

**SPP Infrastructure, a. s.**

**INDEPENDENT AUDITOR'S REPORT  
ON THE AUDIT OF THE CONSOLIDATED  
FINANCIAL STATEMENTS PREPARED IN  
ACCORDANCE WITH INTERNATIONAL  
FINANCIAL REPORTING STANDARDS AS  
ADOPTED IN THE EUROPEAN UNION  
AS AT 30 SEPTEMBER 2018**

**AND**

**REPORT ON OTHER LEGAL AND  
REGULATORY REQUIREMENTS**

**Consolidated Annual Report for the  
Reporting Period  
as at 30 September 2018**

**SPP Infrastructure, a. s.**

## 1. Company Profile

SPP Infrastructure, a. s. (hereinafter the "Company") was established by a Deed of Incorporation on the establishment of a private joint-stock company without a call for the subscription of shares on 22 May 2013 by the founder, Slovenský plynárenský priemysel, a.s. The Company was registered in the Business Register on 3 July 2013 (the Business Register of the Bratislava I District Court in Bratislava, Section: s.r.o., File No. 5791/B).

The Company was established as a 100% subsidiary of Slovenský plynárenský priemysel, a.s. (SPP) to reorganise the SPP Group pursuant to the Agreement on the Reorganisation of the SPP Group concluded between the National Property Fund of the Slovak Republic (NPF SR), the Ministry of Economy of the Slovak Republic (ME SR) and Energetický a průmyslový holding, a.s. (EPH) on 14 December 2012.

As part of the reorganisation process of the SPP Group, SPP contributed its shares and ownership interests to the Company in the following subsidiaries on 14 May 2014 in the form of an in-kind contribution:

- SPP – distribúcia, a.s.;
- eustream, a.s.;
- NAFTA a.s.;
- SPP Infrastructure Financing B.V.;
- SPP Bohemia a.s.;
- SPP Storage, a.s.;
- POZAGAS a.s.;
- GEOTERM KOŠICE, a.s.;
- PROBUGAS a.s.;
- SLOVGEOTERM a.s.;
- GALANTATERM spol. s r.o.

On 4 June 2014, the reorganisation of the SPP Group was completed by SPP purchasing 49% of its own (SPP) shares from the shareholder, Slovak Gas Holding B.V. (SGH), and selling 49% of shares in the Company to SGH. After the completion of the transaction, the Slovak Republic, via the NPF SR and ME SR, became the sole (controlling) shareholder of SPP, which is the energy (gas and electricity) trader and a 51% non-controlling shareholder of the Company, which is a holding company and manages all significant group subsidiaries. SGH, a Dutch company owned by EPH, became the Company's shareholder with a 49% controlling ownership interest.

In March 2017, the Company acquired a 100% ownership interest in Plynárenská metrológia, s.r.o. from a subsidiary, SPP – distribúcia, a.s., for EUR 345 thousand. In December 2017, NAFTA, a.s. increased its existing ownership interest (35%) in POZAGAS a.s. to a 65% interest. POZAGAS a.s. is controlled by SPP Infrastructure, a. s.; therefore, SPP Infrastructure, a. s. reports its ownership interest in POZAGAS a.s. as an investment in subsidiary from 1 January 2018.

The following companies were members of the SPP Infrastructure, a. s. Group as at 30 September 2018:

Company	Ownership Interest of SPP Infrastructure, a. s. in the Company
SPP – distribúcia, a.s.	100.00%
eustream, a.s.	100.00%
NAFTA a.s.	56.15%
SPP Infrastructure Financing B.V.	100.00%
SPP Storage, a.s.	100.00%
POZAGAS a.s.	35.00%
GEOTERM KOŠICE, a.s.	95.82%
SLOVGEOTERM a.s.	50.00%
GALANTATERM spol. s r.o.	17.50%
Plynárenská metrológia, s.r.o.	100.00%

The Company has no organisational units abroad.

### 1.1. Core Business Activities of the Company

During the reporting period ended 30 September 2018, the Company's activities were (a) receiving and granting loans within the current structure of the Company's group, and (b) receiving dividends from subsidiaries (since the in-kind contribution date).

## 1.2. Company's Bodies as at 30 September 2018

### Statutory Body: Board of Directors

Chairman: JUDr. Daniel Křetínský  
Vice-Chairman: JUDr. Alexander Sako  
Members: JUDr. Marián Valko  
Ing. Miroslav Haško  
Ing. Jan Špringl (until 28 March 2018)  
Mgr. Jan Střiteský (since 29 March 2018)

### Supervisory Board

Chairman: JUDr. Radovan Stretavský  
Vice-Chairman: Mgr. Pavel Horský  
Members: RNDr. Peter Kršjak (until 28 September 2018)  
Ing. Libor Briška (until 28 September 2018)  
Mgr. Ladislav Nagy (since 29 September 2018)  
Ing. Peter Novák (since 29 September 2018)  
Ing. Tomáš Richter  
Jiří Zrůst

An Audit Committee was established at the Company with effect from 20 December 2016 in accordance with Act No. 423/2015 Coll. on Statutory Audit. The members of the Audit Committee as at 30 September 2018 are as follows:

Chairman: Ing. Jakub Šteinfeld  
Members: Ing. Libor Briška  
Mgr. Pavel Horský (until 21 December 2017)  
Ing. Filip Bělák (since 22 December 2017)

## 1.3. Shareholder Structure of the Reporting Entity

Shareholder	Share in Registered Capital	
	Absolute in EUR	%
Slovenský plynárenský priemysel, a.s.	1 868 317 262	51%
Slovak Gas Holding, B.V.	1 795 049 674	49%
<b>Total</b>	<b>3 663 366 936</b>	<b>100%</b>

## 2. R&D

The Company does not carry out R&D activities. These activities are carried out by subsidiaries.

## 3. Risks and Uncertainties

The Company monitors, evaluates and manages primarily regulation, market, financial, operational, environmental, personnel and media risks and their impact on the financial statements. Thanks to the adopted measures, it constantly reduces the negative impacts of risks to the Company's operations.

Companies of the SPP Infrastructure, a. s. Group create environmental provisions for the dismantling and restoration of production, storage wells and centres and restoring such sites to their original condition based on the previous experience and estimated costs.

## 4. Selected Financial Information

The Company's reporting period was the period from 1 October 2017 to 30 September 2018. In the preceding reporting period, on 6 September 2017, the Board of Directors of SPP Infrastructure, a. s. decided to shorten the Company's reporting period beginning on 1 July 2017 and ending on 30 September 2017. The next reporting period, which was also a financial year, was the period beginning on 1 October 2017 and ending on 30 September 2018.

**4.1. Selected Financial Indicators of SPP Infrastructure, a. s. – Consolidated IFRS (in EUR mil.)**

Item	Current Reporting Period	Immediately-Preceding Reporting Period
<b>Assets</b>	<b>6 008</b>	<b>5 963</b>
<u>Non-current assets:</u>	<u>4 790</u>	<u>4 993</u>
Property, plant and equipment	4 730	4 825
Investments recognised using the equity method	0	51
Loan receivable	1	95
Other non-current assets	59	22
<u>Current assets</u>	<u>1 218</u>	<u>970</u>
Inventories	165	184
Tax assets	13	
Receivables and prepayments	226	98
Other current assets	490	484
Cash and cash equivalents	324	204

Item	Current Reporting Period	Immediately-Preceding Reporting Period
<b>EQUITY AND LIABILITIES</b>	<b>6 008</b>	<b>5 963</b>
<u>Equity:</u>	<u>2 594</u>	<u>2 508</u>
Registered capital	3 663	3 663
Legal and other funds	658	739
Retained earnings and other paid-in capital	(1 816)	(1 977)
Minority interests	89	83
<u>Non-current liabilities</u>	<u>2 948</u>	<u>3 043</u>
Deferred income	77	22
Provisions	110	111
Long-term loans	1 951	2 124
Retirement and other long-term employee benefits	12	11
Deferred tax liability	730	749
Other non-current liabilities	68	26
<u>Current liabilities</u>	<u>466</u>	<u>412</u>
Trade and other payables	257	300
Current portion of long-term loans	193	61
Current income tax	0	40
Provisions	13	4
Other current liabilities	3	7

**Income Statement – Consolidated IFRS (in EUR mil.)**

Item	Current Reporting Period	Immediately-Preceding Reporting Period
<b>Revenues from the sale of products and services:</b>	<b>1 331</b>	<b>320</b>
Operating expenses	(393)	(100)
<b>Operating profit/(loss)</b>	<b>938</b>	<b>220</b>
Profit/(loss) from financial investments	(14)	0
Financing costs (net)	(64)	(15)
<b>Profit/(loss) before tax</b>	<b>860</b>	<b>205</b>
Income tax	(235)	(60)
<b>Net profit/(loss) for the period</b>	<b>625</b>	<b>145</b>
Net profit attributable to:		
Shareholders of SPP Infrastructure, a. s.	594	138
Non-controlling interests of other owners of subsidiaries	31	7

**Statement of Comprehensive Income – Consolidated IFRS (in EUR mil.)**

Item	Current Reporting Period	Immediately-Preceding Reporting Period
<b>Net profit/(loss) for the period:</b>	<b>625</b>	<b>145</b>
<u>Other comprehensive income for the period</u>	<u>(84)</u>	<u>(5)</u>
Items reclassifiable to profit or loss:		
Hedging derivatives (cash flow hedging)	(107)	(11)
Change in the foreign currency translation reserve	1	3
Deferred tax attributable to items of other comprehensive income	22	3
<b>Net comprehensive income/(loss) for the period</b>	<b>541</b>	<b>140</b>
Net comprehensive income attributable to:		
Shareholders of SPP Infrastructure, a. s.	513	133
Non-controlling interests of other owners of subsidiaries	28	7

**5. Proposal for the Profit Distribution**

The profit for the year ended 30 September 2018 amounting to EUR 1 004 687 127.50 was approved by the Company's General Meeting on 14 December 2018 and used to pay dividends to the shareholders in the amount of EUR 878 908 200.23; the amount of EUR 125 778 927.27 was transferred to retained earnings.

**6. Significant Events That Occurred After the Reporting Date**

In September 2018, SPP - distribúcia, a.s. signed a loan agreement with the European Investment Bank with a credit facility of EUR 60 million.

As at 30 September 2018, NAFTA a.s. drew a bank loan amounting to EUR 175 000 thousand from a credit facility totalling EUR 250 000 thousand. The credit facility consists of a fixed portion of EUR 175 000 thousand and a variable portion (a revolving loan), which is drawn on a short-term basis according to the Company's needs and their final maturity is in June 2019. In January 2019, NAFTA a.s. signed a new bank loan agreement to refinance the original loan. The final maturity is in 2024.

As at 31 December 2018, NAFTA a.s., via its subsidiary NAFTA Bavaria GmbH, acquired underground natural gas storage facilities in Bavaria in Germany from DEA Deutsche Erdoel AG and Storengy Deutschland GmbH. This transaction made NAFTA a.s. the 100% owner of Inzenham - West, Wolfersberg and Breitbrunn/Eggstätt underground storage facilities, with a total storage capacity of 1.8 billion m<sup>3</sup>.

After the reporting date, there were no events other than those stated above that would have a significant impact on the fair presentation of the matters disclosed in these financial statements.

## **7. Expected Future Development of the Company's Activities**

The Company will continue to receive dividends from its subsidiaries, provide loans/deposits to the Company's shareholders, optimise its portfolio of financial investments and analyse potential energy sector investments, which would meet the internal ROI criteria.

The Company's full-time equivalent for the year ended 30 September 2018 was 4, of which 1 was an executive manager (30 September 2017: 4 employees, of which 1 executive manager).

The Company's activities have no environmental impact.

## **8. Contact Details**

SPP Infrastructure, a. s.  
Mlynské nivy 44/a  
825 11 Bratislava

## SPP Infrastructure, a. s.

### INDEPENDENT AUDITOR'S REPORT

To the Shareholders, Supervisory Board and Board of Directors of SPP Infrastructure, a. s.:

#### REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

##### Opinion

We have audited the consolidated financial statements of SPP Infrastructure, a. s. and its subsidiaries (hereinafter the "Group"), which comprise the consolidated statement of financial position as at 30 September 2018, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended, and notes containing a summary of significant accounting policies and accounting methods.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 30 September 2018, and of its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by 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 Consolidated Financial Statements* section of our report. We are independent of the Group 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 consolidated 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.

##### Statutory Body's Responsibilities for the Consolidated Financial Statements

The statutory body is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as the statutory body determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the statutory body is responsible for assessing the Group'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 the statutory body either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

##### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 such 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 consolidated financial statements.

This is an English language translation of the original Slovak language document.

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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 consolidated 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 Group's internal control.
- Evaluate the appropriateness of accounting policies and accounting methods used and the reasonableness of accounting estimates and related disclosures made by the statutory body.
- Conclude on the appropriateness of the statutory body'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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and adequate audit evidence regarding the financial information of the reporting entities or their business activities within the Group to be able to express an opinion on the consolidated financial statements. We are responsible for the management, control and performance of the Group's audit. We remain solely responsible for our auditor's opinion.

## **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 consolidated financial statements stated above does not apply to other information in the annual report.

In connection with the audit of consolidated 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 consolidated financial statements or our knowledge obtained in the audit of the consolidated financial statements, or otherwise appears to be materially misstated.

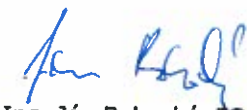
We evaluated whether the Company's annual report includes information whose disclosure is required by the Act on Accounting.

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

- Information disclosed in the annual report prepared for the year ended 30 September 2018 is consistent with the consolidated financial statements for the relevant year; and
- The annual report includes information pursuant to the Act on Accounting.

Furthermore, based on our understanding of the Group and its position, obtained in the audit of the consolidated 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.

