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 2022

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.

Annual report of SPP – distribúcia, a.s., for the period 1.8.2021 – 31.7.2022

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STATEMENT BY THE COMPANY MANAGEMENT

Ladies and Gentlemen,

The annual report is one of the opportunities to assess the development of our company and to inform you about our ideas, plans and expectations for the coming period. We have completed the sixteenth year of independent operation of our company, which we have successfully managed even in the market conditions affected by the Covid-19 pandemic, the increase in energy prices on world markets and the radical reduction of gas supplies from the Russian Federation. A company's success is measured and evidenced by its results. We are convinced that our employees are the most important contributors to our results. On behalf of the company's management, we are pleased and proud to thank all the employees of SPP – distribúcia for the results achieved by our company in the past economic period.

SPP – distribúcia operates in a regulated but constantly changing and complex environment. Our company had a number of tasks ahead of it, the fulfilment of which is a prerequisite for the safe operation of our pipelines, for meeting the current requirements and anticipating the future needs of our customers, but also for the optimum operation of the company at a controlled cost level.

Thanks to the quality and professional work of our employees, we got 6 out of 10 owners of newly constructed houses to use natural gas, refurbished gas pipelines, reduced emissions from our operations, increased efficiency in maintenance, and minimised workplace injuries. Achieving excellent financial results, obtaining one of the cheapest company financing in Central and Eastern Europe, as well as ISO certification in the field of quality, environment, health and safety at work are perfect testimonials of our work.

The first half of the last financial year was affected by the third wave of the pandemic, for which we prepared well. The measures we took in the first two waves worked well, so we were responsibly ready to introduce them again. The pandemic forced us to adjust the way we perform our activities. We increased the number of home starts, the use of home-based administrative work, and introduced regular testing on Covid-19. Following the call of the Ministry of Health of the Slovak Republic concerning the involvement of outpatient clinics in the vaccination against the COVID-19 disease, we created conditions for our employees to be vaccinated in a general practitioner's clinic located in our headquarters in Bratislava as of 2 August 2021. Our company also provided vaccination for family members of our employees in case of interest and in our other local centres located in Slovakia it was also possible for the vaccination team to travel directly to the location in question. At the same time, we stepped up our pro-vaccine campaign through internal communication channels. As a result of the measures in place, the vaccination coverage of all our employees is more than 70%.

In the summer of 2021, the sharp rise in energy prices became one of the main professional as well as societal topics. Energy consumers felt enormous pressure, especially in the industrial sector. Electricity prices have almost tripled since the beginning of the year. During September 2021 alone, the price of electricity has risen by almost half and natural gas has risen up to three and a half times since the beginning of the year, resulting in the gradual withdrawal of several energy suppliers from the Slovak market and the application of the supplier of last resort regime.

In these hectic times, we have managed to move our Bratislava headquarters and gas dispatching to new premises and build a modern customer centre.

However, the key theme of the past economic year was undoubtedly the management of the situation related to the restriction of gas supplies from the Russian Federation after the military invasion of Ukraine in February. In this context, our company regularly monitors developments on the gas market and consults the situation with the Ministry of Economy of the Slovak Republic on the basis of conducted stress-tests. At the same time, we initiated a number of legislative changes in order to manage a potential crisis situation more effectively.

We adopt measures to mitigate the impact of reduced gas supplies from the Russian Federation both in the short and long term. Of the short-term ones, it clearly involves filling our storage facilities and securing gas for the 30-day security of supply standard for households. In the long term, we need to work on the readiness to distribute green gases such as biomethane and hydrogen. In this context, we are preparing the launch of a biomethane registry that will enable the development of the biomethane market and trade. The first step in this area is the connection of the biomethane station in Jelšava, which is already injecting biomethane into our network. Hydrogen is the second area. We have a number of projects underway in this direction, and we are now conducting pilot testing of the distribution of a mixture of natural gas and hydrogen in the local network in the municipality of Blatná na Ostrove. We anticipate results in the second half of 2022. The aim of all these projects is to test the readiness for hydrogen distribution through our network in the future.

In conclusion, let us stress that SPP – distribúcia has fulfilled its obligations responsibly throughout its existence and wishes to continue to be a responsible distributor.

We would like to thank you, our shareholders and business partners, for your support, cooperation and trust, which are important as we continue to move our company towards long-term prosperity. Thanks to the professionalism and commitment of our employees, today SPP - distribúcia is perceived as a stable "beacon on the stormy sea" of energy, whether as a reliable energy distributor, an attractive employer, or a stable investing and responsible company.

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 33 400 km, provides natural gas distribution in the territory of the Slovak Republic to more than 1.5 million points of delivery. The volume of such distributed gas accounts for about 98% of the total natural gas volume distributed in the Slovak Republic for more than 94 % of the Slovak population with access to natural gas.

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

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

SPP - distribúcia actively supports the development of an open gas environment through its activities. The company aspires to be a stable and efficient provider of professional services for 25 distribution network users as well as natural gas customers of all categories. It places emphasis on transparent and non-discriminatory business activities. It 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.

SPP – distribúcia perceives the environmental dimension of its activities in relation to climate change and the resulting global efforts to reduce CO_2 emissions and greenhouse gas emissions in general. The company's long-term vision is to gradually replace fossil natural gas by emission-free or low-emission gases (biomethane, hydrogen). The biomethane station in Jelšava was the first in Slovakia to start the production of biomethane and its injection into the distribution network of SPP – distribúcia. There are currently more than 100 biogas stations in Slovakia, of which more than 70 can be connected to the gas network. SPP – distribúcia offers those interested in biomethane production the possibility to prepare a preliminary feasibility study for connection to biomethane.

In an effort to contribute to tackling climate change, the company, following the example of developed countries, plans to use the pipeline network in the near future to distribute mixtures of emission-free gases together with natural gas. The experience in practical mixing of hydrogen into distributed natural gas abroad and successful laboratory tests at home have created the preconditions for the launch of hydrogen mixing into the distribution network in Slovakia as well. As part of the H2PILOT pilot project, SPP - distribúcia has started a practical test of natural gas distribution with 10% of hydrogen in the municipality of Blatná na Ostrove. SPP – distribúcia plans to adapt its network to distribute gas with 5% of hydrogen throughout Slovakia by 2025 and double the ratio of hydrogen in the mix by 2030.

BOARD OF DIRECTORS AS AT 31 July 2022

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 Master 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 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 in 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 July 2022

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 July 2022

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.

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

Members:

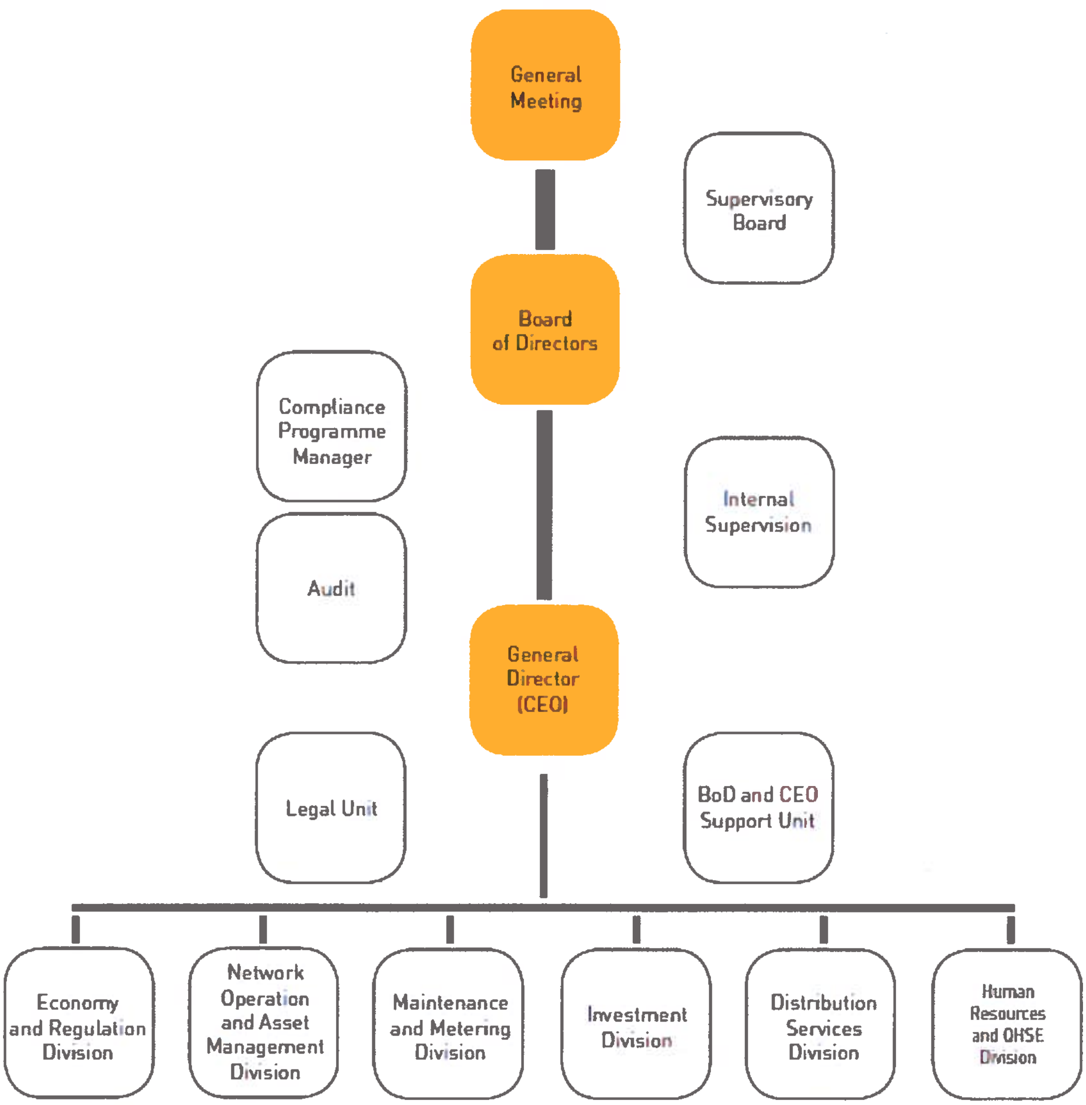
Pavol Korienek, Member of the Supervisory Board

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

SAFETY OF THE NETWORK AND REDUCTION OF METHANE EMISSIONS

We are improving the overall safety of distribution by stepping up leak checks on steel pipelines and scaling up the oldest network to the Recovery Plan, making a significant positive impact on reducing methane emissions. These are also being continuously reduced by tightly controlling the time it takes to fix the faults and leaks that are found.

INTEGRATION OF RENEWABLE GASES INTO THE DISTRIBUTION NETWORK

The company can make a significant contribution to reducing the ecological footprint of gas consumption by combining natural gas with hydrogen, biomethane or synthetic gas. Based on our own tests and a number of international studies, we believe that the gas transported can contain up to 20% of hydrogen without major modifications to the existing gas network. Mixing 20% of hydrogen into the natural gas stream will eventually reduce the carbon footprint of consumption by 7%, due to the lower calorific value of hydrogen.

The company is in the final phase of the H2Pilot project, which will demonstrate the safety and continuity of the distribution of the mixture of natural gas and hydrogen, without any restrictions and complications to gas consumers, by adding 10% of hydrogen to the distributed gas in the municipality of Blatná na Ostrove in the summer months of 2022. The success of the H2Pilot project will serve as a best practice example to accelerate the hydrogen transformation within the Slovak distribution network.

H2PILOT - TEST OF HYDROGEN DISTRIBUTION THROUGH PIPELINES

The long-term vision of the Slovak gas sector is to gradually replace fossil natural gas by emission-free or low-emission gases (biomethane, hydrogen). The newly adopted European taxonomy - the provisional classification of natural gas as a sustainable investment - makes the environmental sustainability of gas conditional on a transition to renewable and low-carbon gases by 2035. Today, it is clear in professional circles that the gas infrastructure has a future with hydrogen. Naturally, this will first involve mixing hydrogen into the natural gas to create a mixture of these gases with a predetermined volume of hydrogen.

SPP - distribúcia, a. s., as a distribution network operator, has already adopted its own hydrogen strategy in 2020, the first stage of which is the **H2Pilot** project. It involved a series of laboratory tests to investigate the basic chemical and physical properties of a mixture of natural gas and hydrogen under different operating conditions. This year we have reached what can be described as a breakthrough phase. In the course of the summer, we launched the distribution of a mixture of natural gas and hydrogen in a volume of 10% to end customers in the municipality of Blatná na Ostrove.

As of 31 July 2022, we note that:

✅ Technically, the admixing plant works reliably, dosing continuously and in the required volumes.

✅ Chromatographic measurements performed on a weekly basis demonstrate the homogeneity of the distributed mixture (approximately 10% in all parts of the municipal network).

✅ The olfactory tests and measurements carried out demonstrate a good and sufficient level of odorisation of the network.

✅ Inspection of the riskiest end devices (32 oldest and/or atmospheric boilers and 25 stoves) after one month of use with 10% hydrogen mixture showed positive results in all cases - ignition, flame stability, functionality.

