

ANNUAL REPORT

for the period

1.8.2021 – 31.7.2022

H2
PILOT
Bezpečne. Ekologickejšie.



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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 has become 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.



Thanks to the professionalism and commitment of our employees, today SPP - distribúcia is perceived as a stable “beacon on the stormy sea” of energy.



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



Ing. Pavol Mertus
Member of the Board
of Directors



Ing. Martin Hollý
General Director

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.

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.



33 400

km of a gas distribution network



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 CO₂ 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



JUDr. Lubomír Schweighofer
Vice-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.

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



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



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

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.

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 Holý
General Director

Martin Holý 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



Ing. Miroslav Horváth
Head of the Maintenance
and Metering Division



Ing. Marek Paál
Head of the Distribution
Services 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.

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.

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

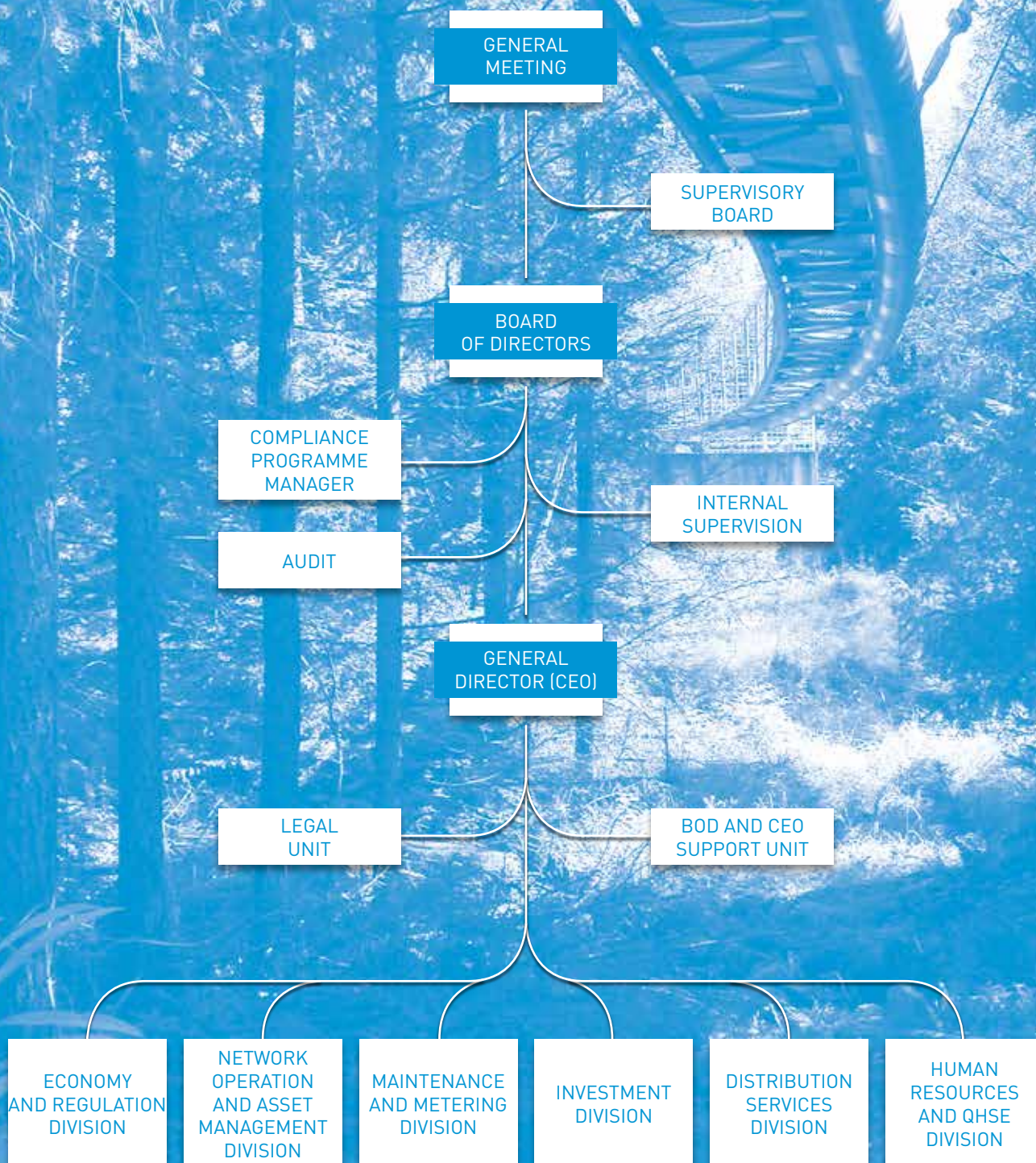
He graduated from the Faculty of Chemical Technology of the Slovak University of Technology in Bratislava. Since 1995 he has been active in the financial sector. He first worked as a macroeconomic analyst at ING Bank and from 1999 to 2004 he was a member of senior management of Slovenská sporiteľňa, 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
Ing. Branislav Bosák
Milan Boris
Ing. Juraj Blusk

