Slovenský plynárenský priemysel, a.s.

INDEPENDENT AUDITOR'S REPORT AND CONSOLIDATED FINANCIAL STATEMENTS (PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EU)

FOR THE YEAR ENDED 31 DECEMBER 2019

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Independent Auditor's Report

To the Shareholder, Supervisory Board and Board of Directors of Slovenský plynárenský priemysel, a.s.:

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Slovenský plynárenský priemysel, a.s. and its subsidiaries ('the Group'), which comprise the consolidated balance sheet as at 31 December 2019, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement 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 of the Group give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash Group flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU ('IFRS EU').

Other Matter

The consolidated financial statements of the Group for the year ended 31 December 2018 were audited by another auditor whose report dated 15 May 2019 expressed an unmodified opinion on those statements.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ('ISAs'). 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 Act on Statutory Audit No 423/2015 Coll. and on amendments to the Act on Accounting No 431/2002 Coll., as amended by later legislation ('the Act on Statutory Audit') related to ethics, including Auditor's Code of Ethics, that are relevant to our audit of the consolidated financial statements, and we have fulfilled other requirements of these provisions related to ethics. 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 Consolidated Financial Statements

Management is responsible for the preparation of the consolidated financial statements that give true and fair view in accordance with IFRS 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 ISAs 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.

As part of an audit in accordance with ISAs, 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 presented information as well as whether the consolidated financial statements captures the underlying transactions and events in a manner that leads to their fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or the business 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 regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

Report on Other Legal and Regulatory Requirements

Report on Information Disclosed in the Consolidated Annual Report

Management is responsible for the information disclosed in the consolidated annual report, prepared based on requirements of the Act on Accounting No 431/2002 Coll., as amended by later legislation ('the Act on Accounting'). Our opinion on the consolidated financial statements expressed above does not apply to other information contained in the consolidated annual report.

In connection with audit of the consolidated financial statements it is our responsibility to understand the information disclosed in the consolidated annual report and to consider whether such information is not materially inconsistent with audited consolidated financial statements or our knowledge obtained in the audit of the consolidated financial statements, or otherwise appears to be materially misstated.

We considered whether the Group's consolidated annual report contains information, disclosure of which is required by the Act on Accounting.

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

- Information disclosed in the consolidated annual report prepared for 2019 is consistent with the consolidated financial statements for the relevant year,
- The consolidated annual report contains information based on the Act on Accounting.

Additionally, based on our understanding of the Group and its situation, obtained in the audit of the consolidated financial statements, we are required to disclose whether material misstatements were identified in the annual report, which we received prior to the date of issue of this auditor's report. In this regard, there are no findings which we should disclose.

31 March 2020
Bratislava, Slovak Republic

Ernst & Young Slovakia, spol. s r.o.
SKAU Licence No. 257

Ing. Dalimil Draganovský, statutory auditor
SKAU Licence No. 893

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Slovenský plynárenský priemysel, a.s.
CONSOLIDATED BALANCE SHEET
31 December 2019 and 31 December 2018
(in thousand EUR)

	Note	31 December 2019	31 December 2018
ASSETS:			
NON-CURRENT ASSETS			
Investment property	9	24 262	25 064
Land, property, plant and equipment	8	68 410	68 886
Investments recognised using the equity method	7	1 259 720	1 244 420
Other investments		11	11
Non-current intangible assets	10	11 297	12 197
Other non-current assets		5 746	5 868
Total non-current assets		**1 369 446**	**1 356 446**
CURRENT ASSETS			
Inventories	11	201 646	161 109
Receivables and prepayments	12	373 572	391 671
Income tax assets	26	5 391	2 789
Cash and cash equivalents		175 912	371 220
Total current assets		**756 521**	**926 789**
Non-current assets held for sale		4 378	3 314
TOTAL ASSETS		**2 130 345**	**2 286 549**
EQUITY AND LIABILITIES:			
CAPITAL AND RESERVES			
Registered capital	19	885 062	885 062
Legal and other reserves	20	1 201 548	1 201 060
Hedging reserve	20	(47 964)	(37 617)
Retained earnings		(382 380)	(223 603)
Share in equity attributable to SPP's shareholders		1 656 266	1 824 902
Minority interests of other owners of subsidiaries		-	-
Total equity		**1 656 266**	**1 824 902**
NON-CURRENT LIABILITIES			
Deferred income	16	23	930
Provisions	14	37 387	41 026
Long-term loans	15	-	84 731
Retirement and other long-term employee benefits	13	1 070	993
Deferred tax liability		-	-
Other non-current liabilities	17	9 313	10 240
Total non-current liabilities		**47 793**	**137 920**
CURRENT LIABILITIES			
Trade and other payables	18, 17	320 351	291 513
Short-term loans	15	84 909	-
Provisions and other current liabilities	14	21 026	32 214
Total current liabilities		**426 286**	**323 727**
Total liabilities		**474 079**	**461 647**
TOTAL EQUITY AND LIABILITIES		**2 130 345**	**2 286 549**

The financial statements on pages 5 to 49 were signed on 31 March 2020 on behalf of the Board of Directors:

Ing. Ján Valko
Chairman of the Board of Directors

Ing. Rudolf Slezák
Vice-Chairman of the Board of Directors

Slovenský plynárenský priemysel, a.s.
CONSOLIDATED INCOME STATEMENT
Years ended 31 December 2019 and 31 December 2018
(in thousand EUR)

	Note	*Year ended 31 December 2019*	*Year ended 31 December 2018*
Revenues from contracts with customers	21	1 189 611	1 595 567
Other gains and losses		12 637	(11 205)
Own work capitalised		1 794	17
Purchases of natural gas, electricity and consumables and services		(1 151 923)	(1 538 528)
Depreciation and amortisation	8, 9, 10	(8 026)	(6 594)
Storage of natural gas and other services		(105 610)	(105 033)
Staff costs	22	(29 453)	(27 748)
Provisions for bad and doubtful receivables, net	12	(11 610)	4 369
Provisions and impairment losses, net	14	(2 921)	(16 120)
Gain/(loss) on investments	23	512	(4 130)
Share in profit of associated undertakings and joint ventures	7	339 876	317 683
Finance costs	24	(4 400)	(4 387)
Profit/(loss) before income taxes		**230 487**	**203 891**
Income tax	26	(12 264)	(23 030)
PROFIT FOR THE PERIOD		**218 223**	**180 861**
Net profit attributable to:			
SPP shareholders		218 223	180 861
Minority interests of other owners of subsidiaries		-	-
Total		**218 223**	**180 861**

Slovenský plynárenský priemysel, a.s.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Years ended 31 December 2019 and 31 December 2018
(in thousand EUR)

	Note	*Year ended 31 December 2019*	*Year ended 31 December 2018*
Net profit for the period		**218 223**	**180 861**
Other comprehensive income (may be reclassified to profit or loss in the future):	27	**(9 824)**	**(35 603)**
Movement in FX translation reserve		523	(536)
Decrease in the revaluation reserve due to changes in fair value		-	-
Hedging derivatives (Cash flow hedging):		(6 267)	(38 127)
Gains (losses) for the period		(6 267)	*(38 127)*
Less: reclassification of comprehensive income (loss) in the income statement		-	-
Less: other adjustments		-	-
Deferred tax related to items of other comprehensive income reclassified to profit or loss in the future		4 080	3 060
Other comprehensive income (not reclassified to profit or loss in the future):	27	**(35)**	**54**
Change in the liability for employee benefits		(35)	54
Deferred tax related to items of other comprehensive income not reclassified to profit or loss in the future		-	-
Other net comprehensive income for the period		**(9 859)**	**(35 549)**
Total net comprehensive income/(loss) for the period		**208 364**	**145 312**
Net comprehensive income attributable to:			
SPP shareholders		208 364	145 312
Minority interests of other owners of subsidiaries		-	-
Total		**208 364**	**145 312**

(in thousand EUR)

	Registered capital	*Legal and other funds*	*FX translation reserve*	*Hedging reserve*	*Retained earnings*	*Share in equity attributable to SPP's shareholders*	*Minority interests of other owners of subsidiaries*	*Total*
At 31 December 2017	**885 062**	**1 197 503**	**4 039**	**(2 550)**	**(98 363)**	**1 985 691**	**-**	**1 985 691**
Impact of new accounting standards (see Note 2)	-	-	-	-	(1 058)	(1 058)	-	(1 058)
At 1 January 2018 (adjusted)	**885 062**	**1 197 503**	**4 039**	**(2 550)**	**(99 421)**	**1 984 633**	**-**	**1 984 633**
Net profit for the period	-	-	-	-	180 861	180 861	-	180 861
Other comprehensive income for the period	-	54	(536)	(35 067)	-	(35 549)	-	(35 549)
Total comprehensive income	**885 062**	**1 197 557**	**3 503**	**(37 617)**	**81 440**	**2 129 945**		**2 129 945**
Impact of merger in subsidiaries	-	-	-	-	(43)	(43)	-	(43)
Dividends paid	-	-	-	-	(305 000)	(305 000)	-	(305 000)
At 31 December 2018	**885 062**	**1 197 557**	**3 503**	**(37 617)**	**(223 603)**	**1 824 902**	**-**	**1 824 902**
Net profit for the period	-	-	-	-	218 223	218 223	-	218 223
Other comprehensive income for the period	-	(35)	523	(10 347)	-	(9 859)	-	(9 859)
Total comprehensive income	**885 062**	**1 197 522**	**4 026**	**(47 964)**	**(5 380)**	**2 033 266**		**2 033 266**
Dividends paid	-	-	-	-	(377 000)	(377 000)	-	(377 000)
At 31 December 2019	**885 062**	**1 197 522**	**4 026**	**(47 964)**	**(382 380)**	**1 656 266**	**-**	**1 656 266**

(in thousand EUR)

	Note	*Year ended 31 December 2019*	*Year ended 31 December 2018*
Operating activities			
Cash flows from operating activities	28	(167 836)	(92 678)
Interest paid		(3 653)	(3 627)
Interest received		567	1 139
(Income tax paid)/Tax overpayments refunded		(14 764)	(24 699)
Net cash flows from operating activities		(185 686)	(119 865)
Investing activities			
Acquisition of property, plant and equipment		(2 689)	(9 443)
Expenditure on financial investments		-	(1)
Proceeds from the sale of land, property, plant and equipment and intangible assets		13	352
Dividends received		29 906	51 000
Net cash inflow/(outflow) from investing activities		27 230	41 908
Financing activities			
Proceeds from interest-bearing borrowings		340 386	317 730
Expenses for interest-bearing borrowings		-	-
Dividends paid	20	(376 000)	(300 000)
Payment of principal portion of lease liabilities	17	(528)	-
Other proceeds and expenditures from financial activities, net		(718)	616
Net cash flows from financing activities		(36 860)	18 346
Net (decrease)/increase in cash and cash equivalents		**(195 316)**	**(59 611)**
Cash and cash equivalents at the beginning of the period		**371 220**	**430 814**
Effects of foreign exchange fluctuations		8	17
Cash and cash equivalents at the end of the period		**175 912**	**371 220**

	31 December 2018	*Cash-flow*	*Non-cash change – proceeds*	*Non-cash change – offset*	*31 December 2019*
Dividends received	(29 906)	29 906	(340 386)	340 386	-
Short-term loan	-	340 386	-	(340 386)	-
Total liabilities from financing activities	**(29 906)**	**370 292**	**(340 386)**	**-**	**-**

	31 December 2017	*Cash-flow*	*Non-cash change – proceeds*	*Non-cash change – offset*	*31 December 2018*
Dividends received	(220 841)	51 000	(448 243)	588 178	(29 906)
Short-term loan	270 448	317 730	-	(588 178)	-
Total liabilities from financing activities	**49 607**	**368 730**	**(448 243)**	**-**	**(29 906)**

(in thousand EUR)

1. GENERAL

1.1. General Information

The consolidated financial statements for the year ended 31 December 2019 have been prepared by Slovenský plynárenský priemysel, a.s. ("SPP") and its subsidiaries and associated undertakings (the "Group") 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 for the year ended 31 December 2019 have been prepared pursuant to Article 22 of Act No. 431/2002 Coll. on Accounting, as amended, for the reporting period from 1 January 2019 until 31 December 2019.

