDr. Mgr. Matej Šimášek, PhD. (until 22 Sep 2020) |
| | Member | Ing. Branislav Bosák (since 23 Sep 2020) |
| | Member | Ing. Róbert Procházka (until 22 Sep 2020) |
| ***Executive management*** | General Director | Ing. Martin Hollý |
| | Director of the Economy and Regulation | Ing. Roman Filipoiu |
| | Director of the Network Operation and Asset Management | Ing. Rastislav Prelec |
| | Director of Investments | Ing. Irenej Denkocy, ACCA |
| | Director of Maintenance and Measurement | Ing. Miroslav Horváth |
| | Director of Distribution Services | Ing. Marek Paál |
| | Director of Human Resources, Quality, Health and Safety at Work, and Environment | Mgr. Ing. František Kajánek |
| | Director of Internal Supervision | |
| | Director of Internal Supervision | Mgr. Karin Jaššová, PhD. |

### b) Consolidated financial statements

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

The Company applied an exemption set out in IFRS 10 paragraph 10.28 and did not prepare consolidated financial statements as at 31 July 2021. Consolidated financial statements presented in accordance with the International Financial Reporting Standards will be prepared by SPP Infrastructure, a.s. with its seat at Mlynské nivy 44/a, 825 11 Bratislava (address of the court of record: District Court Bratislava 1, Záhradnícka 10, 812 44 Bratislava).

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

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

To obtain full information about the financial position, financial performance and cash flow of the Group as a whole by the users of these separate financial statements, the separate financial statements should be read and understood in the context of the information disclosed in the consolidated financial statements presented as at 31 December 2020 by the ultimate reporting entity, EP Investment S.à r. l., with its registered office at Avenue John F. Kennedy 39., L-1855 Luxembourg. The consolidated financial statements of EP Investment S.à r. l. are available at its registered office.

Separate financial statements of SPP – distribúcia, a.s. and consolidated financial statements of SPP Infrastructure, a.s. are deposited with the Business Register of Bratislava 1 District Court (Záhradnícka 10, 812 44 Bratislava) published in the Commercial Journal, available at the registered office of SPP distribúcia, a.s., and published at www.spp-distribucia.sk.

## 29. POST-BALANCE SHEET EVENTS

At the end of 2019, information on the coronavirus in China was published for the first time. In early 2020, the virus spread to almost the entire world and may also affect the Slovak economy. Company management considers this event to be an event that does not affect nor requires an adjustment to the 2021 financial statements, but rather to be an event that requires disclosure in the notes to the 2021 financial statements. Despite the constantly-changing situation, as at the date of publication of the financial statements, Company management did not register a significant impact on the Company's operations. Company management continues to closely monitor the situation and, if necessary, it will take all possible steps to avert negative impacts of this situation on the Company.

On 20 October 2021, the Company partially repaid a loan in the amount of EUR 50 million.

On 2 November 2021, the Company provided the third tranche of a long-term loan amounting to EUR 172 million to its parent company, SPP Infrastructure, a. s., as offsetting of its receivable under cashpooling.

After 31 July 2021, there were no other significant events that would require adjustments to or disclosure in the financial statements.

| | | | |
|---|---|---|---|
| ***Prepared on:*** 26 November 2021 | ***Signature of a member of the statutory body of the reporting entity or a natural person acting as a reporting entity:*** | ***Signature of the person responsible for the preparation of the financial statements:*** | ***Signature of the person responsible for bookkeeping:*** |
| ***Approved on:*** | Ing. František Čupr, MBA<br>Chairman of the Board of Directors | Ing. Roman Filipoiu | Ing. Peter Duračka |
| | Ing. Pavol Mertus<br>Member of the Board of Directors | | |