Bratislava, 22 February 2019



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

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

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**SPP Infrastructure, a. s.**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**as at 30 September 2018 and 30 September 2017**  
**(in million EUR)**

	<i>Note</i>	<b>30 September 2018</b>	<b>30 September 2017</b>
<b>ASSETS:</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	10	4 730	4 825
Investments recognised using the equity method	6	-	51
Loan receivable	7	1	95
Other non-current assets	9	59	22
<b>Total non-current assets</b>		<b>4 790</b>	<b>4 993</b>
<b>CURRENT ASSETS</b>			
Inventories	11	165	184
Receivables and prepayments	12	226	98
Current income tax		13	-
Other current assets	8	490	484
Cash and cash equivalents	13	324	204
<b>Total current assets</b>		<b>1 218</b>	<b>970</b>
<b>TOTAL ASSETS</b>		<b>6 008</b>	<b>5 963</b>
<b>EQUITY AND LIABILITIES:</b>			
<b>CAPITAL AND RESERVES</b>			
Registered capital		3 663	3 663
Legal and other reserves		658	739
Retained earnings and other paid-in capital		(1 816)	(1 977)
Share in equity attributable to SPP Infrastructure's shareholders		2 505	2 425
Non-controlling interests		89	83
<b>Total equity</b>	19	<b>2 594</b>	<b>2 508</b>
<b>NON-CURRENT LIABILITIES</b>			
Non-current interest-bearing borrowings	17	1 951	2 124
Deferred tax liability	25.2	730	749
Provisions for liabilities	16	110	111
Deferred income	14	77	22
Retirement and other long-term employee benefits	15	12	11
Other non-current liabilities		68	26
<b>Total non-current liabilities</b>		<b>2 948</b>	<b>3 043</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	18	257	300
Current interest-bearing borrowings	17	193	61
Current income tax		-	40
Provisions for liabilities	15,16	13	4
Other current liabilities		3	7
<b>Total current liabilities</b>		<b>466</b>	<b>412</b>
<b>Total liabilities</b>		<b>3 414</b>	<b>3 455</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>6 008</b>	<b>5 963</b>

The financial statements on pages 4 to 49 were signed on 22 February 2019 on behalf of the Board of Directors:

  
JUDr. Alexander Sako  
Vice – chairman  
of the Board of Directors

  
JUDr. Marian Valko  
Member  
of the Board of Directors

  
Ing. Miroslav Haško  
Member  
of the Board of Directors

**SPP Infrastructure, a. s.**  
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**  
**For the Reporting Period Ended 30 September 2018 and 30 September 2017**  
**(in million EUR)**

	<i>Note</i>	<i>Year ended 30 September 2018</i>	<i>3-month period ended 30 September 2017</i>
<b>Revenues from sales of products and services:</b>			
Transmission of natural gas		771	201
Distribution of natural gas		392	71
Natural gas storage, exploration and other		168	48
<b>Total revenues</b>	<b>20</b>	<b>1 331</b>	<b>320</b>
<b>Operating expenses:</b>			
Depreciation and amortisation	10	(185)	(45)
Staff costs	22	(97)	(21)
Services	21	(50)	(14)
Purchases of natural gas, electricity and consumables		(64)	(16)
Own work capitalised		13	3
Provisions for bad and doubtful debts, obsolete and slow-moving inventories and assets, net		(4)	(5)
Other, net		(6)	(2)
<b>Total operating expenses</b>		<b>(393)</b>	<b>(100)</b>
<b>Operating profit</b>		<b>938</b>	<b>220</b>
Finance income	23	3	1
Share in profit of associated undertakings and joint ventures	6	(4)	1
Finance costs	24	(67)	(16)
Other, net		-	(1)
Gain/loss from business combinations		(10)	-
<b>Profit before income taxes</b>		<b>860</b>	<b>205</b>
Income tax	25.1	(235)	(60)
<b>NET PROFIT FOR THE PERIOD</b>		<b>625</b>	<b>145</b>
Net Profit attributable to:			
SPP Infrastructure's shareholders		594	138
Non-controlling interests of other owners of subsidiaries		31	7
<b>Total</b>		<b>625</b>	<b>145</b>

**SPP Infrastructure, a. s.**  
**CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME**  
**For the Reporting Period Ended 30 September 2018 and 30 September 2017**  
**(in million EUR)**

	<i>Note</i>	<i>Year ended 30 September 2018</i>	<i>3-month period ended 30 September 2017</i>
<b>Net Profit for the period</b>		<b>625</b>	<b>145</b>
<b>Other comprehensive income:</b>			
<i>Items that may be reclassified subsequently to the profit and loss statement:</i>			
Hedging derivatives (Cash flow hedging)	19	(107)	(11)
Change in foreign currency translation reserve	26	1	3
Deferred tax related to items of other comprehensive income for the period	26	22	3
<b>Other net comprehensive income/(loss) for the period</b>		<b>(84)</b>	<b>(5)</b>
<b>Total net comprehensive income for the period</b>		<b>541</b>	<b>140</b>
Net comprehensive income attributable to:			
SPP Infrastructure's shareholders		513	133
Non-controlling interests of other owners of subsidiaries		28	7
<b>Total</b>		<b>541</b>	<b>140</b>

**SPP Infrastructure, a. s.**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**For the Reporting Period Ended 30 September 2018 and 30 September 2017**  
**(in million EUR)**

	Registered capital	Legal reserve fund and other funds	Financial investment revaluation reserves	Foreign currency translation reserve	Hedging reserves	Retained earnings	Equity attributable to SPP Infrastructure's shareholders	Non-controlling interests of other owners of subsidiaries	Total
<b>At 30 June 2017</b>	<b>3 663</b>	<b>732</b>	<b>-</b>	<b>3</b>	<b>9</b>	<b>(1 961)</b>	<b>2 446</b>	<b>110</b>	<b>2 556</b>
Net profit for the period	-	-	-	-	-	138	138	7	145
Other comprehensive (loss)/income for the period	-	-	-	-	-	-	-	-	-
Effect of the Group's reorganisation	-	-	-	3	(8)	-	(5)	-	(5)
Changes from foreign currency translation	-	-	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	-	-	-
<b>At 30 September 2017</b>	<b>3 663</b>	<b>732</b>	<b>-</b>	<b>6</b>	<b>1</b>	<b>(1 977)</b>	<b>2 425</b>	<b>83</b>	<b>2 508</b>
Net profit for the period	-	-	-	-	-	594	594	31	625
Other comprehensive (loss)/income for the period	-	-	-	-	-	-	-	-	-
Effect of the Group's reorganisation	-	-	-	1	(82)	-	(81)	(3)	(84)
Changes arising from foreign currency translation	-	-	-	-	-	-	-	10	10
Dividends paid	-	-	-	-	-	-	-	-	-
<b>At 30 September 2018</b>	<b>3 663</b>	<b>732</b>	<b>-</b>	<b>7</b>	<b>(81)</b>	<b>(1 816)</b>	<b>2 505</b>	<b>89</b>	<b>2 594</b>

**SPP Infrastructure, a. s.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**For the Reporting Period Ended 30 September 2018 and 30 September 2017**  
**(in million EUR)**

	<i>Note</i>	<i>Year ended 30 September 2018</i>	<i>3-month period ended 30 September 2017</i>
<b>Operating activities</b>			
Cash flows from operating activities	27	1 129	238
Interest paid		(57)	(29)
Interest received		-	-
Income tax paid		(285)	(40)
<b>Net cash flows from operating activities</b>		<b>787</b>	<b>169</b>
<b>Investing activities</b>			
Net cash outflow upon the acquisition of financial investments		-	-
Acquisition of subsidiaries		25	-
Proceeds from the sale of financial investments		-	-
Purchase of property, plant and equipment		(50)	(9)
Long-term loan receivables provided	7	-	-
Short-term deposits provided		(515)	(484)
Dividends received		1	2
Income from the sale of non-current assets		1	-
<b>Net cash inflow/(outflow) from investing activities</b>		<b>(538)</b>	<b>(491)</b>
<b>Financing activities</b>			
Proceeds from interest-bearing borrowings	17	100	109
Repayment of interest-bearing borrowings		(145)	(65)
Dividends paid		(80)	(34)
Decrease of registered capital	19	-	-
Settlement of finance lease obligations		(6)	-
Received subsidies		4	-
Other proceeds from financing activities		(2)	(1)
<b>Net cash flows from financing activities</b>		<b>(129)</b>	<b>9</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>120</b>	<b>(313)</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>204</b>	<b>517</b>
Effects of foreign exchange fluctuations		-	-
<b>Cash and cash equivalents at the end of the period</b>		<b>324</b>	<b>204</b>

## **1. GENERAL**

### **1.1. Purpose of Presentation and Description of the Consolidated Entities**

These consolidated financial statements have been prepared in accordance with Article 22 of Act No. 431/2002 on Accounting (as amended) for the reporting period ended 30 September 2018. The comparative period is from 1 October 2017 to 30 September 2017, ie consistent with the reporting periods of SPP Infrastructure, a.s., (hereinafter the "Company" or "SPPI").

The consolidated financial statements of SPP Infrastructure, a. s., comprise the consolidated assets, liabilities and results of operations of the following entities: SPP Infrastructure a. s., SPP – distribúcia, a.s., eustream, a.s., NAFTA a.s. (the consolidated financial statements comprise the consolidated assets, liabilities and results of operations of the following entities: Nafta Exploration, s.r.o., Nafta Services, s.r.o., Nafta International B.V., Nafta RV), SPP Infrastructure Financing B.V., SPP Storage, s.r.o., and GEOTERM Košice, a.s. and Pozagas, a.s. (jointly the "Group", see Note 2b)) and shares in other equity interests in companies (see Notes 6 and 9). Pozagas a.s., SLOVGEOTERM a.s., and GALANTATERM, spol. s r.o. were members of the Slovenský plynárenský priemysel, a.s. Group (the "SPP Group") in the past and were acquired by the Company on 15 May 2014 upon the reorganisation of the SPP Group. Slovenský plynárenský priemysel, a.s. is not a part of the SPPI Group and is treated as a related party for the purposes of the consolidated financial statements.

Since privatisation in 2002, SPP Group has been owned by the National Property Fund of the Slovak Republic (51%) and Slovak Gas Holding, B. V., the Netherlands (49%) ("SGH") (jointly held indirectly by GDF SUEZ SA and E.ON Ruhrgas). On 15 January 2013, GDF International SAS, E.ON Ruhrgas International GmbH and E.ON SE signed an agreement with Energetický a průmyslový holding ("EPH"), a leading player on the heat, coal and electricity market in Central Europe, on the sale of their shares in SGH, which owned a 49% share in Slovenský plynárenský priemysel, a.s. ("SPP") and exercised operating and management control. The transaction was completed on 23 January 2013.

On 19 December 2013, the National Property Fund of the Slovak Republic, the Ministry of Economy of the SR and Energetický a průmyslový holding, a.s. signed a framework agreement on the sale and purchase of shares regulating the method of reorganisation of the SPP Group, which was completed on 4 June 2014.

As part of the transaction, SPP contributed ownership interests in these entities: SPP – distribúcia, a.s., eustream, a.s., NAFTA a.s., SPP Infrastructure Financing B.V., SPP Bohemia, a.s., SPP Storage, s.r.o., Pozagas, a.s., GEOTERM Košice, a.s., Probugas, a.s., SLOVGEOTERM, a.s. and GALANTATERM, spol. s r.o. into a newly-established 100% subsidiary, SPP Infrastructure, a. s.

On 4 June 2014, SPP sold its 49% stake including management control in SPP Infrastructure, a. s. to SGH, and at the same time acquired own shares from SGH, to become 100% owned by the Slovak Government.

On 12 November 2015, the National Property Fund of the Slovak Republic (hereinafter the "NPF SR") was dissolved under Act No. 375/2015 with effect as at 15 December 2015. On 22 December 2015, the Ministry of Economy of the Slovak Republic (hereinafter the "ME SR"), under the provisions of Article 2 (2) and (3) of Act No. 375/2015 Coll. issued resolution No. 49/2015 on the appointment of a legal successor of the NPF SR, ie MH Manažment, a. s. as at 1 January 2016.

During 2016, the EPH Group of companies was reorganised when the EP Infrastructure, a. s. Group (hereinafter "EPIF") was established; EPIF manages the groups of infrastructure assets which are mostly subject to regulation and/or long-term contracts. On 23 March 2016, EPIF, a subsidiary of EPH, acquired a 100% share in EPH Gas Holding B. V., which is a 100% owner of Slovak Gas Holding B. V (through its 100% share in Seattle Holding B. V).

On 30 March 2016, EPIF acquired a 100% share in Czech Gas Holding Investment B.V.

On 24 February 2017, an agreement on the sale of a 31% share in EPIF previously concluded between EPH and the consortium of global institutional investors led and represented by Macquarie Infrastructure and Real Assets (MIRA) was settled. The remaining 69% share is owned by EPH, which retains management control over EPIF.

In December 2017, Nafta a.s. increased its existing share in POZAGAS a.s. to 65%. Together with the direct equity share of 35%, the SPP Infrastructure, a. s. Group thus gained control over POZAGAS a.s.



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As at the preparation date of these financial statements, SPP Infrastructure, a. s. was owned by the SPP (51%) and by Slovak Gas Holding B.V. (49%), which also exercises management control over the Company. The ultimate parent company of SPP Infrastructure, a. s. is Energetický a průmyslový holding, a.s.

**Identification number** 47 228 709  
**Tax identification number** 2023820183

The consolidated financial statements of the Company for the period ended 30 September 2017 were approved by the General Meeting held on 28 June 2018.

## **1.2. Principal Activities**

The consolidated financial statements of the Company as at 30 September 2018 and for the reporting period then ended comprise the Company and its subsidiaries (referred to jointly as the "Group" and individually as "Group Entities") and the Group's interest in associates and jointly controlled entities.

The main activities of the consolidated entities are organised in the following operating segments: natural gas distribution, gas transmission, gas storage, exploration and production of hydrocarbons, and other.

The distribution segment includes the distribution of natural gas to all of Slovakia. Proposed prices are subject to review and approval by the Regulatory Office for Network Industries ("RONI").

The transit segment is responsible for the transmission of natural gas from the Ukrainian border to the western borders of Slovakia and to a virtual domestic point in Slovakia.

The storage segment includes storage in underground storage facilities located in Slovakia and the Czech Republic.

The hydrocarbon exploration and production segment relates to activities in West and East Slovakia and is combined with the storage segment for reporting purposes in these consolidated financial statements.

The other segment includes financing and other activities.

## **1.3. Registered Address**

Mlynské nivy 44/a  
825 11 Bratislava  
Slovakia

## **1.4. Employees**

The average number of the Group's employees for the period ended 30 September 2018 was 2 584, of which 36 were executive management (for the year ended 30 September 2017 there were 2 570 employees, of which 32 were executive management).

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **a) Basis of Preparation**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (the "EU"). The reporting currency of the Group is the Euro (EUR). The consolidated financial statements were prepared under the going-concern assumption.

The consolidated financial statements are prepared under the historical cost convention, except for certain financial instruments. The principal accounting policies adopted are detailed below.