SPP (formerly Slovenský plynárenský priemysel, š. p.) was founded on 21 December 1988 by a Memorandum of Association as a 100% state-owned enterprise in Slovakia. On 1 July 2001, SPP was transformed into a joint-stock company (akciová spoločnosť) that was 100% owned by the National Property Fund of the Slovak Republic. A consortium of strategic investors acquired a 49% share in SPP with management control with effect from 11 July 2002. As at 31 December 2012, SPP's shares were held by the National Property Fund of the Slovak Republic (51%) and Slovak Gas Holding, B. V., the Netherlands (49%) (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 key player on the heat, coal and electricity market in Central Europe, on the sale of their shares in Slovak Gas Holding, B.V. ("SGH"), which owned a 49% share in SPP (the parent company) and also exercised operating and management control. The transaction was completed on 23 January 2013.

In 2014, the SPP Group underwent a reorganisation that also included the contribution of SPP's ownership interests in the 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 subsequently sold its near 49% ownership interest including management control in SPP Infrastructure, a.s. to SGH, and acquired treasury shares from SGH. As a result, the Government of the Slovak Republic is now the 100% owner of SPP.

Identification number (IČO)	35 815 256
Tax identification number (DIČ)	2020259802

On 12 June 2019, the Annual General Meeting approved the 2018 consolidated financial statements of SPP.

1.2. Principal Activities

The sale of natural gas and electricity in Slovakia and the Czech Republic has been the core activity since May 2014.

1.3. Employees

The average number of SPP employees for the year ended 31 December 2019 was 721, of which 5 was executive management (for the year ended 31 December 2018: 735, of which 3 was executive management).

The actual number of full-time employees as at 31 December 2019 was 717 (as at 31 December 2018: 711).

1.4. Registered Address

Mlynské nivy 44/a
825 11 Bratislava
Slovakia

2. NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS AND CHANGES IN ESTIMATES

2.1. Application of New and Revised International Financial Reporting Standards

The Group has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that have been endorsed for use in the European Union (hereinafter the "EU"), and that are relevant to its operations and effective for annual periods beginning on 1 January 2019.

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

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

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

  IFRS 16 "Leases" was issued by the IASB on 13 January 2016. Under IFRS 16, a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if such can be readily determined. If such a rate cannot be readily determined, the lessee must use their incremental borrowing rate. As with IFRS 16's predecessor, IAS 17, lessors must classify leases as operating or finance in nature. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset, otherwise a lease is classified as an operating lease. For finance leases, a lessor recognises finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the net investment. A lessor recognises operating lease payments as income on a straight-line basis or, if more representative of the pattern in which benefit from use of the underlying asset is diminished, another systematic basis.

  The Group analysed the impact of the application of IFRS 16 "Leases" on the financial statements. The Group recognised the right-of-use assets and the lease liability in the amount of EUR 3 267 thousand as at 1 January 2019 and the insignificant impact on the income statement and the statement of cash flows for 2019. For discounting, the Group used the incremental borrowing rate. Leased assets where the Group acts as a lessee primarily include the car fleet and non-residential premises. The Group applies the standard with effect from 1 January 2019 using a simplified approach (without the restatement of previous periods). The Group also decided to only apply the standard to contracts that meet the definition of a lease under the previous standards, IAS 17 and IFRIC 4, at the transition date. The recognition of the right-of-use asset and the lease liability has no significant impact on the Group's financial indicators.

  The amendments to IFRS 16 have been applied in selected notes to the financial statements only for the current period. The published data of the comparable period remained unchanged from the previous period.

  The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less (short-term leases), and lease contracts for which the underlying asset is of low value (low-value assets).

(in thousand EUR)

In the following table the reconciliation of lease liabilities as at 1 January 2019 with operating lease commitments as at 31 December 2018 is shown:

	31 December 2019
Operating lease commitments as at 31 December 2018	568
Incremental borrowing rate as at 1 January 2019	-
Discounted operating lease commitments as at 1 January 2019	568
Less:	
Commitments related to short-term leases	-
Commitments related to leases of low-value assets	-
Add:	
Liabilities related to leases previously classified as finance leases	-
Lease payments relating to renewal periods not included in operating lease commitments as at 31 December 2018	2 699
Lease liabilities as at 1 January 2019	**3 267**

- **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 (effective for annual periods beginning on or after 1 January 2019);

- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** – Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019);

- **Amendments to various standards due to "Improvements to IFRSs (cycle 2015 – 2017)"** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019);

- **IFRIC 23 "Uncertainty over Income Tax Treatments"** (effective for annual periods beginning on or after 1 January 2019).

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

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

At the date of authorization of these financial statements, the following new standards and amendments to existing standards and interpretations issued by IASB and adopted by the EU 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 term "Significant" – adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020 or later);

- **Amendments to References to the IFRS Conceptual Framework** – 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"** – Reference interest rate reform – adopted by the EU on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020 or later).

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

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

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards and amendments to the existing standards , 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);

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

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

According to the Group'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 balance sheet date.

3. SUMMARY OF ACCOUNTING POLICIES

a) Basis of Accounting

The consolidated financial statements have been prepared in accordance with IFRS as adopted by the EU. IFRS relevant to the SPP Group, as adopted by the EU, do not significantly differ from IFRS as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements are prepared under the historical cost convention, except for the certain financial instruments. The principal accounting policies adopted are detailed below. The accompanying consolidated financial statements reflect certain adjustments and reclassifications not recorded in the accounting records of certain Group companies in order to conform the Slovak statutory and other financial statements to financial statements prepared in accordance with IFRS as adopted by the EU.

b) Business Combinations

(1) Subsidiaries

Those business undertakings in which SPP, 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. Subsidiaries are consolidated from the date on which effective control is transferred to SPP and they are no longer consolidated from the date when such control ceases.

The acquisition of subsidiaries is accounted for using the purchase method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the interests in equity issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

Due to the insignificance, SPP decided not to include the following accounting subsidiaries in the consolidation - SPP CNG s.r.o., SPP Foundation, EkoFond, n.f., EF Nonprofit, ENRA SERVICES s.r.o. SPP believes that the non-consolidation of these subsidiaries does not have a material impact on the consolidated financial statements.

Non-consolidated subsidiaries are stated at cost less impairment. The adjusted value of such subsidiaries is presented in Other investments.

Identifiable acquired assets and assumed liabilities are recognised at fair value as at the acquisition date, except for:

- Deferred tax assets or liabilities, and liabilities or assets related to employee benefit arrangements, which are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits*, respectively;

- Liabilities or equity instruments related to share-based payment arrangements of the acquiree, or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree, which are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date; and

- Assets (or disposal groups of assets and liabilities) that are classified as held for sale in accordance with IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*, which are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously-held equity interest in the acquiree over the net of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously-held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

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.

When a business combination is carried out in stages, the Group's previously-held interest in the acquiree is remeasured to fair value at the acquisition date (ie the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that had previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Business combinations that took place prior to 1 January 2010 were accounted for in accordance with the previous version of IFRS 3.

Goodwill arising on consolidation is recognised as an asset and represents the excess of the cost of the business combination over the Group's interest in the fair value of the identifiable assets, liabilities, and contingent liabilities.

Goodwill is initially recognised at cost, is subsequently not depreciated and is measured at cost less accumulated impairment losses. Goodwill is tested for impairment annually, or more frequently if there is an indication that it may be impaired. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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

(2) Investments in Associated Undertakings

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

Associated undertakings are entities in which SPP exercises substantial, but not controlling, influence. Owing to their impairment, a provision is recorded.

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

c) Financial Assets

The Group recognised and classified financial assets in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" that was superseded by the new standard, IFRS 9 "Financial Instrument" with effect from 1 January 2018.

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 at fair value through profit or loss (FVTPL).

Although the permitted measurement of financial assets at amortised cost, at fair value through other comprehensive income and at fair value through profit or loss is similar to the measurement under IAS 39, the criteria for classification into the corresponding categories are different.

The Group recognises financial assets subsequently measured at amortised cost and financial assets at fair value through profit or loss.

Financial assets at amortised cost

Financial assets are measured at amortised cost if both of the following conditions are met:

i) The assets are held in a business model whose objective is to hold assets in order to collect contractual cash flows; and
ii) The contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or designated as at FVTPL. Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Financial assets classified as at FVTPL mainly include agreements on the purchase or sale of commodities not meeting the measurement exception under IFRS 9 and financial derivatives concluded to ensure economic hedging to which the hedge accounting was not applied.

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

Impairment of financial assets

For the impairment of loan receivables, the Group 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 of 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 credit loss.

As at 31 December 2018 the Group assessed the impairment of receivables from unpaid dividends from SPP – Infrastructure, a.s. (see Note 12) and concluded that the 12-month expected credit loss approximates zero, given the low risk of default and expected loss, and given the method of borrowing recognition.

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

Derecognition of financial assets

The Group 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.

d) Financial Liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is held for trading, is a derivative instrument or is designated as at FVTPL.

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

Other financial liabilities

Other financial liabilities (including borrowings) are subsequently measured at amortised cost using the effective interest method. Interest, gains and losses on the translation of foreign currencies are recognised in the income statement.

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

Derecognition of financial liabilities

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

e) Derivative Financial Instruments

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

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

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

Hedge accounting

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

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

Fair value hedges

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

(in thousand EUR)

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

In the event that a financial derivate does not meet or no longer meets the requirements for hedge accounting, changes in the fair value are directly recognised in the income statement as "Mark-to-market" or as "Mark-to-market on commodity contracts other than trading instruments" in ordinary operating income from derivative financial instruments with non-financial assets as the underlying assets, and in financial revenues or expenses in the case of currency, interest rate or equity derivatives.

Derivative financial instruments used by the Group for trading activities with own energy and energy on behalf of customers, and other derivative financial instruments that are due in less than 12 months are recognised in the consolidated statement of financial position as current assets or current liabilities, while derivative financial instruments due after this period are classified as non-current items.

Cash flow hedges

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

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

- If an expected hedged transaction subsequently leads to the recognition of a non-financial asset or a non-financial liability, or if an expected hedged 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 hedging 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 Group 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.

f) Land, Property, Plant and Equipment, and Intangible Assets

Property, plant and equipment ("non-current assets") and intangible assets were recognized at cost net of accumulated depreciation. Cost includes all costs attributable to placing the non-current asset into service for its intended use.

Items of property, plant, and equipment and intangible assets that are retired or otherwise disposed of are removed from the balance sheet at the net book value. Any gain or loss resulting from such retirement or disposal is included in the income statement.
Other items of property, plant, and equipment are depreciated on a straight-line basis over 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 of non-current assets used are as follows:

	2019	*2018*
Buildings and structures	30 – 40	30 – 40
Right of use of leased premises	5 -10	-
Plant and machinery	3 – 15	3 – 15
Right of use of vehicles	5	-
Fixtures and fittings	8 – 15	8 – 15
Software – tangible	3 – 4	3 – 4
Other non-current tangible assets	8	8

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

Intangible assets with limited useful lives that are acquired separately are recognised at cost less accumulated amortisation and accumulated impairment losses. Estimated useful lives are re-assessed at the end of each reporting period.

The useful lives of intangible assets can be summarised as follows:

	2019	*2018*
Software	4 - 10	4 – 10
Other non-current intangible assets	4 - 10	4 – 10

At each reporting date, an assessment is made as to whether there is any indication that the realisable value of the Group's non-current assets is less than the carrying amount. When such an indication occurs, the realisable value of the asset, being the higher of the asset's fair value less costs of disposal and the present value of future cash flows ("value-in-use"), is estimated. 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 a provision recorded, if appropriate.

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

g) Investment Property

Investment property that is held to generate rental income is initially recognised at cost inclusive of costs related to acquisition. Investment properties are subsequently recognised at historical cost. The Group does not apply any revaluation model for such assets.

h) Research and Development

Costs of research and development are charged to expenses except for expenses incurred for development projects that are recognized as non-current intangible assets of an expected economic benefit. Development costs that were expensed in the year in which they were incurred are not subsequently capitalized in the following reporting periods.

i) 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 is calculated using the weighted arithmetic average method. The cost of natural gas and raw materials includes the cost of acquisition and related costs, and the cost of inventories developed internally includes materials, other direct costs, and production overheads. Other costs related to the acquisition of natural gas also include the effect of hedging. The positive impact of hedging, i.e. profit from the settlement of derivative operations, reduces the valuation of natural gas in the underground storage facilities and vice versa, the negative impact of hedging, i.e. loss from the settlement of derivative operations increases the valuation of natural gas in the underground storage facilities.