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.

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 (SOTI).

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.

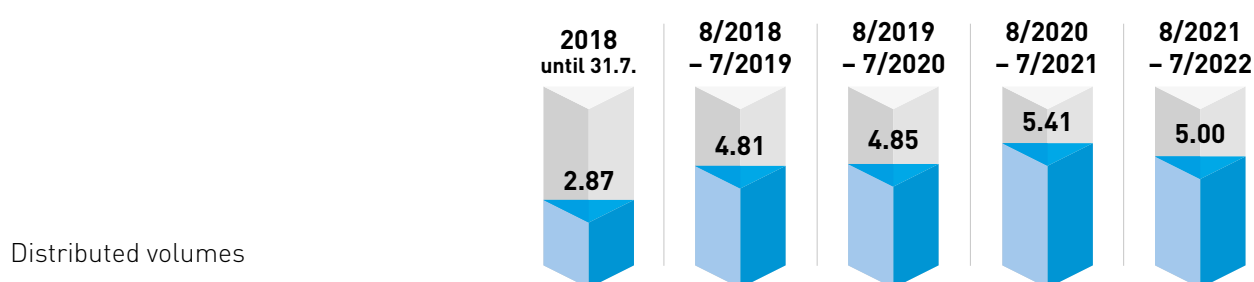
In order to improve the safety of the facilities operated, we carried out dozens of blanket checks aimed at detecting and documenting unauthorized consumption. To this end, more than 60 000 delivery points were inspected in the past year, with hundreds of cases of demonstrable interference with metering 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

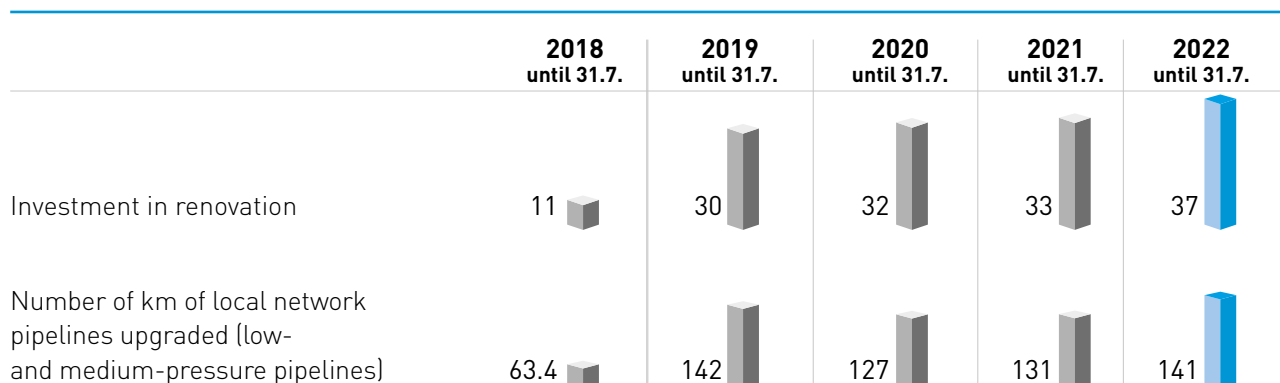
In Slovakia, gas is delivered to 77 % of municipalities, where currently 94 % of the population live. In view of the level of coverage achieved in municipalities, further development of the distribution network is no longer required, but due to the significant development of the construction of residential 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.

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.

