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 2020

AND

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Consolidated Annual Report for the Reporting Period as at 30 September 2020

SPP Infrastructure, a. s.

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

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 2020:

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 2020, 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 2020

Statutory Body: Board of Directors

Chairman:	Ing. František Čupr, MBA (since 30 September 2020)
	JUDr. Daniel Křetínský (until 29 September 2020)
Vice-Chairman:	Ing. Ľuboš Lopatka, PhD (since 30 September 2020)
	JUDr. Alexander Sako (until 29 September 2020)
Members:	Ing. Milan Urban (since 30 September 2020)
	JUDr. Marián Valko (until 29 September 2020)
	Ing. Miroslav Haško
	Mgr. Jan Stříteský

Supervisory Board

Chairman:	Ing. Adriana Bujdáková (since 13 June 2019)
	JUDr. Radovan Stretavský (until 12 June 2019)
Vice-Chairman:	Mgr. Pavel Horský
Members:	Ing. Michal Sklienka (since 30 September 2020)
	Mgr. Ladislav Nagy (until 29 September 2020)
	Ing. Dušan Halgaš (since 30 September 2020)
	Ing. Tomáš Richter (until 29 September 2020)
	Jiří Zrůst
	MUDr. Dalibor Gergeľ, PhD (since 30 September 2020)
	Ing. Peter Novák (until 29 September 2020)

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 2020 are as follows:

Chairman:	Ing. Jakub Šteinfeld
Members:	Ing. Libor Briška
	Ing. Filip Bělák (until 30 September 2020)

Ing. Václav Paleček was appointed as a Member of the Audit Committee with effect from 1 October 2020.

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%
Total	3 663 366 936	100%

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 2019 to 30 September 2020.

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

Item	Current Reporting Period	Immediately-Preceding Reporting Period
Assets	**9 705**	**6 054**
Non-current assets:	*8 683*	*4 885*
Property, plant and equipment	8 560	4 794
Right-of-use assets	26	-
Loan receivable	12	40
Other non-current assets	45	51
Current assets	*1 022*	*1 169*
Inventories	154	163
Tax assets	-	-
Receivables and prepayments	142	106
Current contract assets	12	26
Other current assets	339	243
Cash and cash equivalents	375	631

Item	Current Reporting Period	Immediately-Preceding Reporting Period
EQUITY AND LIABILITIES	**9 705**	**6 054**
Equity:	*5 358*	*2 276*
Registered capital	3 663	3 663
Legal and other funds	698	708
Revaluation reserve	2 914	-
Retained earnings and other paid-in capital	(2 027)	(2 192)
Minority interests	110	97
Non-current liabilities	*3 455*	*2 533*
Deferred income	61	61
Provisions	181	174
Long-term loans	1 369	1 446
Non-current contract liabilities	41	36
Retirement and other long-term employee benefits	27	26
Deferred tax liability	1 698	728
Finance lease liability	22	-
Other non-current liabilities	56	62
Current liabilities	892	1 245
Trade and other payables	160	266
Current contract liabilities	35	49
Current portion of long-term loans	588	822
Current income tax	99	101
Provisions	5	7
Finance lease liability	5	-

Income Statement – Consolidated IFRS (in EUR mil.)

Item	Current Reporting Period	Immediately-Preceding Reporting Period
Revenues from the sale of products and services:	**1 464**	**1 416**
Operating expenses	(513)	(442)
Operating profit/(loss)	**951**	**974**
Profit/(loss) from financial investments	-	5
Financing costs (net)	(60)	(66)
Profit/(loss) before tax	**891**	**913**
Income tax	(229)	(248)
Net profit/(loss) for the period	**662**	**665**
Net profit attributable to:		
Shareholders of SPP Infrastructure, a. s.	620	629
Non-controlling interests of other owners of subsidiaries	42	36

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

Item	Current Reporting Period	Immediately-Preceding Reporting Period
Net profit/(loss) for the period:	**662**	**665**
Other comprehensive income for the period	2 991	52
Items reclassifiable to profit or loss:		
Hedging derivatives (cash flow hedging)	(12)	66
Change in the foreign currency translation reserve	-	-
Deferred tax attributable to items of other comprehensive income	2	(14)
Items that may not be reclassified subsequently to profit or loss		
Increase in asset revaluation reserve	4 015	-
Deferred tax and deferred special levy related to items of other comprehensive income	(1 014)	-
Net comprehensive income/(loss) for the period	**3 653**	**717**
Net comprehensive income attributable to:		
Shareholders of SPP Infrastructure, a. s.	3 612	678
Non-controlling interests of other owners of subsidiaries	41	39

5. Proposal for the Profit Distribution

The profit for the year ended 30 September 2020 amounting to EUR 584 413 510.02 was approved by the Company’s General Meeting on 21 December 2020 and used to pay dividends to the shareholders in the amount of EUR 526 308 231.00; the amount of EUR 58 105 279.02 was transferred to retained earnings.

6. Significant Events That Occurred After the Reporting Date

At the end of 2019, information on the coronavirus in China was published for the first time. In early 2020, the virus spread globally and may also affect the Slovak economy. Governments in various countries introduced restrictions on the movement and gathering of people, ordered the closure of certain facilities, such as cinemas, theatres, restaurants, schools and sports facilities. In addition, there were short-term closures in the manufacturing sector due to forced or voluntary manufacturing restrictions. Company management considers this event to be an event that does not affect, and requires no adjustment to, the 2020 financial statements. Despite the constantly-changing situation, as at the date of publication of the financial statements, Company management did not register a significant impact on the Company’s operations.

Company management continues to closely monitor the ongoing pandemic and its potential impacts, while taking measures to ensure the safety and reliability of the operation of critical infrastructure for natural gas transport, distribution and storage, and, if necessary, it will take all possible steps to avert negative impacts of this situation on the Group.

On 4 November 2020, the Company provided deposits to its shareholders in the amount of EUR 190 million: SPP – EUR 96.9 million and SGH – EUR 93.1 million.

After the reporting date, there were no events other than those stated above that would have a significant impact on the true and 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 2020 was 4, of which 1 was an executive manager (30 September 2019: 4 employees, of which 1 executive manager).

The Company’s activities have no environmental impact.

8. Contact Details

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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 (the "Group"), which comprise the consolidated statement of financial position as at 30 September 2020, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union (EU).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the 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.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS as adopted in the EU, and for such internal control as management 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, management 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 management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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 it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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 used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance about, inter alia, the planned scope and time schedule of the audit and significant audit findings, including all material deficiencies of internal control identified during our audit.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on Information Disclosed in the Consolidated Annual Report

The statutory body is responsible for information disclosed in the consolidated 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 consolidated annual report.

In connection with the audit of consolidated financial statements, our responsibility is to gain an understanding of the information disclosed in the consolidated 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 assessed whether the Group's consolidated 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 consolidated annual report prepared for the year ended 30 September 2020 is consistent with the consolidated financial statements for the relevant year; and
- The consolidated 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 consolidated 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, 23 February 2021

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

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

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

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SPP Infrastructure, a. s.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 30 September 2020 and 30 September 2019
(in million EUR)

	Note	*30 September 2020*	*30 September 2019*
ASSETS:			
NON-CURRENT ASSETS			
Property, plant and equipment	10	8 600	4 794
Right-of-use assets	11	26	
Investments recognised using the equity method	6	-	-
Loan receivable	7	12	40
Other non-current assets	9	45	51
Total non-current assets		**8 683**	**4 885**
CURRENT ASSETS			
Inventories	12	154	163
Receivables and prepayments	13	142	106
Current contract assets	20	12	26
Current income tax		-	-
Other current assets	8	339	243
Cash and cash equivalents	14	375	631
Total current assets		**1 022**	**1 169**
TOTAL ASSETS		**9 705**	**6 054**
EQUITY AND LIABILITIES:			
CAPITAL AND RESERVES			
Share capital		3 663	3 663
Legal and other reserves		698	708
Revaluation reserve		2 914	-
Retained earnings and other paid-in capital		(2 027)	(2 192)
Share in equity attributable to SPP Infrastructure's shareholders		5 248	2 179
Non-controlling interests		110	97
Total equity	21	**5 358**	**2 276**
NON-CURRENT LIABILITIES			
Non-current interest-bearing borrowings	18	1 369	1 446
Deferred tax liability	27.2	1 698	728
Provisions for liabilities	17	181	174
Deferred income	15	61	61
Non-current contract liabilities	20	41	36
Retirement and other long-term employee benefits	16	27	26
Other non-current liabilities	11	22	-
Total non-current liabilities		56	62
		3 455	**2 533**
CURRENT LIABILITIES			
Trade and other payables			
Current contract liabilities	19	160	266
Current interest-bearing borrowings	20	35	49
Current income tax	18	588	822
Provisions for liabilities		99	101
Finance lease liability	16,17	5	7
Total current liabilities	11	5	-
		892	**1 245**
Total liabilities			
		4 347	**3 778**
TOTAL EQUITY AND LIABILITIES			
		9 705	**6 054**