**b) Business Combinations**

**(1) Subsidiaries**

Those business undertakings in which SPP Infrastructure, directly or indirectly, has an interest of usually more than one half of the voting rights or otherwise has power to exercise control over the operations are defined as subsidiary undertakings (subsidiaries) and have been fully consolidated. Due to the fact that the Group was created by a reorganisation of a business combination under common control, the subsidiaries are presented as if SPP Infrastructure had exercised control in past. No goodwill or fair value adjustment to the carrying amounts of assets and liabilities are recognised due to the reorganisation and acquisition of the subsidiaries in these consolidated financial statements.

Non-controlling interests that represent the existing equity securities and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may initially be measured either at fair value or at the non-controlling interest's proportional share in the acquiree's identifiable net assets. The selection of the measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interest are measured at fair value or, when applicable, on the basis specified in other IFRS.

All transactions, balances, and unrealised profits and losses on transactions within the Group have been eliminated upon consolidation.

**(2) Investments in Associated Undertakings and Joint Ventures**

Financial investments in associated undertakings and joint ventures are accounted for using the equity method.

Associated undertakings are entities in which SPP Infrastructure exercises a substantial, but not a controlling influence. Joint ventures are entities in which SPP Infrastructure exercises joint control with other owners. A provision is recorded in the event of impairment.

When applying the equity method, investments in associated undertakings and joint ventures are recognised in the balance sheet at cost adjusted for subsequent changes in the Group's share in the net assets of an associated undertaking or a joint venture. Goodwill related to associated undertakings and joint ventures is recognised in the carrying amount of an investment and is not depreciated. The income statement reflects a share in the associated undertakings' and joint ventures' operating results. If a change occurs that was recognised directly in the associated undertakings' and joint ventures' equity, the Group will recognise its share of such a change and, if necessary, recognise it in the statement of changes in equity. Profits and losses from transactions between the Group and associated undertakings and the Group and joint ventures are eliminated to the extent of the Group's investment in associated undertakings and joint ventures.

**c) Basis of Consolidation**

As the Group was established by a business combination under common control and was previously included in the IFRS consolidated financial statements of the SPP Group, standard IFRS 3 Business Combinations was not applied.

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

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When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time decisions need to be made, including voting patterns at previous shareholders' meetings.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. The total comprehensive income of subsidiaries is attributed to the Company owners and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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The consolidated financial statements as at 30 September 2018 include historical financial information for the following entities:

Name	Seat	Ownership share %		Principal activity	Consolidation method used as at 30 Sep 2018	Consolidation method used as at 30 Sep 2017
		30 Sep 2018	30 Sep 2017			
SPP Infrastructure, a.s. <sup>(1)</sup>	Mlynské nivy 44/a, Bratislava, Slovakia	100.00	100.00	Asset holding	Parent - Fully consolidated	Parent - Fully consolidated
SPP – distribúcia, a.s.	Mlynské nivy 44/b, Bratislava, Slovakia	100.00	100.00	Distribution pipeline operation	Subsidiary - Fully consolidated	Subsidiary - Fully consolidated
eustream, a.s.	Votrubova 11/A, Bratislava, Slovakia	100.00	100.00	Transmission pipeline operation	Subsidiary - Fully consolidated	Subsidiary - Fully consolidated
SPP Storage, s.r.o. <sup>(2)</sup>	Sokolovská 651/136A, Prague, Czech Republic	100.00	100.00	Storage of natural gas	Subsidiary - Fully consolidated	Subsidiary - Fully consolidated
NAFTA a.s. („NAFTA“)	Votrubova 1, Bratislava, Slovakia	56.15	56.15	Storage of natural gas and exploration and production of hydrocarbons	Subsidiary - Fully consolidated	Subsidiary - Fully consolidated
SPP Infrastructure Financing B.V. <sup>(3)</sup>	Weteringschans 26, Amsterdam, Netherlands	100.00	100.00	Financing activities	Subsidiary - Fully consolidated	Subsidiary - Fully consolidated
GEOTERM KOŠICE, a. s.	Moldavská č. 12, Košice, Slovakia	95.82	95.82		Subsidiary - Fully consolidated	Subsidiary - Fully consolidated
Nafta Exploration, s.r.o. <sup>(4)</sup>	Plavecký Štvrtok 900, Slovakia	56.15	56.15	Exploration	Subsidiary - Fully consolidated	Subsidiary - Fully consolidated
NAFTA Services, s.r.o. <sup>(4)</sup>	No. 891, 696 17 Dolní Bojanovice, Czech Republic	56.15	56.15	Operational and technical services	Subsidiary - Fully consolidated	Subsidiary - Fully consolidated
NAFTA International B.V. <sup>(4)</sup>	Schiphol Boulevard 403, Tower C-4, 1118 BK Schiphol, Netherlands	56.15	56.15		Subsidiary - Fully consolidated	Subsidiary - Fully consolidated
NAFTA RV <sup>(4)</sup>	04116, Kiev, Ukraine	56.15	56.15	Holding company	Subsidiary - Fully consolidated	Subsidiary - Fully consolidated
Pozagas, a.s. <sup>(5)</sup>	Starokylvaska, 10-G, Ukraine Malé námestie 1, Malacky, Slovakia	71.50	54.65	Exploration and production	Subsidiary - Fully consolidated	Subsidiary - Fully consolidated
				Storage of natural gas	Subsidiary - Fully consolidated	Joint venture – Equity method

(1) Established by SPP as the sole shareholder on 24 May 2013.

(2) Established by the sole shareholder on 22 February 2011.

(3) Established by the sole shareholder on 22 May 2013

(4) Subsidiary of NAFTA a.s. NAFTA a.s. deconsolidated Karotáže a cementáce, s.r.o. due to its immateriality; in 2016 NAFTA, a.s. established the subsidiary, NAFTA RV.

(5) In December 2017, NAFTA a.s. increased its existing share (35%) in POZAGAS a.s. to 65%. Together with the direct equity share of 35%, the SPP Infrastructure, a. s. Group thus holds a 100% share and gained control over POZAGAS a.s. As a result, SPP Infrastructure, a. s. recognises the share in POZAGAS a.s. as an investment in the subsidiary as at 31 December 2017. This date is considered to be the moment of the first consolidation. The said equity share represents a recalculated (direct and indirect) share of SPP Infrastructure, a. s.

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The fair values of assets and liabilities acquired upon the acquisition of Pozagas, a.s. were as follows:

	<b>Total</b>
Property, plant and equipment	37
Non-current intangible assets and other non-current assets	-
Non-current receivables	1
Inventories	-
Trade and other receivables	3
Tax asset	2
Cash and cash equivalents	47
Provisions for liabilities	(11)
Deferred tax liabilities	(3)
Trade and other payables	(3)
Net assets	<u>73</u>
<b>Net assets</b>	<b><u>73</u></b>
Goodwill upon the acquisition*	<u>9</u>
Total purchase price	<u>82</u>
Of which:	
Fair value of previously held shares	60
Purchase price paid in cash	22
Acquired cash and cash equivalents	<u>47</u>
<b>Net increase in cash and cash equivalents from the acquisition</b>	<b><u>25</u></b>

\*As at the transaction date, goodwill was written off in full.

No contingent payments arise from this acquisition.

Revenues amounting to EUR 20.568 million for the period from 1 January to 30 September 2018 and profit after tax for the same period amounting to EUR 5.037 million were recognised in the consolidated statement of comprehensive income.

#### **d) Financial Assets**

Financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss" (FVTPL), "held-to-maturity investments", "available-for-sale financial assets" (AFS) and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require the delivery of the assets within the timeframe established by a regulation or convention in the marketplace.

##### Financial Assets at Fair Value through Profit or Loss

Financial assets are classified as at FVTPL when the financial asset is either held for trading or designated as at FVTPL.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Financial assets classified as at FVTPL mainly include agreements on the purchase or sale of commodities not meeting the measurement exception under IAS 39 and financial derivatives concluded for economic hedging to which hedge accounting was not applied.

##### Held-to-Maturity Investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

#### Available-for-Sale Financial Assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Changes in the net book value of available-for-sale monetary financial assets relating to changes in foreign currency rates (see below), interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognised in profit or loss. Other changes in the net book value of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. If an investment is disposed of, or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

The fair value of available-for-sale financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

#### Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables including trade and other receivables, bank balances and cash are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Trade receivables are measured at the expected realisable value less a provision for debtors in bankruptcy or restructuring proceedings and less a provision for doubtful and uncollectible overdue receivables where there is a risk that the debtor will not pay them fully or partially.

#### Impairment of Financial Assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as ASF, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty;
- Breach of contract, such as a default or delinquency in interest or principal payments;
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation;
- The disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio beyond the average credit period of 60 days, and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the impairment loss represents the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate.

For financial assets carried at cost, the impairment loss represents the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such an impairment loss cannot be reversed in subsequent periods.

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

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously-recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS equity securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

#### Derecognition of Financial Assets

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

On the derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

#### **e) Financial Liabilities**

Financial liabilities are classified as either financial liabilities "at fair value through profit or loss" (FVTPL) or "other financial liabilities".

##### Financial Liabilities at Fair Value through Profit or Loss

Financial liabilities are classified as at fair value through profit or loss when the financial liability is either held for trading or it is designated as at FVTPL.

Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the Finance costs line in profit or loss.

##### Other Financial Liabilities

Other financial liabilities (including borrowings) are subsequently measured at amortised cost using the effective interest method.

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



#### Derecognition of Financial Liabilities

The Company derecognises financial liabilities only when the Company's obligations are met, cancelled or expired. The difference between the carrying amount of the financial liability and the consideration paid and the amount payable is recognised in the income statement.

#### **f) Derivative Financial Instruments**

The Group enters into derivative contracts in order to manage the risk of changes in commodity prices, interest rates and foreign exchange risk, including forward currency contracts and interest rate and commodity swaps.

Derivative financial instruments are contracts: (i) whose value changes in response to a change in one or more identifiable variables (ii) that require no significant net initial investment and (iii) that are settled at a certain future date. Derivative financial instruments, therefore, include swaps, futures, and firm commitments to buy or sell non-financial assets that include the physical delivery of the underlying assets, except for contracts intended for their own use (the so-called own use exception).

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

#### Hedge Accounting

The Group designates hedging instruments that include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

#### Fair Value Hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in profit or loss in the line item relating to the hedged item.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair-value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

In the event that a financial derivative does not meet or no longer meets the requirements for hedge accounting, changes in the fair value are directly recognised in the income statement as "Mark-to-market" or as "Mark-to-market on commodity contracts other than trading instruments" in ordinary operating income from derivative financial instruments with non-financial assets as the underlying assets, and in financial revenues or expenses for currency, interest rate or equity derivatives. Derivative financial instruments used by the Company for trading activities with own energy and energy on behalf of customers, and other derivative financial instruments that are due in less than 12 months are recognised in the statement of financial position as current assets or current liabilities, while derivative financial instruments due after this period are classified as non-current items.

#### Cash Flow Hedges

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



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Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

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

**g) Property, Plant and Equipment and Intangible Assets**

Property, plant, and equipment and intangible assets are stated at cost less accumulated depreciation. Cost includes all costs attributable to placing the asset into service for its intended use and, in respect of exploration and storage wells, the estimated cost of dismantling and removing the asset and restoring the site (capitalised decommissioning costs).

Costs related to natural hydrocarbon deposit geological surveys are accounted for in accordance with the successful efforts method. Under this method, costs of geological exploration (exploration wells) are capitalised under assets in the course of construction when incurred and certain expenditures, such as geological and geophysical exploration costs, are expensed. A review is carried out at least annually, on a field-by-field basis, to ascertain whether proven reserves have been confirmed. When proven reserves are determined and production commenced, the relevant expenditures are transferred from assets in the course of construction to the relevant class of property, plant, and equipment. A provision is created for exploration wells that are not expected to be successful.

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

Estimated costs of dismantling, restoration and re-cultivation related to production wells are depreciated over the term of proven extractable reserves on a unit-of-production basis. Production wells and related centres are depreciated over the life of the proven extractable reserves on a unit-of-production basis. Other items of property, plant, and equipment are depreciated on a straight-line basis over the estimated useful lives. Depreciation is charged to the income statement computed so as to amortise the cost of the assets to their estimated residual values over their residual useful lives. The useful lives used are as follows:

<b>(Years)</b>	<b>30 Sep 2018</b>	<b>30 Sep 2017</b>
Buildings and structures (including structures used for natural gas storage)	12 – 1 000	15 – 1 000
Gas pipelines	20 – 71	20 – 71
Plant and machinery	3 – 55	3 – 55
Other non-current assets	2 – 30	2 – 30
Intangible assets	2 – 50	2 – 50

A useful life of 1 000 years is applied to the cushion gas used in the underground gas storage facilities of the Group. Cushion gas is the gas needed to run the underground reservoirs of natural gas. Its production would affect the underground reservoirs' ability to operate. Cushion gas is disclosed as part of Land and buildings.

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

At each reporting date, an assessment is made as to whether there is any indication that the realisable value of the Group's property, plant, and equipment and intangible assets is less than the carrying amount. When such an indication occurs, the realisable value of the asset is estimated, being the higher of the asset's fair value less costs of disposal and the present value of future cash flows ("value-in-use"). The resulting impairment loss provision is recognised in full in the income statement in the year in which the impairment occurs. The discount rates used to calculate the present value of the future cash flows reflect the current market assessments of the time value of money and the risks specific to the asset. In the event that a decision is made to abandon a construction project in progress or to significantly postpone its planned completion date, the carrying amount of the asset is reviewed for potential impairment and, if appropriate, a provision is recorded.

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

**h) Non-Current Tangible Assets Acquired through Free-of-Charge Transfers**

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

**i) Research and Development**

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

**j) Inventories**

Inventories are stated at the lower of cost and net realisable value. The cost of natural gas stored in underground storage facilities and raw materials and other inventories is calculated using the weighted arithmetic average method. The cost of natural gas, raw materials, and other inventories includes the cost of acquisition and related costs. The cost of inventories developed internally includes materials, other direct costs, and production overheads. For obsolete and slow-moving inventories, mainly natural gas inventories, a provision is recorded in the required amount based on the actual recoverable amount of inventories.

**k) Cash and Cash Equivalents**

Cash and cash equivalents consist of cash in hand and cash in bank, and highly-liquid securities with insignificant risk of changes in value and original maturities of three months or less from the date of issue.