✅ The network leakage check carried out demonstrated the leak tightness of the pipelines.

✅ Since the start of the project in the municipality, there have been no relevant reports or complaints from customers.

Experience to date confirms that the addition of 10% of hydrogen to the distributed gas does not adversely affect the safety, reliability and standard operation of gas installations and common gas-consuming equipment and appliances - stoves, boilers and water heaters.

Following the successful evaluation of the H2Pilot project, we will be ready to blend 5% of hydrogen into natural gas throughout the pipeline network by 2025. The ambition is to increase the proportion of hydrogen in the entire Slovak network to 10% by 2030 and locally to 20% after 2030. The aim is to operate local hydrogen networks after 2035, in addition to the distribution of natural gas, biomethane or hydrogen, according to the interest of customers.

FIRST STATION ALREADY SUPPLIES BIOMETHANE TO THE GAS NETWORK

There are currently more than a hundred biogas plants in operation in Slovakia. The first one already has a plant to purify biogas and obtain pure biomethane. It is situated in Jelšava and can produce 89 MWh of biomethane per day, which it injects into the gas distribution network.

Current biogas plants produce electricity from biogas, which is fed into the electricity grid, while the heat is mostly used for their own consumption. In the Recovery Plan, the government is counting on financial support for the conversion of biogas plants to biomethane plants; given their capacity, it will be possible to connect up to a third of them to our high-pressure gas network.

Biomethane is carbon neutral (it has up to a negative carbon footprint in the case of waste treatment), so in the form of bioCNG and bioLNG it is a particularly suitable choice for decarbonizing transport. Its combustion produces no particulate matter, making a significant contribution to cleaner and healthier air. The basic raw material for the most advanced biomethane production is chicken and cow manure and various biodegradable wastes. The composition of biomethane is almost identical to natural gas, but unlike this fossil fuel, it is produced from local renewable raw materials or directly from waste, making its production sustainable.

In the short term, SPP – distribúcia will be able to connect approximately 34 biogas stations to its high-pressure network after their conversion to biomethane production. However, the total potential for biomethane production from biodegradable municipal waste, kitchen and restaurant waste and livestock excreta, according to the latest Integrated National Energy and Climate Plan of the Slovak Republic, can reach up to almost 400 million m^3 of biomethane. More than 33 thousand kilometres of Slovak gas pipelines will thus contribute to the improvement of the environment and can therefore undoubtedly be called the network of the green future.

SMART METERING ROLL-OUT

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. As of 31 July 2022, 2 370 smart meters have been 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 1.8.2021 – 31.7.2022. Damages were recorded mainly in the performance of earthworks in the protection zones of gas facilities, where in half of the cases 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 control of work in the protection zone of gas facilities, web forms and external communication. The company continues in 2022 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, from November 2021 to March 2022, SPP-distribúcia 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 facility 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 11/2021 – 03/2022, shows that the company was and is prepared to fulfil its duties concerning the security of gas supplies responsibly 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 UNAUTHORIZED CONSUMPTION OF NATURAL GAS

We also continued during this period successfully to detect unauthorized consumption in order to achieve a reduction in losses from the distribution of natural gas. Company employees identified and documented over 1 000 cases of unauthorized consumption amounting to more than 4.4 million m3 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, more than 60 000 delivery points were inspected in the past year, with hundreds of cases of demonstrable interference with metering instruments or even directly into the pipe. Based on facts suggesting the crime of gas theft, we brought dozens of charges.

GAS ACCESS COVERAGE RATE

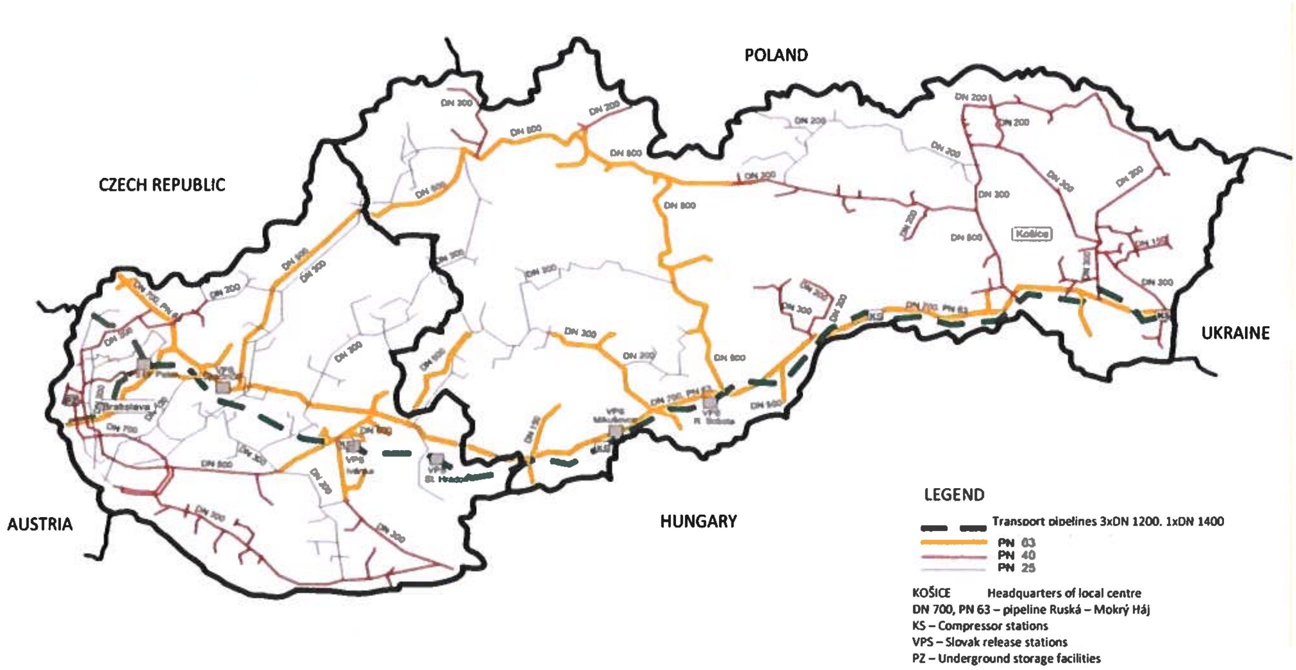
In Slovakia, gas is delivered to 77% of municipalities, where currently 94% of the population live. In view of the level of coverage achieved in municipalities, further development of the distribution network is no longer required, but due to the significant development of the construction of residential 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 2018 – 31.7.2022 (billion m3/15 °C)					
	2018*	**2019****	**2020****	**2021****	**2022****
Distributed volumes	2.87	4.81	4.85	5.41	5.00

*7 months period ended 31.7.2018
**12 months period ended 31.7.2019, 31.7.2020, 31.7.2021, and 31.7.2022

In the period 08/2021 - 07/2022, the volume of gas distributed through the SPP-D distribution network was slightly lower compared to the period 08/2020 - 07/2021, with the largest decrease in gas distribution recorded in 2022 and was mainly caused by a decrease in gas consumption by customers in the large-scale use category. During the months of February to May 2022, which had a higher average air temperature than the previous period, there was also a decline in gas distribution in the household category.

Map of the SPP – distribúcia distribution network



Length of distribution network in 2017 – 31.7.2022 (in km)						
	2017	**2018***	**2019****	**2020****	**2021****	**2022****
High - pressure gas pipelines	6 280	6 280	6 281	6 285	6 274	6 273
Medium-pressure and low-pressure gas pipelines	26 993	27 020	27 077	27 069	27 062	27 077
Total	**33 273**	**33 300**	**33 358**	**33 354**	**33 336**	**33 350**
Classification of local gas network in 2017 – 31.7.2022 (in km)						
	2017	**2018***	**2019****	**2020****	**2021****	**2022****
Steel	12 342	12 298	12 289	12 091	11 907	11 713
Polyethylene	14 651	14 722	14 788	14 978	15 155	15 363
Investment in the renovation / reconstruction of the network in 2017– 31/07/2022 (in mil. EUR)						
	2017	**2018***	**2019****	**2020****	**2021****	**2022****
Investment in renovation	**24**	**11**	**30**	**32**	**33**	**37**
Number of km of local network pipelines upgraded (low- and medium-pressure pipelines)	128	63.4	142	127	131	141

*7 months period ended 31.7.2018
**12 months period ended 31.7.2019, 31.7.2020, 31.7.2021, and 31.7.2022

CUSTOMER ORIENTATION

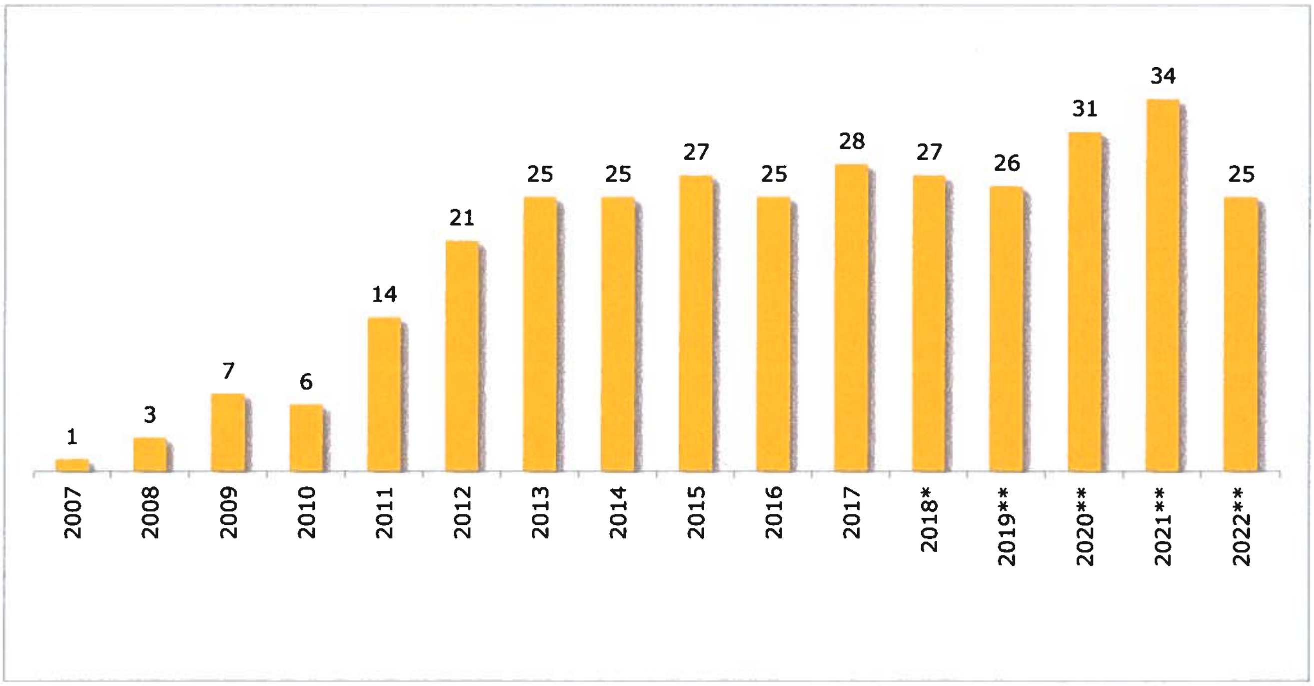
RELATIONS WITH GAS SUPPLIERS, LIBERALIZED GAS MARKET

SPP – distribúcia provided access to the distribution network and gas distribution for 25 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 2022. In the period under review, in a total of 6 cases, the institute of gas supply by the supplier of last resort was invoked, as some users of the distribution network were unable to secure gas supplies or otherwise breached their contracts on access to the distribution network and gas distribution. A number of suppliers have also decided to close down due to the gas market situation. 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

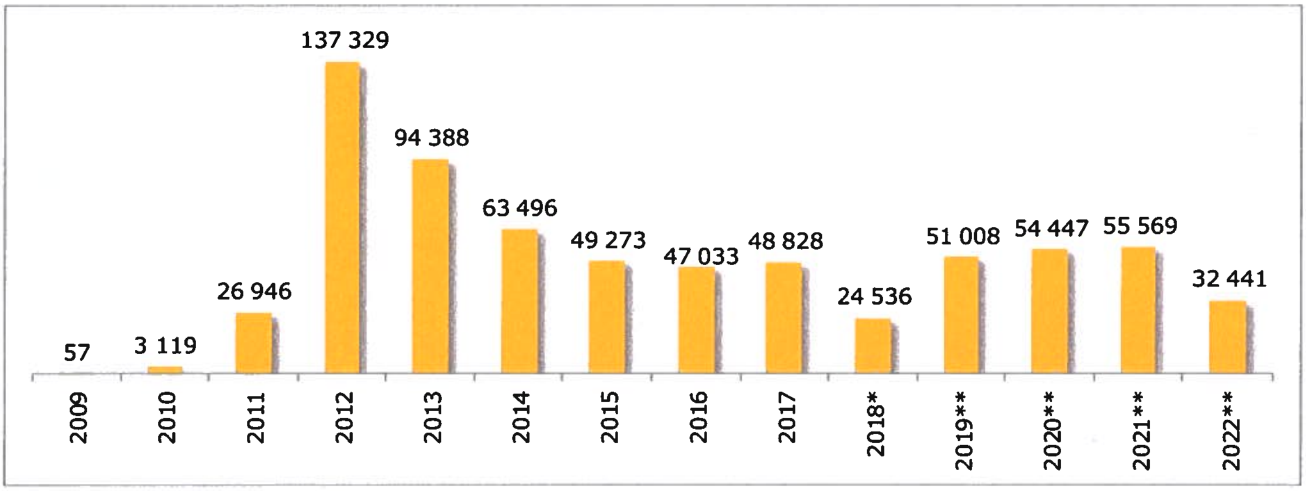
With effect from 1 April 2022, there were significant changes to energy laws. In the Utility Regulation Act, the term "small enterprise" has been deleted and replaced by "non-household gas consumer with a total annual gas consumption for the previous year of 100 000 kWh or less" and vulnerable consumers, while a group of so-called domestic boiler houses has been included in the price regulation. The Renewable Sources Promotion Act has simplified the process of connecting biomethane producers to the distribution network. A number of changes will be brought about by the approved amendment to the regulatory regulations, a substantial part of which will come into effect on 1.10.2022. Among other things, according to this amendment, SPP - distribúcia will be obliged to publicly consult on the change of the operating rules, changes are also planned in the area of connection. In December 2021, 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, Decision No. 0005/2019/P dated 19. 11. 2018, and Decision No. 0044/2021/P dated 07.12.2020 was adopted by the Regulatory Office for Network Industries with effect from 1 January 2022, changing the tariff rates for individual delivery points of the distribution network for gas distribution in groups 1 to 26 and changing the amount of the fixed rate per month when gas is supplied to the downstream distribution network by two or more suppliers.