The financial statements on pages 4 to 50 were signed on 23 February 2021 on behalf of the Board of Directors:

Ing. František Čupr
Chairman
of the Board of Directors

Ing. Ľuboš Lopatka, PhD
Vice-chairman of the Board of Directors

(in million EUR)

	Note	***Year ended 30 September 2020***	***Year ended 30 September 2019***
Revenues from sales of products and services:			
Transmission of natural gas		702	763
Distribution of natural gas		403	400
Natural gas storage, exploration and other revenues		359	253
Total revenues	22	**1 464**	**1 416**
Operating expenses:			
Depreciation, amortisation and impairment of assets	10	(307)	(225)
Staff costs	24	(111)	(105)
Services	23	(66)	(62)
Purchases of natural gas, electricity and consumables		(41)	(65)
Own work capitalised		15	14
Provisions for bad and doubtful debts, obsolete and slow-moving inventories, net		6	(3)
Other, net		(9)	4
Total operating expenses		**(513)**	**(442)**
Operating profit		**951**	**974**
Finance income	25	3	2
Share in profit of associated undertakings and joint ventures	6	-	-
Finance costs	26	(60)	(65)
Other, net		(3)	(3)
Gain/loss from business combinations		-	5
Profit before income taxes		**891**	**913**
Income tax	27.1	(229)	(248)
NET PROFIT FOR THE PERIOD		**662**	**665**
Net profit attributable to:			
SPP Infrastructure's shareholders		620	629
Non-controlling interests of other owners of subsidiaries		42	36
Total		**662**	**665**

(in million EUR)

	Note	***Year ended 30 September 2020***	***Year ended 30 September 2019***
Net profit for the period		**662**	**665**
OTHER COMPREHENSIVE INCOME AND LOSSES (may be reclassified subsequently to profit or loss)			
Hedging derivatives (Cash flow hedging):	21	(12)	66
Deferred tax attributable to items of other comprehensive income/loss	28	2	(14)
OTHER COMPREHENSIVE INCOME AND LOSSES (may not be reclassified subsequently to profit or loss):			
Increase in asset revaluation reserve	10	4 015	-
Deferred tax and deferred special levy related to items of other comprehensive income/loss for the period	27.2	(1 014)	-
Other net comprehensive income/(loss) for the period		**2 991**	**52**
Total net comprehensive income for the period		**3 653**	**717**
Net comprehensive income attributable to:			
SPP Infrastructure's shareholders		3 612	678
Non-controlling interests of other owners of subsidiaries		41	39
Total		**3 653**	**717**

SPP Infrastructure, a. s.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the Reporting Period Ended 30 September 2020 and 30 September 2019
(in million EUR)

	Share capital	***Legal reserve fund and other funds***	***Revaluation reserve***	***Foreign currency translation reserve***	***Hedging reserves***	***Retained earnings***	***Equity attributable to SPP Infrastructure's shareholders***	***Non-controlling interests of other owners of subsidiaries***	***Total***
At 30 September 2018	**3 663**	**732**	**-**	**7**	**(81)**	**(1 816)**	**2 505**	**89**	**2 594**
Net profit for the period	-	-	-	-	-	629	629	36	665
Other comprehensive (loss)/income for the period	-	-	-	-	50	-	50	2	52
Changes arising from foreign currency translation	-	-	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	(1 005)	(1 005)	(30)	(1 035)
At 30 September 2019	**3 663**	**732**	**-**	**7**	**(31)**	**(2 192)**	**2 179**	**97**	**2 276**
Revaluation of assets (Note 2f and Note 10)	-	-	3 001	-	-	-	3 001	-	3 001
Net profit for the period	-	-	-	-	-	620	620	42	662
Other comprehensive (loss)/income for the period	-	-	-	(5)	(5)	-	(10)	-	(10)
Changes arising from foreign currency translation	-	-	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	(542)	(542)	(29)	(571)
Transfer to retained earnings	-	-	(87)	-	-	87	-	-	-
At 30 September 2020	**3 663**	**732**	**2 914**	**2**	**(36)**	**(2 027)**	**5 248**	**110**	**5 358**

(in million EUR)

	Note	*Year ended 30 September 2020*	*Year ended 30 September 2019*
Operating activities			
Cash flows from operating activities	29	**1 228**	**1 221**
Interest paid		(57)	(57)
Interest received		-	-
Income tax paid		(268)	(169)
Net cash flows from operating activities		**903**	**995**
Investing activities			
Acquisition of subsidiaries	2c	-	(75)
Purchase of property, plant and equipment		(83)	(99)
Provided short-term deposits		(763)	(473)
Dividends received		-	(1)
Purchase of emission allowances		(1)	-
Income from the sale of non-current assets		1	1
Net cash inflow/(outflow) from investing activities		**(846)**	**(647)**
Financing activities			
Proceeds from interest-bearing borrowings	18	548	125
Repayment of interest-bearing borrowings		(855)	(12)
Dividends paid*		(2)	(160)
Settlement of finance lease obligations		(6)	(2)
Received subsidies		4	10
Other proceeds from financing activities		(2)	(2)
Net cash flows from financing activities		**(313)**	**(41)**
Net increase/(decrease) in cash and cash equivalents		**(256)**	**307**
Cash and cash equivalents at the beginning of the period		**631**	**324**
Effects of foreign exchange fluctuations			
Cash and cash equivalents at the end of the period		**375**	**631**

*- A portion of dividends was settled through offsetting.

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 2020. The comparative period is from 1 October 2018 to 30 September 2019, 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 Services, s.r.o., Nafta International B.V., Nafta RV, Nafta Germany GmbH, Nafta Bavaria GmbH, Nafta Speicher Management GmbH, Nafta Speicher GmbH & Co. KG, Nafta Speicher Inzenham GmbH), SPP Infrastructure Financing B.V., SPP Storage, s.r.o., 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%. POZAGAS a.s. is controlled by SPP Infrastructure, a.s.; therefore, SPP Infrastructure, a.s. recognises its share in POZAGAS a.s. as investments in subsidiaries as of 1 January 2018.

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^3.

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 2019 were approved by the General Meeting held on 16 June 2020.

1.2. Principal Activities

The consolidated financial statements of the Company as at 30 September 2020 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, the Czech Republic and Germany.

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 2020 was 2 629, of which 33 were executive management (for the year ended 30 September 2019, there were 2 625 employees, of which 35 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 and gas pipelines, buildings, structures, machinery and equipment. 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.

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.

(in million EUR)

The consolidated financial statements as at 30 September 2020 include historical financial information for the following entities:

Name	***Seat***	***Ownership share %***		***Principal activity***	***Consolidation method used as at 30 Sep 2020***	***Consolidation method used as at 30 Sep 2019***
		30 Sep 2020	***30 Sep 2019***			
SPP Infrastructure, a.s. (1)	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.(2)	Dolní Bojanovice 891, 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. (3)	Schiphol Boulevard 477, C4, 111 8BK Schiphol, Netherlands	100.00	100.00	Financing activities	Subsidiary - Fully consolidated	Subsidiary - Fully consolidated
GEOTERM KOŠICE, a. s.	Moldavská 12, Košice, Slovakia	95.82	95.82		Subsidiary - Fully consolidated	Subsidiary - Fully consolidated
Nafta Exploration, s.r.o. (4)	Plavecký Štvrtok 900, Slovakia	-	56.15	Exploration	-	Subsidiary - Fully consolidated
NAFTA Services, s.r.o. (4)	č.p. 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. (4)	Schiphol Boulevard 403, Tower C-4, 1118, BK Schiphol, Netherlands	56.15	56.15	Holding company	Subsidiary - Fully consolidated	Subsidiary - Fully consolidated
NAFTA RV (4)	04116, Kiev, Starokyivska, 10-G, Ukraine	56.15	56.15	Exploration and production	Subsidiary - Fully consolidated	Subsidiary - Fully consolidated
POZAGAS a.s. (5)	Malé námestie 1, Malacky, Slovakia	71.50	71.50	Storage of natural gas	Subsidiary - Fully consolidated	Joint venture – Equity method
NAFTA Germany GmbH (4)	Leopoldstraße 8-10, c/o Hengeler Mueller, 80802 München, Germany	56.15	56.15	Holding company	Subsidiary - Fully consolidated	-
NAFTA Bavaria GmbH (4)	Leopoldstraße 8-10, c/o Hengeler Mueller, 80802 München, Germany	56.15	56.15	Holding company	Subsidiary - Fully consolidated	-
NAFTA Speicher Management GmbH (4)	Moos 7, 83135 Schechen, Germany	56.15	56.15	General partner	Subsidiary - Fully consolidated	-

(in million EUR)

Name	***Seat***	***Ownership share %***		***Principal activity***	***Consolidation method used as at 30 Sep 2020***	***Consolidation method used as at 30 Sep 2019***
		30 Sep 2020	***30 Sep 2019***			
NAFTA Speicher GmbH & Co. KG [(4)]	Moos 7, 83135 Schechen, Germany	56.15	56.15	Storage of natural gas	Subsidiary - Fully consolidated	-
NAFTA Speicher Inzenham GmbH [(4)]	Moos 7, 83135 Schechen, Germany	56.15	56.15	Storage of natural gas	Subsidiary - Fully consolidated	-

(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.; in 2016, NAFTA, a.s. established NAFTA RV (subsidiary), Nafta Exploration, s.r.o. was deleted from the Business Register in January 2019; in 2018, NAFTA, a.s. acquired a 100% share in NAFTA Germany GmbH, NAFTA Bavaria GmbH, NAFTA Speicher Management GmbH, NAFTA Speicher GmbH & Co. KG, NAFTA Speicher Inzenham GmbH.
(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.