**l) Provisions for Liabilities**

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

**Provision for Environmental Expenditures**

A provision for environmental expenditures is recognised when environmental clean-ups are probable and the associated costs can be reasonably estimated. Generally, the timing of these provisions coincides with a commitment to a formal plan of action or the divestment or closure of unused assets. The provision recognised is the best estimate of the expenditure required. If the liability is not settled in the following years, the amount recognised is the present value of the estimated future expenditure.

The Group estimates the costs relating to the abandonment of its production, exploration, and storage wells (including related centres and pipelines) and any related restoration costs. Additionally, the Group estimates costs relating to the abandonment and restoration of sites related to waste dumps. Estimated abandonment and restoration costs are based on current legislation, technology, and price levels. In respect of production wells and related centres, the estimated cost is recognised over the life of the proven extractable reserves on a unit-of-production basis. A provision for abandonment and restoration is created in an amount that includes all anticipated future costs related to abandonment and restoration discounted to their present value and reflecting inflation. The discount rate used reflects current market assessments of the time value of money and the risks specific to the liability.

Changes in provisions for dismantling and site restoration that relate to assets, except for the unwinding of the discount, alter the cost of the related asset in the current period in accordance with IFRIC 1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities".

#### Provision for Litigation and Potential Disputes

The financial statements include a provision for litigation and potential disputes which were estimated using available information and an assessment of the achievable outcome as regards the individual disputes. The provision is not recognised unless a reasonable estimate can be made.

#### **m) Loans**

Loans are initially recognised at fair value less transaction costs incurred. They are subsequently recorded at amortised cost using the effective interest rate method.

#### **n) Greenhouse Gas Emissions**

The Group receives free emission rights as a result of European Emission Trading Schemes. The rights are received on an annual basis and in return the Group is required to return rights equal to its actual emissions. The Group recognises a net liability resulting from the gas emissions. Therefore, a provision is only recognised when actual emissions exceed the emission rights received free of charge. When emission rights are purchased from other parties, they are measured at cost and treated as a reimbursement right. When emission rights are acquired by exchange, they are measured at fair value as at the date when they become available for use and the difference between the fair value and cost is recognised through profit or loss.

#### **o) Revenue Recognition**

Sales are recorded upon the delivery of products or the performance of services, net of value added tax and discounts. The Group records revenues from distribution, transmission, and storage services and other activities on an accrual basis. Revenues include estimates of gas distribution service provided but not invoiced as at the reporting date.

#### **p) Borrowing Costs**

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

#### **q) Social Security and Pension Schemes**

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

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

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

**s) Leases**

**Finance Lease**

A finance lease is a lease that transfers all the risks and rewards incidental to the ownership of an asset (economic substance of the arrangement). The accounting treatment of leases is not dependent on which party is the legal owner of the leased asset.

**Operating Lease**

An operating lease is a lease other than a finance lease. Under an operating lease arrangement, The lessee does not present assets subject to an operating lease in its balance sheet, nor does it recognise operating lease obligations for future periods. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

**t) Taxation**

Income tax is calculated from the profit/loss before tax recognised under IFRS adjusted to profit/loss recognised under the accounting procedures valid in the Slovak Republic after adjustments for individual items increasing and decreasing the tax base pursuant to Act No. 595/2003 Coll. on Income Tax, as amended, using the valid income tax rate.

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax is recognised in the income statement, except for those assets and liabilities which are charged directly with a counter entry in other comprehensive income, in which case the deferred tax is also recognised with a counter entry in other comprehensive income.

The income tax rate valid from 1 January 2017 is 21%.

The principal temporary differences arise from revaluations and depreciations on property, plant, and equipment and various provisions. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associated undertakings, and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not be reversed in the foreseeable future.

**Current and Deferred Tax for the Year**

Current and deferred tax are recognised through profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively. Where current tax and deferred tax arise from the initial recognition of a business combination, the tax effect is included in the recognition of the business combination.

**Special Levy on Business in Regulated Industries**

Pursuant to the requirements of the IFRS, the Group's income tax also includes a special levy pursuant to Act No. 235/2012 Coll. on a Special Levy on Business in Regulated Industries and on Amendment to and Supplementation of Certain Acts. It is recognised through profit or loss.

Some Group companies are regulated entities with the obligation to pay a special levy during the period of the effectiveness of the Act. According to the original wording of the Act on Special Levy on Businesses in Regulated Industries, the last levy period will be December 2016, however, after an amendment to the Act (effective from 31 December 2016), the special levy must also be applied after this deadline without a further time limitation. The levy is calculated per calendar month and the levy rate was 0.00363 until 31 December 2016. As of 1 January 2017, the levy rate was temporarily increased to 0.00726 for 2017 and 2018. It will be gradually reduced so that the monthly levy rate will be 0.00545 in 2019 and 2020 and in 2021 it will be reduced to its original amount, ie 0.00363. The base for the levy is the profit/loss before tax recognised in accordance with International Accounting Standards and adjusted to the profit/loss recognised pursuant to the Accounting Procedures valid in the Slovak Republic, further adjusted pursuant to the Special Levy Act. The special levy is recognised as part of income taxes.

As a result of an amendment to the Act on Special Levy on Businesses in Regulated Industries that abolished the time limit of the validity of the special levy payment, companies are also obliged to account for a deferred special levy. The deferred special levy is recognised from all temporary differences between the carrying amount of assets and liabilities recognised under International Accounting Standards and the carrying amount of assets and liabilities recognised in accordance with the Accounting Procedures valid in the Slovak Republic. The deferred special levy is calculated using the special levy rate that is expected to apply to the period when the temporary difference, from which the deferred special levy arises, is expected to be settled. The deferred special levy is recognised in the income statement.

**u) Foreign Currencies**

Transactions in foreign currencies are initially recorded at the exchange rates of the European Central Bank (ECB) valid on the transaction dates. Monetary assets and payables denominated in foreign currencies are retranslated at the ECB exchange rates valid on the reporting date. Foreign exchange gains and losses are included in the income statement.

On consolidation, the assets and liabilities of the foreign subsidiaries are translated at the ECB exchange rates prevailing on the reporting date. Revenues and expenses are translated at the average exchange rates for the period. Foreign exchange differences, if any, are classified as equity as a foreign exchange translation reserve. Such a reserve is recognised as income or as an expense at the moment the financial investment in a subsidiary is disposed of.

**v) Non-Current Assets Held for Sale**

Non-current assets and the disposal groups of assets and liabilities are classified as held for sale if their carrying amount can be recovered through a sale transaction rather than through continuing use. This condition is considered fulfilled only when a sale is highly probable and the non-current asset (or the group of assets and liabilities held for sale) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and the groups of assets and liabilities held for sale) classified as held for sale are measured at the lower of their previous carrying amount and the fair value less costs to sell.

**w) Government Grants and Subsidies Provided by the European Union**

Grants and subsidies are not recognised unless there is reasonable assurance that (i) the company will comply with the conditions related to the receipt of grants and subsidies, and (ii) the grants and subsidies will be received.

Grants and subsidies are recognised in the income statement on a systematic basis over the periods in which the company recognises expenses that were to offset grants and subsidies. Specifically, grants and subsidies whose primary purpose is to enable the company to purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the balance sheet, and are recognised in the income statement on a systematic and rational basis during the useful life of the related assets.

**x) Segments**

The Company ceased the application of IFRS 8 – Operating Segments in 2017, as it is no longer obliged to disclose information in the financial statements as required by the standard.



### **3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the process of applying the Group's accounting policies, as described in Note 2, the Group has made the following decisions concerning uncertainties and estimates that have a significant impact on the amounts recognised in the financial statements. There is a significant risk of material adjustments in future periods relating to such matters, including the following:

#### Litigation

The Group is involved in various legal proceedings for which management has assessed the probability of losses that may result in cash outflow. In making this assessment, the Group has relied on the advice of external legal counsel, the latest available information on the status of the court proceedings, and an internal evaluation of the likely outcome. The final amount of any potential losses in relation to the legal proceedings is not known and may result in a material adjustment to the previous estimates. Details of the legal cases are included in Note 28.

#### Impairment of Property, Plant and Equipment

The Group calculated and recorded significant amounts for the impairment of property, plant, and equipment on the basis of an evaluation of their future use, planned liquidation or sale. For certain items, no final decision has been made and, therefore, assumptions related to the use, liquidation or sale of assets may change. For more information on the impairment of property, plant and equipment, see Note 10.

#### Environmental Provision

The consolidated financial statements include significant amounts recorded as an environmental provision. The provision is based on estimates of the future costs of dismantling, restoration and re-cultivation, and is also significantly impacted by the estimate of the timing of cash flows and the Group's estimate of the discount rate used. The provision takes into account the estimated costs of the abandonment of production and storage wells at a subsidiary, for dismantling old gas facilities and compressor stations, decontaminating the soil and restoring the sites to their original condition after dismantling old gas facilities in compressor stations on the basis of past costs for similar activities. Refer to Note 16 for further details.

#### Current Crisis in Ukraine

The Group monitors development of the current crisis in Ukraine and its potential impact on its business. As regards the transmission and storage business, according to the Management, the impact as of this date is positive given new contracts signed and prices of short-term storage capacity. A potential escalation of the crisis (which could include prolonged disruption and/or sanctions on supplies of Russian gas to the EU), which is considered by the Management as unlikely given the importance and irreplaceability of Russian gas in the EU, could have a negative impact on the future financial performance of the transit business and could potentially positively impact the storage business. Given the long-term ship-or-pay nature of transit contracts, any negative impact is likely to be postponed to years beyond the tenure of transit contracts.

### **4. NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS**

#### ***Initial application of new amendments to the existing standards effective for the current reporting period***

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

- **Amendments to IAS 7 "Statement of Cash Flows"** – Disclosure Initiative – adopted by the EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017);
- **Amendments to IAS 12 "Income Taxes"** – Recognition of Deferred Tax Assets for Unrealised Losses – adopted by the EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017).

The adoption of these amendments to the existing standards has not led to any material changes in the Company's financial statements.

***Standards and amendments to the existing standards issued by IASB and adopted by the EU, but not yet effective***

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

- IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019);
- IFRS 9 "Financial Instruments" – adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018). This standard supersedes IAS 39 "Financial Instruments: Recognition and Measurement".

The key requirements of the new standard can be summarised in the following three areas:

***Classification and Measurement*** – IFRS 9 introduces a new approach for the classification of financial assets, which is based on cash flow characteristics and the business model.

The classification of debt instruments depends on the business model used by the reporting entity for management of financial assets and on whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held for the collection of cash flows, it can only be measured at amortised cost if it meets the SPPI requirement. Debt instruments that meet the SPPI requirement and are part of a portfolio held by the reporting entity for the collection of cash flows and, at the same time, financial assets from such a portfolio are available for sale, may be classified as FVOCI. Financial assets whose cash flows do not represent the SPPI must be measured at FVTPL (eg financial derivatives). Embedded derivatives are no longer recognised separately from financial assets but are considered when evaluating the SPPI test.

***Impairment*** – IFRS 9 has introduced a new, expected-loss impairment model that will require more-timely recognition of expected credit losses. Specifically, the new standard requires reporting entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.

***Hedge accounting*** – IFRS 9 introduces a substantially-revised model for hedge accounting, with enhanced disclosures on risk management activity. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities.

- Amendments to IFRS 9 "Financial Instruments" – Prepayment Features with Negative Compensation – adopted by the EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019);
- IFRS 15 "Revenue from Contracts with Customers" and amendments to IFRS 15 "Effective Date of IFRS 15" – adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018). This standard supersedes the original standards IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations.

The new standard introduces the principle under which revenues must be recognised in a transaction price at a time when goods or services are transferred to the customer. Any bundle of goods or services which are distinct must be recognised separately and discounts or refunds of the selling price must be allocated to individual items. If the price is variable for any reasons, a minimum amount that is highly probable not to be reversed must be recognised. The costs of securing a contract with a customer must be capitalised and amortised over the period during which economic benefits flow to the Company under the contract with a customer.

- Amendments to IFRS 2 "Share-based Payment" – Classification and Measurement of Share-based Payment Transactions – adopted by the EU on 27 February 2018 (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 4 "Insurance Contracts" – Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" – adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied for the first time);

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- Amendments to IFRS 15 "Revenue from Contracts with Customers" – Clarifications to IFRS 15 "Revenue from Contracts with Customers" – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IAS 40 "Investment Property" – Transfers of Investment Property – adopted by the EU on 14 March 2018 (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 1 and IAS 28 as part of "Improvements to IFRSs (cycle 2014 – 2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018);
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" – adopted by the EU on 28 March 2018 (effective for annual periods beginning on or after 1 January 2018).

The Company has elected not to adopt these new standards and amendments to the existing standards in advance of their effective dates. The Company anticipates that the adoption of these standards and amendments to existing standards will have no material impact on the Company's financial statements in the period of initial application.

***New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU***

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretations, which were not endorsed for use in EU as at the reporting date (effective dates stated below are for IFRS in full):

- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard;
- IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2021);
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded);
- Amendments to IAS 19 "Employee Benefits" – Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" – Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019);
- Amendments to various standards due to "Improvements to IFRSs (cycle 2015 – 2017)" resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019); and
- IFRIC 23 "Uncertainty over Income Tax Treatments" (effective for annual periods beginning on or after 1 January 2019).

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

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

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



## **5. FINANCIAL INSTRUMENTS**

### **a) Financial Risk Factors**

The Group is exposed to a variety of financial risks, including the effects of changes in foreign currency exchange rates, interest rates of loans and gas purchase and selling prices. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. As of 30 September 2018, the Group entered into derivative transactions, swap interest contracts, and hedging commodity swaps in order to manage certain risks. The purpose of swap interest contracts is to fix interest rates on loans. The purpose of hedging commodity swaps is to limit the price risks of sales contracts made with customers and purchase contracts with suppliers.

The main risks arising from the Group's financial instruments are commodity price risk, interest rate risk, credit risk, and liquidity risk. Risk management is decentralised and performed by the risk management section, using policies approved by the Board of Directors or the management of individual group companies.

#### **(1) Foreign Currency Risk**

The Group operates internationally and is exposed to foreign currency risk from transactions in foreign currencies, primarily in US dollars (USD) and Czech crowns (CZK).

Analysis of financial assets and financial liabilities denominated in foreign currency:

<i>In million EUR</i>	<i>Financial assets</i>		<i>Financial liabilities</i>	
	<i>As at 30 Sep 2018</i>	<i>As at 30 Sep 2017</i>	<i>As at 30 Sep 2018</i>	<i>As at 30 Sep 2017</i>
USD	1	1	-	-
CZK	3	4	-	1

The table below presents open currency swaps as at the balance sheet date used to cover risk associated with a change in foreign currency rates.

