eustream
SLOVAK GAS TSO

# FINANCIAL STATEMENTS 2013

**eustream, a.s.**

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

**For the year ended 31 December 2013**

pwc

# INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of eustream, a.s. ("the Company"), which comprise the balance sheet of the Company as at 31 December 2013 and the income statement, the statement of comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

## Management's Responsibility for the Financial Statements

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

## Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion the financial statements present fairly, in all material respects, the financial position of eustream, a.s. as at 31 December 2013, its financial performance, and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the European Commission 's interpretation as described in Note 1.5

PricewaterhouseCoopers Slovensko, s.r.o.
SKAU licence No.: 161

Slovenská komora audítorov SKAU Č.licencie 161 PricewaterhouseCoopers Slovensko, s.r.o.

Ing. Štefan Čupil, FCCA
UDVA licence No.: 1088

Bratislava, 9 April 2014

Our report has been prepared in the Slovak and in the English languages. In all matters of interpretation of information, views or opinions, the Slovak language version of our report takes precedence over the English language version.

(EUR '000)

| | Note | 31 December 2013 | 31 December 2012 |
|---|---|---|---|
| **ASSETS:** | | | |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 7 | 2,439,593 | 50,881 |
| Intangible assets | 8 | 7,707 | 9,430 |
| Non–current financial investments | 9 | 6,600 | 6,600 |
| Loans issued | 9 | 973,000 | - |
| Other assets | 12 | 1,821 | 3,275 |
| Total non-current assets | | 3,428,721 | 70,186 |
| CURRENT ASSETS | | | |
| Inventories | 10 | 20,240 | 25,556 |
| Receivables and prepayments | 11 | 136,358 | 285,305 |
| Cash and cash equivalents | | 68,474 | 54,534 |
| Total current assets | | 225,072 | 365,395 |
| **TOTAL ASSETS** | | **3,653,793** | **435,581** |
| **EQUITY AND LIABILITIES:** | | | |
| EQUITY | | | |
| Registered capital | 17 | 282,929 | 82,929 |
| Legal reserve fund and other reserves | 18 | 56,722 | 18,667 |
| Retained earnings | 18 | 1,986,163 | 269,393 |
| Total equity | | 2,325,814 | 370,989 |
| NON-CURRENT LIABILITIES | | | |
| Bonds issued | 15 | 746,393 | - |
| Deferred income | 12 | 4,787 | 3,758 |
| Provisions | 14 | 7,902 | - |
| Retirement and other long-term employee benefits | 13 | 2,844 | 2,309 |
| Deferred income tax liability | 25.2 | 445,694 | 3,432 |
| Other non-current financial liabilities | | 160 | 154 |
| Total non-current liabilities | | 1,207,780 | 9,653 |
| CURRENT LIABILITIES | | | |
| Bonds issued | 15 | 8,567 | - |
| Trade and other payables | 16 | 44,918 | 36,263 |
| Current income tax liability | 25.1 | 66,613 | 18,588 |
| Provisions and other current financial liabilities | 14 | 101 | 88 |
| Total current liabilities | | 120,199 | 54,939 |
| Total liabilities | | 1,327,979 | 64,592 |
| **TOTAL EQUITY AND LIABILITIES** | | **3,653,793** | **435,581** |

The financial statements on pages 1 to 42 were signed on 9 April 2014 on behalf of the Board of Directors:

Ing. Tomáš Mareček
Chairman of the Board of Directors

Ing. Robert Hančák
Vice-Chairman of the Board of Directors

Financial statements are subsequently subject to approval of General Meeting.