(in million EUR)

In February 2018, NAFTA International B.V. acquired NAFTA Germany GmbH, including its 100% subsidiary, NAFTA Bavaria GmbH, in the amount of EUR 50 thousand. As at 31 December 2018, NAFTA Bavaria GmbH acquired underground gas storage facilities (Inzenham – West, Wolfersberg and Breitbrunn/Eggstätt) in Bavaria in Germany with a total storage capacity of 1.8 billion m3.

As part of this transaction, NAFTA Bavaria GmbH became the 100% owner of the following companies: NAFTA Speicher Management GmbH, NAFTA Speicher GmbH & Co. KG and NAFTA Speicher Inzenham GmbH. The companies were acquired on 31 December 2018. In accordance with IFRS 3 "Business Combinations", in these consolidated financial statements the Company recognised amounts for individual items of assets and liabilities, namely for non-current assets, a deferred tax asset, a deferred tax liability and a provision for liquidation and site restoration at their estimated fair values, and the related gain on a bargain purchase. The values of the assets and liabilities were determined by professional appraisers, based on an analysis of discounted future cash flows and a determination of the replacement cost of individual items of assets. The main estimates, areas of uncertainty and judgments include forecasts and outlook plans for the future performance of the acquired underground storage facilities, and market conditions for their use after 2027 when the existing long-term contracts with customers expire.

Fair values of assets and liabilities acquired upon the acquisition of underground storage facilities in the 2018 financial year included in these consolidated financial statements in the comparable period are as follows:

	Total
Property, plant and equipment	178
Non-current intangible assets and other non-current assets	-
Inventories	1
Trade and other receivables	4
Cash and cash equivalents	42
Provision for liquidation and site restoration	(71)
Retirement payments and other long-term employee benefits	(9)
Deferred tax liabilities	(9)
Trade and other payables	(6)
Tax liabilities	(12)
Net assets	118
Net assets	**118**
Gain on a bargain purchase	(5)
Cost	113
Acquired cash and cash equivalents	42
Receivable from former owners due to a transaction tax	5
Net decrease in cash and cash equivalents	**75**

d) Financial Assets

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

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

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

<u>Impairment of Financial Assets</u>

For the impairment of loan receivables and contract assets, the Company applies a three-stage model of excepted credit losses (ECL). Under this model, an immediate impairment loss in an amount equal to a 12-month expected credit loss is recognised upon the initial recognition of the financial assets. If there is a significant increase in the credit risk, a provision is estimated based on expected credit losses for the full lifetime of financial assets, not only based on the 12-month expected loss.

As at 30 September 2020 and 2019, the Company assessed the impairment of loan receivables from borrowings provided to the Group (see Note 8) and concluded that the 12-month expected credit losses approximate zero given the low risk of default and expected loss, and given the option of settling borrowings by offsetting them against the payable from dividends paid.

For trade and current receivables, the Company applies a simplified model for the assessment and recognition of impairment losses on financial assets under which a provision is recognised in the amount of expected credit losses over the full lifetime of trade receivables at the moment of their initial recognition. Such estimates are revised as at the reporting date.

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

Derecognition of Financial Assets

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

Financial Derivatives

The Company enters into derivative financial instrument contracts to manage its risk of changes in interest rates and commodity prices.

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

Derivative financial instruments are initially measured at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised 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 Company applies hedge accounting for interest rate and commodity swaps which were entered into to hedge against the risk of changes in interest rates of received loans and the risk of changes in prices as regards the expected sales of hydrocarbons, which are recognised as cash flow hedges.

Cash Flow Hedges

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

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified as follows:

- If a hedged forecast transaction subsequently leads to the recognition of a non-financial asset or a non-financial liability, or if a hedged forecast transaction with a non-financial asset or a non-financial liability becomes a firm commitment, the amounts accumulated in other comprehensive income are derecognised and directly included in the initial measurement of such an asset or liability.
- For other instances, amounts accumulated in other comprehensive income are reclassified from the hedge reserve to profit or loss in the periods when the hedged item is recognised in profit or loss in the same income statement line as the recognised 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. 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.

e) Financial Liabilities

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

The Company only recognises financial liabilities classified as "financial liabilities at amortised cost". Financial liabilities measured at amortised cost (including borrowings) are subsequently measured at amortised cost using the effective interest method.

The effective interest method is used to calculate the amortised cost of a financial liability and to allocate 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) over the expected economic life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount upon initial recognition.

f) Property, Plant and Equipment and Intangible Assets

In the 2020 financial year, the Company applied the fair value measurement method under the rules of IAS 16 "Property, Plant and Equipment" for the class of gas pipelines for the first time. Gas pipelines are recognised in the balance sheet at a remeasured value representing their fair value as at the remeasurement date, less potential subsequent accumulated depreciation and subsequent accumulated losses from permanent impairment. The initial remeasurement was performed as at 1 October 2019. The remeasurement was prepared by an independent appraiser. Remeasurements will be made with sufficient regularity to ensure the net book value does not significantly differ from the value that would be recognised as at the balance sheet date using fair values. The remeasurement of gas pipelines is made on a prospective basis with no impact on the previous reporting period.

An increase, if any, in the revaluation surplus arising from the remeasurement of gas pipelines is credited to the revaluation reserves, reflecting an amount that cancels any decrease in the revaluation surplus with respect to the same asset item previously recognised and reported in the income statement in the previous period. In such a case, the increase is credited to the income statement in the amount of the previously-recognised decrease. A decrease in the net book value arising due to the remeasurement of gas pipelines is debited to the income statement in an amount exceeding the potential balance on the account of asset revaluation reserve in connection with the previous remeasurement of such asset item. Depreciation of remeasured gas pipelines is recognised as an expense in the income statement. Revaluation reserves are gradually reversed to retained earnings over the depreciation period of the relevant remeasured asset. In such a case, the amount of the transferred surplus equals the difference between the depreciation calculated from the remeasured carrying amount of an asset and the depreciation calculated from the initial cost of an asset. On the subsequent sale or derecognition of a remeasured asset, the attributable revaluation surplus remaining in the asset revaluation reserve is transferred directly to retained earnings.

Other items of assets are recognised at historical cost, net of accumulated depreciation and accumulated impairment losses. 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.

(in million EUR)

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:

(Years)	***30 Sep 2020***	***30 Sep 2019***
Buildings and structures (including structures used for natural gas storage)	12 – 1 000	12 – 1 000
Gas pipelines	20 – 75	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.

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

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

Free-of-charge transfers of gas facilities from customers related to customers' access to the distribution network are posted in revenues for the relevant period and recognised at fair value of the assets received.

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

h) 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.

i) Lease

Accounting procedures valid from 1 October 2019:

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

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

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

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

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

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

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 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

Revenue from contracts with customers is recognised upon the delivery of goods or services net of value added tax and discounts at a point in time or over time in accordance with IFRS 15 in order to disclose the transfer of goods or services to customers in amounts that reflect the consideration to which the Company expects to be entitled in exchange for such goods or services.

The Group recognises the following main sources of revenue:

Distribution of natural gas – revenue from natural gas distribution is recognised during the period of the provision of distribution services ordered by customers according to daily nominations. The volume of distributed natural gas consumed by end customers connected to the distribution network includes estimates for customers in the household and retail customer categories where the meter reading of consumption is performed on an annual basis.

Storage of natural gas – revenue from the underground storage of natural gas is recognised over an agreed period for which the storage capacity was reserved for a customer. Variable fees for additional storage-related services are recognised during the provision of the service to a customer.