A provision in the required amount is recorded for inventories if there is an indication of their impairment.

The Group separately recognises natural gas held for trading, which is remeasured to fair value as at the reporting date. Changes in the fair value of natural gas held for trading are recognised directly in profit or loss.

j) 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.

k) Dividends

Dividends are recognized in equity in the period in which they were approved. The payment of dividends to the SPP's shareholder is recognized as a liability in the Group's financial statements in the period in which the dividends were approved by the SPP's shareholder.

l) Accounting for Government Grants

Received government grants are recognised when there is reasonable assurance that the grant will be received and that any conditions attached to the grant will be met. If the government grant relates to the settlement of costs, it is recognised as income over the period required for a systematic compensation of the grant with related costs for the settlement of which the grant is intended. If the government grant relates to the acquisition of non-current assets, it is recognised as deferred income and recognised in the income statement on a straight-line basis over the estimated useful life of the relevant asset. The government grants are recognised in the balance sheet using a deferred income method.

m) 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.
The applied discount rate reflects the current market expectations regarding the time value of money and risks specific to the relevant liability. Where discounting is used, the carrying amount of the provision increases in each period to reflect the unwinding of the discount by the passage of time.

n) Borrowing Costs

Borrowing costs are recognised as an expense in the period in which they incurred, except for borrowing costs directly attributable to the acquisition, construction or production of the relevant non-current assets. Such borrowing costs are recognized as part of the cost of such assets until they are placed into service.

o) Recognition of Revenues from Contracts with Customers

Revenues from contracts with customers are recognised upon the delivery of goods or services net of value added tax and discounts at a point in time or over a certain time period 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 Group expects to be entitled in exchange for such goods or services.

Revenues from the sale of natural gas and revenues from the sale of electricity are recognised at the moment the commodity is supplied to the customer based on the actually measured or estimated energy consumption at the agreed price.

p) Other Gains and Losses

The Group recognises other gains that do not meet the requirements of the new standard, IFRS 15 "Revenue from Contracts with Customers" and the corresponding losses in profit or loss on a net basis. Other gains and losses include the result of trading activities and the sale of a commodity with physical delivery falls under the scope of IFRS 9, gains and losses on the sale of assets and raw materials, other taxes and charges, FX differences from operating activities and other operating profits and losses. The Group recognises the result of trading activities on a net basis after the recognition of purchases or sales and the remeasurement of open positions.

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 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 Slovak government bonds, which have terms to maturity approximating the terms of the related liability. All actuarial gains and losses are recognised in the statement of other comprehensive income. Past service costs are recognised when incurred as expenses.

s) Leases

The assessment of whether or not a contract contains or represents a lease depends on the substance of the contract and requires an assessment of whether the performance of the contract depends on the use of a specific, clearly identifiable asset or whether the contract grants the right to use the asset for a period of time for equivalent. The lessee has the right to control the use of the asset and obtain significant economic benefits from its use.

The Group does not apply IFRS 16 to leases of intangible assets, short-term lease contracts (less than one year) and to leases where the underlying asset has a low value.

At the date of the lease, as a lessee, the Group recognizes an asset with the right of use and recognize lease liability. An asset with the right of use is initially measured at cost and recognized in the separate balance sheet line "Land, property, plant and equipment". An asset with the right of use is subsequently measured using the cost model. The amortization period is equal to the estimated useful life of the underlying asset or the lease term. Depreciated assets with the right of use are tested for impairment whenever the events or changes in conditions occur that could mean the carrying amount may not be recoverable, but at least as of balance sheet date.

The lease liability is initially recognized at the present value of future lease payments and is presented in the separate balance sheet line "Trade and other payables", or "Other non-current liabilities". Subsequently, the lease liability is increased by the relevant interest calculated on the basis of the incremental borrowing rate and reduced by the lease payments. Interest is reported in the individual statement of profit or loss and other comprehensive income in the line "Finance costs".

Leases for an indefinite period of time are limited to the earliest date on which the lease can be terminated by the lessee or the lessor (taking into account previous customs and economic reasons for those practices). The useful life of fixed-term leasing contracts corresponds to the contractual period.

Total lease payments under exceptions (leases of intangible assets, short-term lease contracts and leases where the underlying asset is of low value) are recognized as an expense on a straight-line basis over the lease term in the individual income statement and other comprehensive income.

<u>Group as a lessor</u>

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

<u>Property lease classification – Group as a lessor</u>

The Group has entered into commercial property leases, which are recognized on the balance sheet line "Investment property". The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all of the fair value of the commercial property, that it retains substantially all the risks and rewards incidental to ownership of these properties and accounts for the contracts as operating leases.

t) Income Tax

Income tax is calculated from the profit/loss before tax recognised under International Financial Reporting Standards adjusted pursuant to the relevant Decree of the Ministry of Finance of the Slovak Republic after adjustments for individual items increasing and decreasing the tax base in line with Act No. 595/2003 Coll. on Income Tax, as amended, using the applicable 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 for the period when the asset is realised or the liability is settled. Deferred tax is charged or credited to the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also recorded in equity. The income tax rate effective for 2019 and 2018 was 21%.

The principal temporary differences arise from 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, 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 as per Act No. 235/2013 Coll. on Special Levy on Business in Regulated Industries and on Amendment to and Supplementation of Certain Acts. It is recognised through profit or loss.

SPP is a regulated entity and has been obliged to pay special levies since September 2012. The levy period is a calendar month and the levy rate effective for 2019 is 0.00545 (the levy rate effective for 2018 was 0.00726). The base for the SPP's levy is profit/loss before tax recognised under IFRS and adjusted to the profit/loss recognised pursuant to the relevant Decree of the Ministry of Finance of the Slovak Republic and adjusted pursuant to the Special Levy Act.

u) Foreign Currencies

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

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

v) Non-Current Assets Held for Sale

Non-current assets are classified as held for sale if their carrying amount can be recovered through a sale transaction rather than by continued use. This condition is considered fulfilled only when the sale is highly probable and the non-current asset 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 classified as held for sale are measured at the lower of their previous carrying amount and the fair value less costs to sell.

4. ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, as described in Note 3, the Group has made the following decisions concerning uncertainties and estimates that have a significant impact on the amounts recognised in the financial statements. There is a significant risk of material adjustments in future periods relating to such matters, including the following:

Litigation

The Group is involved in various legal proceedings for which management has assessed the probability of loss that may result in cash outflow. In making this assessment, the Group has relied on the advice of external legal counsel, the latest available information on the status of the court proceedings, and an internal evaluation of the likely outcome. The final amount of any potential losses in relation to the legal proceedings is not known and may result in a material adjustment to the previous estimates. Details of the legal cases are included in Note 29.

Provision for Litigation and Potential Disputes

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

Impairment of Property, Plant and Equipment

The Group calculated and recorded amounts related to the impairment of property, plant and equipment on the basis of an assessment of their future use, planned liquidation or sale, based on information received from real estate agencies. For some of these items, no final decision has yet been made and thus the assumptions regarding the use, liquidation, or sale of the assets may change. Refer to Note 8 for details on the impairment of property, plant and equipment.

Unbilled revenues from gas and electricity sales

The Group records significant amounts as revenues from gas and electricity sales on the basis of estimated gas and electricity consumption by small industrial customers and residential customers. The Group makes an estimate of these revenues by allocating actual measured gas and electricity consumption to the individual categories of customers on the basis of past consumption trends and applying the valid natural gas and electricity prices. Actual consumption by customers in the different categories may vary and so the amounts recorded as revenues may change, given the price differences between categories of customers.

The Group uses a model that makes it possible to estimate these revenues with sufficient accuracy and ensures that the risk of a significant difference between the quantity sold and the resulting estimated revenue is not material.

Allowances for bad debts

The Group applies a simplified approach under IFRS 9 for trade and short-term receivables, i.e. measures expected credit losses (ECL) using lifetime expected losses. Impairment losses on trade and other receivables are recognised in income statement. An impairment loss is reversed if the reversal can be objectively attributed to an event that occurs after the recognition of an impairment loss.

Situation in Ukraine

The Group is monitoring the development of the situation in Ukraine and its potential impact on the Group's business. The Group's management believes that a significant negative impact on the Group's financial performance is unlikely. The Group seeks to diversify its natural gas resources by purchasing and using reverse flows from Western Europe, and also by maintaining maximum natural gas reserves in storage facilities which are able to cover short-term deficits in Russian natural gas supplies. In the event of a long-term non-performance of liabilities by the Russian supplier of natural gas, there may be potential adverse impacts, however, these cannot be reliably estimated.

(in thousand EUR)

Provision for Onerous Contracts

As at 31 December 2019, the consolidated financial statements include significant amounts recognised as provisions for onerous contracts in connection with non-cancellable contractual commitments to supply natural gas to customers based on the sales contracts. These provisions are based on current market information on the future development of natural gas prices in spot markets, which are volatile. For more information, see Note 14.

Decisions In Application of Accounting Policies

In addition to key sources of uncertainty listed above, the Group used a judgment when applying accounting policies and assessing the requirements of the standards as described in part 3, which have a significant impact on the recognition of items in the consolidated financial statements. These requirements mainly include:

- Evaluation of requirements under IFRS 13 for the measurement of non-financial assets at fair value (see Notes 3e, 3i and 3p); and
- Assessment of the IFRS 9 rules for the application of an exemption allowing one not to account for certain commodity buy and sell contracts as financial derivatives (see Note 3e).

5. STRUCTURE OF THE GROUP

Consolidated Subsidiaries

The following subsidiary is consolidated as at 31 December 2019 and 31 December 2018:

Name	*Seat*	*Ownership share %*	*Principal activity*
SPP CZ, a.s.	Nové sady 996/25, Staré Brno, Brno, Czech Republic	100.00	Gas and electricity purchase and sale

Non-consolidated subsidiaries

As at 31 December 2019 and as at 31 December 2018 below stated subsidiaries are not consolidated due to the insignificancy:

Name	*Seat*	*Ownership share %*	*Principal activity*
SPP CNG s.r.o.	Mlynské nivy 44/a, Bratislava, SR	100%	Compressed natural gas purchase and sale
Nadácia SPP	Mlynské nivy 44/a, Bratislava, SR	100%	Non – profit organization
EkoFond, n.f.	Mlynské nivy 44/a, Bratislava, SR	100%	Non – profit organization
Nezisková organizácia EF	Mlynské nivy 44/a, Bratislava, SR	100%	Non – profit organization
ENRA SERVICES s.r.o.	Nové sady 996/25, Staré Brno, 602 00 Brno, ČR	100%	Natural gas purchase and sale

6. 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 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. In 2019 and 2018, the Group entered into derivative transactions, for example, forward currency contracts and commodity swaps in order to manage certain risks. The purpose of forward currency contracts was to eliminate the effects of changes in the CZK/EUR exchange rates owing to future payments and revenues in foreign currency. The purpose of 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 foreign currency risk, commodity risk, interest rate risk, risk of default related to receivables and liquidity risk. Risk management is performed by the Audit and Risk Management Department in accordance with procedures approved by the Board of Directors or management of the individual Group companies.

(1) Foreign Currency Risk

The Group is exposed to foreign currency risk arising from transactions in foreign currencies, primarily in Czech crowns (CZK).

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

	Financial assets		*Financial liabilities*	
	As at 31 December 2019	***As at 31 December 2018***	***As at 31 December 2019***	***As at 31 December 2018***
CZK	30 555	53 724	23 758	25 021

Sensitivity to foreign currency changes

The following tables show the Group's sensitivity to a 3% weakening of the Euro against the CZK. The sensitivity analysis includes items denominated in a foreign currency and adjusts the currency translation at the end of the reporting period by the 3% FX change. A negative value indicates a decrease in the income statement if the euro weakens with regard to the relevant currency.