**(EUR '000)**

| | Note | Year ended 31 December 2013 | Year ended 31 December 2012 |
|---|---|---|---|
| REVENUES FROM SALE OF SERVICES | | | |
| Natural gas transmission and other | 19 | 696,981 | 785,066 |
| Total revenues | | 696,981 | 785,066 |
| | | | |
| OPERATING COSTS | | | |
| Own work capitalized | | 1,657 | 423 |
| Consumption of natural gas, consumables and services | | (81,467) | (73,429) |
| Depreciation and amortization | 7, 8 | (89,870) | (8,237) |
| Lease of transmission network | 28 | (52,708) | (306,193) |
| Other services | | (23,718) | (31,653) |
| Staff costs | 20 | (41,373) | (38,768) |
| Provision for bad and doubtful debts, obsolete and slow-moving inventory, net | 10, 11 | (3,121) | (274) |
| Provisions and impairment losses, net | 7, 8, 14 | (1,809) | 3,144 |
| Other operating income | | 1,035 | 4,217 |
| Other operating expenses | | (1,829) | (2,853) |
| Total operating costs | | (293,203) | (453,623) |
| | | | |
| OPERATING PROFIT | | 403,778 | 331,443 |
| | | | |
| Financial income | 22 | 10,455 | 1,822 |
| Financial expense | 23 | 8,090 | (207) |
| Profit before taxation | | 406,143 | 333,058 |
| | | | |
| INCOME TAX | 25.1 | (86,781) | (67,119) |
| **NET PROFIT FOR THE PERIOD** | | **319,362** | **265,939** |

**(EUR '000)**

| | Note | Year ended 31 December 2013 | Year ended 31 December 2012 |
|---|---|---|---|
| PROFIT FOR THE PERIOD | | 319,362 | 265,939 |
| Other comprehensive income (items that may be reclassified subsequently to Income Statement): | 26 | | |
| Fair value gains/(losses) on cash flow hedges | | (2,529) | (6,646) |
| Deferred tax relating to components of other comprehensive income/loss for the period | | 584 | 1,154 |
| OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD | | (1,945) | (5,492) |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | | **317,417** | **260,447** |

**(EUR '000)**

| | Note | Registered capital | Legal reserve fund | Hedge reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|
| Balance at 31 December 2011 | | 82,929 | 16,586 | 7,573 | 190,513 | 297,601 |
| Net profit for the period | | - | - | - | 265,939 | 265,939 |
| Other comprehensive income/(loss) for the period | | - | - | (5,492) | - | (5,492) |
| **Total net comprehensive income for the period** | | - | - | **(5,492)** | **265,939** | **260,447** |
| Dividends paid | | - | - | - | (187,059) | (187,059) |
| **Balance at 31 December 2012** | | **82,929** | **16,586** | **2,081** | **269,393** | **370,989** |
| Net profit for the period | | - | - | - | 319,362 | 319,362 |
| Other comprehensive income/(loss) for the period | | - | - | (1,945) | - | (1,945) |
| **Total net comprehensive income for the period** | | **-** | **-** | **(1,945)** | **319,362** | **317,417** |
| Contribution of part of the business | 1.6 | 200,000 | 40,000 | - | 1,663,347 | 1,903,347 |
| Dividends paid | | - | - | - | (265,939) | (265,939) |
| **Balance at 31 December 2013** | | **282,929** | **56,586** | **136** | **1,986,163** | **2,325,814** |

**(EUR '000)**

| | Note | Year ended 31 December 2013 | Year ended 31 December 2012 |
|---|---|---|---|
| OPERATING ACTIVITIES | | | |
| Cash flows from operating activities | 27 | 644,237 | 310,960 |
| Interest paid | | (1) | (1) |
| Interest received | | 1,143 | 722 |
| Income tax paid | | (121,708) | (45,419) |
| Net cash flows from operating activities | | 523,671 | 266,262 |
| INVESTING ACTIVITIES | | | |
| Loans provided | | (964,314) | - |
| Acquisition of property, plant and equipment | | (27,874) | (22,466) |
| Acquisition of investments in securities | | - | (6,600) |
| Proceeds from sale of property, plant and equipment and intangible assets | | 6 | 28 |
| Dividends received | | 420 | - |
| Net cash used in investing activities | | (991,762) | (29,038) |
| FINANCING ACTIVITIES | | | |
| Proceeds from bonds issued | | 746,555 | - |
| Dividends paid | | (265,939) | (187,059) |
| Other proceeds from financing activities | | 1,919 | 4,785 |
| Other expenditures from financing activities | | (490) | (430) |
| Net cash flow from financing activities | | 482,045 | (182,704) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | 13,954 | 54,520 |
| EFFECT OF FOREIGN EXCHANGE DIFFERENCES | | (14) | (54) |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD | | 54,534 | 68 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD** | | **68,474** | **54,534** |

**(EUR '000)**

## 1. DESCRIPTION OF THE COMPANY

### 1.1. General Information

In accordance with Act No. 431/2002 Coll, on Accounting and later amendments, eustream, a.s., (hereinafter also the "eustream" or "the Company") has prepared individual financial statements in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union ("EU").