Production and sale of hydrocarbons – revenue from the sale of natural hydrocarbons is recognised at the moment when the commodity is transferred to a customer at the fair value of the received consideration or receivable.

Transmission of natural gas – revenue from the natural gas transmission fees is recognised at the moment or in the period when capacity in the transit network is allocated to a customer. Revenue from the transmission of natural gas also includes revenues from natural gas received for operating purposes, and is recognised in the period when gas transmission took place.

Revenue from connection fees and other services is recognised at the moment when the given service is provided or during the provision of the service based on its nature.

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) 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. In 2019, the monthly levy rate was reduced to 0.00545. This value will also be valid in 2020. In 2021, the rate will be changed 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.

t) Transactions in 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.

u) 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:

Impairment of Property, Plant and Equipment

The Group reassessed the amount of an impairment provision for property, plant and equipment based on an assessment of the planned liquidation or sale. When assessing the realisable value of property, plant and equipment, certain assumptions and estimates were taken into account that may change in the future. The recoverability of property, plant and equipment for non-current assets used for natural gas distribution depends, inter alia, on the future development of natural gas consumption in Slovakia and future tariffs for individual distribution services that are subject to regulation. For more information on the impairment of property, plant and equipment, see Note 10.

Revaluation of Property, Plant and Equipment

As at 1 October 2019, the Group applied the revaluation model under IAS 16 "Property, Plant and Equipment" for gas pipelines. This asset category includes gas pipelines and gas connections owned by the Group, which are used for natural gas transmission.

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

The revaluation of these assets was recognised without an impact on previous reporting periods. This revaluation resulted in an increase in the amount of gas pipelines by EUR 4 015 million and an increase in the deferred tax liability by EUR 1 014 million, and in the creation of revaluation reserves in equity amounting to EUR 3 001 million and in an increase of depreciation for the current period by EUR 116 million.

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

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

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

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.

4. NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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

- **IFRS 16 "Leases"** – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),

  The standard introduces changes to lease accounting. Significant changes in the standard are related to lease accounting by lessees. Lessees are no longer required to distinguish between operating lease and finance lease. Leased assets (representing the right to use identified assets over the lease term) and a lease liability (representing the obligation to pay lease payments) will be recognised for all leases, except for short-term leases and leases of low-value assets. Lease accounting by lessors remains unchanged. Details of the new requirements are provided in Note 3. The impact of the standard on the financial statements is described below.

  The Group applied IFRS 16 "Leases" with effect from 1 October 2019.

Upon the initial application of IFRS 16, the Group applied the following practical expedients when retrospectively applying the standard to leases previously classified as operating leases under IAS 17.

- The Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- As at the date of the initial application of the standard, the Group adjusted the right-of-use asset by the amount of a provision for onerous lease contracts recognised in the balance sheet under IAS 37, instead of assessing the impairment of the respective assets.
- The Group does not recognise leased assets and lease liabilities for leases with a lease term ending within 12 months of the date of the standard's initial application.
- The Group excluded initial direct costs from the measurement of right-of-use assets as at the date of the standard's initial application.

The Group applied a cumulative approach, and:

- At the date of the initial application of the new standard on lease accounting, the Company recognised the cumulative effect of the initial application as an adjustment of the opening balance of equity as at 1 January 2019,
- The Company did not apply this standard to contracts not previously designated as contracts containing leases under IAS 17 and IFRIC 4.

When applying IFRS 16, the Group used a modified approach with a cumulative effect. The Group did not restate comparable data and disclosed data for the previous period, which is in compliance with IAS 17. The accounting procedures for recognition under IAS 17 and IFRS 16 are described below.

By applying a prudence principle, the Group assessed leases whose conditions comprise an option to extend or terminate a lease. The application of IFRS 16 "Leases" had the following impact on the Company's financial statements as at 31 September 2020: an increase in right-of-use assets within non-current assets by EUR 26 085 thousand (as at 1 October 2019: EUR 21 622 thousand) and an increase in financial liabilities by EUR 27 015 thousand (as at 1 October 2019: EUR 21 809 thousand).

- **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),

- **Amendments to IAS 19 "Employee Benefits"** – Plan Amendment, Curtailment or Settlement – adopted by the EU on 13 March 2019 (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 – adopted by the EU on 8 February 2019 (effective for annual periods beginning on or after 1 January 2019),

- **Amendments to various standards due to "Annual Improvements to IFRS Standards (2015 – 2017 Cycle)"** resulting from the annual IFRS improvement project (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 14 March 2019 (effective for annual periods beginning on or after 1 January 2019),
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** – adopted by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).

The adoption of these amendments to the existing standards has not led to any material changes in the Company's financial statements, except for the impact of the new IFRS 16 "Leases" described in the financial statements.

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

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

- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** – Definition of Material – adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to References to the Conceptual Framework in IFRS Standards** – adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures"** – Interest Rate Benchmark Reform – adopted by the EU on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020).

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 the 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 the IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in the 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 3 "Business Combinations"** – Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period),
- **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 1 "Presentation of Financial Statements"** – Classification of Liabilities as Current or Non-current (effective for annual periods beginning on or after 1 January 2022),

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

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

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 2020, 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:

	Financial assets		***Financial liabilities***	
In million EUR	***As at 30 Sep 2020***	***As at 30 Sep 2019***	***As at 30 Sep 2020***	***As at 30 Sep 2019***
USD	1	1	-	-
CZK	4	2	-	-
HRK	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.

Currency swaps	***Average USD/EUR rate***		***Nominal value***		***Fair Value***	
In million EUR	***30 Sep 2020***	***30 Sep 2019***	***30 Sep 2020***	***30 Sep 2019***	***30 Sep 2020***	***30 Sep 2019***
Cash flow hedges						
– Up to 1 year	-	-	-	-	-	-
– From 1 up to 2 years	-	-	-	-	-	-
– 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 2019: 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.

	30 Sep 2020			***30 Sep 2019***		
	CZK	***USD***	***HRK***	***CZK***	***USD***	***HRK***
Gain or loss in million EUR (i)	0.4	0.1	0.1	0.2	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.

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

Open swap commodity and forward contracts	***30 Sep 2020***		***30 Sep 2020***	
	Nominal value		***Fair value***	
In million EUR	***Cash flow hedging***	***Held for trading***	***Cash flow hedging***	***Held for trading***
Sell gas				
Less than 3 months	37	0	13	0
3 to 12 months	59	0	10	0
Over 12 months	32	0	3	0
Sell crude oil				
Less than 3 months	0	0	0	0
3 to 12 months	0	0	0	0
Over 12 months	0	0	0	0

Open swap commodity and forward contracts	***30 Sep 2019***		***30 Sep 2019***	
	Nominal value		***Fair value***	
In million EUR	***Cash flow hedging***	***Held for trading***	***Cash flow hedging***	***Held for trading***
Sell gas				
Less than 3 months	48	0	10	0
3 to 12 months	113	0	11	0
Over 12 months	69	0	3	0
Sell crude oil				
Less than 3 months	0	0	0	0
3 to 12 months	1	0	0	0
Over 12 months	0	0	0	0

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 gain for the 12-month reporting period ended 30 September 2020 would decrease/increase by EUR 1.8 million (for the year ended 30 September 2019: EUR 2 million). This is mainly related to the Group’s exposure to variable interest rates on borrowings.

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

Interest swaps	***Average fixed interest rate***		***Nominal value***		***Fair value***	
In million EUR	***30 Sep 2020***	***30 Sep 2019***	***30 Sep 2020***	***30 Sep 2019***	***30 Sep 2020***	***30 Sep 2019***
Cash flow hedge						
– Less than 1 year	-	-	-	-	(8)	-
– 1 to 2 years	-	1.34%	-	500	(9)	(57)
– Over 2 years	1.34%	-	500	-	(40)	-
– Over 2 years	0.86%	1.43%	77	135	(5)	(7)

Interest swaps	***Average fixed interest rate***		***Nominal value***		***Fair value***	
In million EUR	***30 Sep 2020***	***30 Sep 2019***	***30 Sep 2020***	***30 Sep 2019***	***30 Sep 2020***	***30 Sep 2019***
Obchodné						
– Less than 1 year	-	-	-	-	-	-
– 1 to 2 years	-	-	-	-	-	-
– Over 2 years	1.34%	-	500	-	(3)	-

(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 2020, the Group had drawn credit facilities totalling EUR 1 957 million (as at 30 September 2019: EUR 2 268 million) of which short-term credit facilities amounted to EUR 588 million (as at 30 September 2019: EUR 822 million) and long-term credit facilities amounted to EUR 1 369 million (as at 30 September 2019: EUR 1 446 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 18).