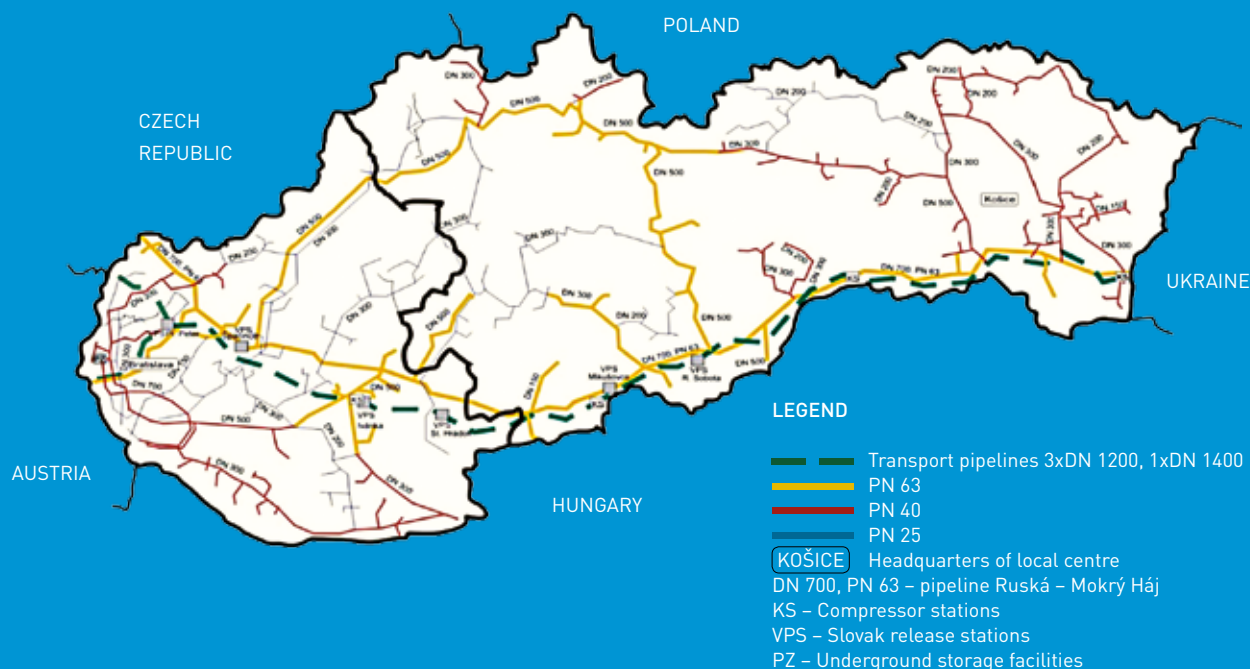
Distribution of natural gas via the SPP-D distribution network in 2018 – 31.7.2022 (billion m³/15 °C)



Investment in the renovation / reconstruction of the network in 2017– 31/07/2022 (in mil. EUR)



MAP OF THE SPP – DISTRIBÚCIA DISTRIBUTION NETWORK



Length of distribution network in 2017 – 31.7.2022 (in km)

| | 2017 | 2018 until 31.7. | 2019 until 31.7. | 2020 until 31.7. | 2021 until 31.7. | 2022 until 31.7. |
|--|---------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| 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 until 31.7. | 2019 until 31.7. | 2020 until 31.7. | 2021 until 31.7. | 2022 until 31.7. |
|--------------|--------|---------------------|---------------------|---------------------|---------------------|---------------------|
| 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 |

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.

**H2
PILOT**
Bezpečne. Ekologickejšie.





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 odourisation 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.

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.