Number of users of the distribution network



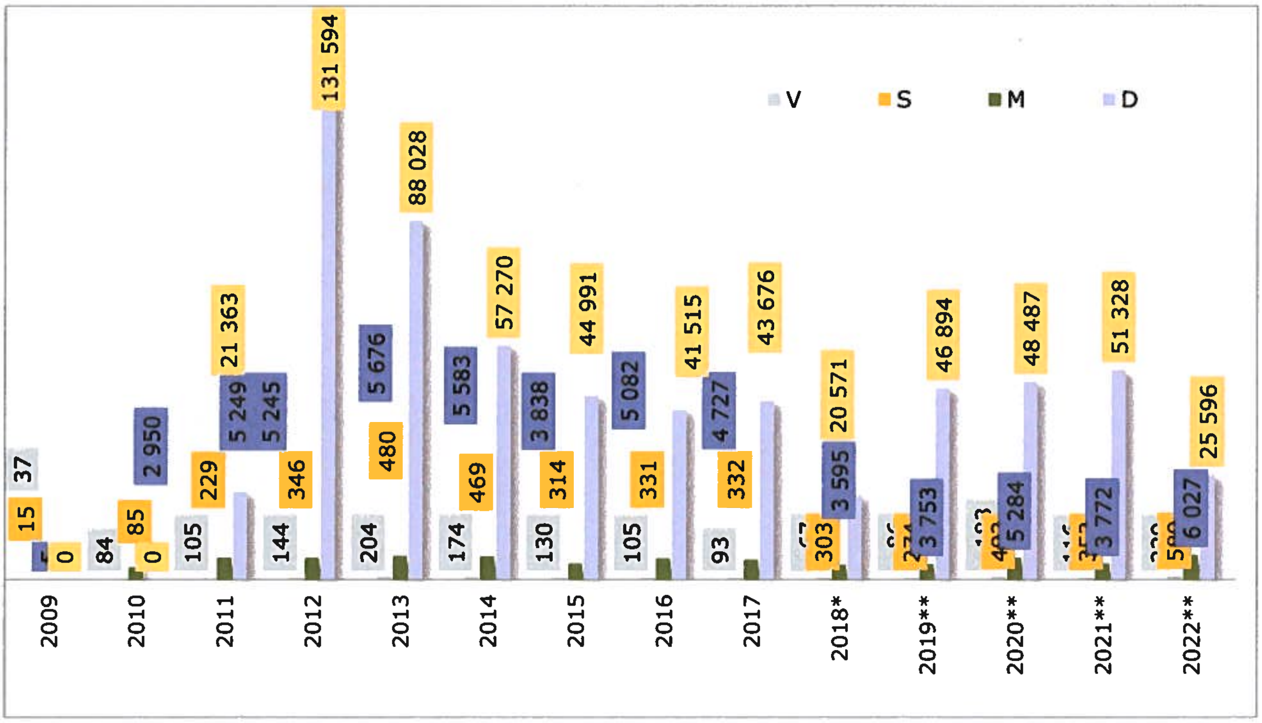
*7 months period ended 31.7.2018
**12 months period ended 31.7.2019, 31.7.2020, 31.7.2021, and 31.7.2022

Number of vendor changes



*7 months period ended 31.7.2018
**12 months period ended 31.7.2019, 31.7.2020, 31.7.2021, and 31.7.2022

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, and 31.7.2022

SHORTENING THE PROCESS OF CONNECTING CUSTOMERS TO THE DISTRIBUTION NETWORK

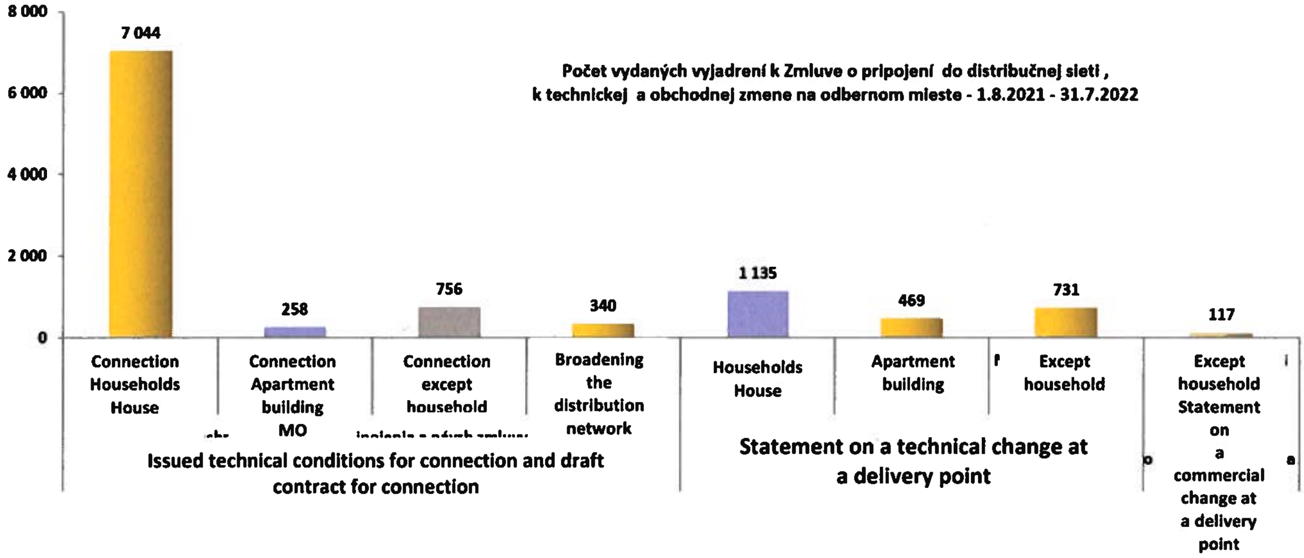
Households and small customers

Between 1.8.2021 and 31.7.2022, our company provided applicants for connection to the distribution network with the possibility of personal contact in two Customer Offices in Žilina, and in Košice by booking a specific selected date using the Reservation System on our website. In September 2021, our company opened a new Customer Centre in Bratislava on Plátennícka Street. We were available every day for our customers booked through the Reservation System, and we also added customer hours for unbooked customers two days a week. We offer our applicants for connection, or for technical changes to an existing delivery point, assistance without unnecessary waiting, with convenient and free parking, in a pleasant environment with tasty coffee. Besides personal contact, applicants for connection could also use contact by mail and an on-line form on our website.

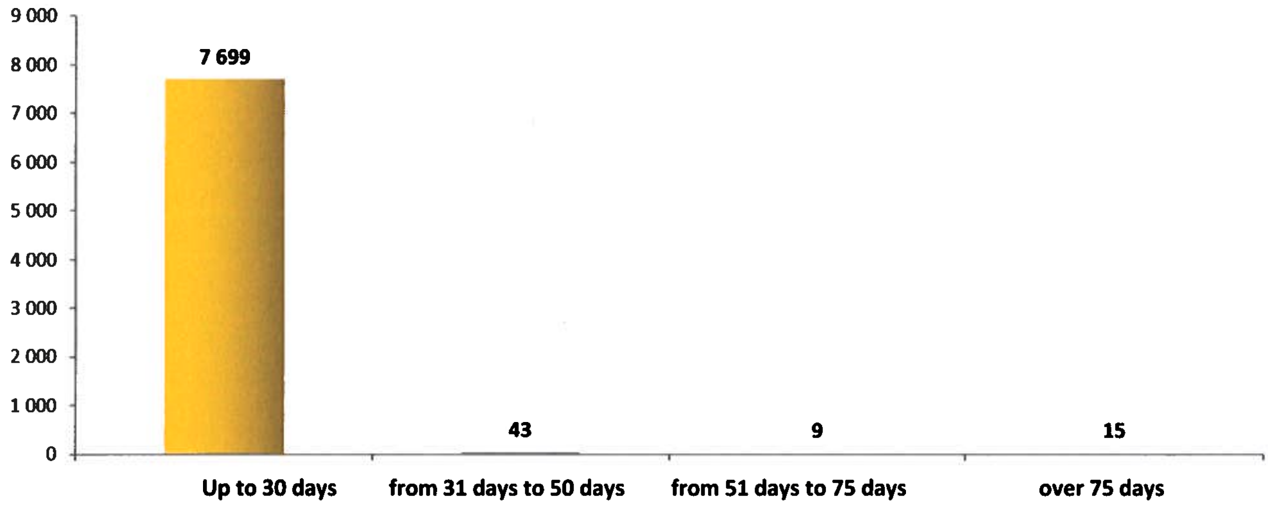
SPP – distribúcia complied with quality standards for (i) setting business and technical conditions for connection at 100% and quality standards for (ii) setting business and technical conditions for changing the delivery parameters at the delivery point (comments on technical changes at the delivery point) at 100% (in accordance with Decree of the Regulatory Office for Network Industries No. 278/2012).

During the period 08/2021 – 07/2022, our company connected **8 634** 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 statements issued on contracts for connection to the distribution network and on technical and commercial change at the delivery point from 1.8.2021 – 31.7.2022



Fast conclusion of the connection process – contracts for connection to the distribution network in the HOUSEHOLD category – houses and apartment buildings Meter installation from 1.8.2021 - 31.7.2022



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

New online forms

In mid-May 2022, SPP – distribúcia launched three new online forms. The first is the online Application for Technical Conditions for the Extension of the Distribution Network form for those who are planning to build a residential zone, industrial park or any building and house with a connection to natural gas, and there is currently no gas distribution network there.

The second is the online Business Change Application form. This form will be particularly appreciated by existing non-household gas customers who are planning to significantly change their annual distributed gas quantity and/or hourly gas consumption and who have not made a technical change at the same time.

Following the significant interest of existing biogas plant operators in converting their biomethane production facilities and injecting it into the distribution network, and the demand for technical conditions for the connection of such facilities, SPP – distribúcia has implemented an **online form for a group of prospective biomethane producers**.

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 1.8.2021 and 31.7.2022, 13 418 requests were submitted online for connection and technical change at the existing point of delivery, which amounts to 83% 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.

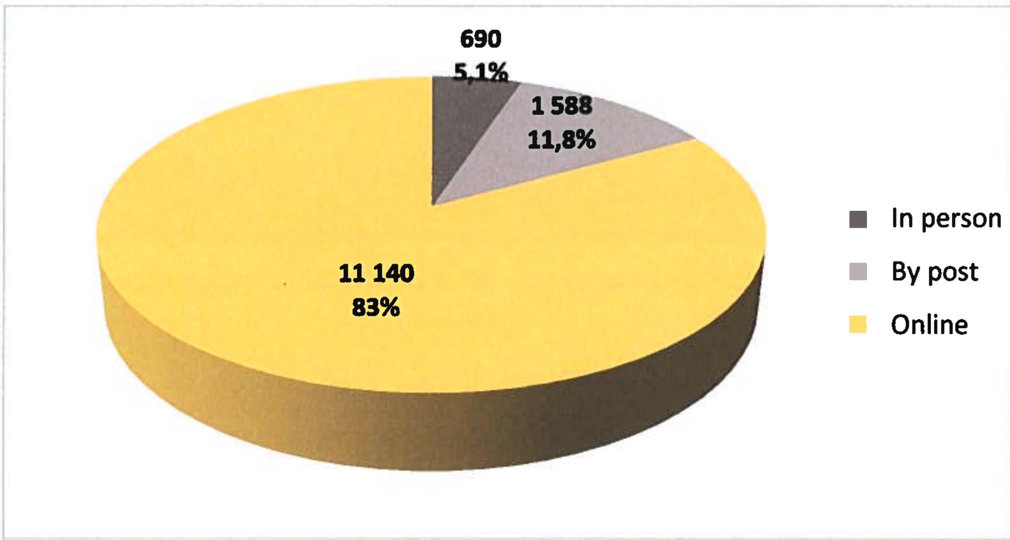
We continued to send e-mail notifications to customers, drawing attention to the approaching expiry of the most important deadlines in the process of connection, which include:

- 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.