	Impact of CZK	
	As at 31 December 2019	***As at 31 December 2018***
Effect on profit/loss before tax	8	35

The effects mainly relate to the risk relating to outstanding receivables and payables in CZK as at the reporting date.

(2) Commodity Price Risk

The Group is a party to framework agreements for the purchase of natural gas. In addition, the Group enters into contracts for the sale of natural gas and natural gas storage. Contracts for natural gas storage are at fixed prices, which are escalated based on price indices every year.

As at 31 December 2019 and 31 December 2018, the Group also used commodity swap contracts to manage the risk of commodity price fluctuations.

The following table details the open swap commodity contracts at the reporting date.

Open swap commodity contracts	***As at 31 December 2019***		***As at 31 December 2019***	
	Nominal value		***Fair value***	
In million EUR	***Hedging***	***Held for trading***	***Hedging***	***Held for trading***
Purchase/Sell gas				
Less than 3 months	125 823	-	(40 663)	-
3 to 12 months	250 060	-	(68 955)	-
Over 12 months	76 321	238	(5 598)	(6)

Open swap commodity contracts	***As at 31 December 2018***		***As at 31 December 2018***	
	Nominal value		***Fair value***	
In million EUR	***Hedging***	***Held for trading***	***Hedging***	***Held for trading***
Purchase/Sell gas				
Less than 3 months	145 921	-	(3 898)	-
3 to 12 months	278 513	-	(23 937)	-
Over 12 months	78 583	-	(1 680)	-

The Group uses hedging instruments to secure cash flow hedging and fair value of sales contracts.

Cash flow hedging

The main risk affecting the price of natural gas is defined as commodity risk caused by price movements. The aim of cash flow hedging is therefore to ensure a fixed cost of sourcing the sales contracts, which are sold at fixed price. The risk of a change in the values of the input parameter affecting the price of natural gas is thus fully eliminated based on an agreement with the counterparty to compensate their development.

(in thousand EUR)

The Group recognizes the following commodity contracts:

	At 31 December 2019	*At 31 December 2018*
Commodity swaps		
Nominal amount in MWh	10 203 440	8 943 279
Nominal amount in EUR ths.	174 757	208 576

The effect of hedging instruments in the balance sheet is as follows:

	At 31 December 2019	*At 31 December 2018*
Line in the balance sheet		
Other non-current assets	-	-
Receivables and prepayments	1 253	291
Other non-current liabilities	(1 817)	(3 491)
Trade and other payables	(49 949)	(21 667)
Nominal value recorded in contingent assets and liabilities	174 757	208 576

The effect of hedging instruments in the income statement and in the statement of other comprehensive income is as follows:

	Year ended 31 December 2019	*Year ended 31 December 2018*
Line in the income statement		
Purchase of natural gas, electricity and material and energy consumption	(59 986)	3 357
Revenue from contracts with customers	-	861
Line in the statement of other comprehensive income		
Hedging derivatives (cash flow hedging)	(50 514)	(24 867)

Fair value hedging

To eliminate the commodity risk, the Group decided to manage the risks by offering a fixed price to the customer through "back to back" hedging in the form of commodity swaps of the sales formula. The objective of the hedging instrument is to hedge the fair value of the yield contract. The risks of changes in the values of the input parameters affecting the selling price of natural gas are thus fully eliminated based on an agreement with the counterparty to compensate their development.

The effect of hedging instruments in the balance sheet is as follows:

	At 31 December 2019	*At 31 December 2018*
Line in the statement of financial position		
Other non-current assets	99	3 555
Receivables and prepayments	-	12 440
Other non-current liabilities	(3 879)	(1 743)
Trade and other payables	(60 922)	(18 900)
Nominal value recorded in contingent assets and liabilities	277 447	294 441

The effect of hedged items in the balance sheet is as follows:

	At 31 December 2019	*At 31 December 2018*
Line in the statement of financial position		
Other non-current assets	3 879	1 743
Receivables and prepayments	60 922	18 900
Other non-current liabilities	(99)	(3 555)
Trade and other payables	-	(12 440)

(3) Interest Rate Risk

The Group was exposed to minimum interest rate risks associated with interest rate volatility, as it drew a long-term loan with a fixed interest rate and a loan with a floating interest rate provided by an associated company.

For the Group, the volatility of interest rates for short-term loans does not represent a significant risk as such loans are drawn only occasionally, and the level of interbank EURIBOR interest rates have recently been at their historical minimums (1M EURIBOR is used as a reference rate for short-term loans drawn by the Group and was -0.438% p.a. as at 31 December 2019, ie an decrease of 0.076% p.a. compared to 31 December 2018, when 1M EURIBOR was -0.362% p.a.).

Given the minimum level of short-term interest rates, sensitivity to a potential decrease of interest rates by more than 0.1 - 0.2% cannot be tested. On the contrary, if interest rates increase, interest expenses will increase only slightly, since these loans are drawn by the Group only several times a year.
As at 31 December 2019 and 31 December 2018, no short-term loan was drawn by the Group. During the years 2019 and 2018, short-term loans were drawn down in a minimum extent, to cover a lack of liquidity for a short period of time.

(4) Credit Risk Related to Receivables

The Group sells its products and services to various customers that, neither individually nor jointly in terms of volume and solvency, represent significant risk that the receivable 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 limit to credit exposure 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 31 December 2018, the Group only drew long-term loans amounting to EUR 84 731 thousand. As at 31 December 2019 was recognized as short-term credit resources of EUR 84 909 thousand, as its maturity is on 2 July 2020.

Loans with maturity of less than 2 years are drawn in EUR with a variable interest rate linked to 1M EURIBOR (in some cases O/N for overdraft facilities). For long-term loans, the interest rate is set as fixed.

The bulk of short-term credit lines include an automatic loan extension clause, provided that none of the parties concerned cancels the loan within the specified period. Long- or medium-term loans have a fixed maturity date, while the loan is payable in a lump sum as at the final maturity date, i.e. July 2020.

All loans are provided without any collateral, using common market provisions (pari-passu, ban to pledge assets, substantial negative impact). Regarding the balance of the credit facilities drawn as at 31 December 2019 in the amount of EUR 84 909 thousand (whereas the funds and tradable securities amounted to EUR 175 912 thousand), the net debt totals EUR 0. If necessary, maturing credit facilities may be paid off from undrawn credit facilities, as well as from available funds and tradable securities (at 31 December 2019 EUR 304 000 thousand from banks).

(in thousand EUR)

The table below summarises the maturity of financial liabilities at 31 December 2019 and 31 December 2018 based on contractual undiscounted payments:

	On demand	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*> 5 years*	*Total*
31 December 2019						
Trade payables	-	170 447	-	-	-	170 447
Other liabilities	-	68 549	82 364	8 576	737	160 226
Loans bearing floating interest	-	-	-	-	-	-
Loans bearing fixed interest (Note 15)	-	-	84 909	-	-	84 909
31 December 2018						
Trade payables	-	187 571	-	-	-	187 571
Other liabilities	-	65 180	42 491	10 240	-	117 911
Loans bearing floating interest	-	-	-	-	-	-
Loans bearing fixed interest (Note 15)	-	-	-	84 731	-	84 731

b) Capital Risk Management

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

The capital structure of the Group consists of debt, ie loans disclosed in Note 15, cash and cash equivalents and equity attributable to the owner of the parent company, which comprise the registered capital, legal and other reserves, and retained earnings as disclosed in Notes 19 a 20.

The gearing ratio was as follows:

	At 31 December 2019	*At 31 December 2018*
Debt (i)	84 909	84 731
Cash and cash equivalents	175 912	371 220
Net debt	-	-
Equity (ii)	1 656 266	1 824 902
Net debt to equity ratio	**0 %**	**0 %**

(i) Debt is defined as long- and short-term borrowings.
(ii) Page 8

c) Categories of Financial Instruments

	At 31 December 2019	*At 31 December 2018*
Financial assets	**555 096**	**768 526**
Financial derivatives recognised as hedging	66 153	36 929
Financial derivatives held for trading	40 733	22 710
Loans and receivables (including cash and cash equivalents)	448 210	708 887
Financial liabilities	**413 355**	**390 213**
Financial derivatives recognised as hedging	116 667	61 796
Financial derivatives held for trading	18 544	19 837
Financial liabilities carried at amortised costs	278 144	308 580

d) Estimated Fair Value

The fair value of interest rate swaps is calculated as the present value of estimated future cash flows using forward interest rates as at the reporting date and agreed forward rates taking into account the credit risks of various parties.

The fair value of commodity swaps is determined using forward commodity prices and forward exchange rates as at the reporting date, and agreed forward rates taking into account credit risk of various parties.

(in thousand EUR)

The fair value of ordinary shares not in a 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.

Estimated fair values of financial assets and liabilities that are not regularly remeasured to fair value

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

When determining the fair value of non-traded derivatives and other financial instruments, the Group uses a number of methods and market assumptions that are based on the market conditions prevailing as at the reporting date. Other methods, mainly the estimated discounted value of future cash flows, are used to determine the fair value of other financial instruments.

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.

Year 2019	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets at fair value	**2 890**	**103 996**	**-**	**106 886**
Financial derivatives held for trading	2 890	37 843	-	40 733
Financial derivatives recognised as hedging	-	66 153	-	66 153
Financial liabilities at fair value	**1 261**	**133 950**	**-**	**135 211**
Financial derivatives held for trading	1 261	17 283	-	18 544
Financial derivatives recognised as hedging	-	116 667	-	116 667

Year 2018	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets at fair value	**5 474**	**54 165**	**-**	**59 639**
Financial derivatives held for trading	5 474	17 236	-	22 710
Financial derivatives recognised as hedging	-	36 929	-	36 929
Financial liabilities at fair value	**4 704**	**76 929**	**-**	**81 633**
Financial derivatives held for trading	4 704	15 133	-	19 837
Financial derivatives recognised as hedging	-	61 796	-	61 796

Embedded Derivative Instruments

The Group signed a long-term contract for purchases of natural gas denominated in USD. Following an agreement with the Russian partner, the contract was modified by an amendment and the price was converted to EUR with a direct link to the development of the relevant spot market. Both the economic characteristics and risks of embedded forward derivative instruments (USD to EUR), and natural gas prices are generally believed to be closely related to the economic characteristics and risks of the underlying purchase agreements. 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 should 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 31 December 2019 under the requirements of IFRS 9.

(in thousand EUR)

7. INVESTMENTS RECOGNISED USING THE EQUITY METHOD

Details of the Group's associated undertakings as at 31 December 2019 can be summarised as follows:

Name	*Seat*	*Ownership interest %*	*Principal activity*	*Value under equity method at 31 December 2019*
SPP Infrastructure, a. s.	Mlynské nivy 44/a, Bratislava, Slovakia	51.00	Holding company	1 259 720

SPP has recognised this ownership interest in SPP Infrastructure, a. s. using the equity method.

An overview of assets, liabilities, revenues, and expenses of SPP Infrastructure, a.s. is as follows:

	At 31 December 2019	*At 31 December 2018*
Property, plant and equipment	4 816 000	4 909 000
Loans provided	41 000	1 000
Other non-current assets	54 000	62 000
Current assets	734 000	525 000
Total assets	**5 645 000**	**5 497 000**
Non-current interest-bearing borrowings	1 434 000	1 952 000
Provisions for liabilities and other long-term liabilities	1 101 000	1 083 000
Current liabilities	1 147 000	529 000
Total liabilities	**3 682 000**	**3 564 000**
Net assets	**1 963 000**	**1 933 000**

	At 31 December 2019	*At 31 December 2018*
Revenues	1 471 000	1 332 000
Profit before income taxes	948 000	888 000
Income tax including deferred tax	(252 000)	(233 000)
Profit after tax	**696 000**	**655 000**
Other comprehensive profits and losses	**32 000**	**(21 000)**
Comprehensive net income	**728 000**	**634 000**

A reconciliation of the financial information stated above with the carrying amount of the share in SPP Infrastructure, a. s. recognised in these consolidated financial statements is as follows:

	At 31 December 2019	*At 31 December 2018*
Net assets of SPP Infrastructure, a. s.	1 963 000	1 933 000
Ownership interest (51%)	1 001 130	985 830
Goodwill	258 590	258 590
Carrying amount of the share in SPP Infrastructure, a. s.	**1 259 720**	**1 244 420**

Reconciliation of the carrying amount of shares in SPP Infrastructure, a.s. reported using the equity method in these consolidated financial statements is as follows:

	31. december 2019	*31. december 2018*
Opening balance	1 244 420	1 385 690
Dividend payment	(340 386)	(448 243)
Share on profit/loss	339 876	317 683
Share on the comprehensive profit/loss	15 810	(10 710)
Closing balance	**1 259 720**	**1 244 420**

Associate SPP Infrastructure, a.s. did not have any contingent liabilities or commitments in which the Group should take part as at 31 December 2019 and 31 December 2018.