8 634

new delivery points



83 %

applications submitted online

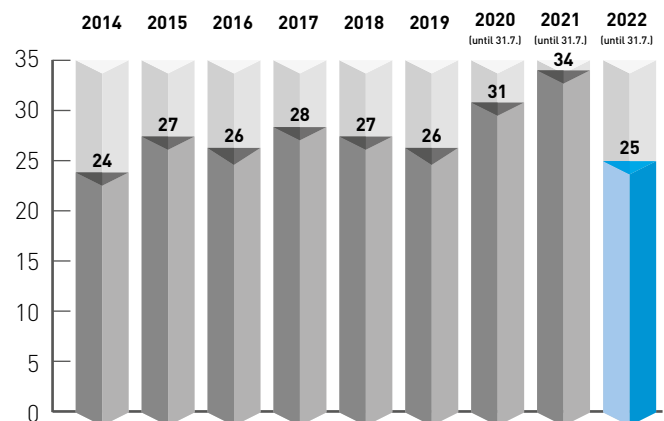




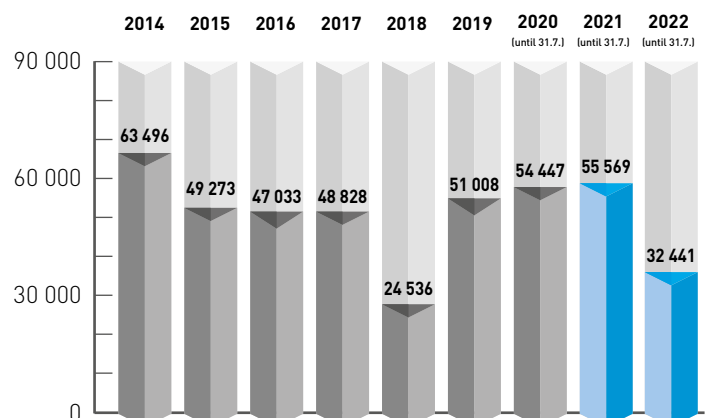
LEGISLATION AND REGULATION

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



Number of vendor changes



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.

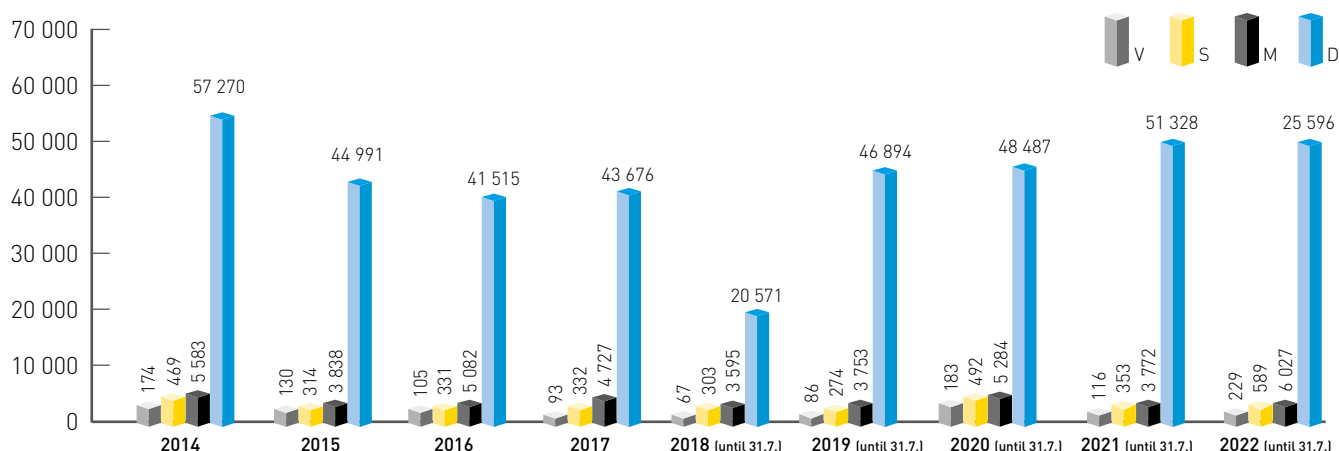
Connection process – main steps of the process on the SPP – distribúcia side:

- 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 m³. 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.

Number of vendor changes by category



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.

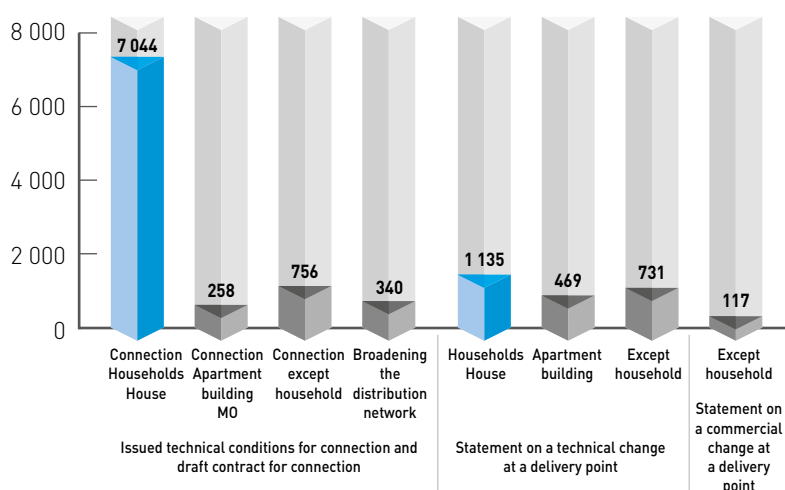
The second is the online Business Change Application form. This form will be particularly appreciated by existing non-household gas customers who are planning to significantly change their annual distributed gas quantity and/or hourly gas consumption and who have not made a technical change at the same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

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



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.