The Company was established by a Memorandum of Association on 26 November 2004 and incorporated in the Commercial Register on 10 December 2004 under the business name SPP - preprava, a.s. Slovenský plynárenský priemysel, a.s. is the 100% owner of the Company.

On 1 July 2006, Slovenský plynárenský priemysel, a.s. (hereinafter also "SPP") made a contribution to the Company of a part of the business, including the assets (not including the main assets for natural gas transmission) and liabilities of the former transmission division. At the same time, SPP leased the main assets for natural gas transmission (gas transmission pipelines, compressor stations) to the Company under an operating lease contract. Since 1 July 2006, the Company has assumed the performance of activities related to international natural gas transmission.

SPP — preprava a.s. changed its business name to eustream a.s. by an entry in the Commercial Register on 3 January 2008.

On 28 February 2013, SPP made a contribution to the Company of a part of the business, which was assumed to be a business combination under common control, including the assets (especially natural gas transmission assets - gas transmission pipelines, compressor stations), related liabilities and employees. The lease of main assets used for the natural gas transportation terminated as at that date. Detailed information on contribution of the part of the business is disclosed in Note 1.3.

On 16 May 2013, the Annual General Meeting approved the Company's 2012 financial statements.

| | |
|---|---|
| **Identification Number (IČO)** | 35 910 712 |
| **Tax Identification Number (DIČ)** | 2021931175 |

### 1.2. Principal activities

Since 1 July 2006, following the legal unbundling, the Company assumed the performance of activities associated with the transmission of natural gas.

**Liberalisation of the Slovak Energy Sector**

*Regulation framework on the natural gas market in the Slovak Republic*

On the basis of the current energy legislation, the natural gas market in the Slovak Republic is fully liberalised, allowing all customers to freely select a natural gas supplier (effective from 1 July 2007).The Company as the operator of the transmission network is obliged to provide free and non-discriminatory access to the transmission network in the Slovak Republic to all natural gas transmission companies that fulfil commercial and technical conditions for the gas transmission. The Company's activities are subject to regulation from the Regulatory Office of Network Industries (RONI). RONI, inter alia, establishes the regulation policy for individual regulation periods, monitors compliance of corporate activities with the existing energy legislation and RONI decrees, and issues decisions on tariff determination for access to the transmission network and gas transmission.

*Tariffs for regulated activities*

Every year RONI approves tariffs for access to the transmission network and natural gas transmission. These tariffs are determined based on an analysis of gas transmission price benchmarking in the other EU Member States. The 2013 tariffs for access to the transmission network and natural gas transmission were approved by RONI Ruling 0003/2013/P and 0092/2013/P. On 2 September 2013 RONI also approved Ruling 0001/2014/P on tariffs for regulated period 2014-2016.

*Changes in regulatory laws and policy*

In 2012, a new Act on Regulation in Network Industries, published in the Collection of Laws under no. 250/2012 Coll. and also the new Energy Act (amending certain laws) no. 251/2012 Coll. (the "Energy Act and regulation") were approved. In connection with these laws some related general binding rules in secondary legislation were adopted in 2013. On 30 April 2013 RONI approved by its Decision no. 0005/2013/P-PP amendments to the Rules of Operation of eustream, which launches more new products, especially the service of Virtual trading point and other services supporting liquidity and flexibility in the gas market. On 28 October 2013, RONI approved by its Decision no. 0049/2013/P-PP amendments to the operating rules of the company, supplementing the congestion management rules of transmission network according to EU regulations.