<i>Currency swaps in million EUR</i>	<i>Average USD/EUR rate</i>		<i>Nominal value</i>		<i>Fair Value</i>	
	<i>30 Sep 2018</i>	<i>30 Sep 2017</i>	<i>30 Sep 2018</i>	<i>30 Sep 2017</i>	<i>30 Sep 2018</i>	<i>30 Sep 2017</i>
Cash flow hedges						
- Up to 1 year	1.13	1.11	-	2.00	-	0.14
- From 1 up to 2 years	-	1.13	-	-	-	0.03
- More than 2 years	-	-	-	-	-	-

#### **Sensitivity to foreign currency changes**

The table below shows the Group's sensitivity to a 10% increase and decrease in EUR against USD and against CZK (as at 30 September 2017: 10%). The sensitivity analysis includes only foreign currency denominated monetary items, and adjusts their translation at the end of the reporting period for the stated change in foreign currency rates. The positive value indicates an increase in gain in the case of the weakening of the euro against the relevant currency. In the case of the strengthening of the euro against the relevant currency, the same but opposite effect on the gain would arise, while the amounts stated below would be negative.

	<i>30 Sep 2018</i>		<i>30 Sep 2017</i>	
	<i>CZK</i>	<i>USD</i>	<i>CZK</i>	<i>USD</i>
Gain or loss in million EUR (i)	0.3	0.1	0.3	0.1

(i) Related mainly to the risk of unpaid receivables, payables and USD and CZK cash at year-end.

#### **(2) Commodity Price Risk**

The Group is a party to framework agreements for the purchase of natural gas and other services and materials in connection with facilities for natural gas underground storage and for gas and oil production. In addition, the Group enters into contracts for the sale of crude oil and natural gas and natural gas storage. The Group covers a portion of the risks related to changes in oil and natural gas prices by commodity derivative instruments.

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The following table gives details of open swap commodity and forward contracts at the reporting date.

<i><b>Open swap commodity and forward contracts</b></i>	<i><b>30 Sep 2018</b></i>		<i><b>30 Sep 2018</b></i>	
	<i><b>Nominal value</b></i>		<i><b>Fair value</b></i>	
	<i><b>Cash flow hedging</b></i>	<i><b>Held for trading</b></i>	<i><b>Cash flow hedging</b></i>	<i><b>Held for trading</b></i>
<i><b>In million EUR</b></i>				
<u><b>Sell gas</b></u>				
Less than 3 months	58	-	(23)	-
3 to 12 months	138	-	(39)	-
Over 12 months	175	-	(34)	-
<u><b>Sell crude oil</b></u>				
Less than 3 months	-	-	-	-
3 to 12 months	1	-	-	-
Over 12 months	1	-	-	-
<i><b>Open swap commodity and forward contracts</b></i>	<i><b>30 Sep 2017</b></i>		<i><b>30 Sep 2017</b></i>	
	<i><b>Nominal value</b></i>		<i><b>Fair value</b></i>	
	<i><b>Cash flow hedging</b></i>	<i><b>Held for trading</b></i>	<i><b>Cash flow hedging</b></i>	<i><b>Held for trading</b></i>
<i><b>In million EUR</b></i>				
<u><b>Sell gas</b></u>				
Less than 3 months	38	-	4	-
3 to 12 months	38	-	1	-
Over 12 months	13	-	-	-
<u><b>Sell crude oil</b></u>				
Less than 3 months	-	-	-	-
3 to 12 months	1	-	-	-
Over 12 months	-	-	-	-

The Group has entered into swap and forward commodity contracts to hedge against the market risk arising from crude oil, natural gas price changes in anticipated future transactions associated with the Group's revenues in the upcoming year.

### (3) Interest Rate Risk

The Group's exposure to interest rate risk is significant, as it has drawn long-term loans. The Group manages the risk by maintaining an appropriate mix of fixed and floating rate borrowings, and by the use of interest rate swap contracts. The Group's exposure to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of likely changes in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's:

- The Group's gain for the 12-month reporting period ended 30 September 2018 would decrease/increase by EUR 1.5 million (for the year ended 30 September 2017: EUR 1.7 million). This is mainly related to the Group's exposure to variable interest rates on borrowings.

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The table below displays the open interest swap contracts at the reporting date.

<i>Interest swaps</i> <i>In million EUR</i>	<i>Average fixed interest rate</i>		<i>Nominal value</i>		<i>Fair value</i>	
	<i>30 Sep 2018</i>	<i>30 Sep 2017</i>	<i>30 Sep 2018</i>	<i>30 Sep 2017</i>	<i>30 Sep 2018</i>	<i>30 Sep 2017</i>
Cash flow hedge						
- Less than 1 year	-	-	-	-	-	-
- 1 to 2 years	1.34%		500		(7)	
- Over 2 years	1.43%	1.43%	135	135	(4)	(6)

**(4) Credit Risk Related to Receivables**

The Group sells its products and services to various customers. The most significant customers are a prominent Russian shipper of gas and SPP in respect of providing gas transmission services and SPP in respect of gas storage and distribution service. None of these customers, individually or combined in terms of volume and solvency, represent a significant risk that receivables will not be settled pursuant to the valid risk management policy. The Group has policies in place that ensure that products and services are sold to customers with an appropriate credit history and that an acceptable credit exposure limit is not exceeded.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet, net of provisions.

**(5) Liquidity Risk**

Prudent liquidity risk management implies maintaining sufficient cash with an appropriate due date and marketable securities, the availability of funding through an adequate amount of committed credit lines, and the ability to close open market positions. Due to the dynamic nature of the underlying business, treasury management aims to maintain flexibility by keeping committed credit lines available and synchronising the maturity of financial assets with financial needs. To settle outstanding liabilities, the Group has funds and undrawn credit lines at its disposal.

As at 30 September 2018, the Group had drawn credit facilities totalling EUR 2 144 million (as at 30 September 2017: EUR 2 185 million) of which short-term credit facilities amounted to EUR 193 million (as at 30 September 2017: EUR 61 million) and long-term credit facilities amounted to EUR 1 951 million (as at 30 September 2017: EUR 2 124 million). Credit facilities are presented in their carrying amount.

The Group's interest-bearing borrowings are drawn in EUR with a variable interest rate linked to EURIBOR (according to the interest period agreed at the drawdown, for long-term loans usually 3M, for loans with shorter maturities 1M or O/N for overdraft facilities). In the financial year 2015, the Group also issued mid-term bonds bearing a fixed rate interest (see also Note 17).

The majority of short-term credit lines include an automatic loan extension clause, provided that none of the parties concerned cancel the loan within the specified period. Long- or medium-term loans have a fixed maturity date, while in all instances the loan is payable as a lump sum as at the final maturity date, ie in 2019, 2020, 2021 and 2024.

Interest-bearing borrowings are provided without collateral, using common market provisions (pari-passu, ban on pledging assets, substantial negative impact). If necessary, maturing credit facilities may be paid off from undrawn credit facilities, and from available funds and tradable securities.

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The table below summarises the maturity of non-derivative financial liabilities at 30 September 2018 and 30 September 2017 based on contractual undiscounted payments:

	<i>On demand</i>	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>&gt; 5 years</i>	<i>Total</i>
<b>30 September 2018</b>						
Trade payables	-	142	-	-	-	142
Other liabilities	-	28	2	29	-	59
Variable interest rate instruments	-	1	177	138	80	396
Fixed interest rate instruments	-	-	54	1 370	513	1 937
<b>30 September 2017</b>						
Trade payables	-	92	-	-	-	92
Other liabilities	-	172	8	27	-	207
Variable interest rate instruments	-	36	11	315	82	444
Fixed interest rate instruments	-	-	67	1 411	526	2 004

**b) Capital Risk Management**

The Group manages its capital to ensure that Group companies are able to continue as going concerns, while maximising the return to shareholders by optimising the debt and equity ratio, and by ensuring a high credit rating and sound capital ratios.

The capital structure of the Group consists of debt, ie borrowings disclosed in Note 17, cash and cash equivalents and equity attributable to the owners of the parent company, which comprise the registered capital, legal and other reserves, revaluation reserves, and retained earnings as disclosed in Note 19.

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

	<i>At 30 Sep 2018</i>	<i>At 30 Sep 2017</i>
Debt (i)	2 144	2 185
Cash and cash equivalents	324	204
Net debt	1 820	1 981
Equity (ii)	2 594	2 508
<b>Net debt to equity ratio</b>	<b>70%</b>	<b>79%</b>

(i) Debt is defined as long- and short-term borrowings.

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**c) Categories of Financial Instruments**

	<i>At 30 Sep 2018</i>	<i>At 30 Sep 2017</i>
<b>Financial assets</b>	<b>1 089</b>	<b>888</b>
Financial derivatives recognised as hedging	1	7
Loans receivable	42	95
Current loans and receivables (including cash and cash equivalents)	548	294
Other current assets	490	484
Available-for-sale financial assets	8	8
<b>Financial liabilities</b>	<b>2 459</b>	<b>2 506</b>
Financial derivatives recognised as hedging	109	7
Financial liabilities carried at amortised costs	2 350	2 499

**d) Estimated Fair Value**

The fair values of publicly-traded derivatives, investments at fair value through profit and loss, and available-for-sale securities are based on the quoted market prices at the reporting date.

The fair value of interest swaps is calculated as the present value of estimated future cash flows. The fair value of forward currency contracts was determined using forward exchange rates at the reporting date. The fair value of interest swap contracts is determined using forward interest rates at the reporting date. The fair value of commodity swaps is determined using forward commodity prices and forward exchange rates as at the reporting date.

The fair value of ordinary shares not in book-entry form has been estimated using a valuation technique based on assumptions that they are not supported by observable market prices. The valuation requires management to make estimates of the expected future cash flows from shares that are discounted at current rates.

The estimated fair values of other instruments, mainly current financial assets and liabilities, approximate their carrying amounts.

The following table provides an analysis of financial instruments that, upon initial revaluation, are subsequently recognised at fair value, in accordance with the fair value hierarchy.

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

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

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

<b>30 September 2018</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets at fair value</b>	-	1	8	9
Financial derivatives recognised as hedging	-	1	-	1
Available-for-sale financial assets	-	-	8	8
<b>Financial liabilities at fair value</b>	-	109	-	109
Financial derivatives recognised as hedging	-	109	-	109
<b>30 September 2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets at fair value</b>	-	7	8	15
Financial derivatives recognised as hedging	-	7	-	7
Available-for-sale financial assets	-	-	8	8
<b>Financial liabilities at fair value</b>	-	7	-	7
Financial derivatives recognised as hedging	-	7	-	7

**Embedded Derivative Instruments**

The Group entered into long-term contracts for natural gas transmission denominated in USD and EUR.

Transmission contracts denominated in euros were denominated in the currency of the primary economic environment and so these contracts were not regarded as a host contract with an embedded derivative under the requirements of IAS 39. Hence, in accordance with IAS 39 (as revised in December 2003), the Group does not recognise embedded derivatives separately from the host contract. Transmission contracts denominated in US dollars are denominated in the currency that is commonly used in contracts to purchase or sell non-financial items in the economic environment of Slovakia in respect of business relations with external parties. Hence, in accordance with IAS 39 (as revised in December 2003), the Group does not recognise embedded derivatives separately from the host contract.

The Group has assessed all other significant contracts and agreements for embedded derivatives that must be recorded. The Group concluded that there are no embedded derivatives in these contracts and agreements that are required to be measured and recognised separately as at 30 September 2018 and 30 September 2017 under the requirements of IAS 39 (as revised in December 2009).

## Derivative Instruments Recognised as Hedges

Effective hedging includes commodity swaps, which are used to hedge against the risk of future movements in the prices of crude oil and natural gas and interest rate swaps which are used to hedge against credit risk arising from variable interest on bank loans.

## 6. INVESTMENTS RECOGNISED USING THE EQUITY METHOD

<i>Joint ventures</i>	<i>At 30 Sep 2018</i>	<i>At 30 Sep 2017</i>
Cost	-	19
Share of post-acquisition profit, net of dividends received	-	32
<b>Net book value</b>	<b>-</b>	<b>51</b>

The Group's investments in associates as at 30 September 2018 can be summarised as follows:

<i>Name</i>	<i>Seat</i>	<i>Ownership interest % as at 30 Sep 2018</i>	<i>Ownership interest % as at 30 Sep 2017</i>	<i>Principal activity</i>	<i>Value under equity method at 30 Sep 2018*</i>	<i>Value under equity method at 30 Sep 2017*</i>
SLOVGEOTERM, a. s.	Palisády 39, Bratislava, Slovakia	50.00	50.00	Geothermal energy	EUR 115 thousand	EUR 115 thousand

\*The value under the equity method is an estimate, as the final financial statements of the subsidiary were not available to the parent company as at the reporting date.

The Group's joint ventures as at 30 September 2018 can be summarised as follows:

<i>Name</i>	<i>Seat</i>	<i>Ownership interest % as at 30 Sep 2018</i>	<i>Ownership interest % as at 30 Sep 2017</i>	<i>Principal activity</i>	<i>Value under equity method at Sep 2018</i>	<i>Value under equity method at Sep 2017</i>
POZAGAS a. s. <sup>(1)</sup>	Malé námestie 1, Malacky, Slovakia	100.00	70.00	Gas storage	-	51
CNG Holdings Netherlands B.V. <sup>(2)</sup>	Strawinskylaan 1263, 1077XX Amsterdam, Netherlands	50.00	50.00	Holding company	-	-
CNG LLC <sup>(2)</sup>	5 km, Taynya street, village of Vovkove, Uzhgorod, District, Zakarpattya Region, 89452, Ukraine	50.00	50.00	Exploration and production	-	-

<sup>(1)</sup> Shareholding held by SPP Infrastructure, a. s. (35%) and NAFTA a.s. (65%). In December 2017, NAFTA a.s. increased its existing share (35%) in POZAGAS a.s. to 65%. Together with the direct equity share of 35%, the SPP Infrastructure, a. s. Group holds a 100% share and gained control over POZAGAS a.s. As a result, SPP Infrastructure, a. s. recognises the share in POZAGAS a.s. as an investment in the subsidiary as at 31 December 2017. This date is considered to be the moment of the first consolidation.

<sup>(2)</sup> Shareholding held by NAFTA a.s. companies (50%).