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 2021, 2024, 2027 and 2029.

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.

(in million EUR)

The table below summarises the maturity of non-derivative financial liabilities at 30 September 2020 and 30 September 2019 based on contractual undiscounted payments:

	On demand	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*> 5 years*	*Total*
30 September 2020						
Trade payables	-	43	-	-	-	43
Other liabilities	-	57	7	30	-	94
Non-current contract liabilities	-	-	-	-	-	-
Current contract liabilities	-	35	-	-	-	35
Variable interest rate instruments	-	1	76	256	125	458
Fixed interest rate instruments	-	-	535	586	520	1 641
30 September 2019						
Trade payables	-	63	-	-	-	63
Other liabilities	-	40	14	5	-	59
Non-current contract liabilities	-	-	-	22	14	36
Current contract liabilities	-	49	-	-	-	49
Variable interest rate instruments	-	1	57	266	206	530
Fixed interest rate instruments	-	-	804	566	513	1 883

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 18, cash and cash equivalents and equity attributable to the owners of the parent company, which comprise the share capital, legal and other reserves, revaluation reserves, and retained earnings as disclosed in Note 21.

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

	At 30 Sep 2020	*At 30 Sep 2019*
Debt (i)	1 957	2 268
Cash and cash equivalents	375	631
Net debt	1 582	1 637
Equity (ii)	5 358	2 276
Net debt to equity ratio	**30%**	**72%**

(i) Debt is defined as long- and short-term borrowings.
(ii) Page 6

c) Categories of Financial Instruments

	At 30 Sep 2020	*At 30 Sep 2019*
Financial assets	**917**	**1 090**
Financial derivatives recognised as hedging	28	25
Receivables from loans and subsidies	37	73
Current loans and receivables (including cash and cash equivalents)	505	741
Other current assets	339	243
Investments in subsidiaries and associates	8	8
Financial liabilities	**2 222**	**2 654**
Financial derivatives recognised as hedging	63	64
Financial derivatives not recognised as hedging	4	-
Financial liabilities carried at amortised costs	2 155	2 590

d) Estimated Fair Value

The fair value of investments recognised at fair value through profit or loss (FVTPL) and financial assets at fair value is calculated using the listed market prices as at the balance sheet 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.

(in million EUR)

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.

30 September 2020	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets at fair value	**1**	**27**	**8**	**36**
Financial derivatives recognised as hedging	1	27	-	28
Investments in subsidiaries and associates	-	-	8	8
Financial liabilities at fair value	**-**	**67**	**-**	**67**
Financial derivatives recognised as hedging	-	63	-	63
Financial derivatives not recognised as hedging	-	4	-	4

30 September 2019	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets at fair value	**-**	**25**	**8**	**33**
Financial derivatives recognised as hedging	-	25	-	25
Financial assets at fair value	-	-	8	8
Financial liabilities at fair value	**-**	**64**	**-**	**64**
Financial derivatives recognised as hedging	-	64	-	64
Financial derivatives not recognised as hedging	-	-	-	-

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 IFRS 9. Hence, in accordance with IFRS 9, 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 IFRS 9, 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 2020 and 30 September 2019 under the requirements of IFRS 9.

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.

(in million EUR)

6. INVESTMENTS RECOGNISED USING THE EQUITY METHOD

The Group's investments in associates as at 30 September 2020 can be summarised as follows:

Name	***Seat***	***Ownership interest % as at 30 Sep 2020***	***Ownership interest % as at 30 Sep 2019***	***Principal activity***	***Value under equity method at 30 Sep 2020****	***Value under equity method at 30 Sep 2019****
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 2020 can be summarised as follows:

Name	***Seat***	***Ownership interest % as at 30 Sep 2020***	***Ownership interest % as at 30 Sep 2019***	***Principal activity***	***Value under equity method at Sep 2020***	***Value under equity method at Sep 2019***
CNG Holdings Netherlands B.V. (1)	Strawinskylaan 1263, 1077XX Amsterdam, Netherlands	50.00	50.00	Holding company	-	-
CNG LLC (1)	5 km, Taynya street, village of Vovkove, Uzhgorod, District, Zakarpattya Region, 89452, Ukraine	50.00	50.00	Exploration and production	-	-
SLOVAKIAN HORIZON ENERGY, S.R.O.	Mlynské Nivy 44/c, Bratislava	50.00	-	Exploration and production		

(1) Shareholding held by NAFTA a.s. companies (50%).

7. LOAN RECEIVABLES

As at 30 September 2020, NAFTA, a.s. recognised a receivable from a long-term loan in the amount of EUR 12 million provided by the direct shareholder (Czech Gas Holding), which was used to refinance a short-term loan during the reporting period (as at 30 September 2019: EUR 40 million). During the reporting period, a portion of the loan was offset against the receivables from the 2019 dividends in the amount of EUR 28 million.

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 2020 amounted to EUR 339 million (30 September 2019: EUR 243 million).

(in million EUR)

9. OTHER NON-CURRENT ASSETS

Other non-current assets comprise investments in equity and shares in unconsolidated insignificant subsidiaries:

	At 30 Sep 2020	*At 30 Sep 2019*
Cost	9	9
Impairment	-	-
Closing balance, net	**9**	**9**

Shareholdings represent equity investments in the following companies:

Name	*Seat*	*Ownership interest %*		*Principal activity*
		At 30 Sep 2020	*At 30 Sep 2019*	
AUTOKAC, s. r. o., Hodonín (1)	Velkomoravská 83, Hodonín, Czech Republic	42.00	42.00	Dormant
GALANTATERM, spol. s r. o. (4)	Vodárenská ul. č. 1608/1, Galanta, Slovakia	17.50	17.50	Geothermal energy
SPP – distribúcia Servis, s.r.o. (2)	Mlynské Nivy 44/b, Bratislava, Slovakia	100.00	100.00	Production and service of gas facilities
Plynárenská metrológia, s.r.o. (4)	Mlynské Nivy 44/b, Bratislava, Slovakia	100.00	100.00	Service of gas facilities
Central European Gas HUB AG („CEGH")(3)	Austria	15.00	15.00	Mediation of trade in natural gas
eastring B.V. (3)	Netherlands	100.00	100.00	Holding activities
Karotáže a Cementace, s.r.o. (5)	Velkomoravská 2606/83, Hodonín, Czech Republic	51.00	51.00	Logging and cementing
Slovakian Horizon Energy, s.r.o. (6)	Mlynské Nivy 44/c, Bratislava	-	50.00	Exploration and production
EP Ukraine B.V.	Ukraine	10.00	10.00	Exploration and production

(1) *Shareholding held by NAFTA a. s.*
(2) *Shareholding held by SPP – distribúcia, a. s.*
(3) *Shareholding held by eustream, a. s., immaterial subsidiary*
(4) *Shareholding held by SPP Infrastructure, a. s., immaterial subsidiary*
(5) *Shareholding held by NAFTA a.s., immaterial subsidiary*
(6) *As at 30 September 2020, the Company was consolidated using the equity method of consolidation.*

(in million EUR)

10. PROPERTY, PLANT AND EQUIPMENT

	Gas pipelines	*Land and buildings*	*Plant and machinery*	*Other non-current tangible assets*	*Assets in the course of construction*	*Total*
Year ended 30 September 2019						
Opening net book value	3 733	362	545	40	50	4 730
Additions	1	-	-	-	115	116
Placed into service	23	4	6	-	(33)	-
Disposals	-	-	-	(4)	-	(4)
Depreciation charge	(107)	(13)	(51)	(5)	-	(176)
FX gains/losses	-	-	-	-	-	-
Provisions and reserves	(30)	(5)	(1)	(15)	1	(50)
Additions from the acquisition of subsidiaries	-	26	119	31	2	178
Closing net book value	**3 620**	**374**	**618**	**47**	**135**	**4 794**
30 Sep 2019						
Cost	4 780	662	1 155	117	166	6 880
Provisions and accumulated depreciation	(1 160)	(288)	(537)	(70)	(31)	(2 086)
Net book value	**3 620**	**374**	**618**	**47**	**135**	**4 794**
Year ended 30 September 2020						
Opening net book value	3 620	374	618	47	135	4 794
Additions	-	-	-	-	80	80
Placed into service	68	14	19	-	(101)	-
Disposals	-	-	-	(1)	-	(1)
Depreciation charge	(233)	(15)	(42)	-	-	(290)
FX gains/losses	-	(4)	(2)	-	-	(6)
Provisions and reserves	4	(1)	-	7	(2)	8
Additions from the acquisition of subsidiaries	4 015	-	-	-	-	4 015
Closing net book value	**7 474**	**368**	**593**	**53**	**112**	**8 600**
30 Sep 2020						
Cost	7 845	656	1 183	111	144	9 939
Provisions and accumulated depreciation	(49)	(288)	(552)	(58)	(32)	(1 339)
Net book value	**7 436**	**368**	**631**	**53**	**112**	**8 600**

(in million EUR)

Exploration wells are recognised as property, plant and equipment and a provision is recorded when the success rate of exploration wells is uncertain or reduced otherwise.