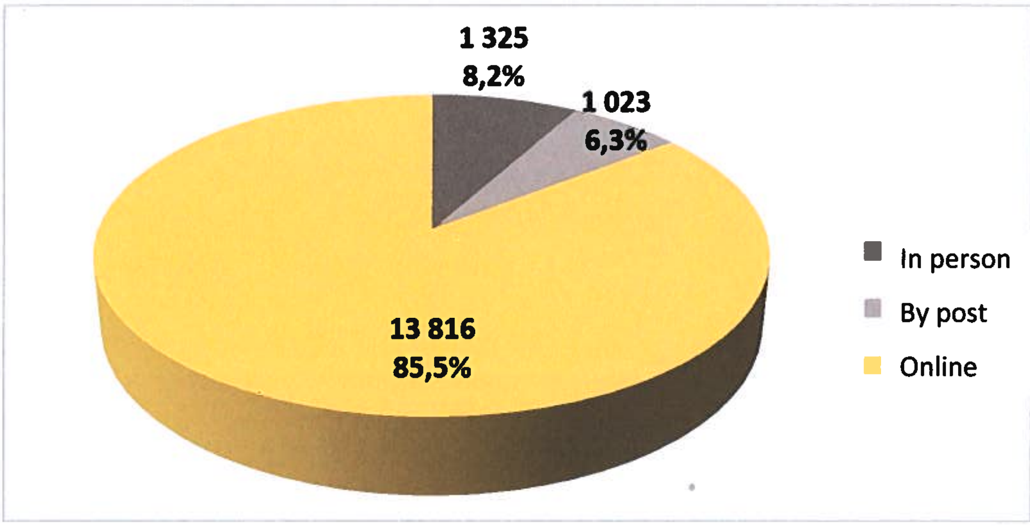
We contacted customers by phone if they had not specified an e-mail address in their request. These notifications also save significant time and resources based on customer feedback, while also contributing to their comfort in the connection process.

We are pleased to continue to report increased interest in our online services. From 1 August 2021 to 31 July 2022, the possibility to file an application for connection and for a technical change through an on-line app was utilised by as many as 83 % of applicants and an application for the installation of a meter (all types) by as many as 85.5 % of applicants.

Requests for connection to the distribution network and for comments on technical change during 1.8.2021- 31.7.2022



Applications for installation of meters for 1.8.2021 - 31.7.2022



WHEN CHOOSING A GAS HEATING SYSTEM, PRICE IS STILL THE DECIDING FACTOR

New consumers of natural gas have opted for this type of heating for their house mainly because of its affordability. This was confirmed by the results of a survey carried out by the AKO agency for the distribution company SPP - distribúcia at the turn of March and April 2022.

One month after the start of the Russian invasion of Ukraine, which shook the gas market and increased its price, the connected customers still perceived their decision as the right one. In the last two years, six out of ten builders have chosen gas heating for their newly built house. More than a quarter of the respondents opted for natural gas heating because of its cost-effectiveness, followed by the convenience of operation and its availability. However, for almost two thirds of the surveyed customers who decided to connect to natural gas, the most important factor in heating is the amount of monthly costs.

According to the Slovak Gas and Oil Association, the survey results are a pleasant surprise. "In the context of the conflict in Ukraine, it could be expected that natural gas will lose its attractiveness due to its rising price on world markets," said Richard Kvasňovský, the association's executive director. According to him, it would not be unusual for natural gas to be perceived negatively by potential customers because of its label as a geopolitical pressure tool. "Newly connected gas customers, however, perceive the temporary unfavourable situation on the energy market rationally and evaluate the obvious advantages of natural gas prospectively, whether it is the price or the ecological aspect," Kvasňovský added.

According to the survey, more than 17 percent of the respondents took into account the ecological aspect or low-emission nature of natural gas when choosing it. The topic of climate change is strongly influencing today's house builders. They mostly opt for the currently most affordable low-emission solutions. The survey also showed that climate change is perceived as a real problem by nearly three quarters of customers who have chosen to connect to natural gas. Less than a third consider poor local air quality to be a more serious environmental problem. Natural gas makes a significant contribution to clean air thanks to its virtually zero emissions of particulate matter and half the CO_2 emissions of solid fuels such as coal or wood.

Traditionally, high levels of satisfaction with the connection process, the convenience of the online connection service and the customer service provided by the customer offices appear in the satisfaction survey of customers connected to gas. Satisfaction with the aforementioned attributes is above 90 percent.

The positive experience with the implementation of the connection process leads customers to say that up to 85.4% of them would recommend natural gas to their friends for heating and hot water in their property. Most of the remaining respondents would be concerned about the current political situation and the temporarily elevated price of the commodity when recommending gas.

The telephone survey was conducted from 29 March to 4 April 2022 on a sample of 600 households and one hundred small-use customers who have connected to the gas network in the last two years.

The operator of the natural gas distribution network, SPP - distribúcia, a. s., continuously increases the level of customer service mainly through the digitalization and expansion of the range of internet applications for its customers. In line with its long-term strategy in the field of distribution network operation, SPP – distribúcia is already transporting biomethane in addition to natural gas and is practically testing the distribution of a mixture of hydrogen and natural gas.

EMPLOYEES AND THE 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. In view of the relaxation of anti-pandemic measures, in spring 2022, we have resumed nationwide management meetings in the regions and meetings with employees that provided space for feedback from employees.

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. We are constantly trying to modify and improve Distro magazine.

The "Development talks" that took place from April to June 2022 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 management to discuss open issues, matters and topics, as well as 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 supported 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 foremen.

In March 2022, after a one-and-a-half year delay due to the pandemic, we launched development programmes. Another year of the Full Gas career programme was started. We also launched a new Gas Academy programme to create a staff reserve for the DU, DP and possibly DI sections to fill the positions of foremen, technicians and possibly PMRIs. Both programmes started with a two-day teambuilding in the picturesque surroundings of Terchová. We continuously strengthen our teams with young people within the Young Gasworker and Graduate Development programmes. We are implementing the Young Gasworker 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 programme 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

Fulfilling the mission of SPP-distribúcia, a.s. – to ensure reliable, safe and efficient distribution of natural gas from the gas supplier to the customers - is closely related to corporate responsibility and sustainability, which we associate above all with the protection and promotion of health, the environment and the workplace, as well as work ethics. Our commitment is to adhere to the fundamental rules, particularly in the areas of creating value for local development and improving quality of life, adherence to the UN Global Compact's Ten Principles in the areas of human rights, labour, environment and anti-corruption, while encouraging our business partners to adopt the same obligation, partner dialogue in business decisions, taking into account the needs of our employees, customers, government and regulator, investors and lenders, suppliers, labour and professional unions, non-governmental organizations and local communities, in order to know and meet their expectations, the application of equal opportunities, non-discrimination, in the promotion of work-life balance and in the provision of education leading to professional and personal growth, the provision of transparent, truthful and accurate information to stakeholders, the protection of health, safety at work and the environment.

At the end of 2021, SPP-distribúcia, a.s. was successfully certified for the implemented Integrated Management System according to ISO 9001; ISO 14001; ISO 45001, which demonstrated compliance with the requirements of legislation in the field of quality, occupational health and safety and the environment.

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 collection, in which we managed to raise a large amount for the Plamienok non-profit organization.

The crisis situation also had a negative impact on some of our events and charity collections. We managed to move some of them online. We joined the regular Bike to Work campaign. We continue to plan activities related to health and environmental protection. During the month of the competition, SPP - distribúcia employees rode a total of 10 950.68 km, which is 504.98 km more than last year. A total of 2 343.17 kg of CO2 was successfully saved. We continue to plan activities related to health and environmental protection.

Unfortunately, our planned activities were affected by the COVID-19 pandemic and the realisation of the gravity of the situation and the scale of the humanitarian crisis related to the war in Ukraine. The 2022 Corporate Games were cancelled and the funds allocated for this event (together with the funds originally earmarked for the gala evening on the occasion of the 15th anniversary of the founding of SPP-distribúcia, a.s. – in the amount of € 200 thousand) were redirected to help people affected by the conflict through organizations that voluntarily began to provide and provide assistance to refugees - individuals, especially mothers with children, who had to leave their homes because of the war.

SAFETY AND ENVIRONMENTAL PROTECTION ARE OUR PRIORITIES

An important part of fulfilling the tasks of SPP-distribúcia a.s. is continuous care for occupational health and safety with respect for the individual components of the environment. We ensure a high level of occupational health and safety and environmental protection by introducing safe working procedures, modern technologies, appropriate work organization, improving working conditions with regard to health factors of the working environment, as well as by involving employees in the process of selecting PPE, controlling the working environment and resolving occupational health and safety issues. By prioritising preventive measures, we systematically improve the conditions for safe working and the protection of all components of the environment. By complying with applicable legal requirements, international ISO standards, as well as observing obligations arising from internal legislation, we effectively manage potential risks. 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, the company's management provides adequate resources – finances, personnel and time – to eliminate risks that could cause harm to health or the environment. This is evidenced by the commitment expressed in the integrated Occupational Health and Safety, Environment and Quality Policy. In this policy, the company's management is committed to creating conditions for compliance with general legal regulations and conducting operations in accordance with environmental and safety legal standards, regulations and requirements, promoting health, preventing illness and injury, and providing health care to employees. The introduction of an integrated management system and its successful certification according to ISO 9001; ISO 14001; ISO 45001 in the past year is a manifestation of the whole company's identification with this policy.

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. In addition, the European Union authorities have approved the inclusion of gas and nuclear in the taxonomy as transitional fuels, which means that investments in the use of natural gas and nuclear can be considered sustainable if specific conditions are met. The relevant delegated act will enter into force in January 2023.

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. In its latest report on air quality in Europe, the European Environment Agency states that Slovakia accounts for up to 4 900 preventable deaths per year due to poor air quality caused by fine PM2.5 particles. 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.

As part of the decarbonization of the Slovak gas industry, a significant milestone was the connection of the first biomethane station to the distribution network in November 2021. Since then, the biomethane station in Jelšava has been reliably supplying our network with around 240 000 m3 of biomethane per month. Biomethane production is becoming a strategic activity within the energy security of the European Union and we therefore expect significant public support for it and an increase in production in the coming period. Last but not least, the production of biomethane from biodegradable waste can significantly reduce methane emissions in the waste sector, which represent the largest share in the composition of methane emissions in the Slovak Republic.

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 condensing 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.

Nowadays only ultra-low energy single-family houses (building energy performance class A1) are being built, which obtained a valid building permit before 1 January 2020, and since 1 January 2021, nearly-zero energy buildings have been designed and built (passive houses, building energy performance class A0). 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	1 519 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	€ 13 169	€ 12 157

OPEX – operating costs (2021)
CAPEX – input/investment costs (2021)
TCO – Total Cost of Ownership

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

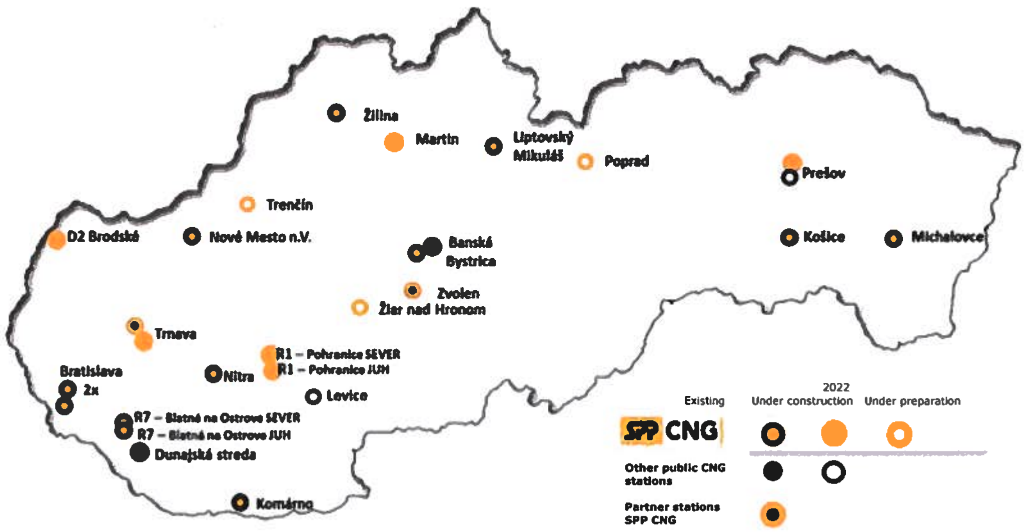
Thermal comfort, safety, user convenience and efficient use of energy contained in natural gas – all this is provided by the progressive technology of condensing boilers. Compared to previous technologies, whether conventional or low-temperature boilers, the condensing boiler can use a larger amount 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 and platforms, Facebook, Instagram, YouTube and the company's websites (www.oplyne.info and www.spp-distribucia.sk), or on partner websites in the form of articles or podcasts. The online marketing tools included ads on social networks, Google and partner websites.