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The following amounts represent the Group's share of the assets, liabilities, revenues, and expenses of joint ventures:

	<i>At 30 Sep 2018</i>	<i>At 30 Sep 2017</i>
Non-current assets	-	28
Current assets	-	35
<b>Total assets</b>	<b>-</b>	<b>63</b>
Non-current liabilities	-	10
Current liabilities	-	2
<b>Total liabilities</b>	<b>-</b>	<b>12</b>
<b>Net assets</b>	<b>-</b>	<b>51</b>
	<i>12-month period ended 30 Sep 2018</i>	<i>3-month period ended 30 Sep 2017</i>
Revenues	-	5
Profit before income taxes	-	(3)
Income tax including deferred tax	-	-
<b>Profit after tax</b>	<b>-</b>	<b>(3)</b>

## **7. LOANS RECEIVABLE**

In 2015, NAFTA a.s. provided to their direct shareholders (Czech Gas Holding) a long-term loan with variable interest rate and maturity in 2019. The loan balance as at 30 September 2018 amounted to EUR 97 million (30 September 2017: EUR 95 million). As at 30 September 2018, the loan receivable was reclassified to current receivables as the loan falls due in 2019.

## **8. OTHER CURRENT ASSETS**

Deposits provided to the shareholders are recognised by the Company as other current assets. The balance of the deposits provided to the shareholders as at 30 September 2018 amounted to EUR 490 million (30 September 2017: EUR 484 million).

## **9. OTHER NON-CURRENT ASSETS**

Available-for-Sale Non-current Investments and Other Investments included in the line Other non-current assets comprise:

	<i>At 30 Sep 2018</i>	<i>At 30 Sep 2017</i>
Cost	9	9
Impairment	-	-
<b>Closing balance, net</b>	<b>9</b>	<b>9</b>

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Shareholdings represent equity investments in the following companies:

<i>Name</i>	<i>Seat</i>	<i>Ownership interest %</i>		<i>Principal activity</i>
		<i>At 30 Sep 2018</i>	<i>At 30 Sep 2017</i>	
AUTOKAC, s. r. o., Hodonín <sup>(1)</sup>	Velkomoravská 83, Hodonín, Czech Republic	42.00	42.00	Dormant
GALANTATERM, spol. s r. o. <sup>(4)</sup>	Vodárenská ul. č. 1608/1, Galanta, Slovakia	17.50	17.50	Geothermal energy
SPP – distribúcia Servis, s.r.o. <sup>(2)</sup>	Oslobodenia 1068/50, Malacky, Slovakia	100.00	100.00	Production and service of gas facilities
Plynárenská metrológia, s.r.o. <sup>(4)</sup>	Mlynské Nivy 44/b, Bratislava, Slovakia	100.00	100.00	Service of gas facilities
Central European Gas HUB AG („CEGH“) <sup>(3)</sup>	Austria	15.00	15.00	Mediation of trade in natural gas
eastring B.V. <sup>(3)</sup>	Netherlands	100.00	100.00	Holding activities
Karotáže a Cementace, s.r.o. <sup>(6)</sup>	Velkomoravská 2606/83, Hodonín, Czech Republic	51.00	51.00	Logging and cementing

<sup>(1)</sup> shareholding held by NAFTA a. s.

<sup>(2)</sup> shareholding held by SPP – distribúcia, a. s.

<sup>(3)</sup> shareholding held by eustream, a. s., immaterial subsidiary

<sup>(4)</sup> shareholding held by SPP Infrastructure, a. s., immaterial subsidiary

<sup>(5)</sup> shareholding held by NAFTA a.s.



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**10. PROPERTY, PLANT AND EQUIPMENT**

**3-month reporting period ended 30 Sep 2017**

	Gas pipelines	Land and buildings	Plant and machinery	Other non-current tangible assets	Assets in the course of construction	Total
Opening net book value	3 848	346	598	34	33	4 859
Additions	-	-	-	-	10	10
Placed into service	6	-	3	-	(10)	(1)
Reclassifications	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Depreciation charge	(28)	(4)	(13)	-	-	(45)
FX gains/losses	-	1	-	-	-	1
Provisions and reserves	-	1	-	-	-	1
<b>Closing net book value</b>	<b>3 826</b>	<b>344</b>	<b>588</b>	<b>34</b>	<b>33</b>	<b>4 825</b>

**30 Sep 2017**

Cost	4 729	609	1 036	85	69	6 528
Provisions and accumulated depreciation	(903)	(265)	(448)	(51)	(36)	(1 703)
<b>Net book value</b>	<b>3 826</b>	<b>344</b>	<b>588</b>	<b>34</b>	<b>33</b>	<b>4 825</b>

**Year ended 30 September 2018**

Opening net book value	3 826	344	588	34	33	4 825
Additions	1	-	-	-	62	63
Placed into service	33	2	9	-	(45)	(1)
Reclassifications	-	-	-	-	-	-
Disposals	-	-	(3)	-	(4)	(7)
Depreciation charge	(118)	(11)	(50)	(1)	-	(180)
FX gains/losses	-	1	-	-	-	1
Provisions and reserves	(9)	(1)	-	(1)	3	(8)
Additions from the acquisition of subsidiaries	-	27	1	8	1	37
<b>Closing net book value</b>	<b>3 733</b>	<b>362</b>	<b>545</b>	<b>40</b>	<b>50</b>	<b>4 730</b>

**30 Sep 2018**

Cost	4 756	632	1 030	90	81	6 589
Provisions and accumulated depreciation	(1 023)	(270)	(485)	(50)	(31)	(1 859)
<b>Net book value</b>	<b>3 733</b>	<b>362</b>	<b>545</b>	<b>40</b>	<b>50</b>	<b>4 730</b>

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Exploration wells are recognised as assets in the course of construction. NAFTA recorded a provision for exploration wells, the success of which was uncertain or which were impaired, and for facilities the construction of which was suspended. In the year ended 30 September 2018, the Company did not capitalise the costs of hydrocarbon reserves exploration (year ended 30 September 2017: EUR 0 million).

As at 30 September 2018, NAFTA has reassessed the impairment of property, plant and equipment in accordance with IAS 36 "Impairment of Assets" on the basis of an evaluation of their future use, disposal, or sale. NAFTA has determined the amount of the provision on the basis of the present value of future cash flows, a liquidation plan, the estimated sale price or sale price of other assets. A discount rate of 12% was used to calculate the present value of future cash flows of the "hydrocarbon production and exploration" cash-generating unit. The carrying amount of this cash-generating unit based on the recoverable amount as at 30 September 2018 is EUR 3 million.

As at 30 September 2018 and 30 September 2017, the Group had no restricted right to handle non-current tangible assets.

The cost of fully depreciated non-current assets (also includes non-current intangible assets), which were in use as at 30 September 2018, amounts to EUR 264 million (30 September 2017: EUR 223 million).

**Type and amount of insurance of non-current intangible and tangible assets**

<i>Insured assets</i>	<i>Type of insurance</i>	<i>Cost of insured assets</i> <i>30 Sep 2018</i>	<i>30 Sep 2017</i>	<i>Name and seat of the insurance company</i>
Buildings, halls, structures, machinery, equipment, fittings & fixtures (except for gas pipelines)	Insurance of assets	1 872	1 867	Allianz-Slovenská poisťovňa, a.s. Kooperativa, a.s., ČSOB Poisťovňa, a.s., MSIG Insurance Europe AG
Movables, assets, inventories	Insurance of assets	69	-	Allianz-Slovenská poisťovňa, a.s. Kooperativa, a.s., ČSOB Poisťovňa, a.s., MSIG Insurance Europe AG
Motor vehicles	MTPL, motor vehicle insurance against damage, destruction, theft	9	6	Allianz-Slovenská poisťovňa, a.s. Kooperativa poisťovňa, a.s., Generali

**11. INVENTORIES**

	<i>At 30 Sep 2018</i>	<i>At 30 Sep 2017</i>
Natural gas	153	173
Raw materials and other inventories	20	19
Provisions	(8)	(8)
<b>Total</b>	<b>165</b>	<b>184</b>

**12. RECEIVABLES AND PREPAYMENTS**

	<i>At 30 Sep 2018</i>	<i>At 30 Sep 2017</i>
Trade receivables from transmission activities	42	46
Receivables from distribution activities	26	28
Receivables from storage and other activities	6	5
Receivables from financial derivatives	-	7
Prepayments and other receivables	151	11
Other tax assets	1	1
<b>Total</b>	<b>226</b>	<b>98</b>

All amounts are receivables within one year.

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Receivables and prepayments are shown net of provisions for bad and doubtful receivables in the amount of EUR 1 million (30 September 2017: EUR 1 million).

As at 30 September 2018, the Group recorded due receivables in the amount of EUR 219 million and overdue receivables in the amount of EUR 8 million, excluding provisions. (As at 30 September 2017: due and overdue receivables in the amount of EUR 98 million and EUR 1 million respectively).

Movements in the provision for bad and doubtful receivables were as follows:

	<i>At 30 Sep 2018</i>	<i>At 30 Sep 2017</i>
Net opening balance	1	1
Use of provision	-	-
Release of provision	-	-
Additions to provision	-	-
<b>Closing balance</b>	<b>1</b>	<b>1</b>

Overdue receivables that were not provided for:

	<i>At 30 Sep 2018</i>	<i>At 30 Sep 2017</i>
Less than 2 months	7	-
2 to 3 months	-	-
3 to 6 months	-	-
6 to 9 months	-	-
9 to 12 months	-	-
More than 12 months	-	-
<b>Total</b>	<b>7</b>	<b>-</b>

Overdue receivables that were provided for:

	<i>At 30 Sep 2018</i>	<i>At 30 Sep 2017</i>
Less than 2 months	-	-
2 to 3 months	-	-
3 to 6 months	-	-
6 to 9 months	-	-
9 to 12 months	-	-
More than 12 months	1	1
<b>Total</b>	<b>1</b>	<b>1</b>

### **13. CASH AND CASH EQUIVALENTS**

As at 30 September 2018, the balance of EUR 324 million comprises cash in bank accounts, which the Group can handle freely. The balance recognised as at 30 September 2017 amounted to EUR 204 million.

### **14. DEFERRED INCOME**

	<i>At 30 Sep 2018</i>	<i>At 30 Sep 2017</i>
Net opening balance	22	21
Assets acquired during the period	1	1
Received subsidies	55	-
Amortisation during the period	-	-
(included in other operating expenses, net)	(1)	-
<b>Net closing balance</b>	<b>77</b>	<b>22</b>

Several items of gas equipment were obtained "free of charge" from municipal and local authorities. This equipment was recorded as property, plant, and equipment at the costs incurred by the municipal and local authorities with a corresponding amount recorded as deferred income. This deferred income is released in the income statement on a straight-line basis in the amount of depreciation charges of non-current tangible assets acquired free of charge.

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Deferred income also includes allocated subsidies from the European Commission related to projects of reverse flows of KS 4 and Plavecký Peter gas pipelines, interconnection pipelines between Hungary and Slovakia, and Poland and Slovakia, a project of investments to decrease KS 3 and KS 4 emissions (DLE) and the easting project.

**15. RETIREMENT AND OTHER LONG-TERM EMPLOYEE BENEFITS**

The long-term employee benefits program was launched in 1995. This is a defined benefit program, under which employees are entitled to a lump-sum payment upon old age or disability retirement and, subject to vesting conditions, life and work jubilee payments. During 2014, the Group signed a new collective agreement under which employees are entitled to a retirement benefit based on the number of years with the Group at the date of retirement. The benefits range from one month to six months of the employee's average salary. As at 30 September 2018 and 30 September 2017, the obligation relating to retirement and other long-term employee benefits was calculated on the basis of valid collective agreements in the given years.

As at 30 September 2018, 2 526 (30 September 2017: 2 564) employees of the Group were covered by this program. As of that date, it was an unfunded program with no separately-allocated assets to cover the program's liabilities.

Movements in net liability recognised in the balance sheet for the year ended 30 September 2018 are as follows:

	<i>Long-term benefits</i>	<i>Post- employment benefits</i>	<i>Total benefits at 30 Sep 2018</i>	<i>Total benefits at 30 Sep 2017</i>
Net opening balance	1	10	11	11
Change in actuarial assumptions	-	1	1	-
Net expense recognised	-	-	-	-
Benefits paid	-	-	-	-
<b>Net liabilities</b>	<b>1</b>	<b>11</b>	<b>12</b>	<b>11</b>
	<i>Current liabilities (included in other current liabilities)</i>	<i>Non-current liabilities</i>	<i>Total</i>	
At 30 September 2018	-	12	12	
At 30 September 2017	-	11	11	

**Key assumptions used in the actuarial valuation:**

	<i>At 30 Sep 2018</i>	<i>At 30 Sep 2017</i>
Market yield on government bonds	0.888% - 1.24%	0.834% - 1.49%
Annual future real rate of salary increases	2%	2% - 2.17%
Annual employee turnover	2.63%	2.63%
Retirement ages (male and female) <sup>(1)</sup>	-	-

<sup>(1)</sup> The retirement age will gradually be increased by a specified number of days calculated annually based on average life expectancy for both men and women as identified by the Statistical Office of the Slovak Republic. The currently applicable calculation is: retirement age in the previous calendar year + the specified number of days. Based on Statistical Office data, the "specified number of days" was 139.

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**16. PROVISIONS FOR LIABILITIES**

Movements in the provisions for liabilities are summarised as follows:

	<i>Environ- mental provisions</i>	<i>Other</i>	<i>Total provisions at 30 Sep 2018</i>	<i>Total provisions at 30 Sep 2017</i>
Balance at 1 October	115	-	115	114
Additions	1	-	1	-
Additions from the acquisition of subsidiaries	11	-	11	-
Effect of discounting	3	-	3	1
Movement	(2)	1	(1)	-
Use	(1)	-	(1)	-
Reversal	(5)	-	(2)	-
<b>Closing balance</b>	<b>122</b>	<b>1</b>	<b>123</b>	<b>115</b>

	<i>Current provisions (included in provisions and other current liabilities)</i>	<i>Non-current provisions</i>	<i>Total provisions</i>
At 30 September 2018	13	110	123
At 30 September 2017	4	111	115

**a) Environmental Provisions**

Provisions in the amount of EUR 123 million as at 30 September 2018 are recorded in respect of the decontamination of contaminated soil, the liquidation of exploration and storage wells, and the recultivation and restoration of sites to their original condition. eustream has obligations in respect of decontaminating contaminated soil caused by compressor stations and old natural gas facilities powered by coal. NAFTA, SPP Storage and Pozagas have obligations in respect of the liquidation of exploration and storage wells, centres and reclamation and restoration of related sites.