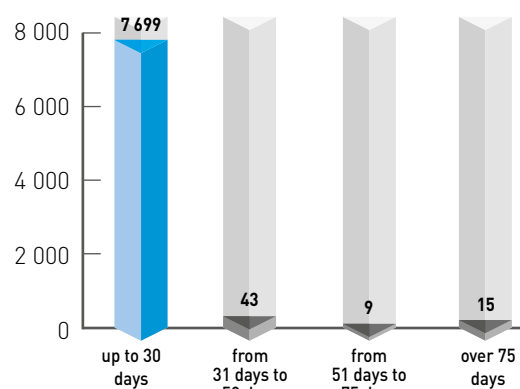
We continued to send e-mail notifications to customers, drawing attention to the approaching expiry of the most important deadlines in the process of connection, which include:

- 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.

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



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.



89 MWh
biomethane per day





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 m³ 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.

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 CO₂ emissions of solid fuels such as coal or wood.



85,4 %

of respondents recommend natural gas for heating and water-warming in their property to their friends



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.

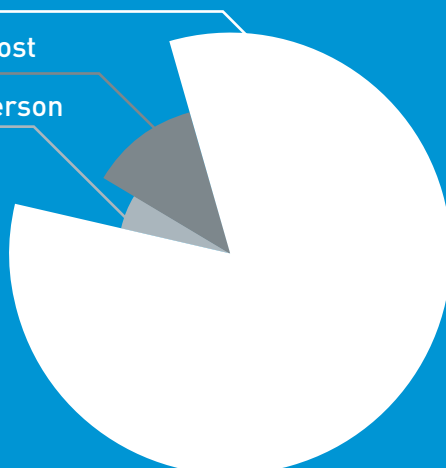
The operator of the natural gas distribution network, SPP - distribúcia, a. s., continuously increases the level of customer service mainly through the digitalization and expansion of the range of internet applications for its customers. In line with its long-term strategy in the field of distribution 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.

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

11 140 83,0 % Online

1 588 11,8 % By post

690 5,1 % In person

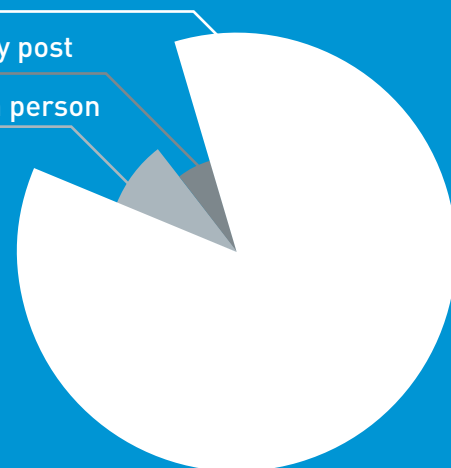


Applications for installation of meters for 1.8.2021 - 31.7.2022

13 816 85,5 % Online

1 023 6,3 % By post

1 325 8,2 % In person



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.



1 323

Number of employees





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.



10 950.68

kilometers driven as part
of the "To work by bike" campaign.

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.



50 %

CO₂ emissions of solid fuels such as coal or wood





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 CO₂ 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

Thermal equipment

Efficiency

Amount of fuel

Natural gas

Condensing boiler

97 %

440 m³

Heat pump - air/water

Heat pump - air/water

300 %

1 519 kWh

Wood pellets

Conventional boiler

90 %

1 013 kg

Operating costs (OPEX)

TOTAL

Natural gas

351 €/year

Heat pump - air/water

394 €/year

Wood pellets

402 €/year

Investment costs (CAPEX)

TOTAL

Natural gas

4 070 €

Heat pump - air/water

7 254 €

Wood pellets

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.