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 or war in Ukraine. As part of offline communication, leaflets, information brochures and advertising pages in print media and journals were redesigned and regularly updated. Offline marketing was also actively implemented through direct communication with customers in Customer Centres, in and around the building at the new address of the SPP-Distribution headquarters at 2 Plátennícka Street in Bratislava. In the period 29.03.2022 - 04.04.2022 a regular survey focused on customer satisfaction and experience (households and businesses) in the area of connecting properties to the natural gas distribution network was carried out by the survey agency AKO. In the latest survey, SPP – distribúcia strengthened its overall high rating of customer satisfaction with its services in the area of connection to the gas distribution network, and even recorded a further significant improvement in the satisfaction indicator for the "small customers" category (customers from smaller companies and organisations), in particular in their assessment of the staff and processes of SPP – distribúcia.

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. The information tool was articles entitled *Heating with natural gas - lower emissions, cleaner air and money saved.* At the end of 2021, we published an article in periodicals for prospective house builders about the possibilities of receiving grants for the installation of a gas boiler from the Recovery Plan. Since the beginning of 2022, we have focused on promoting the integration of renewable gases into our distribution network by presenting the operation of the first biomethane station connected to our network in Jelšava and on media coverage of a practical test of mixing hydrogen into natural gas in the distribution network of the municipality of Blatná na Ostrove. We informed the lay and professional public about the advantages of natural gas in heating with an article entitled *Attacks on natural gas are unfounded and illogical* and with an expert analysis *Preparation of heat in a house with hydrogen or a mixture of gases*. At the end of the financial year, we also brought to the public the results of a CSI survey entitled *Price remains the deciding factor in the choice of gas heating*. We traditionally publish a regularly updated analysis *Comparison of basic heating types*.

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

Standard to warm weather conditions prevailed in Slovakia during the turn of 2021 and 2022. Compared to the previous year, when daily records were broken in February 2021 due to cold weather (source: Slovak Hydrometeorological Institute), this is a significant year-on-year change. The last day of 2021 and New Year's Day in Slovakia was marked by warm weather. On the last day of 2021, daily records were recorded, with the air temperature at Bratislava Airport reaching 16.9 °C, the average daily air temperature in Banská Štiavnica reaching 9.6 °C and the minimum daily air temperature in Modra-Piesok reaching 8.2 °C. The rest of the month of January and also February ended above average temperatures in Slovakia in terms of temperature.

Unlike January and February 2022, which were predominantly warm in their course, March and April of 2022 were mainly dominated by cooler weather.

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 2022, 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 1.8.2021 and 31.7.2022, 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 and war operations in Ukraine.

On 1.10.2022 a substantial part of the extensive amendment to Act No. 251/2012 Coll. on energy (hereinafter referred to as the "Energy Act") as well as Act No. 250/2012 Coll. on regulation in network industries (hereinafter referred to as the "Utility Regulation Act") will enter into force, which transposes the European Winter Package. The amendment will fundamentally affect, inter alia, participants in the gas market. An amendment to Act No. 157/2018 Coll. on metrology was also adopted. An amendment to its implementing regulation, Decree of the Office of Standards, Metrology and Testing of the Slovak Republic No. 161/2019 Coll. on measuring instruments and metrological control, is in the process of preparation. These regulations partially revise the rules applicable to meters used by the company in its operations.

In the context of ongoing legislative proceedings, the company's activities are directly affected in particular by a draft new Decree of the Regulatory Office for Network Industries, which provides for price regulation in the gas sector for a new regulatory period. This decree was extensively commented on by the company. An amendment to Decree of the Regulatory Office for Network Industries No. 24/2013 Coll. laying down the rules of operation of the internal electricity market and rules of operation of the internal gas market is also under preparation in the legislative process.

On 07.06.2022 new building regulations were published in the Collection of Laws in the form of Act No. 201/2022 Coll. on construction and Act No. 200/2022 Coll. on spatial planning. These will replace Act No. 50/1976 Coll. on spatial planning and building regulations with effect from 1.4.2024.

At European level, the Gas Package was presented in December 2021. This consists, inter alia, of a draft Directive of the European Parliament and of the Council on common rules for the internal market in renewable gases and natural gas and hydrogen and a draft Regulation of the European Parliament and of the Council on the internal market in renewable gases and natural gas and hydrogen. These are intended to create the conditions for the decarbonization of the gas industry, inter alia through greater use of hydrogen in the gas industry.

In the wake of the conflict in Ukraine, steps were taken at both national and European level to ensure energy security. At European level, the revision of Regulation (EU) 2017/1938 of the European Parliament and of the Council concerning measures to safeguard the security of gas supply introduced the so-called storage obligation. Under this obligation, Member States are obliged to fill underground gas storage facilities with gas within the time limits and in the manner laid down in the Regulation. Later, other legislative and non-legislative measures were also adopted or prepared.

Among non-legislative acts, a new Regulatory Policy for the 6th regulatory period was also adopted in the period under review, in the drafting of which the company was actively involved.

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.

Information relating to the EU Taxonomy Regulation for all EP Infrastructure Group companies is disclosed in the Group's Consolidated Annual Report 2021 in note 5.

Economic results of SPP– distribúcia, a.s.

SPP – distribúcia a.s. achieved revenues from natural gas distribution in the financial year 2022 of 398.01 million euros.

The operating costs incurred by the company to secure the revenues from the sale of the services amounted to 281.17 million euros. The bulk of operating costs were mainly depreciation and amortization, natural gas storage costs and personnel costs.

During the financial year 2022, the company achieved a profit before tax of 182.25 million euros and a profit after tax of 135.31 million euros.

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

	2022	2021
Distribution of natural gas	398.01	417.30
Other income	71.02	25.71
Operating costs	-281.17	-265.10
Profit/loss on financial activity	-5.61	-14.00
Profit before tax	**182.25**	**163.92**
Income tax	-46.94	-42.33
Profit after tax	**135.31**	**121.59**

ASSET AND CAPITAL STRUCTURE

Assets

On the balance sheet date of the financial statements, the company's total assets were 4 520.49 million euros, representing a decrease of 47.77 million euros compared to the previous year, 2021. Long-term assets with a value of 3 981.00 million euros accounted for 88.07% of the total assets. The most significant items of long-term assets included in particular gas distribution pipelines, regulation stations, technologies and equipment of distribution networks.

In the financial year 2022, 36.83 million euros was spent on the acquisition of long-term assets, which was mainly directed towards the renewal of the distribution network. This year, 1.05 million euros was spent on research and development.

Current assets amounted to 539.49 million euros as of the balance sheet date; the largest share in their structure was mainly receivables and advances granted, inventory, and money and cash equivalents. Their value decreased by 110.95 million euros compared to 2021, with the largest movements in receivables and advances granted. Within receivables and advances granted, there was a transfer of 172 million euros from the cash pooling account to the internal credit, a cash pooling account allocation of 140 million euros and the offsetting of the dividend with the cash pooling account amounting to 121.59 million euros.

Comparison of the structure of assets (in mil. EUR):

	2022	2021	2022	2021
Long-term assets	3 981.00	3 917.81	88.07%	85.76%
Current assets	539.49	650.44	11.93%	14.24%

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 67.18% of the total sources of asset coverage.

Equity increased by EUR 17.41 million compared to the 2021 financial year and amounted to 3 036.91 million euros at the balance sheet date. Equity consisted primarily of fixed capital, the legal reserve fund, the asset 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 1 553.32 million euros.

The profit for 2021 was a profit of 121.59 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 2022.

The company's liabilities accounted for 32.82% of the company's assets and amounted to 1 483.58 million euros as of the balance sheet date in the financial statements. The bulk of the total liabilities consisted of long-term liabilities totalling 1 382.95 million euros and thereby decreasing by 7.70 million euros. The most essential items are a deferred tax liability and loans and bonds. Short-term liabilities decreased by 57.48 million euros as a result of the repayment of a part of a loan (50 million euros) from the European Investment Bank. As of the balance sheet date, short-term liabilities amounted to EUR 100.63 million.

Comparison of the structure of liabilities (in mil. EUR)

	2022	2021	2022	2021
Equity	3 036.91	3 019.50	67.18%	66.10%
Accounts payable	1 483.58	1 548.75	32.82%	33.90%

The shareholder structure as of 31.07.2022 was as follows:

SPP Infrastructure, a.s.	1 share	100%

SUMMARY RESULTS

Development of the state of assets, capital structure and profit/loss for SPP – distribúcia, a.s., for the years ending 31 July 2022 and 31 July 2021 according to individual financial statements prepared in accordance with international financial reporting standards as approved by the EU.

Balance sheet (selected data in thous. EUR)

	Year ended 31 July 2022	**Year ended 31 July 2021**
ASSETS:		
LONG-TERM ASSETS		
Buildings, structures, machinery and equipment	3 671 440	3 781 879
Rights of use	27 998	27 020
Investments in subsidiaries	1 000	1 000
Intangible long-term assets and other assets	10 413	10 928
Loans granted	270 147	96 984
Total long-term assets	**3 980 998**	**3 917 811**
CURRENT ASSETS		
Stock	129 996	129 177
Receivables and advances granted	145 821	296 849
Contractual assets	15 847	12 397
Cash and cash equivalents	247 724	211 922
Other current assets	69	67
Total current assets	**539 457**	**650 412**
Asset held for sale	29	32
TOTAL ASSETS	**4 520 484**	**4 568 255**
EQUITY AND LIABILITIES:		
CAPITAL AND RESERVES		
Share capital	1 200 000	1 200 000
Legal reserve fund and other funds	1 553 324	1 598 832
Retained earnings	148 276	99 077
Profit or loss for the current period	135 309	121 592
Total equity	**3 036 909**	**3 019 501**

LONG-TERM LIABILITIES	1 382 948	1 390 652
SHORT-TERM LIABILITIES	100 627	158 102
Total liabilities	**1 483 575**	**1 548 754**
TOTAL EQUITY AND LIABILITIES	**4 520 484**	**4 568 255**

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

For the years ended 31 July 2022 and 31 July 2021

	Year ended 31 July 2022	**Year ended 31 July 2021**
Distribution of natural gas	398 005	417 304
Other revenues	71 016	25 705
Operating costs	-281 166	-265 095
Operating profit	**187 855**	**177 914**
Financial revenues	2 299	2 002
Financing costs	-7 908	-15 999
PROFIT BEFORE TAX	**182 246**	**163 917**
Income tax	-46 937	-42 325
PROFIT FOR THE PERIOD	**135 309**	**121 592**

Cash flow statement (selected data in thous. EUR)

	Year ended 31 July 2022	**Year ended 31 July 2021**
OPERATING ACTIVITIES		
Cash flows from operating activities	323 992	347 835
Interest paid	-5 224	-13 315
Interest received	242	409
Income tax paid	-64 882	-65 625
CASH FLOW FROM OPERATING ACTIVITIES	**254 128**	**269 304**
CASH FLOW FROM INVESTMENT ACTIVITIES	**-161 673**	**-102 162**
CASH FLOW FROM FINANCIAL ACTIVITIES	**-56 654**	**-9 966**
NET INCREASE IN CASH	**35 802**	**157 176**
CASH POSITION AT THE BEGINNING OF THE PERIOD	211 922	54 746
CASH POSITION AT THE END OF THE PERIOD	**247 724**	**211 922**

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

After 31 July 2022, 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, a.s. 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 2022, 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. 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, a.s. 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 authorised 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, a.s. 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 1.8.2021 – 31.7.2022

1. 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 1.8.2021 and 31.7.2022 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 1.8.2021 and 31.7.2022, 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 1.8.2021 to 31.7.2022, 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. As of 1.9.2021 the registered office of SPP- distribúcia, a.s. was changed in Bratislava, which reduced the volume of real estate rental services received.

5. Between 1.8.2021 and 31.7.2022, the compliance programme manager of the distribution system operator found no breach of the obligations set out in the compliance programme.

In Bratislava on 15 August 2022

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

COMPANY PROSPECT

Looking back at our performance in the past period, we are confident that, thanks to the dedication, flexibility and energy of our employees, we will meet the challenges of the coming period with honour. Together we will make every effort in campaigns to promote protection of the atmosphere through the use of natural gas and to improve customer services.

We plan to improve their quality level by implementing a new mobile application that will allow us to communicate directly, more easily and in real time with customers, for example, about consumption readings, reconstruction works and the status of their requests for connection to the network.

It will also be key for us in the new year to actively pursue the public debate on the transition of the Slovak economy to a low-carbon one, while promoting a "value-for-money" approach. We will patiently explain to the professional and general public that the potential for reducing greenhouse gas emissions in the energy sector lies both in coal substitution and in energy efficiency projects. 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. The success of the practical mixing of 10% of hydrogen into natural gas has created the conditions for us to continue the initiative towards making our entire network ready for the distribution of this blend, which will be a challenge in the years to come.