NAFTA recorded a provision for exploration wells, the success rate of which was uncertain or which were impaired, and for the related facilities the construction of which was suspended.

In the year ended 30 September 2020, the Company capitalised costs in respect of the costs of geological hydrocarbon reserves exploration in the amount of EUR 1 042 thousand (year ended 30 September 2019: EUR 0 thousand).

As at 30 September 2020 and 30 September 2019, Nafta has reassessed the impairment of property, plant and equipment in accordance with IAS 36 "Impairment of Assets" on the basis of an assessment 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 2020 is EUR 1 024 thousand (30 September 2019: EUR 992 thousand).

As at 30 September 2020 and 30 September 2019, 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 2020, amounts to EUR 203 million (30 September 2019: EUR 174 million).

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

Insured assets	*Type of insurance*	*Cost of insured assets* 30 Sep 2020	*Cost of insured assets* 30 Sep 2019	*Name and seat of the insurance company*
Buildings, halls, structures, machinery, equipment, fittings & fixtures (except for gas pipelines)	Insurance of assets	2 110	1 959	UNIQA poisťovňa, a.s., Allianz-Slovenská poisťovňa, a.s., Kooperativa poisťovňa, a.s. ČSOB Poisťovňa, a.s. MSIG Insurance Europe AG – until 30 September 2019
Movables, assets, inventories	Insurance of assets	72	68	UNIQA poisťovňa, a.s
Motor vehicles	MTPL, motor vehicle insurance against damage, destruction, theft	9	9	Generali poisťovňa a.s.,

11. RIGHT-OF-USE ASSETS AND FINANCE LEASE LIABILITIES

Group companies lease buildings and transportation means. Lease contracts are usually concluded for a definite period of 2 to 10 years, or for an indefinite period. For assets where the contract was set for an indefinite period, the useful life is determined based on the estimated lease term. Until 30 September 2019, leases of transportation means and administrative buildings were recognised as a finance or operating lease. As of 1 October 2019, leases are recognised as right-of-use assets and the corresponding liabilities are recognised as of the date the leased assets became available for the Company's use.

	Buildings	*Transportati on Means*	*Land*	*Total*
At 30 September 2020				
Cost	24	4	5	33
Accumulated depreciation and provisions	(5)	(2)	-	(7)
Net book value	**19**	**2**	**5**	**26**

(in million EUR)

Non-current finance lease liability:

	Present value of minimum lease payments	
Maturity	***30 Sep 2020***	***30 Sep 2019***
Less than 1 year	5	-
1 – 5 years	17	-
More than 5 years	5	-
Total	**27**	**-**

The difference between the present value of minimum lease payments and gross investment in a lease is insignificant.

Information on the residual value and fair value of the finance lease liabilities:

	Residual value of finance lease		***Fair value of finance lease***	
	30 Sep 2020	***30 Sep 2019***	***30 Sep 2020***	***30 Sep 2019***
Obligation under finance lease	27	-	29	-
Total	**27**	**-**	**29**	**-**

12. INVENTORIES

	At 30 Sep 2020	***At 30 Sep 2019***
Natural gas	142	150
Raw materials and other inventories	21	21
Provisions	(9)	(8)
Total	**154**	**163**

13. RECEIVABLES AND PREPAYMENTS

	At 30 Sep 2020	***At 30 Sep 2019***
Trade receivables from transmission activities	69	43
Receivables from distribution activities	-	-
Receivables from storage and other activities	19	7
Receivables from financial derivatives	25	21
Prepayments and other receivables	29	33
Other tax assets	-	2
Total	**142**	**106**

All amounts are receivables within one year.

Receivables and prepayments are shown net of provisions for bad and doubtful receivables in the amount of EUR 1 million (30 September 2019: EUR 1 million).

As at 30 September 2020, the Group recorded due receivables in the amount of EUR 140 million and overdue receivables in the amount of EUR 3 million, excluding provisions. (As at 30 September 2019: due and overdue receivables in the amount of EUR 105 million and EUR 2 million, respectively.)

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

	At 30 Sep 2020	***At 30 Sep 2019***
Net opening balance	1	1
Use of provision	-	-
Release of provision	-	-
Additions to provision	-	-
Closing balance	**1**	**1**

(in million EUR)

Overdue receivables that were not provided for:

	At 30 Sep 2020	***At 30 Sep 2019***
Less than 2 months	2	1
2 to 3 months	-	-
3 to 6 months	-	-
6 to 9 months	-	-
9 to 12 months	-	-
More than 12 months	-	-
Total	**2**	**1**

Overdue receivables that were provided for:

	At 30 Sep 2020	***At 30 Sep 2019***
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
Total	**1**	**1**

14. CASH AND CASH EQUIVALENTS

As at 30 September 2020, the balance of EUR 375 million comprises cash in bank accounts, which the Group can handle freely. The balance recognised as at 30 September 2019 amounted to EUR 631 million.

15. DEFERRED INCOME

	At 30 Sep 2020	***At 30 Sep 2019***
Net opening balance	61	77
Effect of the first application of IFRS 15	-	(13)
Assets acquired during the period	-	1
Received subsidies	-	-
Amortisation during the period	-	
(included in other operating expenses, net)		(1)
Unused grants	-	(3)
Net closing balance	**61**	**61**

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

Free-of-charge transfers of gas facilities from customers related to customers' access to the distribution network are posted in revenues for the relevant period and recognised at the fair value of the assets received. Non-current tangible assets received free of charge are recognised in the financial statements in accordance with IFRS 15 "Revenue from Contracts with Customers" as a contract liability as of 1 October 2018 (Note 20).

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 eastring project.

(in million EUR)

16. 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 2020 and 30 September 2019, 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 2020, 2 588 (30 September 2019: 2 584) 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 2020 are as follows:

	Long-term benefits	*Post-employment benefits*	*Total benefits at 30 Sep 2020*	*Total benefits at 30 Sep 2019*
Net opening balance	2	24	26	12
Additions from acquisition of subsidiaries	-	-	-	9
Change in actuarial assumptions	-	-	-	3
Net expense recognised	-	2	2	2
Benefits paid	-	-	-	-
Net liabilities	**2**	**26**	**28**	**26**

	Current liabilities (included in other current liabilities)	*Non-current liabilities*	*Total*
At 30 September 2020	1	27	28
At 30 September 2019	-	26	26

Key assumptions used in the actuarial valuation:

	At 30 Sep 2020	*At 30 Sep 2019*
Market yield on government bonds	(0.14%) – 1.06%	0.189% - 1.8%
Annual future real rate of salary increases	1.89% - 2.35%	2%
Annual employee turnover	2.63%	2.63%
Retirement ages (male and female) (1)	-	-

(1) *Until 31 December 2018, the retirement age was calculated annually based on average life expectancy for men and women as determined 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.*
The method of determining the retirement age changed with effect from 1 January 2019. The retirement age is determined in years and calendar months and is known five years in advance. The retirement age of insured persons born in the same calendar year is identical.
For 2019 and 2020, the retirement age is 62 years and 6 months.

(in million EUR)

17. PROVISIONS FOR LIABILITIES

Movements in the provisions for liabilities are summarised as follows:

	Environ-mental provisions	***Other***	***Total provisions at 30 Sep 2020***	***Total provisions at 30 Sep 2019***
Balance at 1 October	179	2	181	123
Additions	8	2	10	(2)
Additions from the acquisition of subsidiaries	-	-	-	72
Effect of discounting	2	-	2	2
Movement		-	-	(5)
Use	(1)	(1)	(2)	(3)
Reversal	(4)	(1)	(5)	(6)
Closing balance	**184**	**2**	**186**	**181**

	Current provisions (included in provisions and other current liabilities)	***Non-current provisions***	***Total provisions***
At 30 September 2020	5	181	186
At 30 September 2019	7	174	181

a) Environmental Provisions

Provisions in the amount of EUR 184 million as at 30 September 2020 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 a.s. and its subsidiaries currently have 137 production wells in addition to 288 storage wells, Pozagas has 115 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; NAFTA 0.92%, NAFTA Germany 1.06%, SPP Storage 1.92% and Pozagas 1.12%. 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 2019 and 2093.

Obligations of eustream

In 2019, the Company updated their analyses related to environmental loads on all compressor stations ("CS") operated by eustream. 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 estimated the provision for decontamination work 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 (approximately 0.275%).

b) Other Provisions

The Company records no other provisions as at 30 September 2020 and 30 September 2019. See also Note 30.