*NAFTA's Obligations, SPP Storage and Pozagas*

NAFTA currently has 141 production wells in addition to 244 storage wells, Pozagas has 114 storage wells and SPP Storage has 41 storage wells. Production wells that are currently in production or are being used for other purposes are expected to be abandoned after reserves have been fully produced or when it is determined that the wells will not be used for any other purposes. Storage wells are expected to be abandoned after the end of their useful lives. The companies are obliged to dismantle production and storage wells, decontaminate contaminated soil, restore the area, and restore the site to its original condition to the extent stipulated by law.

The provision for abandonment and restoration has been estimated using existing technology and reflects expected future inflation. The present value of these costs was calculated using a discount rate, which reflects the current market assessment of the time value of money and risks specific to the liability (2.15%); NAFTA 2.15%, SPP Storage 2.48% and Pozagas 2.15%. The provision takes into account the estimated costs for the abandonment of production and storage wells and centres, and the costs of restoring the sites to their original condition. These costs are expected to be incurred between 2017 and 2093.

*Obligations of eustream*

In 2011, a project for the identification of environmental loads on all compressor stations ("CS") operated by the Company took place. Oil and condensate from gas transportation pollution was confirmed on all compressor stations. A partial decontamination in areas apart from gas facilities in operation took place on three of them (CS01, CS02, CS03). The pollution detected at all compressor stations concerns the soil underneath the 6MW turbo machinery halls. The Company recognised the provision for decontamination works based on current existing technologies and prices adjusted for expected inflation factor at amortised costs. Discount rate taken into consideration reflected the current market assessments of the time value of money and the risk specific factors (rate of approximately 0.949% was used).

**b) Other Provisions**

The Company records no other provisions as at 30 September 2018 and 30 September 2017. See also Note 28.

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**17. INTEREST-BEARING BORROWINGS**

<b>30 September 2018</b>	<b>30 Sep 2018 Secured</b>	<b>30 Sep 2018 Unsecured</b>	<b>30 Sep 2018 Total</b>
Bank loans	-	385	385
Bonds	-	1 759	1 759
<b>Total borrowings</b>	<b>-</b>	<b>2 144</b>	<b>2 144</b>
<b>Borrowings by currency</b>			
EUR			
- with fixed interest rate	-	1 759	1 759
- with variable interest rate	-	385	385
<b>Total borrowings</b>	<b>-</b>	<b>2 144</b>	<b>2 144</b>
<b>Borrowings are due as follows:</b>			
Less than 1 year	-	193	193
1 to 2 years	-	-	-
2 to 5 years	-	1 376	1 376
More than 5 years	-	575	575
<b>Total borrowings</b>	<b>-</b>	<b>2 144</b>	<b>2 144</b>
<b>30 September 2017</b>	<b>30 Sep 2017 Secured</b>	<b>30 Sep 2017 Unsecured</b>	<b>30 Sep 2017 Total</b>
Bank loans	-	429	429
Bonds	-	1 756	1 756
<b>Total borrowings</b>	<b>-</b>	<b>2 185</b>	<b>2 185</b>
<b>Borrowings by currency</b>			
EUR			
- with fixed interest rate	-	1 756	1 756
- with variable interest rate	-	429	429
<b>Total borrowings</b>	<b>-</b>	<b>2 185</b>	<b>2 185</b>
<b>Borrowings are due as follows:</b>			
Less than 1 year	-	61	61
1 to 2 years	-	-	-
2 to 5 years	-	1 549	1 549
More than 5 years	-	575	575
<b>Total borrowings</b>	<b>-</b>	<b>2 185</b>	<b>2 185</b>

**Summary of Group's bonds:**

In February 2015, SPP Infrastructure Financing, B.V. (subsidiary) issued bonds of EUR 500 million bearing a fixed interest rate of 2.625% p. a. and falling due on 10 February 2025, a guarantee was provided by eustream, a.s.

In June 2014, SPP – distribúcia, a.s. (subsidiary) issued bonds of EUR 500 million bearing a fixed rate of 2.625% p.a. and falling due on 23 June 2021.

In 2013, SPP Infrastructure Financing, B.V. (subsidiary) issued bonds of EUR 750 million bearing a fixed interest rate of 3.75% p. a. and falling due on 18 July 2020; a guarantee was provided by eustream, a.s.

**Summary of Group's bank loans:**

Long-term loans denominated in euros in the amount of EUR 55 million, EUR 80 million and EUR 75 million bear an interest rate consisting of a variable portion (3M EURIBOR) and a fixed margin in % p.a. The loans falls due in 2020, 2024 and 2021, respectively and are not secured by any assets.

In 2015, NAFTA a.s. concluded the contract for a long-term credit facility totalling EUR 250 million (the balance of the undrawn credit facility is EUR 75 million as at 30 September 2018). The long-term credit facility consists of a fixed portion in the amount of EUR 175 million, which falls due in 2019, and a variable portion (revolving loan) that is renewed every three months with final maturity in 2019. The loans are denominated in EUR with a variable interest rate. The loans are not secured by any assets.

In 2017, eustream, a.s. concluded a contract for a credit facility totalling EUR 220 million and the balance of the undrawn credit facility is EUR 220 million as at 30 September 2018.

The Group's loans were not secured by any pledges over assets.

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Interest rates on loans and bonds:

	<b>30 Sep 2018</b>	<b>30 Sep 2017</b>
EUR		
– with a fixed rate	2.625%; 3.75%	2.625%; 3.75%
– with a variable rate	3M EURIBOR plus margin	3M EURIBOR plus margin

The carrying amount and fair value of loans and bonds:

	<b>Carrying amount</b>		<b>Fair value</b>	
	<b>30 Sep 2018</b>	<b>30 Sep 2017</b>	<b>30 Sep 2018</b>	<b>30 Sep 2017</b>
Loans	385	429	391	438
Bonds	1 759	1 756	1 787	1 793
<b>Total</b>	<b>2 144</b>	<b>2 185</b>	<b>2 178</b>	<b>2 231</b>

## 18. TRADE AND OTHER PAYABLES

	<b>30 Sep 2018</b>	<b>30 Sep 2017</b>
Trade payables from transmission and distribution of natural gas	59	57
Other trade payables	52	34
Other liabilities	60	185
Employee liabilities	11	11
Social security and other taxes	6	6
Payables from financial derivatives	69	7
<b>Total</b>	<b>257</b>	<b>300</b>

As at 30 September 2018, the Group recognised payables within maturity in the amount of EUR 257 million (30 September 2017: EUR 300 million, of which EUR 154 million was a liability to the shareholders due to unpaid dividends) and no overdue payables (30 September 2017: EUR 0).

The Group has no significant liability secured by a pledge or any other form of collateral.

## 19. EQUITY

### Share Capital

Following the establishment of the legal group, the share capital is shown in the consolidated statement of the financial position as at 30 September 2018 and 30 September 2017. The increase in registered capital was made by SPP, the former parent company by an in-kind contribution of financial investments (see Note 1) in May 2014, when the new group was formally established, with a face value of EUR 4 922 783 042. Share capital was decreased on 30 December 2014 by EUR 1 259 416 105 based on a shareholders' decision.

As at 30 September 2018, the share capital consisted of fully paid shares: two shares held by SPP, a.s. – 1 868 292 262 shares with a face value of EUR 1 and one share with a face value of EUR 25 000, and shares held by SGH – 1 795 049 674 shares with a face value of EUR 1.

### Legal Reserve Fund and Other Funds

As at 30 September 2018, other reserves represent the legal reserve fund, which has been created as part of the in-kind contribution. The reserve is created from retained earnings to cover possible future losses or increases in the registered capital. Transfers of at least 10% of the current year's profit (as presented in the individual financial statements) are required to be made until the reserve is equal to at least 20% of the registered capital.

Other funds and reserves in equity are not distributable to the Group's shareholders.

Non-controlling interests primarily represent an interest in NAFTA directly held by EPH.



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Hedging Reserves

Hedging reserves represent gains and losses arising from cash flow hedging.

	<b>Year ended 30 Sep 2018</b>	<b>3-month period ended 30 Sep 2017</b>
<b>Opening balance</b>	<b>1</b>	<b>9</b>
Gain/loss from cash flow hedging	(124)	(6)
Currency forwards	-	(1)
Commodity swap contracts	(115)	(5)
Commodity forwards	(5)	-
Interest rate swap contracts	(4)	-
Income tax applicable to gains/losses recognised through equity	26	1
Transfers to profit and loss	20	(4)
Currency forwards	-	-
Commodity swap contracts	20	(4)
Interest rate swaps	-	-
Income tax related to transfers to profit and loss	(4)	1
<b>Closing balance</b>	<b>(81)</b>	<b>1</b>

A hedging reserve represents a cumulative accrued portion of gains and losses arising from a change in the fair value of hedging instruments concluded for cash flow hedging purposes. A cumulative gain or loss arising from a change in the fair value of hedging derivatives recognised and accrued in the hedging reserve is reclassified to profit or loss provided that the hedged transaction has an effect on the income statement or is included as an adjustment of the base in the hedged non-financial item in accordance with the applicable accounting procedures.

Gains/(losses) arising from a change in the fair value of the hedging instruments transferred during the current and previous period from equity to profit or loss are disclosed in the line Transmission of natural gas of the income statement.

Distributable retained earnings

Distributable retained earnings are based on retained earnings of individual statutory financial statements of SPP Infrastructure, a. s.

**20. REVENUES**

	<b>Year ended 30 Sep 2018</b>	<b>3-month period ended 30 Sep 2017</b>
Core business revenues	1 316	308
of which:		
Natural gas transmission revenues	771	201
Distribution of natural gas	392	71
Gas storage	131	31
Sale of hydrocarbons	22	5
Other revenues	15	12
<b>Total revenues</b>	<b>1 331</b>	<b>320</b>

Core business revenues consist of distribution, transmission and storage fees and revenues from exploration and production of natural gas and the sale of hydrocarbons. These activities represent the primary activities of the Group and are therefore disclosed separately.

Other revenues consist of revenues from commodity hedging derivatives, excess capacity fees, penalties, connection fees, underground well repairs and other activities which are not core Group activities.

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**21. SERVICES**

	<i><b>Year ended 30 Sep 2018</b></i>	<i><b>3-month period ended 30 Sep 2017</b></i>
Repair and maintenance	10	3
Service level agreements with SPP	4	1
Other services of production nature	1	2
Lease of transportation means	5	1
Travel expenses	2	-
Advisory	2	1
Costs of IT services and operating expenses	5	1
Insurance premium	1	1
Other	20	4
<b>Total services</b>	<b>50</b>	<b>14</b>

The costs of service level agreements with SPP include management services, IT services and rental payments for headquarter buildings.

Other services relate mainly to seismic activities and transportation.

The cost of audit services in thousand EUR are as follows:

	<i><b>Year ended 30 Sep 2018</b></i>	<i><b>3-month period ended 30 Sep 2017</b></i>
Audit of financial statements	158	16
Other assurance services	92	-
Tax advisory services	-	-
Other related services provided by the auditor	4	-
<b>Total</b>	<b>254</b>	<b>16</b>

**22. STAFF COSTS**

	<i><b>Year ended 30 Sep 2018</b></i>	<i><b>3-month period ended 30 Sep 2017</b></i>
Wages, salaries and bonuses	67	15
Social security costs	25	5
Other social security costs and severance pay	5	1
<b>Total staff costs</b>	<b>97</b>	<b>21</b>

The Group is required by law to make social security contributions amounting to 35.2% of salary bases, up to a maximum amount ranging from EUR 1–4 thousand per employee, depending on the type of insurance. Employees contribute an additional 13.4% of the relevant base up to the above limits.

**23. FINANCE INCOME**

	<i><b>Year ended 30 Sep 2018</b></i>	<i><b>3-month period ended 30 Sep 2017</b></i>
Interest income	3	1
Gain on the sale of investments	-	-
Dividend income	1	-
Change in fair value of derivatives	(1)	-
<b>Total investment income</b>	<b>3</b>	<b>1</b>

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**24. FINANCE COSTS**

	<i>Year ended 30 Sep 2018</i>	<i>3-month period ended 30 Sep 2017</i>
Interest expense	68	16
Foreign exchange losses	(1)	-
Other	-	-
<b>Total finance costs</b>	<b>67</b>	<b>16</b>

Interest expense represents interests related to issued bonds and bank loans (Note 17).

**25. TAXATION**

**25.1. Income Tax**

Income tax comprises the following:

	<i>Year ended 30 Sep 2018</i>	<i>3-month period ended 30 Sep 2017</i>
Current income tax	167	43
Special levy on business in regulated industries	67	19
Deferred special levy (Note 25.2)	1	-
Deferred income tax (Note 25.2)	-	(2)
- current year	-	(2)
Effect of a change in the income tax rate on deferred tax	-	-
<b>Total</b>	<b>235</b>	<b>60</b>

The reconciliation between the reported income tax and the theoretical amount calculated using the standard tax rates is as follows:

	<i>Year ended 30 Sep 2018</i>	<i>3-month period ended 30 Sep 2017</i>
Profit before taxation	860	205
Income tax at 21%	181	43
Effect of adjustments from permanent differences between carrying amount and tax value of assets and liabilities	(15)	(2)
Effect of a change in the income tax rate (rate of 21% valid since 1 January 2017)	-	-
Special levy on business in regulated industries	67	19
Deferred special levy	1	-
Other adjustments	1	-
<b>Income tax for the year</b>	<b>235</b>	<b>60</b>

The actually recognised tax rate differs from the tax rate stipulated by law of 21% due to adjustments to the tax base in respect of the current income tax for items increasing and decreasing the tax base pursuant to the valid tax legislation. Such adjustments mainly include tax non-deductible provisions for liabilities and provisions for assets and a difference between tax and accounting depreciation charges of non-current assets.

Pursuant to the requirements of IFRS, the income tax also includes a special levy on business in regulated industries pursuant to a special regulation (Note 3t).