(in thousand EUR)

8. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings	*Right of use of rented premises*	*Plant, machinery and equipment*	*Right of use of means of transportation*	*Other non-current tangible assets*	*Assets in course of construction*	*Total*
Year ended 31 December 2018							
Opening net book value	70 777	-	3 602	-	609	344	75 332
Additions	-	-	-	-	3	693	696
Put in use	316	-	338	-	12	(666)	-
Reclassifications between categories	(344)	-	344	-	-	-	-
Reclassifications – IAS 40	(144)	-	-	-	-	-	(144)
Disposals	(515)	-	(2)	-	-	-	(517)
Depreciation charge	(3 196)	-	(1 084)	-	(30)	-	(4 310)
Change of provisions	974	-	(21)	-	-	-	953
Reclassifications – assets held for sale	(3 124)	-	-	-	-	-	(3 124)
Closing net book value as at 31 December 2018	**64 744**	**-**	**3 177**	**-**	**594**	**371**	**68 886**
Acquisition cost	121 711	-	42 992	-	4 629	371	169 703
Provisions and accumulated depreciation	(56 967)	-	(39 815)	-	(4 035)	-	(100 817)
Net book value	**64 744**	**-**	**3 177**	**-**	**594**	**371**	**68 886**
Year ended 31 December 2019							
Impact of the new standard IFRS 16	-	2 557	-	710	-	-	3 267
Opening net book value	64 744	-	3 177	-	594	371	68 886
Additions	16	3	8	142	128	1 423	1 720
Put in use	460	-	533	-	5	(998)	-
Reclassifications between categories	-	-	-	-	-	-	-
Reclassifications – IAS 40	(242)	-	-	-	-	-	(242)
Disposals	-	-	(1)	(137)	(43)	-	(181)
Depreciation charge	(3 111)	(315)	(952)	(223)	(37)	-	(4 638)
Change of provisions	781	-	(119)	-	-	-	662
Reclassifications – assets held for sale	(1 054)	-	(10)	-	-	-	(1 064)
Closing net book value as at 31 December 2019	**61 594**	**2 245**	**2 636**	**492**	**647**	**796**	**68 410**
Acquisition cost	121 214	2 560	39 252	669	4 278	796	168 769
Provisions and accumulated depreciation	(59 620)	(315)	(36 616)	(177)	(3 631)	-	(100 359)
Net book value	**61 594**	**2 245**	**2 636**	**492**	**647**	**796**	**68 410**

(in thousand EUR)

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

Insured assets	*Type of insurance*	*Cost of insured assets* 2019	*Cost of insured assets* 2018	*Name and seat of the insurance company*
Buildings, halls, structures, machinery, equipment, fittings & fixtures, low-value TFA, other TFA, works of art, inventories Movables, assets, inventories	Insurance of assets	213 846	227 615	Colonnade Insurance S.A., pobočka poisťovne z iného členského štátu
Motor vehicles	Motor third-party liability insurance, motor hull insurance	126	87	Česká podnikatelská pojišťovna

9. INVESTMENT PROPERTY

	At 31 December 2019	*At 31 December 2018*
Opening net book value	25 064	26 374
Depreciation charges	(1 212)	(1 255)
Change of provisions	(168)	(199)
Additions and disposals and reclassifications to non-current tangible assets	242	144
Closing net book value	**24 262**	**25 064**

SPP leases non-gas assets primarily to SPP – distribúcia, a.s. In accordance with IAS 40, SPP opted for recognition at historical cost. If the revaluation model was used, the restated value of the assets would be EUR 30 541 thousand based on the SPP's estimate (At 31 December 2018: EUR 29 826 thousand).

10. NON-CURRENT INTANGIBLE ASSETS

	Software	*Other non-current intangible assets*	*Assets in course of construction*	*Total*
Year ended 31 December 2018				
Opening net book value	893	907	2 735	4 535
Additions	3	4	8 664	8 671
Placed into service	10 563	2	(10 565)	-
Reclassifications	-	-	-	-
Disposals	-	-	-	-
Amortisation	(609)	(178)	-	(787)
Change of provisions	(222)	-	-	(222)
Closing net book value	**10 628**	**735**	**834**	**12 197**
At 31 December 2018				
Acquisition cost	79 281	3 664	901	83 846
Provisions and accumulated depreciation	(68 653)	(2 929)	(67)	(71 649)
Net book value	**10 628**	**735**	**834**	**12 197**
Year ended 31 December 2019				
Opening net book value	10 628	735	834	12 197
Additions	17	2	1 161	1 180
Placed into service	1 039	204	(1 243)	-
Reclassifications	-	-	-	-
Disposals	-	-	-	-
Amortisation	(1 983)	(190)	-	(2 173)
Change of provisions	93	-	-	93
Closing net book value	**9 794**	**751**	**752**	**11 297**
At 31 December 2019				
Acquisition cost	75 131	3 345	819	79 295
Provisions and accumulated depreciation	(65 337)	(2 594)	(67)	(67 998)
Net book value	**9 794**	**751**	**752**	**11 297**

(in thousand EUR)

11. INVENTORIES

	At 31 December 2019	*At 31 December 2018*
Natural gas	158 156	120 615
Natural gas held for trading	45 653	43 521
Raw materials	7	7
Provisions	(2 170)	(3 034)
Total	**201 646**	**161 109**

As at 31 December 2019 and 31 December 2018, the Group recorded a provision for natural gas related to the adjustment of the cost of natural gas to its net realisable value.

12. RECEIVABLES AND PREPAYMENTS

	At 31 December 2019	*At 31 December 2018*
Trade receivables from the sale of natural gas and electricity	123 587	149 608
Contractual assets from sales to customers	15 349	31 636
Prepayments for distribution of natural gas	15 063	30 279
Receivables from financial derivatives	101 274	54 004
Prepayments and other receivables	118 299	126 144
Total	**373 572**	**391 671**

Trade receivables from the sale of natural gas and electricity are shown net and represent receivables from billed gas and electricity supplies.

Contractual assets from sales to customers represent estimated amounts of unbilled commodity supplies to customers whose actual consumption will be determined based on a meter reading after the end of the calendar year. Such amounts are billed in the following 12 months based on the actual measured consumption and valid tariffs.

Receivables and prepayments are shown net of provisions for bad and doubtful receivables in the amount of EUR 184 080 thousand (31 December 2018: EUR 159 732 thousand).

Prepayments and other receivables as at 31 December 2018 include an amount of EUR 29 906 thousand from SPP Infrastructure, a. s. for unpaid dividends.

As at 31 December 2019, the Group recorded receivables within maturity in the amount of EUR 383 046 thousand and receivables overdue in the amount of EUR 174 606 thousand, excluding provisions. As at 31 December 2018, the Group recorded receivables within maturity and overdue in the amount of EUR 402 575 thousand and EUR 148 828 thousand, respectively, excluding provisions. As at 31 December 2019, SPP recorded receivables from customers in the large consumer and commercial market segments in the amount of EUR 37 015 thousand (31 December 2018: EUR 33 672 thousand), for which SPP concluded that a specific provision would be required due to management's doubts about the customers' ability to repay amounts due to SPP. Due to limited availability of information on the customers' ability to pay its liabilities and the related high level of uncertainty, as at 31 December 2019 SPP recorded a provision for all overdue receivables from the customers and also partially for receivables within maturity in the amount of EUR 31 195 thousand (31 December 2018: EUR 27 038 thousand).

Maturities of trade receivables used as a benchmark for the Group's internal policy of provisioning:

	2019	*2018*
Within maturity	383 046	402 575
Less than 3 months	11 440	13 657
3 to 12 months	28 921	18 020
More than 12 months	134 245	117 151
Total	**557 652**	**551 403**

(in thousand EUR)

Movements in provisions for doubtful receivables:

	At 31 December 2019	*At 31 December 2018*
Balance as at 1 January	159 732	141 305
Effect of IFRS 9 as at 1 January 2019	-	1 058
Use of provision	(5 748)	(6 901)
Reversal of provision	(832)	(653)
Creation of provision	30 928	14 088
Reclassification between current and non-current portions	-	10 835
Closing balance	**184 080**	**159 732**

13. RETIREMENT AND OTHER LONG-TERM EMPLOYEE BENEFITS

The long-term employee benefits program at SPP was originally 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, work jubilee payments. On 4 December 2017, SPP signed a new collective agreement for 2018 and 2020 under which employees are entitled to retirement payments based on the number of years worked at SPP upon retirement after meeting the relevant conditions. Retirement benefits range from three to five average monthly salaries of employees with a guaranteed minimum (EUR 700) and threshold maximum amount (EUR 1 500) of the relevant multiples. As at 31 December 2019 and 31 December 2018, the obligation relating to retirement and other long-term employee benefits was calculated on the basis of the valid collective agreement effective from 1 January 2018.

As at 31 December 2019, 679 employees of SPP (31 December 2018: 681) 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 the net liability recognised in the balance sheet for the year ended 31 December 2019 are as follows:

	Long-term benefits	*Post-employment benefits*	*Total benefits at 31 December 2019*	*Total benefits at 31 December 2018*
Net liability at 1 January	234	820	1 054	1 099
Expenses of the past and current service, net	16	63	79	71
Interest expense	3	12	15	15
Employee benefits paid	(16)	(33)	(49)	(77)
Actuarial (gains)/losses:				
Actuarial (gains)/losses from a change in demographic assumptions	-	-	-	-
Actuarial (gains)/losses from a change in financial assumptions	13	69	82	6
Actuarial (gains)/losses arising from experience	(4)	(42)	(46)	(60)
Net liabilities	**246**	**889**	**1 135**	**1 054**

	Current liabilities (included in other current liabilities)	*Non-current liabilities*	*Total*
At 31 December 2019	65	1 070	1 135
At 31 December 2018	61	993	1 054

A breakdown of significant items related to the liability for employee benefits recognised in the income statement for the reporting period is stated below:

	Long-term benefits	*Post-employment benefits*	*Total at 31 December 2019*	*Total at 31 December 2018*
Expenses of the past and current service, net	16	63	79	71
Interest expense	3	12	15	15
Total expenses for employee benefits	**19**	**75**	**94**	**86**

(in thousand EUR)

A breakdown of items related to the liability for employee benefits recognised in the statement of other comprehensive income:

	Long-term benefits	*Post-employment benefits*	*Total at 31 December 2019*	*Total at 31 December 2018*
Actuarial (gains)/losses from a change in demographic assumptions	-	-	-	-
Actuarial (gains)/losses from a change in financial assumptions	13	69	82	6
Actuarial (gains)/losses arising from experience	(4)	(42)	(46)	(60)
Total actuarial (gains)/losses	**9**	**27**	**36**	**(54)**

Sensitivity analysis – in the event of an increase/decrease in the discount rate and/or inflation, the amount of the liability for employee benefits would change as follows:

	Long-term benefits	*Post-employment benefits*	*Total at 31 December 2019*
Increase in the discount rate by 0.25%	241	864	1 105
Increase in inflation by 0.25%	251	908	1 159
Decrease in the discount rate by 0.25%	251	916	1 167
Decrease in inflation by 0.25% (at 0%)	246	871	1 117

Key assumptions used in the actuarial valuation:

	At 31 December 2019	*At 31 December 2018*
Market yield on government bonds	0.718 %	1.408%
Annual future real rate of salary increases	2.00 %	2.00%
Annual employee turnover	Ranging from 1.9% to 20% depending on the age category, average of 6.01%	Ranging from 1.9% to 20% depending on the age category, average of 6.01%
Retirement ages (male and female)	In 2020, 62 years plus 8 months for men and women. The average estimated age for drawing an old age pension benefit is 63.4.	In 2019, 62 years plus 6 months for men and women. The average estimated age for drawing an old age pension benefit is 63.1.