(in million EUR)

18. INTEREST-BEARING BORROWINGS

30 September 2020	***30 Sep 2020 Secured***	***30 Sep 2020 Unsecured***	***30 Sep 2020 Total***
Bank loans	-	452	452
Bonds	-	1 505	1 505
Total borrowings	**-**	**1 957**	**1 957**
Borrowings by currency			
EUR			
– with fixed interest rate	-	1 505	1 505
– with variable interest rate	-	452	452
Total borrowings	**-**	**1 957**	**1 957**
Borrowings are due as follows:			
Less than 1 year	-	588	588
1 to 2 years	-	-	-
2 to 5 years	-	744	744
More than 5 years	-	625	625
Total borrowings	**-**	**1 957**	**1 957**

30 September 2019	***30 Sep 2019 Secured***	***30 Sep 2019 Unsecured***	***30 Sep 2019 Total***
Bank loans	-	507	507
Bonds	-	1 761	1 761
Total borrowings	**-**	**2 268**	**2 268**
Borrowings by currency			
EUR			
– with fixed interest rate	-	1 936	1 936
– with variable interest rate	-	332	332
Total borrowings	**-**	**2 268**	**2 268**
Borrowings are due as follows:			
Less than 1 year	-	822	822
1 to 2 years	-	75	75
2 to 5 years	-	673	673
More than 5 years	-	698	698
Total borrowings	**-**	**2 268**	**2 268**

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.; a guarantee was provided by eustream, a.s. The bonds were repaid on 15 July 2020.

In June 2020, eustream, a.s. (subsidiary) issued bonds in the amount of EUR 500 million with a fixed interest rate of 1.625% p.a. and due on 25 June 2027.

Summary of Group's bank loans:
Loans denominated in euros in the amount of EUR 60 million, EUR 65 million, EUR 75 million and EUR 80 million bear an interest rate consisting of a variable portion (3M EURIBOR) and a fixed margin in % p.a. The loans falls due in 2029, 2027, 2021 and 2024, respectively and are not secured by any assets.

During the year, SPP – distribúcia, a.s. repaid the loan denominated in euro amounting to EUR 55 million.

In 2019, SPP – distribúcia, a.s. drew a loan in the amount of EUR 60 million subject to an interest rate consisting of a variable portion (3M EURIBOR) and a fixed margin in % p.a. The loan falls due in 2029.

(in million EUR)

In 2019, eustream, a.s. drew a loan in the amount of EUR 65 million subject to an interest rate consisting of a variable portion (3M EURIBOR) and a fixed margin in % p.a. The loan falls due in 2027.

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 2020). The long-term credit facility consists of a fixed portion in the amount of EUR 175 million, which falls due in 2024, and a variable portion (revolving loan) that is renewed every three months with final maturity in 2024. The loans are denominated in EUR with a variable interest rate. The loans are not secured by any assets.

In 2019, eustream, a.s. concluded contracts for a long-term credit facility totalling EUR 275 million (the balance of the undrawn credit facility is EUR 275 million as at 30 September 2020). The long-term credit facility comprises 7 revolving loans renewed every 3 months and their final maturity is in 2022 and 2024. The loans are denominated in EUR with a variable interest rate. The loans are not secured by assets.

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

Interest rates on loans and bonds:

	30 Sep 2020	*30 Sep 2019*
EUR		
– with a fixed rate	1.625%; 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:

	Carrying amount		***Fair value***	
	30 Sep 2020	***30 Sep 2019***	***30 Sep 2020***	***30 Sep 2019***
Loans	452	507	454	512
Bonds	1 505	1 761	1 584	1 798
Total	**1 957**	**2 268**	**2 038**	**2 310**

19. TRADE AND OTHER PAYABLES

	30 Sep 2020	***30 Sep 2019***
Trade payables from transmission and distribution of natural gas	-	5
Other trade payables	53	51
Liability from paid dividends to shareholders	67	56
Other liabilities	1	126
Employee liabilities	15	14
Social security and other taxes	9	7
Payables from financial derivatives	15	7
Total	**160**	**266**

As at 30 September 2020, the Group recognised payables within maturity in the amount of EUR 160 million (30 September 2019: EUR 266 million) and no overdue payables (30 September 2019: EUR 0).

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

(in million EUR)

20. CONTRACT LIABILITIES AND CONTRACT ASSETS

Non-current contract liabilities

	30 Sep 2020	***30 Sep 2019***
Donated assets	14	14
Long-term prepayments	27	22
Total	**41**	**36**

Some equipment related to gas distribution was acquired from municipalities through free-of-charge transfers. In the reporting period ended 30 September 2020, the Company did not acquire any assets in this manner (30 September 2019: EUR 1 004 thousand). The contract liability from assets acquired free-of-charge is recognised in the income statement on a straight-line basis in the amount of depreciation over the useful lives of the assets. Depreciation charges for the year ended 30 September 2020 amount to EUR 279 thousand (30 September 2019: EUR 467 thousand).

Current contract liabilities

	30 Sep 2020	***30 Sep 2019***
Short-term prepayments	35	49
Total	**35**	**49**

Contract liabilities represent prepayments received for distribution services, which will be charged to revenues from provided services in the next 12 months.

Current contract assets

	30 Sep 2020	***30 Sep 2019***
Contract assets	12	26
Total	**12**	**26**

Contract assets represent receivables from distribution activities. As at 30 September 2018, such assets were recognised as receivables and prepayments made (Note 13).

21. 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 2020 and 30 September 2019. The increase in share 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 2020, 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 2020, 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 share 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 share capital.

(in million EUR)

Revaluation Reserves

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

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

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

Hedging Reserves

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

	Year ended 30 Sep 2020	*Year ended 30 Sep 2019*
Opening balance	**(31)**	**(81)**
Gain/loss from cash flow hedging	79	87
Currency forwards	-	-
Commodity swap contracts	82	134
Commodity forwards and actuary gains	(4)	6
Interest rate swap contracts	1	(53)
Income tax applicable to gains/losses recognised through equity	(17)	(18)
Transfers to profit and loss	(75)	(24)
Currency forwards	-	-
Commodity swap contracts	(81)	(24)
Commodity forwards	4	
Interest rate swaps	2	-
Income tax related to transfers to profit and loss	16	5
Other	(8)	-
Closing balance	**(36)**	**(31)**

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. For profit distribution purposes, the separate financial statements of SPP – Infrastructure, a.s. prepared in accordance with IFRS as at 30 September 2020 are used. The retained earnings under the Company's separate financial statements prepared as at 30 September 2020 which are distributable to the shareholders amount to EUR 862 million.

22. REVENUES

	Year ended 30 Sep 2020	*Year ended 30 Sep 2019*
Core business revenues	1 351	1 357
of which:		
Natural gas transmission revenues	702	763
Distribution of natural gas	403	400
Gas storage	230	178
Sale of hydrocarbons	16	16
Other revenues	113	59
Total revenues	**1 464**	**1 416**

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.

23. SERVICES

	Year ended 30 Sep 2020	***Year ended 30 Sep 2019***
Repair and maintenance	14	11
Service level agreements with SPP	1	4
Other services of production nature	1	4
Lease of transportation means	2	6
Travel expenses	2	2
Advisory	4	4
Costs of IT services and operating expenses	5	5
Insurance premium	4	1
Other	33	25
Total services	**66**	**62**

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:

	Year ended 30 Sep 2020	***Year ended 30 Sep 2019***
Audit of financial statements	228	178
Other assurance services	205	158
Tax advisory services	39	-
Other related services provided by the auditor	30	30
Total	**502**	**366**

24. STAFF COSTS

	Year ended 30 Sep 2020	***Year ended 30 Sep 2019***
Wages, salaries and bonuses	78	74
Social security costs	28	27
Other social security costs and severance pay	5	4
Total staff costs	**111**	**105**

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.

25. FINANCE INCOME

	Year ended 30 Sep 2020	***Year ended 30 Sep 2019***
Interest income	2	1
Gain on the sale of investments	-	-
Dividend income	2	1
Change in fair value of derivatives	(1)	-
Total investment income	**3**	**2**

(in million EUR)

26. FINANCE COSTS

	Year ended 30 Sep 2020	*Year ended 30 Sep 2019*
Interest expense	60	65
Foreign exchange losses	-	-
Other	-	-
Total finance costs	**60**	**65**

Interest expense represents interests related to issued bonds and bank loans (Note 18).