It will also be extremely important to cope with the coming winter in a situation of limited gas supplies from the Russian Federation. In this respect, SPP – distribúcia will regularly monitor the market situation from the level of gas dispatching and propose mitigation measures. At the same time, we will be ready to meet the household security of supply standard.

We are pleased that responsibility, reliability and initiative are our shared values and at the same time the basis for the further development of our company, whether in the field of safety, ecology or the efficiency of our future activities.

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
GSM: +421 903 510 505
E-mail: milan.vanga@spp-distribucia.sk

Final title

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

Deloitte.

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Digital Park II, Einsteinova 23
851 01 Bratislava
Slovak Republic

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www.deloitte.sk

Registered in the Business
Register of the District Court Bratislava I
Section Sro, File 4444/B
Company ID: 31 343 414
VAT ID: SK2020325516

SPP – distribúcia, a.s.

INDEPENDENT AUDITOR'S REPORT

To the Shareholder, 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 2022, 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 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union (EU).

Basis for Opinion

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

Key Audit Matters

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

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

This is 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">Assessment of Impairment of or Significant Changes in Fair Value</th></tr>
<tr><td>See Notes 3d) and 7 to the financial statements

The Company owns property, plant and equipment, which comprises the natural gas distribution network in Slovakia in the amount of EUR 3.7 billion (after the fair value remeasurement of gas pipelines). As at each reporting date, the Company makes an assessment as to whether the distribution network is impaired, or whether there was a significant change in its fair value, by calculating the present value of future cash flows arising from the Company's operations and by estimating the effect of key fair value indicators. An impairment test or an analysis of key indicators require an estimate of the following key inputs for the calculation:
Future fees the Company is entitled to charge for its distribution services under the price regulation regime;
The potential impact of the military conflict in Ukraine and changes, if any, to potential demand for gas in the energy mix of the Slovak Republic;
Natural gas volumes that will be distributed in the future;
The discount rate specific to the assets owned by the Company;
Associated capital and operating expenditures.
The above assumptions require management to make highly-subjective judgments regarding long-term periods.</td><td>Our audit procedures included, inter alia:
A discussion with senior management of the assessment of the existence of impairment indicators or significant changes in fair value, management conclusion that there were no such indicators or inputs as at 31 July 2022;
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 development forecast;
An examination of the model's mathematical basis;
A retrospective review of the assumptions used in the model in the previous year;
An assessment as to whether available information regarding the outlook of the regulation regime to be applied in the future is adequately reflected in the model;
An assessment of the adequacy and appropriateness of disclosures in the Company's financial statements of assumptions used as a basis for the calculation of the present value of future cash flows arising from the Company's operations;
An assessment of the appropriateness of estimates used in the analysis of changes to key fair value indicators.</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 2022 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 13 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, 7 September 2022

Ing. Wolda K. Grant, FCCA
Responsible Auditor
Licence SKAu No. 921

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 2022 and 31 July 2021
(EUR '000)

	Note	31 July 2022	31 July 2021
ASSETS:			
NON-CURRENT ASSETS			
Property, plant and equipment	7	3 671 440	3 781 879
Non-current intangible assets and other assets	9	10 413	10 928
Right-of-use assets	8	27 998	27 020
Investments in subsidiaries	10	1 000	1 000
Other non-current assets	10	270 147	96 984
Total non-current assets		3 980 998	3 917 811
CURRENT ASSETS			
Inventories	11	129 996	129 177
Cash and cash equivalents		247 724	211 922
Receivables and prepayments	12	145 821	296 849
Contract receivables, current	13	15 847	12 397
Other current assets	10	69	67
Total current assets		539 457	650 412
Held for sale assets		29	32
TOTAL ASSETS		**4 520 484**	**4 568 255**
EQUITY AND LIABILITIES:			
CAPITAL AND RESERVES			
Registered capital	17	1 200 000	1 200 000
Legal reserve fund and other funds	18	292 220	288 529
Revaluation reserve	18	1 261 104	1 310 303
Retained earnings	18	283 585	220 669
Total equity		3 036 909	3 019 501
NON-CURRENT LIABILITIES			
Loans and bonds	15	583 319	582 978
Contract liabilities, non-current	13	28 905	16 853
Deferred tax liability and deferred special levy	23	742 506	762 808
Deferred income		68	70
Obligation under finance lease	9	23 585	22 645
Retirement and other long-term employee benefits	14	4 565	5 298
Total non-current liabilities		1 382 948	1 390 652
CURRENT LIABILITIES			
Trade and other payables	16	52 659	62 730
Contract liabilities, current	13	31 920	33 034
Loans and bonds	15	751	50 729
Obligation under finance lease	9	5 754	5 340
Income tax	23	9 196	5 805
Retirement payments and other short-term employee benefits	14	347	464
Total current liabilities		100 627	158 102
Total liabilities		1 483 575	1 548 754
TOTAL EQUITY AND LIABILITIES		**4 520 484**	**4 568 255**

The financial statements on pages 6 to 42 were signed on 7 September 2022 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 2022*	*Year ended 31 July 2021*
REVENUES FROM SALES OF SERVICES:			
Natural gas distribution		398 005	417 304
Other revenues		71 016	25 705
Total revenues		469 021	443 009
OPERATING EXPENSES:			
Depreciation, amortisation and impairment losses on assets, net	7,8	(165 276)	(167 139)
Storage of natural gas and other services		(50 606)	(48 071)
Staff costs	19	(49 605)	(49 770)
Purchases of natural gas and consumables and services		(26 904)	(12 766)
Own work capitalised		10 317	10 707
Provisions and impairment losses, net		(288)	(341)
Provisions for receivables and inventories, net		(1 329)	(11)
Other, net	21	2 525	2 296
Total operating expenses		(281 166)	(265 095)
OPERATING PROFIT		187 855	177 914
Financial revenues		2 299	2 002
Financial costs	22	(7 908)	(15 999)
PROFIT BEFORE INCOME TAXES		182 246	163 917
INCOME TAX	23	(46 937)	(42 325)
NET PROFIT FOR THE PERIOD		**135 309**	**121 592**

SPP – distribúcia, a.s.
Statement of Comprehensive Income
For the reporting periods ended 31 July 2022 and 31 July 2021
(EUR '000)

	Year ended 31 July 2022	***Year ended 31 July 2021***
NET PROFIT FOR THE PERIOD	135 309	121 592
OTHER COMPREHENSIVE INCOME/(LOSS) (may be reclassified to profit or loss in the future):		
Hedging derivatives (cash flow hedging)	4 101	1 728
Other	623	46
Deferred tax related to items of other comprehensive income for the period	(1 033)	(354)
OTHER COMPREHENSIVE INCOME/(LOSS) (cannot be reclassified to profit or loss in the future):		
Increase in asset revaluation reserve	-	-
Deferred tax and deferred special levy related to other comprehensive income/(loss) for the period	-	-
OTHER NET COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	3 691	1 420
TOTAL NET COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	**139 000**	**123 012**

SPP - distribúcia, a.s.
Statement of Changes in Equity
For the reporting periods ended 31 July 2022 and 31 July 2021
(EUR '000)

	Registered capital	*Legal reserve fund*	*Other reserves*	*Hedging reserve*	*Revaluation reserve*	*Retained earnings*	*Total*
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	-	-	-	-	-	-	-
Transfer to retained earnings	-	-	-	-	(49 938)	49 938	-
Balance at 31 July 2021	**1 200 000**	**291 484**	**26**	**(2 981)**	**1 310 303**	**220 669**	**3 019 501**
Net profit for the period	-	-	-	-	-	135 309	135 309
Other net comprehensive income for the period	-	-	451	3 240	-	-	3 691
Dividends paid	-	-	-	-	-	(121 592)	(121 592)
Changes in the registered capital	-	-	-	-	-	-	-
Transfer to retained earnings	-	-	-	-	(49 199)	49 199	-
Balance at 31 July 2022	**1 200 000**	**291 484**	**477**	**259**	**1 261 104**	**283 585**	**3 036 909**

(EUR '000)

	Note	*Year ended 31 July 2022*	*Year ended 31 July 2021*
OPERATING ACTIVITIES			
Cash flows from operating activities	25	323 992	347 835
Interest paid		(5 224)	(13 315)
Interest received		242	409
Income tax paid and special levy		(64 882)	(65 625)
Net cash flows from operating activities		254 128	269 304
INVESTING ACTIVITIES			
Acquisition of property, plant and equipment		(22 837)	(22 493)
Proceeds from/repayments of borrowings received from the Group companies – cash pooling		(140 000)	(80 000)
Non-current borrowings provided – received repayments		67	66
Proceeds from the sale of property, plant and equipment and intangible assets		132	265
Received dividends		965	-
Net cash inflow/(outflow) from investing activities		(161 673)	(102 162)
FINANCING ACTIVITIES:			
Received bank loans and borrowings		-	-
Repaid bank loans and borrowings		(50 000)	-
Bond repayment		-	(500 000)
Proceeds from issue of bonds		-	496 281
(Expenditures for)/proceeds from derivative transactions		(1 136)	(1 100)
Expenditures for the settlement of finance lease obligations		(5 517)	(5 147)
Paid dividends		-	-
Net cash flows from financing activities		(56 653)	(9 966)
NET (DECREASE)/INCREASE IN CASH		35 802	157 176
EFFECTS OF FOREIGN EXCHANGE FLUCTUATIONS			
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		211 922	54 746
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**247 724**	**211 922**

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 2022. The comparable period is 1 August 2020 to 31 July 2021.

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 2021 were approved by the decision of the sole shareholder on 3 March 2022.

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 2022 was 1 317, of which executive management: 8 (for the year ended 31 July 2021: 1 302, of which executive management: 8).

As at 31 July 2022, the actual headcount was 1 323 (31 July 2021: 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 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),

- **Amendments to IFRS 16 "Leases"** – Covid-19-Related Rent Concessions beyond 30 June 2021 adopted by the EU on 30 August 2021 (effective from 1 April 2021 for annual periods starting, at the latest, on or after 1 January 2021),

- **Amendments to IFRS 4 "Insurance Contracts"** – Extension of the Temporary Exemption from Applying IFRS 9 adopted by the EU on 16 December 2020 (expiry date for the temporary exemption from IFRS 9 was extended from 1 January 2021 to annual periods beginning on or after 1 January 2023).

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 IAS 16 "Property, Plant and Equipment"** – Proceeds before Intended Use adopted by the EU on 28 June 2021 (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 adopted by the EU on 28 June 2021 (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 adopted by the EU on 28 June 2021 (effective for annual periods beginning on or after 1 January 2022),

- **IFRS 17 "Insurance Contracts"** including amendments to IFRS 17 adopted by the EU on 19 November 2021 (effective for annual periods beginning on or after 1 January 2023),

- **Amendments to various standards due to "Annual Improvements to IFRS Standards (2018 – 2020 Cycle)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 9, IFRS 16 and IAS 41) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 28 June 2021 (The amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022. The amendments to IFRS 16 only relate to an illustrative example, so no effective date is stated.).

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 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 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 12 "Income Taxes"** – Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective for annual periods beginning on or after 1 January 2023),

- **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 other amendments (the effective date deferred indefinitely until the research project on the equity method has been concluded),

- **Amendments to IFRS 17 "Insurance Contracts"** – Initial Application of IFRS 17 and IFRS 9 – Comparative Information (effective for annual periods beginning on or after 1 January 2023).

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.

- **IFRS 14 "Regulatory Deferral Accounts"** issued by the IASB on 30 January 2014. This standard is intended to allow entities that are first-time adopters of IFRS, and that currently recognise regulatory deferral accounts is accordance with their previous GAAP, to continue to do so upon transition to IFRS.

- **IFRS 17 "Insurance Contracts"** issued by the IASB on 18 May 2017. The new standard requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 "Insurance Contracts" and related interpretations while it is applied. Amendments to IFRS 17 "Insurance Contracts" issued by the IASB on 25 June 2020 defer the date of initial application of IFRS 17 by two years to annual periods beginning on or after 1 January 2023. Additionally, the amendments introduce simplifications and clarifications of some requirements in the Standard and provide additional reliefs when applying IFRS 17 for the first time.

- **Amendments to IFRS 3 "Business Combinations"** – Reference to the Conceptual Framework with amendments to IFRS 3 issued by the IASB on 14 May 2020. The amendments: (a) update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework; (b) add to IFRS 3 a requirement that, for transactions and other events within the scope of IAS 37 or IFRIC 21, an acquirer applies IAS 37 or IFRIC 21 (instead of the Conceptual Framework) to identify the liabilities it has assumed in a business combination; and (c) add to IFRS 3 an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

- **Amendments to IFRS 4 "Insurance Contracts"** – Extension of the Temporary Exemption from Applying IFRS 9 issued by the IASB on 25 June 2020. The amendments change the fixed expiry date for the temporary exemption in IFRS 4 "Insurance Contracts" from applying IFRS 9 "Financial Instruments", so entities will be required to apply IFRS 9 for annual periods beginning on or after 1 January 2023.

- **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 issued by the IASB on 27 August 2020.