14. PROVISIONS

Movements in the provisions for liabilities are summarised as follows:

	Provision for onerous contracts	*Other provisions*	*Total at 31 December 2019*	*Total at 31 December 2018*
Balance at 1 January	24 406	32 089	56 495	47 949
Effect of discounting	(207)	-	(207)	208
Additions	3 542	3 211	6 753	21 856
Use	(16 238)	(92)	(16 330)	(9 399)
Reversal	(2 620)	-	(2 620)	(4 119)
Closing balance	**8 883**	**35 208**	**44 091**	**56 495**

The provisions are included in liabilities as follows:

	Current provisions	*Non-current provisions*	*Total provisions*
At 31 December 2019	6 704	37 387	44 091
At 31 December 2018	15 469	41 026	56 495

(in thousand EUR)

a) Provision for Onerous Contracts

The Group identified and recorded a provision for onerous contracts in connection with non-cancellable contractual commitments to supply natural gas to customers and business partners under sales contracts in 2020 and beyond. These provisions are based on an assumption that future costs to purchase natural gas, which are mainly influenced by the long-term purchase contract with Gazprom Export LLC, to provide natural gas to these customers will exceed economic benefits obtained at the sale. The calculation of the provision is subject to various assumptions of current market information relating to the future development of natural gas prices in spot markets, which are volatile. The actual losses generated with regard to these contracts may vary and such differences may be material.

b) Other Provisions

Other provisions amounting to EUR 35 208 thousand (31 December 2018: EUR 32 089 thousand) comprise a provision for various pending lawsuits and other potential lawsuits. Refer also to Note 29.

15. INTEREST-BEARING BORROWINGS

	31 December 2019 Secured	*31 December 2019 Unsecured*	*31 December 2019 Total*	*31 December 2018 Secured*	*31 December 2018 Unsecured*	*31 December 2018 Total*
Loans	-	84 909	84 909	-	84 731	84 731
Bonds	-	-	-	-	-	-
Total loans	**-**	**84 909**	**84 909**	**-**	**84 731**	**84 731**
Loans by currency						
EUR						
– with fixed interest rate	-	84 909	84 909	-	84 731	84 731
– with variable interest rate	-	-	-	-	-	-
Total loans	**-**	**84 909**	**84 909**	**-**	**84 731**	**84 731**
Loans are due as follows:						
Less than 1 year	-	84 909	84 909	-	-	-
1 to 2 years	-	-	-	-	84 731	84 731
2 to 5 years	-	-	-	-	-	-
More than 5 years	-	-	-	-	-	-
Total loans	**-**	**84 909**	**84 909**	**-**	**84 731**	**84 731**

In 2019 and 2018, the Group drew loans denominated in EUR with variable and fixed interest rates. As at 31 December 2019, SPP drew a long-term bank loan of EUR 84 909 thousand with a fixed interest rate of 4.125 % p. a. and a 0.5-year maturity period (31 December 2018: EUR 84 731 thousand).

The drawn long-term loan bears interest at a fixed interest rate; short-term loans can be drawn on a revolving basis with one-month interest period or as an overdraft loan facility. The loans were not secured by any assets.

Interest rates on loans and bonds:

Loans	*2019*	*2018*
EUR		
– with a fixed rate	4.125	4.125
– with a variable rate	1M EURIBOR plus margin	1M EURIBOR plus margin

The carrying amount and face value of loans:

	Carrying amount		*Face value*	
	31 December 2019	*31 December 2018*	*31 December 2019*	*31 December 2018*
Loans	84 909	84 731	85 000	85 000
Bonds	-	-	-	-
Total	**84 909**	**84 731**	**85 000**	**85 000**

(in thousand EUR)

The Group has the following outstanding credit facilities:

	At 31 December 2019	*At 31 December 2018*
Variable rate:		
- due within 1 year	304 000	304 000
- due after more than 1 year	-	-
Fixed rate:		
- due within 1 year	-	-
- due after more than 1 year	-	500 000
	304 000	**804 000**

Based on certain loan agreements, SPP is required to comply with the agreed financial covenants, i.e. on each relevant day of each calendar year over the term of the loan agreement, the net debt on the respective relevant day of the relevant calendar year against the EBITDA for the previous 12 months prior to that relevant day may not be higher than 2. As at 31 December 2019, SPP complied with this covenant.

16. DEFERRED INCOME

As at 31 December 2018 deferred income mainly comprised a received portion of the European Commission's grant regarding the implementation of the fueLCNG project of EUR 906 thousand.
As at 31 December 2019, the unused portion of the grant is recognized under other current liabilities.
The maximum amount of the grant is EUR 15 207 thousand.

17. OTHER NON-CURRENT LIABILITIES AND LEASE LIABILITIES

	At 31 December 2019	*At 31 December 2018*
Non-current liabilities from financial derivatives	7 156	10 083
Non-current lease liabilities	2 157	-
Other	-	157
Total	**9 313**	**10 240**

The Group recognized lease liabilities as follows:

	At 3. December 2019	*At 1 January 2019*
Short-term lease liabilities (Note 18)	590	568
Non-current lease liabilities	2 157	2 699
Lease liabilities total	**2 747**	**3 267**

The reconciliation of non-cancellable lease liabilities disclosed in contingent liabilities (Note 29) with the recognized lease liabilities is as follows:

	At 1 January 2019
Future minimum non-cancellable lease liabilities at 31 December 2018	568
Modification of the contract	2 752
Impact of discounting	(53)
Lease liabilities as at 1 January 2019 total	**3 267**

Maturity analysis of lease liabilities as at 31 December 2019:

	At 31 December 2019
Within 1 year	590
1 to 5 years	1 420
More than 5 years	737
Total	**2 747**

(in thousand EUR)

18. TRADE AND OTHER PAYABLES

	At 31 December 2019	***At 31 December 2018***
Payables from purchases and supplies of natural gas and electricity	98 965	132 603
Contractual payables from sales to customers	37 797	27 535
Other trade payables and other payables	33 686	27 433
From which Short-term lease liabilities	*590*	-
Other liabilities	3 849	15 054
Employee liabilities	4 687	4 322
Social security and other taxes	13 312	13 016
Payables from financial derivatives	128 055	71 550
Total	**320 351**	**291 513**

The payables arising from purchases and sales of natural gas and electricity represent current liabilities resulting from the purchase of natural gas and electricity, overpayments for natural gas and electricity supplies to customers.

Contractual payables from sales to customers represent advance payments for commodity supplies to customers which are calculated by the Group using the model for unbilled deliveries and are accounted for with the double entry as a decrease in revenue from the sale of the commodity in the current year. The actual customer consumption will be determined by deductions after the end of the calendar year. These amounts will be recognised based on the actual consumption measured that will be determined by meter readings conducted in the 12 months following the end of the calendar year.

Maturity of contractual payables as at 31 December 2019:

	Current liabilities	***Non-current liabilities***	***Total***
At 31 December 2019	37 797	-	37 797
At 31 December 2018	27 535	-	27 235

As at 31 December 2019, the Group recorded payables within maturity in the amount of EUR 320 351 thousand (31 December 2018: EUR 291 513 thousand) and overdue payables in the amount of EUR 0 thousand (31 December 2018: EUR 0 thousand).

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

Social fund payables:

	Amount
Opening balance as at 1 January 2019	**153**
Total additions:	240
from expenses	*240*
from profit	-
Total drawing:	(340)
monetary rewards and gifts	*(19)*
work jubilee benefits	*(13)*
catering allowance	*(80)*
other	*(228)*
Closing balance as at 31 December 2019	**53**

19. REGISTERED CAPITAL

The company's registered capital as at 31 December 2019 and 31 December 2018 comprises 26 666 536 fully-paid shares (with a face value of EUR 33.19), which are owned by the Slovak Republic represented by the Ministry of Economy of the Slovak Republic.

The registered capital was recorded in the Commercial Register in the full amount.

(in thousand EUR)

Pursuant to the company's Articles of Association, if all shares (except for treasury shares acquired by the company pursuant to Article 161a or Article 161b of the Commercial Code) are held by one shareholder, in cases where the law requires a two-third (2/3) majority, a two-third (2/3) majority of votes of the shareholders present at a general meeting is required to adopt decisions. If the company has a sole shareholder, such a shareholder acts in the capacity of the general meeting in the form of written decisions that must be signed by the shareholder. In cases stipulated by law, such decisions must be in the form of a notarial deed.

20. LEGAL AND OTHER FUNDS AND RETAINED EARNINGS

Since 1 January 2006, SPP has been required to prepare financial statements in accordance with IFRS as adopted by the EU (both separate and consolidated) only. Distributable profit represents retained earnings only as stated in the separate financial statements.

The legal reserve fund

The legal reserve fund in the amount of EUR 1 197 683 thousand (31 December 2018: EUR 1 197 683 thousand) is recorded in accordance with Slovak law and is not distributable to the shareholders. The reserve is created from retained earnings to cover possible future losses or increases in the registered capital. Transfers of at least 10% of the current year's profit (as presented in the individual financial statements) are required to be made until the reserve is equal to at least 20% of the registered capital.

Hedging reserve

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

	Year ended 31 December 2019	*Year ended 31 December 2018*
Opening balance	(37 617)	(2 550)
Gain/loss from cash flow hedging	(4 104)	(55 467)
Commodity swap contracts	18 336	(49 347)
Commodity forward contracts	(510)	1 530
Interest rate swap contracts	(21 930)	(7 650)
Income tax applicable to gains/losses recognised through equity	(9 690)	6 630
Transfers to profit and loss	(2 163)	17 340
Commodity swap contracts	(2 163)	17 340
Income tax applicable to gains/losses recognised through profit/loss	5 610	(3 570)
Closing balance	**(47 964)**	**(37 617)**

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 accumulated in the hedging reserve is reclassified to profit or loss provided that the hedged transaction has an effect on the income statement.

Gains/(losses) arising from a change in the fair value of the hedging instruments transferred during the current period from equity to profit or loss are disclosed in the following lines of the consolidated income statement:

	Year ended 31 December 2019	*Year ended 31 December 2018*
Sale of natural gas and electricity	24 867	-
Share in profit of associated companies and joint ventures	(21 420)	13 770
Income tax charged to expenses	-	-
Total	**3 447**	**13 770**

Retained Earnings and Profit Distribution

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

(in thousand EUR)

On 21 December 2018, SPP's sole shareholder decided to transfer funds from SPP to EkoFond, n.f. (a non-profit fund) in the amount of EUR 500 thousands to support projects of the non-investment fund and to Nadácia SPP (SPP Foundation) in the amount of EUR 1.5 million to support welfare activities in line with the Foundation Deed, to Nezisková organizácia EF (non-profit organisation) of EUR 500 thousand to establish this non-profit organisation and in line with the non-profit organisation's statutes and for the benefit of third parties including the above entities of EUR 2.5 million for community activities.

On 30 September 2019 the SPP's sole shareholder decided to transfer funds from the SPP to Nadácia SPP in amount of EUR 2 million to support sport and sport activities in Slovak Republic through the civil association "Slovenský olympijský a športový výbor".

On 30 October 2019, the SPP's sole shareholder decided to transfer funds from the SPP to EkoFond, n.f. (non-profit fund) of EUR 500 thousand to support projects of the non-investment fund, to Nadácia SPP (SPP Foundation) of EUR 3 million to support community activities in line with the Foundation Deed, to Nezisková organizácia EF (non-profit organization) of EUR 500 thousand to support projects in line with the non-profit organization's statutes and for the benefit of third parties including the above entities in the maximum amount of EUR 1 million for community activities.

SPP treated these transfers as transactions with the owners exercising their ownership powers and the transfers of funds were recognised as other distributions of profit.