27. TAXATION

27.1. Income Tax

Income tax comprises the following:

	Year ended 30 Sep 2020	*Year ended 30 Sep 2019*
Current income tax	207	178
Special levy on business in regulated industries	58	69
Deferred special levy (Note 27.2)	(2)	(1)
Deferred income tax (Note 27.2)	(42)	1
– current year	(42)	1
Other	8	-
Total	**229**	**248**

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

	Year ended 30 Sep 2020	*Year ended 30 Sep 2019*
Profit before taxation	**891**	**913**
Income tax at 21%	188	192
Effect of adjustments from permanent differences between carrying amount and tax value of assets and liabilities	(5)	(3)
Special levy on business in regulated industries	58	69
Deferred special levy	(2)	(1)
Other adjustments	(10)	9
Income tax for the year	**229**	**248**

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 deprecation 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 2s).

(in million EUR)

27.2. 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:

	At 1 Oct 2019	*Charge to equity for the period*	*Effect of the acquisition of Nafta Bavaria GmbH*	*(Charge)/credit to profit for the period*	*At 30 Sep 2020*
Diff. between tax and acc. depreciation	(787)	(847)	-	42	(1 584)
Derivatives	9	-	-	-	9
Provision for recultivation and liquidation	39	-	-	-	39
Impairment	18	-	-	(1)	9
Other	(11)	-	-	-	(11)
Special levy	4	(169)	-	3	(160)
Total	**(728)**	**(1 014)**	**-**	**44**	**(1 698)**

	At 1 Oct 2018	*Charge to equity for the period*	*Effect of the acquisition of Nafta Bavaria GmbH*	*(Charge)/credit to profit for the period*	*At 30 Sep 2019*
Diff. between tax and acc. depreciation	(798)	-	(10)	21	(787)
Derivatives	23	(14)	-	-	9
Provision for recultivation and liquidation	25	-	16	(2)	39
Impairment	11	-	-	7	18
Other	4	-	(15)	-	(11)
Special levy	5	-	-	(1)	4
Total	**(730)**	**(14)**	**(9)**	**25**	**(728)**

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 2s.) The table below shows the balances (after offsetting) of deferred tax to be recognised in the balance sheet:

	30 Sep 2020	*30 Sep 2019*
Deferred tax liability (Note 27.2)	(1 538)	(732)
Deferred special levy	(160)	4
Total	**(1 698)**	**728**

28. TAX EFFECTS IN THE STATEMENT OF OTHER COMPREHENSIVE INCOME

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

Year ended 30 Sep 2020	*Before tax*	*Tax*	*After tax*
Change in foreign currency translation reserve	-	-	-
Hedging derivatives (Cash flow hedging)	7	(2)	5
Other comprehensive income for the period	**7**	**(2)**	**5**

Year ended 30 Sep 2019	*Before tax*	*Tax*	*After tax*
Change in foreign currency translation reserve	-	-	-
Hedging derivatives (Cash flow hedging)	66	(14)	52
Other comprehensive income for the period	**66**	**(14)**	**52**

(in million EUR)

29. CASH FLOWS FROM OPERATING ACTIVITIES

	Year ended 30 Sep 2020	***Year ended 30 Sep 2019***
Operating profit	951	974
Adjustments for:		
Depreciation, amortisation and impairment of assets	307	187
Provisions and other non-cash items	(1)	(1)
Losses from impairment of inventories	(6)	41
Non-cash settlement of financial derivatives	5	(10)
Profit (loss) from sale of non-current assets	(1)	-
(Increase)/decrease in receivables and prepayments	(20)	-
(Increase)/decrease in inventories	4	2
Increase/(decrease) in trade and other payables	(16)	28
Other assets/liabilities	-	-
Other non-cash transactions	5	-
Cash flows from operating activities	**1 228**	**1 221**

30. COMMITMENTS AND CONTINGENCIES

Capital Expenditure Commitments

As at 30 September 2020, capital expenditure of EUR 97 million (30 September 2019: EUR 122 million) was committed under contractual arrangements for the acquisition of non-current assets, but were not recognised in these consolidated financial statements.

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 storage locations in Slovakia, Czech Republic and Germany. 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. The gas storage facilities in Germany are operated by the subsidiary, Nafta Bavaria GmbH. 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.

(in million EUR)

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.

31. RELATED PARTY TRANSACTIONS

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

	Year ended 30 Sep 2020			***30 Sep 2020***			
	Revenues	***Expenses***	***Dividends***	***Property and inventory***	***Receivables***	***Short term deposits***	***Payables***
Slovak Gas Holding B.V.	-	-	265	-	-	166	0
Slovenský plynárenský priemysel, a.s.	345	8	276	2	2	173	41
Joint ventures	1	-	-	-	-	6	-
Other related parties	37	9	-	16	3	12	12

(in million EUR)

	Year ended 30 Sep 2019				***30 Sep 2019***		
	Revenues	***Expenses***	***Dividends***	***Property and inventory***	***Receivables***	***Short term deposits***	***Payables***
Slovak Gas Holding B.V.	-	-	492	-	-	119	62
Slovenský plynárenský priemysel, a.s.	379	11	513	3	16	124	140
Joint ventures	-	-	-	-	-	-	-
Other related parties	70	11	-	28	2	40	7

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.

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:

	Year ended 30 Sep 2020	***Year ended 30 Sep 2019***
Remuneration to members of the Board of Directors, Supervisory Board, executive management and former members of the bodies - total for combined entities	5	5
Of which – Board of Directors and executive management	*4*	*4*
– Supervisory Board	*1*	*1*

a) Members of the Company's Bodies

Body	***Function***	***Name***
Board of Directors	Chairman	Ing. František Čupr, MBA - since 30 Sep 2020
	Chairman	JUDr. Daniel Křetínský - from 3 Jul 2013 to 29 Sep 2020
	Vice-Chairman	Ing. Ľuboš Lopatka, PhD - since 30 Sep 2020
	Vice-Chairman	JUDr. Alexander Sako – from 3 Jul 2013 to 29 Sep 2020
	Member	Ing. Milan Urban - since 30 Sep 2020
	Member	JUDr. Marián Valko - from 8 Oct 2013 to 29 Sep 2020
	Member	Ing. Miroslav Haško - since 8 Oct 2013
	Member	Mgr. Jan Stříteský - since 29 Mar 2018
Supervisory Board	Chairman	Ing. Adriana Bujdáková - since 13 Jun 2019
	Chairman	JUDr. Radovan Stretavský - from 7 Sep 2017 to 12 Jun 2019
	Vice-Chairman	Mgr. Pavel Horský - since 3 Jul 2013
	Member	Ing. Michal Sklienka - since 30 Sep 2020
	Member	Mgr. Ladislav Nagy - from 29 Sep 2018 to 29 Sep 2020
	Member	Ing. Dušan Halgaš - since 30 Sep 2020
	Member	Ing. Tomáš Richter - from 1 Dec 2015 to 29 Sep 2020
	Member	Jiří Zrůst - since 21 Apr 2017
	Member	MUDr. Dalibor Gergeľ, PhD - since 30 Sep 2020
	Member	Ing. Peter Novák - from 29 Sep 2018 to 29 Sep 2020

(in million EUR)

32. POST-BALANCE SHEET EVENTS

At the end of 2019, information on the coronavirus in China was published for the first time. In early 2020, the virus spread globally and may also affect the Slovak economy. Governments of various countries restricted movement and assembly and ordered the closure of some facilities, eg cinemas, theatres, restaurants, schools and sport facilities. In addition, there were short-term disruptions to the manufacturing sector due to forced or voluntary reductions in production. Company management considers this event to be an event that does not affect nor require an adjustment to the 2020 financial statements. Company management continues to closely monitor the situation and, if necessary, it will take all possible steps to avert negative impacts of this situation on the Company.

Company management continues to closely monitor the continuing pandemic and its potential impacts and has also implemented measures to ensure the safety and reliability of the operation of critical infrastructure as regards transmission, distribution and storage of natural gas and, if necessary, it will take all possible steps to avert negative impacts of this situation on the Group.

On 4 November 2020, the Company provided deposits in the amount of EUR 190 million to its shareholders: SPP – EUR 96.9 million and SGH – EUR 93.1 million.

On 10 November 2020, the RONI published Amendment No. 1 to the Regulation Policy for the 2017 – 2021 Regulation Period, which extended the current five-year regulation period by 1 year, ie the period from 1 January 2017 until 31 December 2022.

On 21 December 2020, provided deposits were offset with dividends in the amount of EUR 526.3 million as follows: SPP and SGH in the amount of EUR 268.4 million and EUR 257.9 million, respectively.

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: 10 February 2021	***Signature of a member of the statutory body of the reporting entity or a natural person acting as a reporting entity:***	***Signature of the person responsible for the preparation of the financial statements:***	***Signature of the person responsible for bookkeeping:***
Approved on:	Ing. František Čupr 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
	Ing. Ľuboš Lopatka, PhD Vice-chairman of the Board of Directors		