The changes relate to the modification of financial assets, financial liabilities and lease liabilities, specific hedge accounting requirements, and disclosure requirements applying IFRS 7 to accompany the amendments regarding modifications and hedge accounting:

a) **Modification of financial assets, financial liabilities and lease liabilities –** the IASB has introduced a practical expedient for modifications required by the reform (modifications required as a direct consequence of the IBOR reform and made on an economically equivalent basis). These modifications are accounted for by updating the effective interest rate. All other modifications are accounted for using current IFRS requirements. A similar practical expedient is proposed for lessee accounting applying IFRS 16.

b) **Hedge accounting requirements –** under the amendments, hedge accounting is not discontinued solely due to the IBOR reform. Hedging relationships (and related documentation) must be amended to reflect modifications to the hedged item, hedging instrument and hedged risk. Amended hedging relationships should meet all qualifying criteria to apply hedge accounting, including effectiveness requirements.

c) **Disclosures –** in order to allow users to understand the nature and extent of risks arising from the IBOR reform to which the entity is exposed to and how the entity manages these risks as well as the entity's progress in transitioning from IBORs to alternative benchmark rates, and how the entity is managing this transition, the amendments require that an entity disclose information about:
   - How the transition from interest rate benchmarks to alternative benchmark rates is managed, the progress made at the reporting date, and the risks arising from the transition;
   - Quantitative information on non-derivative financial assets, non-derivative financial liabilities and derivatives that continue to reference interest rate benchmarks subject to the reform, disaggregated by significant interest rate benchmark;
   - If the IBOR reform results in changes to an entity's risk management strategy, a description of these changes and how the entity is managing these risks.

d) The IASB also amended IFRS 4 to require insurers that apply the temporary exemption from IFRS 9 to apply the amendments when accounting for modifications directly required by the IBOR reform.

- **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 issued by the IASB on 11 September 2014. The amendments address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that, in a transaction involving an associate or joint venture, the extent of the gain or loss recognition depends on whether the assets sold or contributed constitute a business.

- **Amendments to IFRS 16 "Leases"** - Covid-19-Related Rent Concessions issued by the IASB on 28 May 2020. The amendments exempt lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the Covid-19 pandemic are lease modifications and allow lessees to account for such rent concessions as if they were not lease modifications. This applies to Covid-19-related rent concessions that reduce lease payments due on or before 30 June 2021.

- **Amendments to IFRS 16 "Leases"** - Covid-19-Related Rent Concessions beyond 30 June 2021 issued by the IASB on 31 March 2021. The amendments extend by one year the application period of the practical expedient in IFRS 16. The relief was extended by one year to cover rent concessions that only reduce lease payments due on or before 30 June 2022.

- **Amendments to IFRS 17 "Insurance Contracts"** - Initial Application of IFRS 17 and IFRS 9 – Comparative Information issued by the IASB on 9 December 2021. These are narrow-scope amendments to the transition requirements of IFRS 17 for entities that first apply IFRS 17 and IFRS 9 at the same time.

- **Amendments to IAS 1 "Presentation of Financial Statements"** - Classification of Liabilities as Current or Non-current issued by the IASB on 23 January 2020. The amendments provide a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. Amendments to IAS 1 issued by the IASB on 15 July 2020 defer the effective date by one year to annual periods beginning on or after 1 January 2023.

- **Amendments to IAS 1 "Presentation of Financial Statements"** – Disclosure of Accounting Policies issued by the IASB on 12 February 2021. The amendments require entities to disclose their material accounting policies rather than their significant accounting policies and provide guidance and examples to help preparers when deciding which accounting policies to disclose in their financial statements.

- **Amendments to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** – Definition of Accounting Estimates issued by the IASB on 12 February 2021. The amendments focus on accounting estimates and provide guidance on how to distinguish between accounting policies and accounting estimates.

- **Amendments to IAS 12 "Income Taxes"** – Deferred Tax related to Assets and Liabilities arising from a Single Transaction issued by the IASB on 6 May 2021. According to the amendments, the initial recognition exemption does not apply to transactions in which both deductible and taxable temporary differences arise on initial recognition that result in the recognition of equal deferred tax assets and liabilities.

- **Amendments to IAS 16 "Property, Plant and Equipment"** – Proceeds before Intended Use issued by the IASB on 14 May 2020. The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing these items, in profit or loss.

- **Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"** – Onerous Contracts – Cost of Fulfilling a Contract issued by the IASB on 14 May 2020. The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract are either the incremental costs of fulfilling that contract, or an allocation of other costs that relate directly to fulfilling contracts.

- **Amendments to various standards due to "Annual Improvements to IFRS Standards (2018 – 2020 Cycle)"** issued by the IASB on 14 May 2020. Amendments to various standards resulting from the annual improvement project of IFRS (IFRS 1, IFRS 9, IFRS 16 and IAS 41) primarily with a view to removing inconsistencies and clarifying wording. The amendments: (a) clarify that a subsidiary which applies paragraph D16(a) of IFRS 1 is permitted to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRSs (IFRS 1); (b) clarify which fees an entity includes when it applies the '10 per cent' test in paragraph B3.3.6 of IFRS 9 when assessing whether to derecognise a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf (IFRS 9); (c) remove from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve a potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in this example (Illustrative Example 13 accompanying IFRS 16); and (d) remove the requirement in paragraph 22 of IAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique (IAS 41).

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.

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 also affected the Slovak economy. Company management considers this event to be an event that requires disclosure in the notes to the 2022 financial statements. Despite the constantly-changing situation, as at the date of publication of these financial statements, there was no significant impact on the Company's operations according to Company management. Company management is continuously monitoring the situation and will take all steps necessary to eliminate the negative impacts of this situation on the Company.

In relation to the ongoing war in Ukraine and the sanctions against the Russian Federation, the Company has identified risks and adopted appropriate measures to mitigate impacts on its business activities. Based on the information available and current developments, the Company continuously analyses the situation and assesses its direct impact on the Company. Company management assessed the potential impacts of this situation on its operations and business and concluded they do not currently have a material impact on the financial statements for the year ended 31 July 2022, or on the going concern assumption in 2023. However, further negative developments as regards this situation cannot be ruled out, which could subsequently have a material negative impact on the Company, its business, financial condition, results, cash flows and overall outlook.

b) Information about Operating Segments

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

c) Research and Development

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

d) Property, Plant and Equipment and Intangible Assets

In the 2022 and 2021 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.

(EUR '000)

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

Type of assets	***31 July 2022***	***31 July 2021***
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 would amount to EUR 2 038 million as at 31 July 2022 (31 July 2021: EUR 2 081 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 2022, 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 25 926 thousand (for the period as at 31 July 2021: EUR 19 863 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 2021. 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. This financial year, it changed to 0.00363, ie to its original amount, which was valid until 31 December 2016. The levy is based on the profit/loss before tax recognised pursuant to International Accounting Standards, adjusted to the profit/loss recognised pursuant to the accounting procedures valid in the Slovak Republic, and further adjusted pursuant to the Act on a Special Levy. The special levy is recognised as part of income taxes.

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

t) Transactions in 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 53 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 2022. The Company recognised no significant financial assets and liabilities denominated in a foreign currency as at 31 July 2021.

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 2022; 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 2022, the Company recognised two loans received from banks with a face value of EUR 26.65 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.

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.

(EUR '000)

(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 2022 and 31 July 2021, based on contractual undiscounted payments:

As at 31 July 2022	*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	-	174	980	32 534	62 722	96 410
Obligations under finance leases	-	1 438	4 098	18 807	5 763	30 106
Trade and other payables	-	68 018				68 018

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

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 2022 was 12% (31 July 2021: 15%).

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

	31 July 2022	*31 July 2021*
Debt (i)	613 409	661 692
Cash and cash equivalents	247 724	211 922
Net debt	365 685	449 770
Equity (ii)	3 036 909	3 019 501
Net debt to equity ratio	**12%**	**15%**

(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 2022	*31 July 2021*
Financial assets		
Loans and receivables (including cash and cash equivalents)	679 608	618 152
Financial derivatives recognised as hedging	328	-
Financial liabilities		
Financial liabilities carried at amortised costs	681 427	738 122
Financial derivatives recognised as hedges	-	3 774

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 2022, 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 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)	-	-	-	-	-	-	(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)	-	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**
Year ended 31 July 2022								
Opening net book value	**70 903**	**3 622 332**	**60 879**	**506**	**1 799**	**73**	**25 387**	**3 781 879**
Additions	3	12 815	-	-	-	-	36 534	49 352
Placed into service	916	25 717	662	1 368	1 247	930	(30 831)	9
Reclassifications	6	-	-	-	(3)	-	-	3
Disposals	-	(123)	(2)	-	(3)	-	-	(128)
Depreciation charge	(4 326)	(148 670)	(5 491)	(146)	(665)	(100)	-	(159 398)
Change in provisions	(50)	-	(227)	-	-	-	-	(277)
Closing net book value	**67 452**	**3 512 071**	**55 821**	**1 728**	**2 375**	**903**	**31 090**	**3 671 440**
Balance as at 31 July 2022								
Cost	175 384	4 077 482	158 504	1 990	28 211	1 809	31 785	4 475 165
Accumulated depreciation and provisions	(107 932)	(565 411)	(102 683)	(262)	(25 836)	(906)	(695)	(803 725)
Net book value	**67 452**	**3 512 071**	**55 821**	**1 728**	**2 375**	**903**	**31 090**	**3 671 440**

(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.

In relation to the ongoing military conflict in Ukraine and the related sanctions against the Russian Federation, as at the preparation date of these financial statements the Company analysed the impacts of this situation on its business. In this respect, the Company evaluated scenarios regarding future gas distribution via its distribution network and the impacts of such scenarios on its future operations and economic results.

As at 31 July 2022, the Company assessed the value of assets using the discounted cash flow method. The Company took into consideration a possible short-term decline in consumption caused by price volatility on the natural gas market; however, the Company does not expect a significant decline in demand for natural gas in the Slovak Republic given the importance of this commodity in the Slovak energy mix and the necessity of using gas in the short and long term. When calculating perpetuity, the Company uses 5-year outlook plans. Flow volumes via the Company's distribution network are based on assumptions regarding the development of demand for natural gas and the resulting gas distribution requirements in the Slovak Republic.

The assessment of the value of assets is based on regulatory rules valid for the current calendar year. The Company does not expect fundamental changes to valid legislation as a result of the draft Decree of the Regulatory Office for Network Industries Stipulating Price Regulation in the Gas Industry.

The discount rate applied by the Company is comparable with the industry discount rate and takes into consideration a risk mark-up with regard to current uncertainties affecting the future development of the energy commodity market, and long-term inflation expectations. As a result, the discount rate is higher than the WACC stipulated by the Office for the following regulatory period.

Based on this assessment, as at 31 July 2022, no impairment of non-current tangible assets was identified by the Company under IAS 36.

For more information see Note 4.

Insurance of assets:

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

Insured object	***Type of insurance***	***Cost of insured assets***		***Name and seat of the insurance company***
		2022	***2021***	
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 2022, amounts to EUR 88 244 thousand (31 July 2021: EUR 84 619 thousand).

(EUR '000)

8. NON-CURRENT INTANGIBLE ASSETS

	Software	*Other non-current intangible assets*	*Assets in the course of construction*	*Total*
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**
Year ended 31 July 2022				
Initial net book value	501	10 073	354	10 928
Additions	-	-	125	125
Placed into service	367	5	(381)	(9)
Disposals	-	-	-	-
Amortisation	(314)	(317)	-	(631)
Change of provisions	-	-	-	-
Closing net book value	**554**	**9 761**	**98**	**10 413**
At 31 July 2022				
Cost	12 766	14 678	98	27 542
Provision and impairment loss	(12 212)	(4 917)	-	(17 129)
Net book value	**554**	**9 761**	**98**	**10 413**

(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 2022			
Cost	33 914	9 064	42 978
Accumulated depreciation and provisions for assets	(10 596)	(4 384)	(14 980)
Net book value	**23 318**	**4 680**	**27 998**

Obligation under long-term finance lease

	Present value of minimum lease payments	
Maturity	*31 July 2022*	*31 July 2021*
Less than 1 year	5 754	5 284
1 – 5 years	18 319	20 315
More than 5 years	5 266	1 517
Total	**29 339**	**27 116**

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 2022	*31 July 2021*	*31 July 2022*	*31 July 2021*
Obligation under finance lease	29 339	27 116	30 106	28 403
Total	**29 339**	**27 116**	**30 106**	**28 403**

10. INVESTMENTS IN SUBSIDIARIES AND OTHER ASSETS

At 31 July 2022	*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 2022 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*** 2022	2021	***Profit/loss*** 2022	2021
SPP – distribúcia Servis, s.r.o. Seat: Mlynské Nivy 44/b, Bratislava	1 045	1 333	(288)	233

Profit/(loss) represents an estimate for the 7-month period of 2022 as the final financial statements of the subsidiary were not available to SPP – distribúcia, a.s. (parent company) as at the reporting date. The 2021 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. The third tranche was provided on 2 November 2021 in the amount of EUR 172 000 thousand with a floating interest rate of 0.80% + 3M Euribor. The tranche falls due on 2 November 2028.