*EU 3rd Energy Package*

In 2009, the European Union endorsed Directive No. 2009/73/EC and related regulations concerning common rules for the internal market of natural gas, the so-called “EU 3rd Energy Package”. The third energy package was transposed to the Slovak law in 2012, through the Acts on energy and regulation. By the New Energy Act was established the primary model of ownership unbundling of the transmission network, while the act left a possibility for the Government of the Slovak Republic to declare that the model of ownership unbundling does not apply, but rather a model of independent transmission operator applies. The Slovak Government at its meeting on 28 November 2012 in Resolution no. 656/2012 decided that the model of ownership unbundling of the transmission system does not apply.
Based on the above mentioned, eustream submitted on 28 February 2013 a proposal for a preliminary ruling on the issue of certification decision and ensured compliance with the conditions of separation of the transmission network operator until 1 March 2013. Those conditions require, among other, an ownership of the assets for transmission of natural gas by the Company. On 14 February 2013 the shareholder of the Company decided on transfer of assets related to transmission of natural gas to the Company, which were on 28 February 2013 transferred to eustream.

On 28 October 2013 the Regulatory Office for Network Industries issued consent for granting a certification to eustream as a transmission system operator. Subsequently, on 22 November 2013, the Ministry of Economy of the Slovak Republic issued decision 1795/2013-1000, which determines eustream as transmission system operator which meets the conditions of separation of independent transmission system operator under § 51- 60 of the Energy Act.

### 1.3. Employees

The average headcount of the Company for the year ended 31 December 2013 was 906, including 1 representative of executive management (for the year ended 31 December 2012: 974, of which 1 was representative of executive management). Board of Directors members are also considered to be representatives of executive management (refer to Note 30).

### 1.4. Registered Address

Votrubova 11/A
821 09 Bratislava
Slovak Republic

### 1.5. Information on the consolidated group

The Company is a subsidiary of SPP, which has its registered office at Mlynské nivy 44/a, Bratislava, and holds a 100% share in the Company's Registered capital.

According to IAS 27 par. 10, the Company is exempt from the obligation to prepare consolidated financial statements, since the Company is included in the consolidated financial statements of a higher level company within the European Union. Those consolidated financial statements are prepared by SPP.
SPP prepares consolidated financial statements in accordance with the International Financial Reporting Standards (IAS/IFRS), as adopted by the EU.

The individual financial statements of the Company and the consolidated financial statements of SPP are deposited with the Commercial Register of Bratislava I District Court, Záhradnícka 10, 811 07 Bratislava, published in Register of Financial Statements and at www.eustream.sk and www.spp.sk.

The highest reporting entities that consolidate eustream is since 24 January 2013 Energetický a Průmyslový Holding, a.s. (EPH). EPH is the ultimate controlling party.

At the time of approval of these individual financial statements SPP has not prepared its consolidated financial statements. The Company applied an interpretation contained in the agenda paper issued by the European Commission Internal Market and Services for the meeting of the Accounting Regulatory Committee (document ARC/08/2007) about relationship between the IAS regulation and the 4th and 7th Company Law Directives. The EU Commission Services Department was of the opinion that, if a company chooses or is required to prepare its financial statements in accordance with IFRS as adopted by the EU, it can prepare and file them independently from the preparation and filing of the consolidated financial statements. In the consolidated financial statements of SPP Group subsidiary undertakings will be fully consolidated and associates will be accounted for using equity method. Users of these individual financial statements should read them together with the consolidated financial statements of SPP Group as at and for the year ended 31 December 2013, as soon as they become available in order to obtain full information on the financial position, results of operations and changes in financial position of the SPP Group.

### 1.6. Contribution of part of the business

On 28 February 2013 SPP made a contribution to the Company of part of the business in the form of business combination under common control, which included the assets (especially natural gas transmission related assets - gas transmission pipelines, compressor stations), related liabilities and employees.

Assets and liabilities representing part of the business contributed to the Company were recognized at the date of contribution at the predecessor values in the financial statements of the Company. An excess of the predecessor values of assets and liabilities over the acknowledged value - which increased the Company's equity, was recognized in retained earnings in equity.

As at the date of contribution the Company recognized the deferred income tax liability from differences between the predecessor values of the assets and liabilities and their transferred tax carrying values; crediting retained earnings in equity.