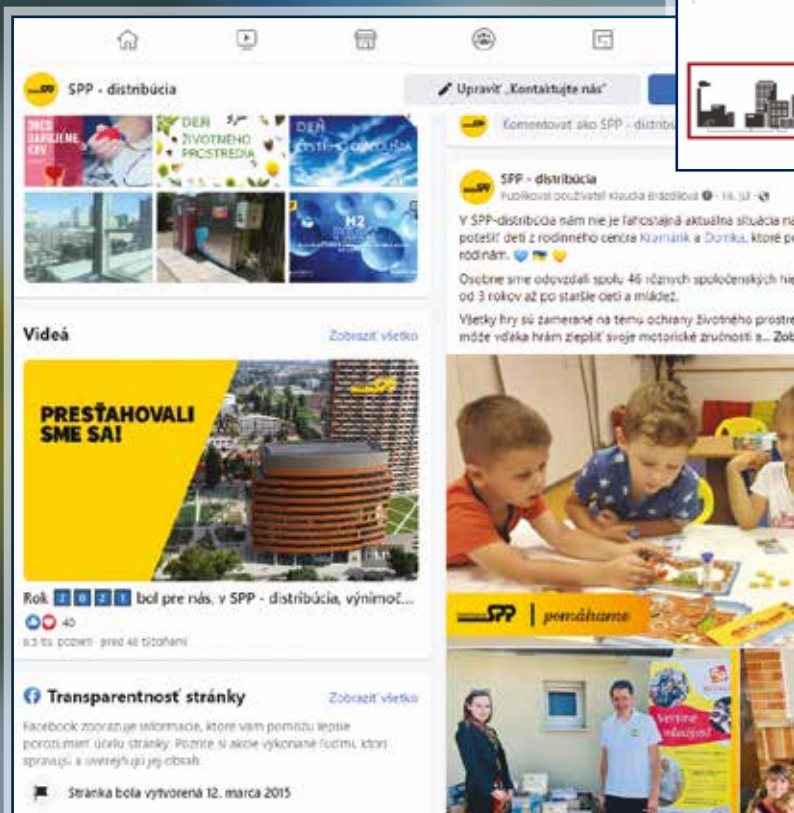


80 %

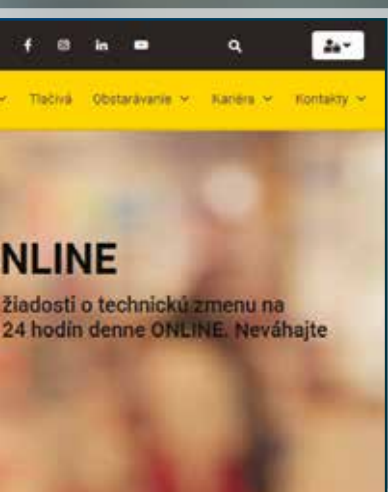
communication takes place online



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



<https://www.facebook.com/SPPdistribucia>



<https://www.oplyne.info/>



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)

| ASSETS | Year ended 31 July 2022 | Year ended 31 July 2021 |
|--|----------------------------|----------------------------|
| 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)

| | 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.
- h. pripravuje ročný rozpočet a obchodný plán spoločnosti.



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. 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) (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.

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 | |
| <p>The Company recognises revenues from natural gas distribution based on regulated prices and the quantity of distributed gas to end customers. A portion of revenues from natural gas distribution to retail customers and households is recognised based on estimates, as the volume of natural gas distributed to such customers is determined by a meter reading of the consumed gas after the end of the reporting period.</p> <p>Revenue estimates are software-based using input data from management and an external data provider. Revenue estimate calculations require Company management to apply a significant degree of judgment, especially as regards the following assumptions:</p> <ol style="list-style-type: none"> Estimated quantity of distributed natural gas depending on measured temperatures in individual off-take categories; Own consumption estimate; Changes in natural gas accumulation in the distribution network. | <p>Our audit procedures included, inter alia:</p> <ul style="list-style-type: none"> An assessment of the appropriateness and reliability of the procedure and method used by management to determine the estimates; Testing the accuracy of a sample of data based on which the estimate is made, including the reconciliation of input parameters to internal and external underlying documentation; Testing whether the assumptions used are appropriate given the measurement objective in compliance with accounting standards; An assessment of the effectiveness of the design and operation of the controls over the estimate determination by management and controls over implementation; An assessment of changes to the relevant information system, assessment of IFRS requirements to recognise the accounting estimate in the financial statements. |

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Assessment of Impairment of or Significant Changes in Fair Value

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.

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.

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.

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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

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

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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.:

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