11. INVENTORIES

	31 July 2022	***31 July 2021***
Natural gas	128 716	127 853
Raw materials and other inventories	1 374	1 412
Provision	(94)	(88)
Total	**129 966**	**129 177**

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 2022, provisions were reversed in the amount of EUR 6 thousand (31 July 2021: EUR 12 thousand).

The Company created provisions for slow-moving inventories of raw materials amounting to EUR 12 thousand (31 July 2021: EUR 18 thousand).

12. RECEIVABLES AND PREPAYMENTS

	31 July 2022	***31 July 2021***
Prepayments and other receivables	9 541	7 324
Receivables from financial derivatives	328	-
Cash pooling receivables	135 952	289 525
Total	**145 821**	**296 849**

Receivables fall due as follows

	31 July 2022	***31 July 2021***
Within one year	145 821	296 849
From 1 year to 2 years	-	-
From 2 to 5 years	-	-
More than 5 years	-	-
Total receivables	**145 821**	**296 849**

As at 31 July 2022, the Company recorded receivables within maturity and overdue receivables amounting to EUR 147 046 thousand and EUR 793 thousand, respectively. In the comparable period, ie 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. As at 31 July 2022, receivables and prepayments are recognised net of provisions for bad and doubtful debts in the amount of EUR 2018 thousand (31 July 2021: EUR 701 thousand).

(EUR '000)

Movements in the provision for receivables were as follows:

	31 July 2022	*31 July 2021*
Opening value	(701)	(708)
Creation	(1 450)	(69)
Use	126	50
Reversal	7	26
Closing value	**(2018)**	**(701)**

Collateralisation of receivables

Several bank guarantees totalling EUR 37 826 thousand (31 July 2021: EUR 36 334 thousand) were established to secure the Company's receivables from natural gas distribution. In addition, financial funds in the amount of EUR 3 183 thousand (31 July 2021: EUR 9 731 thousand) were deposited in the Company's bank account.

Ageing structure of overdue receivables:

	31 July 2022	*31 July 2021*
Less than 2 months	112	58
2 to 3 months	17	62
3 to 6 months	47	5
6 to 9 months	18	12
9 to 12 months	4	10
More than 12 months	595	1 641
Total	**793**	**1 788**

13. CONTRACT RECEIVABLES AND LIABILITIES

Contract liabilities, non-current

	31 July 2022	*31 July 2021*
Opening balance, net	16 853	13 394
Assets acquired during the reporting period	12 818	3 811
Amortisation during the reporting period	(766)	(352)
Closing balance, net	**28 905**	**16 853**

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 2022	*31 July 2021*
Contract liabilities	31 920	33 034
Total	**31 920**	**33 034**

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 2022	*31 July 2021*
Contract receivables	15 847	12 397
Total	**15 847**	**12 397**

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 2023 (As amended by Amendment No. 1 signed on 14 December 2021 and effective for 2022-2023 from 1 January 2022), 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 2022, there were 1 323 (31 July 2021: 1 294) employees covered by this programme. As of that date, it was an un-funded programme, with no separately allocated assets to cover the programme's liabilities.

Movements in the net liability recognised in the balance sheet for the year ended 31 July 2022 are as follows:

	Long-term benefits	*Post-employment benefits*	*Total benefits at 31 July 2022*	*Total benefits at 31 July 2021*
Net liability at 1 August	1 048	4 715	5 763	5 838
Net expense recognised	(70)	230	160	203
Change in actuarial assumptions	-	(741)	(741)	(39)
Benefits paid	(61)	(209)	(270)	(239)
Net liabilities	**917**	**3 995**	**4 912**	**5 763**

	Current liabilities (included in other current liabilities)	*Non-current liabilities*	*Total*
At 31 July 2022	347	4 565	4 912
At 31 July 2021	465	5 298	5 763

Key assumptions used in actuarial valuation:

	At 31 July 2022	*At 31 July 2021*
Market yield on government bonds	1.744%	0.001%
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 2022 Unsecured	*31 July 2021 Unsecured*
Loans	86 679	136 657
Bonds	497 391	497 050
Total	**584 070**	**633 707**
Loans by currency		
EUR		
- with a fixed interest rate	497 391	497 050
- with a floating interest rate	86 679	136 657
Total loans	**584 070**	**633 707**
Loans are due as follows:		
Within one year	751	50 729
From 1 to 2 years	-	-
From 2 to 5 years	26 650	26 650
More than 5 years	556 669	556 328
Total loans	**584 070**	**633 707**

As at 31 July 2021, the Company drew a loan in the amount of EUR 76.65 million. The Company repaid EUR 50 million on 21 October 2021. As at 31 July 2022, the loan balance amounts to EUR 26.65 million with maturity 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 2022 was 0.057% (31 July 2021: 0.067%).

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 2022	*31 July 2021*	*31 July 2022*	*31 July 2021*
Loans	86 679	136 657	86 679	136 650
Bonds	497 391	497 050	500 000	500 000
Total	**584 070**	**633 707**	**586 679**	**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 26 650 thousand was outstanding as at 31 July 2022. 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 2022, the Company rating was BBB+ (Fitch) or Baa2 (Moody's), ie all conditions were met.

16. TRADE AND OTHER PAYABLES

	31 July 2022	*31 July 2021*
Trade payables	20 141	21 010
Trade payables for gas purchases	12 198	12 147
Employee liabilities	6 772	7 126
Social security and other taxes	3 558	3 666
Payables from financial derivatives	-	3 774
VAT and other taxes	6 231	4 768
Other payables	3 759	10 239
Total	**52 659**	**62 730**

As at 31 July 2022, the Company recorded payables within maturity in the amount of EUR 52 659 thousand. The Company records no overdue payables. In the comparable period, ie as at 31 July 2021, the Company recorded payables within maturity in the amount of EUR 62 730 thousand. No overdue payables were recorded.

Social fund payables:

	Amount
Opening balance as at 1 August 2021	320
Total creation:	445
from expenses	*445*
non-mandatory allotment	-
other	-
Total drawing:	(356)
monetary rewards and gifts	*(34)*
benefit in material deprivation	-
work jubilee benefits	*(61)*
catering allowance	*(145)*
other drawing as per CA	*(116)*
Closing balance as at 31 July 2022	**409**

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 2021: 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 2021: 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 2021***	***Profit allotment for 2020***
To cover losses from previous years	-	-
Dividends	121 592	115 280
Total profit to be distributed	**121 592**	**115 280**

19. STAFF COSTS

	Year ended 31 July 2022	***Year ended 31 July 2021***
Wages, salaries and bonuses	34 634	34 740
Social security costs	11 945	12 262
Other social security costs and severance pay	3 026	2 768
Total staff costs	**49 605**	**49 770**

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 7 931 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 2022	***Year ended 31 July 2021***
Audit of financial statements	74	58
Tax advisory services	-	-
Other	9	10
Total	**83**	**68**

(EUR '000)

21. OTHER REVENUES AND EXPENSES

	Year ended 31 July 2022	*Year ended 31 July 2021*
Revenues from unauthorised natural gas consumption	1 720	1 805
Other taxes and charges	(311)	(291)
Donated assets	766	352
Profit/(loss) from the sale of raw materials	86	34
Profit/(loss) from the sale of assets	6	137
Other	258	259
Total	**2 525**	**2 296**

22. FINANCIAL EXPENSE

	Year ended 31 July 2022	*Year ended 31 July 2021*
Interest expense	7 234	15 728
Other	674	271
Total financial expense/(income)	**7 908**	**15 999**

Interest expense mainly includes expenses for the coupon of a bond issued by the Company in 2021 (Note 15). The decrease in interest expense is due to a lower interest rate on a new issued bond.

23. TAXATION

23.1. Income Tax

Income tax comprises the following:

	Year ended 31 July 2022	*Year ended 31 July 2021*
Current tax related to the current year	57 347	52 321
Refunds and additional assessments of income tax	-	-
Special levy	10 926	15 225
Deferred special levy (Note 23. 2)	(2 608)	(3 249)
Deferred income tax (Note 23.2)		
– Current year	(18 728)	(21 972)
Total	**46 937**	**42 325**

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 2022	*Year ended 31 July 2021*
Profit before taxation	182 246	163 917
Income tax at 21%	38 272	34 423
Effect of adjustments from permanent differences between carrying amount and tax value of assets and liabilities	347	(4 074)
Refunds and additional assessments of income tax		
Special levy on business in regulated industries	8 318	11 976
Income tax for the current year	**46 937**	**42 325**

The reported tax rate differs from the standard tax rate stipulated by law in the amount of 21% (2021: 21%) mainly due to adjustments of the current tax base for items increasing and decreasing the tax base pursuant to the valid tax legislation.

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

(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 2021	*(Charge)/Credit to other comprehensive income/loss*	*(Charge)/Credit to profit for the current period*	*At 31 July 2022*
Difference in NBV of non-current assets	(325 275)	-	4 640	(320 635)
Remeasurement of non-current assets	(368 621)	-	13 841	(354 780)
Items adjusting tax base only when paid	287	-	(34)	253
Provisions for receivables	44	-	267	311
Impairment loss	317	-	62	379
Provision for bonuses	1 153	-	(68)	1 085
Provision for employee benefits	1 226	-	(23)	1 203
Hedging derivative instruments	793	(861)	-	(68)
Change in actuarial assumptions	2	(172)	(2)	(172)
Effect of deferred tax on special levy	(72 741)	-	2 608	(70 133)
Other	7	-	44	51
Total	**(762 808)**	**(1 033)**	**21 335**	**(742 506)**

	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)	7
Total	**(787 675)**	**(354)**	**25 222**	**(762 808)**

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 2022	*31 July 2021*
Deferred tax liability	(672 373)	(690 068)
Deferred special levy	(70 133)	(72 740)
Total	**(742 506)**	**(762 808)**

(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 2022	***Before tax***	***Tax***	***After tax***
Change in actuarial assumptions	741	(172)	569
Cash flow hedging	4 101	(861)	3 240
Other	(118)	-	(118)
Other comprehensive loss for the period	**4 724**	**(1 033)**	**3 691**

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**

25. CASH FLOWS FROM OPERATING ACTIVITIES

	Year ended 31 July 2022	***Year ended 31 July 2021***
Profit before tax	182 246	163 917
Adjustments:		
Depreciation, amortisation and impairment losses on assets, net	165 276	167 139
Interest income, net	5 611	14 055
Reserves, provisions and other non-cash items	1 033	328
Loss/(profit) from the sale of non-current assets	(6)	(137)
(Increase)/decrease in receivables and prepayments	(6 578)	(2 032)
(Increase)/decrease in inventories	(826)	5 366
(Increase)/decrease in trade payables and other payables	(22 777)	(817)
Other items not included in non-cash transactions	13	16
Cash flows from operating activities	**323 992**	**347 835**

26. COMMITMENTS AND CONTINGENCIES

Capital Expenditure Commitments

As at 31 July 2022, capital expenditures of EUR 9 055 thousand (31 July 2021: EUR 2 601 thousand) had been committed under contractual arrangements for the acquisition of non-current assets, but were not recognised in the financial statements.

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 2022, the Regulatory Board issued the Regulation Policy for 2023 - 2027 which, inter alia, defines the objectives and priorities of regulation in the gas industry for the upcoming regulation period.

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 2022				*31 July 2022*	
	Revenues	*Expenses*	*Dividends*	*Other*	*Receivables*	*Payables*
SPP, a.s.	287 357	11 087	-	-	7 870	32 637
SPP Infrastructure, a.s.	2 115	2	(121 592)	-	405 884	-
Other related parties	23 452	36 387	233	26 675	2 189	12 643
Total	**312 924**	**47 476**	**(121 359)**	**26 675**	**415 943**	**45 280**

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 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**

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 2022	***Year ended 31 July 2021***
Remuneration to members of the Board of Directors, Supervisory Board, executive management and former members of the bodies - total	1 874	1 846
Of which:		
Board of Directors and executive management	*1 747*	*1 727*
Supervisory Board	*127*	*119*
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	85	83
Of which:		
Board of Directors and executive management	*85*	*83*
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
	Member	Ing. František Urbaník, PhD.
	Member	Mgr. Ing. Marek Štrpka
	Member	Ing. Pavol Mertus
Supervisory Board	Chairman	Ing. Martin Barto, CSc.
	Vice-Chairman	Gary Mazzotti B.A.(Hons) A.C.A.
	Member	Pavol Korienek
	Member	Milan Boris
	Member	Ing. Juraj Blusk
	Member	Ing. Branislav Bosák
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
	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.

(EUR '000)

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 2022. Consolidated financial statements presented in accordance with the International Financial Reporting Standards will be prepared by SPP Infrastructure, a.s. with its seat at Plátennícka 2, 821 09 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 2021 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

After 31 July 2022, there were no significant events that would require adjustments to or disclosure in the financial statements.

Prepared on:	***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:***
7 September 2022			
Approved on:	Ing. František Čupr, MBA Chairman of the Board of Directors	Ing. Roman Filipoiu	Ing. Peter Duračka
	Ing. Pavol Mertus Member of the Board of Directors		