21. REVENUES FROM CONTRACTS WITH CUSTOMERS

	Year ended 31 December 2019	*Year ended 31 December 2018*
Revenues from the sale of natural gas	1 016 585	1 449 311
Revenues from the sale of electricity	162 297	133 329
Other revenues	10 729	12 927
Total revenues from contracts with customers	**1 189 611**	**1 595 567**

22. STAFF COSTS

	Year ended 31 December 2019	*Year ended 31 December 2018*
Wages, salaries and bonuses	20 391	19 800
Social security costs	7 154	6 838
Other social security costs and severance pay	1 908	1 110
Total staff costs	**29 453**	**27 748**

The Group contributes to 35.2% of the relevant assessment base according to the law, however, no more than from approximately EUR 6 678 (except for accident insurance). The employees contribute to these funds an additional 13.4% of their assessment bases, but only up to the above limit.

A company based in the Czech Republic makes contributions amounting to 33.8% (social security insurance contributions and a contribution to state employment policy of 24.8% plus public health insurance of 9%). The maximum annual assessment base for social security insurance and the contribution to the state employment policy amounts to CZK 1 570 thousand. The employees make contributions totalling 11% (social security insurance contributions and contribution to the state employment policy of 6.5% plus public health insurance contributions of 4.5%).

23. INVESTMENT INCOME

	Year ended 31 December 2019	*Year ended 31 December 2018*
Interest income	512	804
Other gains/(losses) on investments, net	-	(4 934)
Total investment income	**512**	**(4 130)**

(in thousand EUR)

24. FINANCE COSTS

	Year ended 31 December 2019	*Year ended 31 December 2018*
Interest expense	(3 568)	(3 967)
Foreign exchange gains/(losses) from financing activities	62	(160)
Other	(894)	(260)
Total finance costs	**(4 400)**	**(4 387)**

25. COSTS OF AUDITOR'S SERVICES

	Year ended 31 December 2019	*Year ended 31 December 2018*
Audit of financial statements	91	61
Other assurance services	-	-
Tax advisory services	-	-
Other related services provided by the auditor	-	11
Total	**91**	**72**

26. TAXATION

26.1. Income Tax

Income tax comprises the following:

	Year ended 31 December 2019	*Year ended 31 December 2018*
Current income tax	106	204
Special levy on business in regulated industries	12 056	22 784
Share in income tax of associated undertakings and joint ventures	-	-
Deferred income tax (Note 26.2)		
– current year	102	42
– effect of the change in the tax rate on deferred tax	-	-
Total	**12 264**	**23 030**

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

	Year ended 31 December 2019	*Year ended 31 December 2018*
Profit/(loss) before taxation	230 487	203 891
Income tax at 21%	48 402	42 817
Effect of income exempt from taxation and adjustments from permanent differences between net book and net tax values of assets and liabilities	(70 317)	(61 616)
Reversal of a deferred tax and the effect of temporary differences incl. the tax loss for which no deferred tax asset was recognised	24 535	24 004
Effect of the change in the tax rate	-	-
Special levy incl. the effect of a special levy as a tax-deductible item	9 538	17 621
Other adjustments	106	204
Income tax for the year	**12 264**	**23 030**

The actually-recognised tax rate differs from the tax rate of 21% stipulated by law in 2019 mainly due to the adjustments of the tax base in respect of the current income tax for items increasing and decreasing the tax base pursuant to valid tax legislation. Such adjustments primarily include tax non-deductible provisions for liabilities and provisions for assets, a difference between tax and accounting depreciation charges of non-current assets, the revaluation reserve for non-cash contributions, etc. In addition, as at 31 December 2019 and 31 December 2018, deferred tax assets were not recognised as there are uncertainties as to sufficient future taxable income to utilise such deferred tax assets.

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

(in thousand EUR)

As at 31 December 2019, the Group recognised on the balance sheet an estimated receivable from the special levy on business in regulated industries in the amount of EUR 5 391 thousand (31 December 2018: EUR 2 789 thousand).

26.2. Deferred Income Tax

The Group applied the income tax rate of 21% valid in Slovakia as of 1 January 2017 to the deferred income tax calculation.

As SPP expects no taxable profits against which temporary differences could be utilised in the near future, deferred tax assets were not recognised as at 31 December 2019 and 31 December 2018.

Deductible temporary differences and tax losses for which no deferred tax asset was recognised as at 31 December 2019 amount to EUR 359 021 thousand (31 December 2018: EUR 277 567 thousand).

The amount and due date of unutilised tax losses, for which no deferred tax asset is recognised:

Maturity of tax loss	*2020*	*2021*	*2022*	*2023*
Total tax losses	**73 501**	**66 697**	**51 553**	**29 918**

27. TAX EFFECTS IN THE STATEMENT OF OTHER COMPREHENSIVE INCOME

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

At 31 December 2019	*Before tax*	*Tax*	*After tax*
Change in FX translation reserve	523	-	523
Hedging derivatives (Cash flow hedging)	(6 267)	(4 080)	(10 347)
Other	(35)	-	(35)
Other comprehensive income for the period	**(5 779)**	**(4 080)**	**(9 859)**

At 31 December 2018	*Before tax*	*Tax*	*After tax*
Change in FX translation reserve	(536)	-	(536)
Hedging derivatives (Cash flow hedging)	(38 127)	3 060	(35 067)
Other	54	-	54
Other comprehensive income for the period	**(38 609)**	**3 060**	**(35 549)**

28. CASH FLOWS FROM OPERATING ACTIVITIES

	Year ended 31 December 2019	*Year ended 31 December 2018*
Profit before tax	230 487	203 891
Adjustments for:		
Depreciation and amortisation	8 026	6 594
Provisions and other non-cash items	12 006	17 279
Loss/(profit) from sale of non-current assets	(10)	219
Derivatives	(19 316)	(6 572)
Interest loss/(income), net	3 056	3 163
Share in profit of associated undertakings and joint ventures	(339 876)	(317 683)
(Increase)/decrease in receivables and prepayments	10 317	171 159
(Increase)/decrease in inventories	(39 673)	(31 330)
Increase/(decrease) in trade and other payables	(32 853)	(139 398)
Cash flows from operating activities	**(167 836)**	**(92 678)**

(in thousand EUR)

29. COMMITMENTS AND CONTINGENCIES

Capital Expenditure Commitments

As at 31 December 2019, capital expenditure of EUR 1 679 thousand (31 December 2018: EUR 1 940 thousand) had been committed under contractual arrangements for the acquisition of non-current assets but were not recognised in these consolidated financial statements.

Operating Lease Arrangements – the Group as a lessee

The Group leases means of transport under an operating lease agreement. The term of the framework contract is until 31 December 2020, partial contracts have individual terms of lease and the Group has no option right to purchase the assets after the expiry of the lease term.

The Group also leases non-residential premises and land from third parties.

The carrying amounts of recognized assets from the right of use and movements during the period are disclosed in Note 8.

The carrying amounts of recognized lease liabilities and movements during the period are disclosed in Note 17.

The amounts recognized in the income statement are as follows:

	Year ended 31 December 2019
Depreciation expense of right-of-use assets	538
Interest expense on lease liabilities	13
Expense relating to short-term leases	-
Expense relating to leases of low-value assets	-
Variable lease payments	-
Total amount recognised in the income statement	**551**

Operating leases – the Group as a lessor

The Group leases out non-residential premises (approx. 67 800 m²), land plots including external carparks and movable assets. The annual lease revenues amount to approximately EUR 4 376 thousand (in 2018: EUR 4 225 thousand). Leased non-residential premises, land and movable assets are recognised by the Group on the balance sheet as investment property.

As the lease contracts are mostly concluded for an indefinite period, the Group discloses the future minimum repayments of non-cancellable lease receivables only for the following period:

Period	*At 31 December 2019*	*At 31 December 2018*
Within 1 year	4 376	4 225

Natural Gas Purchase

The majority of natural gas purchases was supplied from the Russian Federation in 2019. Natural gas supplies were performed in line with a long-term agreement with Gazprom export LLC.

The natural gas purchase price from Gazprom export LLC is determined using the agreed price formula.

Gas and Electricity Sales Contracts

The sale of natural gas and electricity to medium- and large-sized customers is the subject matter of composite gas supply contracts or gas supply contracts, composite electricity supply contracts or electricity supply contracts with an assumed liability for a deviation. The contracts are usually agreed for one or more years.

The prices agreed in the contracts usually comprise capacity and commodity components. The price of the distribution and other price components is determined based on RONI's price decisions for distribution companies and the market and transmission system operator.

Composite electricity supply contracts with small businesses and households define products for which price lists are issued in accordance with RONI's price decisions for the regulated entity SPP as an electricity supplier.

Provided Guarantees

The Group's guarantees represent a guarantee of SPP as the parent company for SPP CZ for the benefit of third parties in the total amount of EUR 17 323 thousand as at 31 December 2019 (as at 31 December 2018: EUR 21 221 thousand). The amount of bank guarantees provided of the Group as at 31 December was EUR 2 200 thousand (as at 31 December 2018: EUR 2 100 thousand).

Significant Contractual Liabilities with Former Subsidiaries That Continue After the Completion of the SPP Group Reorganisation

After the completion of the SPP Group reorganisation, SPP continues to have significant contractual liabilities due to the purchase of storage capacities with NAFTA, a.s., and in the purchase of distribution and transport services from SPP – distribúcia, a.s. and eustream, a.s.

The Group stores natural gas in underground storage facilities operated by NAFTA, a.s. that are used for depositing and extracting natural gas as per seasonal demand, and for securing the supply safety standard as required by law. The storage fee is set in individual storage contracts.

The Group purchases transmission services and transmission capacities under *ship or pay* contracts concluded with eustream, a.s. Fees and business terms in these contracts are fully regulated by the RONI.

Fees for distribution services depend on the fixed and variable components and are also fully regulated by the RONI.

Taxation

The Group has transactions with subsidiaries and associated undertakings 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 precedents. 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, moreover, are often amended, 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 disputed bills of exchange and alleged breaches of contracts. In addition to the bills of exchange and disputes described below, the Group is also involved in other litigation arising in the normal course of business that is not expected, either individually or in the aggregate, to have a significant adverse effect on the accompanying financial statements. The final outcome of such litigation may result in liabilities higher than the provisions recognised, and such differences may be significant.

Bills of exchange

SPP's management is aware of the existence of bills of exchange that were allegedly signed by the former General Director of SPP prior to 1999. SPP announced publicly that it would repudiate the validity of these bills of exchange signed by the former General Director before the court, on the basis of the suspicion that these bills are fraudulent and are in no way related to any contractual relations of SPP.

At present, five (5) bills of exchange with principal totalling approx. EUR 14 million are at different stages of legal proceedings at courts in the Slovak Republic. In another ten (10) cases related to bills of exchange with principal amounting to approx. EUR 169 million, a final and binding court decision was adopted in favour of SPP.

The management of SPP, following the advice of its legal counsel, defends the interests of the company in these cases by all legitimate means available. SPP recorded a provision for potential losses related to several bills of exchange. The amount of the provision has not been disclosed separately, as the management of SPP believes that any such disclosure could seriously jeopardise the position of SPP in the relevant litigation. These financial statements do not include any other provisions for potential losses related to the bills of exchange as the final outcome of the remaining cases is uncertain and cannot currently be predicted.

Other litigations

SPP is a defendant in other legal cases and disputes.

The amounts of the provisions and other information relating to these individual legal cases and disputes have not been disclosed separately as the management of SPP believes this could seriously jeopardise the position of SPP in these disputes.

Legislative Conditions for Business Activities in the Energy Sector

Legal and Regulatory Framework for the Natural Gas and Electricity Supply Market in the Slovak Republic in compliance with Slovak Legislation and European Union ("EU") Legislation

Act No. 251/2012 Coll. on Energy and on Amendments to and Supplementation of Certain Acts (the "**Energy Act**") and Act No. 250/2012 Coll. on Regulation in Network Industries (the "**Act on Regulation**") represent a basic legal framework for business in the energy sector.

Other generally binding legal regulations directly affecting the business activities of SPP include Act No. 321/2014 Z.z. on Energy Efficiency and on amendments to certain acts (the "**Energy Efficiency Act**") and Act no. 309/2009 Z.z. on the promotion of renewable energy sources and high-efficiency production and on amendments to certain acts (the "**RES Act**"). The Energy Efficiency Act, among other things, establishes a framework for rational use of energy, measures to promote and improve energy efficiency, rights and obligations of persons in the field of energy efficiency and energy auditing, business in the provision of energy services and introduces some new rules in providing information to end-users and the monitoring system operator. The RES Act introduced a reform of the system of support for electricity production from renewable energy sources and high-efficiency electricity and heat production and introduced the institute of the buyer of electricity from these sources. With effect from 1 January 2020, SPP became the buyer of electricity for the entire territory of the Slovak Republic, based on the results of the auction announced by the Ministry of Economy of the Slovak Republic.