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**25.2. Deferred Income Tax**

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

	<b>At 1 Oct 2017</b>	<b>Charge to equity for the period</b>	<b>Transfer</b>	<b>(Charge)/credit to profit for the period</b>	<b>At 30 Sep 2018</b>
Diff. between tax and acc. depreciation	(796)	(4)	-	2	(798)
Derivatives	-	23	-	-	23
Provision for recultivation and liquidation	24	1	-	-	25
Impairment	11	-	-	-	11
Other	5	-	-	(1)	4
Special levy	7	-	-	(2)	5
<b>Total</b>	<b>(749)</b>	<b>20</b>	<b>-</b>	<b>(1)</b>	<b>(730)</b>

	<b>At 1 Jul 2017</b>	<b>Charge to equity for the period</b>	<b>Transfer</b>	<b>(Charge)/credit to profit for the period</b>	<b>At 30 Sep 2017</b>
Diff. between tax and acc. depreciation	(797)	-	-	1	(796)
Derivatives	(3)	3	-	-	-
Provision for recultivation and liquidation	24	-	-	-	24
Impairment	11	-	-	-	11
Other	5	-	-	-	5
Special levy	7	-	-	-	7
<b>Total</b>	<b>(753)</b>	<b>3</b>	<b>-</b>	<b>1</b>	<b>(749)</b>

In line with the Company's accounting policies, certain deferred tax assets and liabilities were offset. As required by International Accounting Standards, deferred tax also includes a deferred special levy on business in regulated industries under a special regulation. [See Note 2 t)]. The table below shows the balances (after offsetting) of deferred tax to be recognised in the balance sheet:

	<b>30 Sep 2018</b>	<b>30 Sep 2017</b>
Deferred tax liability (Note 25.2)	(735)	(756)
Deferred special levy	5	7
<b>Total</b>	<b>(730)</b>	<b>(749)</b>

**26. TAX EFFECTS IN THE STATEMENT OF OTHER COMPREHENSIVE INCOME**

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

<b>Year ended 30 Sep 2018</b>	<b>Before tax</b>	<b>Tax</b>	<b>After tax</b>
Change in foreign currency translation reserve	1	-	1
Hedging derivatives (Cash flow hedging)	(107)	22	(85)
<b>Other comprehensive income for the period</b>	<b>(106)</b>	<b>22</b>	<b>(84)</b>

<b>3-month reporting period ended 30 September 2017</b>	<b>Before tax</b>	<b>Tax</b>	<b>After tax</b>
Change in foreign currency translation reserve	3	-	3
Hedging derivatives (Cash flow hedging)	(11)	3	(8)
<b>Other comprehensive income for the period</b>	<b>(8)</b>	<b>3</b>	<b>(5)</b>

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**27. CASH FLOWS FROM OPERATING ACTIVITIES**

	<b>Year ended 30 Sep 2018</b>	<b>Year ended 30 Sep 2017</b>
Operating profit	938	220
Adjustments for:		
Depreciation and amortisation	185	45
Provisions and other non-cash items	10	(1)
Impairment losses	4	5
Non-cash settlement of financial derivatives	11	1
Profit from sale of non-current assets	2	-
(Increase)/decrease in receivables and prepayments	(37)	(8)
(Increase)/decrease in inventories	3	(8)
Increase/(decrease) in trade and other payables	-	(3)
Other assets/liabilities	-	-
Other non-cash transactions	13	(13)
<b>Cash flows from operating activities</b>	<b>1 129</b>	<b>238</b>

**28. COMMITMENTS AND CONTINGENCIES**

**Capital Expenditure Commitments**

As at 30 September 2018, capital expenditure of EUR 143 million (30 September 2017: EUR 78 million) was committed under contractual arrangements for the acquisition of non-current assets, but were not recognised in these consolidated financial statements.

**Loan Commitments**

As at 30 September 2018 and 30 September 2017, the Company recognised a contingent liability – provided loan commitment in the amount of EUR 500 million to Slovenský plynárenský priemysel, a.s. and EUR 480 million to Slovak Gas Holding B.V. under a borrowing agreement.

**Operating Lease Arrangements**

The Group leases transport means under an operating lease contract. The contract is made for four years and the Group has no option to purchase the assets after the expiry of the term of the lease. The lease payments amounted to EUR 5 million in the reporting period ended 30 September 2018 (30 September 2017: EUR 1 million).

Non-cancellable operating lease payables amount to:

<b>Year</b>	<b>30 Sep 2018</b>	<b>30 Sep 2017</b>
Within 1 year	5	5
From 1 to 5 years	8	9
More than 5 years	-	-
<b>Total</b>	<b>13</b>	<b>14</b>

**Natural Gas Transmission**

Access to the transmission network and transmission services are provided by eustream, a.s. under the contracts which are governed by a *ship-or-pay principle*. The major user of the network (shipper) is a prominent Russian shipper of gas, followed by other customers, usually leading European gas companies transmitting gas from Russian and Asian reservoirs to Europe. The major part of the transmission capacity is ordered on the basis of long-term contracts. In addition, eustream, a.s., within the *entry-exit* system, also concludes short-term transmission contracts.

Transmission fees are paid to eustream, a.s. accounts by the relevant shipper. Tariffs have been fully regulated since 2005. The regulator annually issues pricing decisions for the relevant regulation period based on a proposal submitted by eustream, a.s.

On the basis of the regulated business and pricing terms, shippers also provide eustream, a.s. with a portion of the tariffs in-kind as gas for operating purposes, covering gas consumption during the operation of the transmission network. This portion of the tariff can also be provided by shippers in monetary form in compliance with the regulated business and pricing terms.

#### **Natural Gas Storage Contracts**

The Group stores natural gas at two storage locations in Slovakia and the Czech Republic. The gas storage facilities are operated by the subsidiary, NAFTA a.s., and the joint venture, POZAGAS a.s., in Slovakia and by the subsidiary, SPP Storage, s.r.o., in the Czech Republic, for the deposit and extraction of natural gas according to seasonal demand, and to secure the safe provision of supplies as regulated by law. Storage fees are agreed for the term of the contracts. The storage fee is based primarily on the capacity rented per year and the annual price indices.

#### **Taxation**

The Group undertakes significant transactions with several subsidiaries and associated undertakings, the shareholders and other related parties. The tax environment in which the Group operates in Slovakia is dependent on the prevailing tax legislation and practice and has relatively little existing precedent. As the tax authorities are reluctant to provide official interpretations in respect of tax legislation, there is an inherent risk that the tax authorities may require, for example, transfer pricing or other adjustments to the corporate income tax base. Corporate income tax in Slovakia is levied on each individual legal entity and, as a consequence, there is no concept of Group taxation or relief. The tax authorities in Slovakia have broad powers of interpretation of tax laws, which could result in unexpected results from tax inspections. The amount of any potential tax liabilities related to these risks cannot be estimated.

#### **Litigation and Potential Losses**

The Group is involved in a number of legal disputes relating to alleged breaches of contracts. The Group is also involved in other litigation arising in the normal course of business that is not expected, either individually or combined, to have a significant adverse effect on the accompanying financial statements. The final outcome of the litigation may result in liabilities higher than the provisions recognised, and such differences may be significant.

#### **Legislative Conditions for Business Activities in the Energy Sector**

##### *The EU's Third Energy Package*

In 2009, the European Union adopted Directive 2009/72/EC and Directive 2009/73/EC and related regulations concerning common rules for the internal market in natural gas and electricity known as the "Third Energy Package" that Member States were required to transpose into their national laws no later than 3 March 2012. One of the most important requirements of the Third Energy Package is, inter alia, to determine the regime for the unbundling of transmission networks and transmission network operators. The Slovak Republic opted to implement a regime of an independent transmission operator.

On 1 October 2015, under RONI decision No. 0005/2015/P, the rules of network codes on capacity allocation and balancing of the network system, namely measures of the Commission Regulations (EU) No. 984/2013 dated 14 October 2013 and No. 312/2014 dated 26 March 2014, were fully implemented in the operating code.

##### *Regulatory Framework for the Natural Gas Market in the Slovak Republic*

Under valid energy legislation the natural gas market in the Slovak Republic is fully liberalised. Since 1 July 2007, all customers have been able to freely choose a natural gas supplier. As a distribution network operator, the Company is required to treat all participants in a non-discriminatory manner and provide access to the distribution network on a transparent and non-discriminatory basis. It also has the obligation to enter into a contract for gas connection and distribution with anyone who has met the business and technical conditions.

Natural gas distribution, connection and access to the network are subject to regulation by the Regulatory Office for Network Industries (RONI).

The regulation period is set for five years, ie for the 2017 – 2021 period.

*Tariffs for Regulated Activities*

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

The maximum approved revenue is determined based on eligible costs, including depreciation charges derived from the regulated base of assets set by RONI and the profit mark-up. Company management believes that non-current tangible assets are not impaired based on present indicators. There are inherent uncertainties that could have an impact on the determination of future tariffs by RONI and the future realisable value of assets.

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

Under RONI Decree No. 223/2016 Coll., the maximum price for connection to the distribution network for the years following the base year of the regulation period is calculated by the indexation of the price for the year preceding the year for which the price proposal is submitted, reflecting the effect of inflation.

The calculation of the maximum price for access to the distribution network and for gas distribution for the years following the base year of the regulation period is also partly based on basic parameter indexation.

Based on the changes resulting from issued price decisions, the RONI, under its decision, approved the related changes in the Operating Rules of SPP – distribúcia, a.s.

*Changes to Regulation Legislation*

In March 2016, the Regulation Council issued the Regulation Policy for the 2017 - 2021 period which, inter alia, defines the objectives and priorities of regulation in the gas industry for the upcoming regulation period. Decree No. 223/2016 Coll. stipulating price regulation in the gas industry with effect from 27 July 2016 was approved in July 2016. An amendment to Decree No. 24/2013 Coll., stipulating common rules for the electricity market and common rules for the natural gas market was approved. The amendment allows an increase in the fixed component of the total price for gas distribution up to 85%, and broadens tariff groups.



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**29. RELATED PARTY TRANSACTIONS**

The Group entered into the following transactions with related parties that are not consolidated entities in these consolidated financial statements:

	<b>Year ended 30 Sep 2018</b>			<b>30 Sep 2018</b>			
	<b>Revenues</b>	<b>Expenses</b>	<b>Dividends</b>	<b>Property and inventory</b>	<b>Receivables</b>	<b>Short term deposits</b>	<b>Payables</b>
Slovak Gas Holding B.V.	-	-	212	-	-	240	-
Slovenský plynárenský priemysel, a.s.	402	12	221	8	26	250	59
Joint ventures	2	1	-	-	-	-	-
Other related parties	110	6	-	1	29	97	48

	<b>3-month period ended 30 Sep 2017</b>			<b>30 Sep 2017</b>			
	<b>Revenues</b>	<b>Expenses</b>	<b>Dividends</b>	<b>Property and inventory</b>	<b>Receivables</b>	<b>Short term deposits</b>	<b>Payables</b>
Slovak Gas Holding B.V.	-	-	75	-	-	237	75
Slovenský plynárenský priemysel, a.s.	78	2	79	2	18	247	79
Joint ventures	2	1	-	-	1	-	-
Other related parties	6	9	-	-	3	-	-

Management considers that the transactions with related parties have been made on an arm's length basis.

Transactions with Slovak Gas Holding represent dividend payments and interest income relates to loans receivable.

Transactions with joint ventures represent services related to natural gas.

Transactions with other companies and other related parties mainly represent services related to purchases and sales of natural gas, advisory and consulting services, and other services.

Compensation of the members of the bodies and executive management was as follows:

	<b>Year ended 30 Sep 2017</b>	<b>3-month period ended 30 Sep 2017</b>
Remuneration to members of the Board of Directors, Supervisory Board, executive management and former members of the bodies - total for combined entities	5	1
Of which – Board of Directors and executive management	4	1
– Supervisory Board	1	-

**SPP Infrastructure, a. s.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Reporting Period Ended 30 September 2018**  
**(in million EUR)**

**a) Members of the Company's Bodies**

<b>Body</b>	<b>Function</b>	<b>Name</b>
<b>Board of Directors</b>	Chairman	JUDr. Daniel Křetínský since 3 Jul 2013
	Vice-Chairman	JUDr. Alexander Sako – since 3 Jul 2013
	Member	JUDr. Marián Valko – since 8 Oct 2013
	Member	Ing. Miroslav Haško – since 8 Oct 2013
	Member	Ing. Jan Špringl – from 3 Jul 2013 until 28 Mar 2018
<b>Supervisory Board</b>	Member	Mgr. Jan Stříteský – since 29 Mar 2018
	Chairman	JUDr. Radovan Stretavský- since 7 Sep 2017
	Vice-Chairman	Mgr. Pavel Horský – since 3 Jul 2013
	Member	Ing. Libor Briška – 3 Jul 8 Oct 2013 until 28 Sep 2018
	Member	Mgr. Ladislav Nagy- since 29 Sep 2018
	Member	Ing. Tomáš Richter – since 1 Dec 2015
	Member	Jiří Zrůst- since 21 Apr 2017
	Member	RNDr. Peter Kršjak – from 20 Jan 2015 until 28 Sep 2018
	Member	Ing. Peter Novák- since 29 Sep 2018
	Member	

**30. POST-BALANCE SHEET EVENTS**

In September 2018, SPP - distribúcia, a.s. signed a loan agreement with the European Investment Bank with a credit facility of EUR 60 million. The loan has not been drawn.

As at 30 September 2018, NAFTA a.s. drew a bank loan amounting to EUR 175 000 thousand from a credit facility totalling EUR 250 000 thousand. The credit facility consists of a fixed portion of EUR 175 000 thousand and a variable portion (a revolving loan), which is drawn on a short-term basis according to the Company's needs and their final maturity is in June 2019. In January 2019, NAFTA a.s. signed a new bank loan agreement to refinance the original loan. The final maturity is in 2024.

As at 31 December 2018, NAFTA a.s., via its subsidiary NAFTA Bavaria GmbH, acquired underground natural gas storage facilities in Bavaria in Germany from DEA Deutsche Erdoel AG and Storengy Deutschland GmbH. This transaction made NAFTA a.s. the 100% owner of Inzenham - West, Wolfersberg and Breitbrunn/Eggstätt underground storage facilities, with a total storage capacity of 1.8 billion m3.

After the reporting date, there were no events other than those stated above that would have a significant impact on the fair presentation of the matters disclosed in these financial statements.

**Prepared on:**

22 February 2019

*Signature of a member of the statutory body of the reporting entity or a natural person acting as a reporting entity:*

*Signature of the person responsible for the preparation of the financial statements:*

*Signature of the person responsible for bookkeeping:*

**Approved on:**

JUDr. Alexander Sako  
Vice - chairman  
of the board of Directors

On behalf of SPP I Group  
Ing. Roman Filipoiu  
Chief Financial Officer

On behalf of SPP I Group  
Ing. Peter Duračka  
Head of Finance

JUDr. Marián Valko  
Member  
of the Board of Directors

Ing. Miroslav Haško  
Member  
of the Board of Directors