The Integrated National Energy and Climate Plan for 2021-2030 ("**INECP**"), which will be the main energy and climate strategy document, will have a significant impact on SPP business in the future. Along with INECP, the SPP's business activities will also be influenced by other policies and strategies at the SR level (Energy Policy of the SR, National Sustainable Development Strategy, Slovak Environmental Policy Strategy up to 2030) and the EU (new legislation in the internal gas market, European green convention), in the field of environmental protection, especially climate change and air or transport protection.

SPP is a wholesale energy market participant and is therefore obliged to comply with obligations arising from Regulation of the European Parliament and of the Council No. 1227/2011 on the Wholesale Energy Market Integrity and Transparency ("**REMIT**"). The obligations include compliance with the obligation to disclose confidential information, prohibition of insider trading, prohibition of market manipulation and the obligation to provide records of transactions on wholesale energy markets, including orders to trade, to the Agency for Cooperation of Energy Regulators. Details related to data reporting are regulated by Commission Implementing Regulation (EU) No. 1348/2014. The new Regulation (EU) 2017/1938 of the European Parliament and of the Council concerning measures to safeguard the security of gas supply entered into force on 1 November 2017. The major changes include a greater application of the regional principle, the extension of information obligations for utility companies regarding gas supply contracts which may have an impact on safeguarding the security of gas supply, and the introduction of a solidarity mechanism among EU Member States.

In addition to the above European and national generally binding legal regulations, the legislative conditions for businesses operating in the energy sector are also affected by legal regulations applicable to the following areas: protection of personal data [(Regulation (EU) 2016/679 of the European Parliament and of the Council on the protection of natural persons with regard to the processing of personal data and on the free movement of such data ("**GDPR**"), Act No. 18/2018 Coll. on Personal Data Protection, Act No. 351/2011 Coll. on Electronic Communications), free access to information (Act No. 211/2000 Coll. on Free Access to Information and on Amendment to and Supplementation of Certain Acts) (the "**Info Act**"), conclusion of contracts in the public sector (Act No. 315/2016 Coll. on Register of Public Sector Partners and on Amendment to and Supplementation of Certain Acts) (the "**RPSV Act**"), consumer rights protection (Act No. 250/2007 Coll. on Consumer Protection) and trading on the financial instruments market (MiFID II Directive 2014/65/EU) or Act No. 566/2001 Coll. on Securities and Investment Services, Regulation (EU) 600/2014 on markets in financial instruments (MiFIR), Regulation (EU) 596/2014 on market abuse, Directive 2014/57/EU on criminal sanctions for market abuse (CSMAD), Regulation (EU) 648/2012 on OTC derivatives, central counterparties and trade repositories (EMIR)) and also in the field of fighting against money laundering (Act No. 297/2008 Coll. on protection against terrorist financing and on amendments to certain acts), or in the field of so called "Whistleblowing" (Act No. 54/2019 Coll. on the protection of whistle-blowers of anti-social activities and on amendments to certain acts).

Price Regulation

The basic framework in the price regulation of gas and electricity supplies is stipulated by the Act on Regulation. 2017 was the first year of the new 2017 – 2021 regulation period. The regulation policy published on 9 March 2016 extended, inter alia, the scope of price regulation for household gas supply. In 2017, gas supplies to households, gas supplies to small businesses (with an annual consumption of up to 100 thousand kWh/year), gas supplies to suppliers of last resort, electricity supplies to households, electricity supplies to small businesses (with an annual consumption of up to 30 thousand kWh/year) and heat production, distribution and supply continue to be subject to price regulation.

Price regulation in the above areas is governed by implementing legal regulations, namely RONI Decree No. 223/2016 Coll. on price regulation in the gas industry, RONI Decree No. 248/2016 Coll. on price regulation in the heat-power industry, Decree No. 260/2016 Coll. on price regulation in the electricity sector and certain conditions regarding the conduct of regulated activities in the heat-power industry that were replaced by RONI Decree No. 18/2017 Coll. in connection with the large increase in electricity distribution prices for certain groups of customers.

(in thousand EUR)

30. RELATED PARTY TRANSACTIONS

The Slovak Republic, represented by the Ministry of Economy of the Slovak Republic, was the 100% owner of SPP's shares as at 31 December 2019 and 31 December 2018. Accordingly, the Government of the Slovak Republic and all companies are controlled or jointly controlled by the Government of the Slovak Republic are related entities of SPP ("entities of the Government of the Slovak Republic"). Except for the transactions listed below and excluding taxes and transactions related to the supply of natural gas and electricity, SPP did not have any individually significant transactions with the entities of the Government of the Slovak Republic in year 2019 and year 2018. In the case of disclosure of individually insignificant transactions with entities of the Government of the Slovak Republic, SPP used the exemption under IAS 24, section 25.

During the year, the Group entered into the following transactions with related parties that are not consolidated entities in relevant periods in these consolidated financial statements:

	2019					31 December 2019		
	Revenues	*Creation/ (reversal) of provisions for receivables*	*Expenses*	*Dividends*	*Other*	*Receivables*	*Provisions for receivables*	*Payables*
Ministry of Economy of the SR	886	-	-	370 000	1 000	84	-	1 000
Other companies	1 571	-	32	-	6 000	334	-	3
Associates	21	-	-	-	-	4	-	-
Other related parties	13 871	-	371 660	-	-	37 527	14 375	2 119

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

Transactions with other companies and other related parties represent mainly services related to purchases and sales of natural gas, electricity, lease of non-current assets and storage of natural gas.

	2018					31 December 2018		
	Revenues	*Creation/ (reversal) of provisions for receivables*	*Expenses*	*Dividends*	*Other*	*Receivables*	*Provisions for receivables*	*Payables*
Ministry of Economy of the SR	839	-	-	300 000	2 500	77	-	2 500
Other companies	1 495	-	-	-	2 500	347	-	2 503
Associates	70	-	-	-	-	29 914	-	-
Other related parties	19 955	-	398 342	-	7 166	55 682	14 202	5 705

(in thousand EUR)

The compensation of the members of the bodies and executive management was as follows:

	Year ended 31 December 2019	*Year ended 31 December 2018*
Remuneration to members of the Board of Directors, Supervisory Board, executive management and former members of the bodies - total	1 142	1 363
Of which - Board of Directors and executive management	*960*	*1 182*
- Supervisory Board	*182*	*181*
Benefits after termination of employment to members of the Board of Directors, Supervisory Board, executive management and former members of the bodies – total	-	-
Of which – Board of Directors and executive management	-	-
Other long-term benefits to members of the Board of Directors, Supervisory Board, executive management and former members of the bodies – total	-	-
Of which - Board of Directors and executive management	-	-
Benefits after termination of employment of members of the Board of Directors, Supervisory Board, executive management and former members of the bodies – total	-	-
Of which – Board of Directors and executive management	-	-
Other benefits to members of the Board of Directors, Supervisory Board, executive management and former members of the bodies – total	42	42
Of which - Board of Directors and executive management	*42*	*42*
- Supervisory Board	-	-

31. SUPPLEMENTARY INFORMATION TO COMPLY WITH OTHER STATUTORY REQUIREMENTS FOR CONSOLIDATED FINANCIAL STATEMENTS

a) Members of the company's Bodies

Body	*Function*	*Name*
Board of Directors	Chairman	Ing. Ján Valko
	Vice-Chairman	Ing. Rudolf Slezák
	Member	Ing. Milan Hargaš since 20.6.2019 until 04.10.2019
	Member	Ing. Ján Szalay
	Member	Ing. Ivan Gránsky
Supervisory Board	Chairman	Mgr. Maroš Čislák until 2.5.2019
	Chairman	Dr. h. c. Ing. Tibor Mikuš, PhD. since 03.05.2019
	Member	Ing. Michal Ďurkovič
	Member	Ing. Robert Maguth
	Member	Viera Uhrová
	Member	Ing. Valéria Janočková since 31.12.2019
	Member	Ing. Miloš Dančo
	Member	JUDr. Matúš Bušniak
	Member	JUDr. Peter Dráč
	Member	Ing. Dionýz Kaszonyi
Executive Management	Chief Executive Officer	Ing. Štefan Šabík
	Director of the Trade Division	Ing. Richard Prokypčák until 30.09.2019
	Executive Director	Ing. Richard Prokypčák since 01.10.2019

b) Consolidated Financial Statements

As at 31 December 2019, SPP submitted consolidated financial information as a consolidated reporting entity for higher consolidation to the Ministry of Economy of the Slovak Republic based at Mlynské nivy 44/a, 827 15 Bratislava.

The ultimate reporting entity that consolidates the SPP Group as at 31 December 2019 is the Ministry of Economy of the Slovak Republic.

(in thousand EUR)

SPP prepares consolidated financial statements for its group of companies. See Notes 5 and 7 for details on these companies.

The consolidated and separate financial statements of SPP are published on SPP's website www.spp.sk.

The consolidated and separate financial statements of SPP published in periods before 31 December 2013 were published in the Commercial Journal and filed with the Commercial Register of Bratislava 1 District Court (Záhradnícka 10, 811 07 Bratislava). The consolidated and separate financial statements of SPP and its subsidiaries and associated companies in the period after 1 January 2014 are filed and published with the Register of Financial Statements for entities based in the Slovak Republic and in the Collection of Deeds (Sbírka listin) for entities based in the Czech Republic. The consolidated and separate financial statements of subsidiaries, joint ventures and associates for the periods until 31 December 2013 and of companies based outside the Slovak Republic are available at the relevant Courts of Records in terms of their registered seats.

For more details on the consolidated and consolidating companies, refer to Notes 1, 5, and 7.

32. POST-BALANCE SHEET EVENTS

No events occurred after 31 December 2019 that would have a material impact on the Group's financial statements.

At the end of year 2019, reports from China on coronavirus (COVID-19) appeared for the first time. In the first months of 2020, the virus spread throughout the world and its negative impact has become large. Although, at the time of publishing these consolidated financial statements, the management of the Group did not register a significant impact on the Group's operations, however, as the situation is still changing, future effects / impacts cannot be predicted. Management will continue to monitor the potential impact and take all possible steps to mitigate any adverse effects on the Group and its employees.

Prepared on:	***Signature of a member of the statutory body of the reporting entity or a natural person acting as a reporting entity:***	***Signature of the person responsible for the preparation of the financial statements:***	***Signature of the person responsible for bookkeeping:***
31 March 2020			
Approved on:	Ing. Ján Valko Chairman of the Board of Directors	Ing. Štefan Šabík Chief executive officer	Ing. Miroslav Jankovič Director of Accounting and Taxes Department
	Ing. Rudolf Slezák Vice-Chairman of the Board of Directors		

Proposal
for the distribution of SPP's profit for the year 2019

The 2019 Profit Distribution Proposal has been prepared in accordance with the Articles of Association of Slovenský plynárenský priemysel, a.s., Article XIX – PROFIT DISTRIBUTION, Article XVIII – CREATION AND USE OF THE RESERVE FUND, Article XX – CREATION OF OTHER FUNDS, and in accordance with the provisions of the Commercial Code No. 513/1991 Coll., as amended.

The 2019 Profit Distribution Proposal is based on the audited 2019 Individual Financial Statements and is consistent with the medium-term dividend pay-out plan approved by the sole shareholder.

I.	**Net profit**	**€220 934 513.64**
II.	**Replenishment of statutory reserve fund** pursuant to Article XVIII of the Articles of Association, the reserve fund reached the 20% share capital limit	**€ 0.00**
III.	**Net profit** **allocated for dividends**	**€220 934 513.64**
IV.	**Retained profit from** **previous periods allocated for dividends**	**€29 065 486.36**
V.	**Total amount allocated for dividends**	**€250 000 000.00**
VI.	**Royalties to members of company bodies**	**€0.00**

The dividend will be paid out to the shareholder within 300 days of the adoption of the sole shareholder's decision on the distribution of the company's profit for 2019 period.