Total impact of the transfer of the contribution on financial statements of the Company is summarised as follows:

| | **(EUR'000)** |
|---|---|
| Acknowledged value of in-kind contribution (increase of Registered capital and legal reserve fund) refer also to Notes 17 and 18 | 240,000 |
| Predecessor values of the assets and liabilities transferred | 2,429,205 |
| of which: | |
| *Property, plant and equipment* | *2,410,606* |
| *Receivables and prepayments* | *29,230* |
| *Employee benefits* | *(54)* |
| *Provisions* | *(8,344)* |
| *Trade and other liabilities* | *(2,233)* |
| Deferred tax liability as at date of contribution and other taxes impact | (525,858) |
| Difference (included to retained earnings in equity) | 1,663,347 |

As from the date of the contribution of part of the business, the operating lease contract of the gas transmission assets terminated and depreciation expense in 2013 increased. Refer to Notes 7 and 28.

## 2. NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS AND CHANGES IN ESTIMATES

### 2.1. Adoption of New and Revised International Financial Reporting Standards

The Company 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 are effective for accounting periods beginning on 1 January 2013. The following standards, amendments and improvements issued by the International Accounting Standards Board and adopted by the EU are effective for the current accounting period:

**IFRS 13, Fair value measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013),** aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs.

***Amendments to IAS 1, Presentation of Financial Statements, (issued in June 2011, effective for annual periods beginning on or after 1 July 2012*, endorsed for use in the EU for annual periods beginning on or after 1 January 2013**), changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'Statement of profit or loss and other comprehensive income'. The amendment did not have an impact on measurement of transactions and balances.

**Amended IAS 19, Employee Benefits (issued in June 2011, effective for periods beginning on or after 1 January 2013),** makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The amendment did not have material impact on the financial statements.

**Disclosures - Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013)**. The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The amendment had an impact on disclosures of financial instruments, but did not affect their recognition and measurement..

**Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning 1 January 2013).** The improvements consist of changes to five standards.

IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23, Borrowing costs, retrospectively by first-time adopters.

IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements.

IAS 16 was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory.

IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8.

IAS 34 will require disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual financial statements.

These amendments to the existing standards did not have material impact on the financial statements of the Company.

Following standards, interpretations and amendments to published standards that have been published are effective for accounting periods starting on 1 January 2014 and which the Company has not early adopted.

**IFRS 9, Financial Instruments: Classification and Measurement.** Key features of the standard issued in November 2009 and amended in October 2010, December 2011 and November 2013 are:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The amendments made to IFRS 9 in November 2013 removed its mandatory effective date, thus making application of the standard voluntary. The company is not planning to apply the current version of IFRS 9.This standard has not been endorsed by the EU yet.

**IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013, endorsed for use in the EU for annual periods beginning on or after 1 January 2014)**, was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements.

**IFRS 12, Disclosure of Interest in Other Entities, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013, endorsed for use in the EU for annual periods beginning on or after 1 January 2014)**, applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 sets out the required disclosures for entities reporting under the two new standards: IFRS 10, Consolidated financial statements, and IFRS 11, Joint arrangements, and replaces the disclosure requirements currently found in IAS 28, Investments in associates. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity’s interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities.

**Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014).** The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of currently has a legally enforceable right of set-off’ and that some gross settlement systems may be considered equivalent to net settlement.

**Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014).**
The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary.

***Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014).***
The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value

through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary.

**IFRIC 21 - Levies (issued on 20 May 2013 and effective for annual periods beginning 1 January 2014).** The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. This interpretation has not yet been approved by the EU.

**Amendments to IAS 36 - Recoverable amount disclosures for non-financial assets (issued on 29 May 2013 and effective for annual periods beginning 1 January 2014;** earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period). The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment.

**Amendments to IAS 39 - Novation of Derivatives and Continuation of Hedge Accounting (issued on 27 June 2013 and effective for annual periods beginning 1 January 2014)**.The amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met.

**Amendments to IAS 19 – Defined benefit plans: Employee contributions (issued in November 2013 and effective for annual periods beginning 1 July 2014)**. The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service. These amendments have not yet been approved by the EU.

**Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below).** The improvements consist of changes to seven standards.

IFRS 2 was amended to clarify the definition of a ‘vesting condition’ and to define separately ‘performance condition’ and ‘service condition’; The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in income statement. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014.

IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity’s assets when segment assets are reported.

The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial.

IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.

IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity (‘the management entity’), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided.

These amendments have not yet been approved by the EU.

**Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014)** The improvements consist of changes to four standards.

The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented.

IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself.

The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9.

IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination.

These amendments have not yet been endorsed by the EU.

**IFRS 14, Regulatory Deferral Accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016).** IFRS 14 permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard.

If not otherwise stated the Company anticipates that the adoption of these standards, amendments to the existing standards, and interpretations will not have material impact on the financial statements of the Company.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### a) Basis of Accounting

These individual financial statements have been prepared in accordance with IFRS as adopted by the EU.

The financial statements have been prepared under the historical cost convention, except of revaluation of certain financial instruments based on fair value. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented. The Company's reporting and functional currency is the euro (EUR). These individual financial statements were prepared on a going concern basis.

### b) Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The Board of Directors has been identified as the chief operating decision-maker as it adopts strategic decisions and is responsible for allocating resources and assessing the performance of the operating segments.

### c) Financial Instruments

Financial assets and liabilities are recognized on the Company's balance sheet when the Company becomes a party to a contractual provision of a related instrument.

### d) Financial Assets

The Company has following categories of financial assets: loans issued, trade receivables, and financial assets available-for-sale.

The available-for-sale category includes equity instruments which are initially recorded at fair value plus transaction costs and later carried at fair value. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year as finance income when the Company’s right to receive payments is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired at which time the cumulative gain or loss is reclassified from other comprehensive income to finance income in profit or loss for the year.

Loans and receivables are non-derivative financial assets with fixed or determinable payments not quoted in an active market. Loans and trade receivables and other receivables are initially recorded at fair value and subsequently measured in amortised costs using effective interest method net of allowances.

Financial assets are derecognised when the rights to receive cash flows from the asset have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment losses are always recognised in income statement against an allowance account to write down the asset's carrying value. When financial asset is derecognised the current fair value less any impairment loss on that asset previously recognised in profit or loss is derecognised. Gains or losses realised at the derecognition of a financial asset are represented by calculated difference between the proceeds received from its disposal or sale, and asset's carrying value; and are recognised in profit or loss for the year.

**e) Derivative Financial Instruments**

Derivative financial instruments are initially recognized at fair value and are re-measured to fair value at subsequent reporting dates. 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 of the Company include commodity swaps.

Cash flow hedging

The effective portion of changes in fair value of derivatives designated and qualifying for effective cash flow hedges is recognized in other comprehensive income accumulated in equity as hedge reserve. The gain or loss relating to the ineffective portion is recognized immediately in the income statement. Amounts previously recognized in other comprehensive income in the hedging reserve are transferred to the income statement when the hedged item is recognized in the income statement, in the same line of the income statement as the hedged item.

At the inception of the hedging contract, the Company documents the relationship between the hedging instrument and the hedged item, its risk management objectives and strategy for undertaking the various hedge transactions. Since the establishment of hedging, the Company continuously documents, whether the hedging instrument used by the Company is highly effective in offsetting changes in cash flows of the hedged item.

Changes in the fair value of derivative financial instruments that do not meet the requirements of effective cash flow hedging recognized in equity are recognized in the income statement.

**f) Trade Receivables**

Trade receivables are stated at amortised costs, net of provisions for debtors in bankruptcy or restructuring proceedings and net of provisions for overdue bad and doubtful receivables where risk exists that they will not be fully or partially settled.

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

Property, plant and equipment and intangible assets (here and after referred to fixed assets or FA) are stated at historical cost less accumulated depreciation and impairment losses with exception of assets acquired as part of business combinations under common control , where assets transferred have been valued using the predecessor values, i.e. at the predecessor entity's carrying amounts.

Permanent gas filling of transmission network, which was also acquired as part of the contribution of part of a business is, due to its nature, not depreciated.

Acquisitions cost includes all costs incurred for placing the asset into service for its intended use.

Items of fixed assets that are damaged or disposed of are eliminated from the balance sheet at net book value. Any gain or loss resulting from such damaged or disposal is included in the income statement.

**(EUR '000)**

Items of fixed assets are depreciated on a straight-line basis over their estimated useful lives. Depreciation charges are recognized in the income statement as to amortise the cost of the assets to their estimated net book value over their residual useful lives. The useful lives of fixed assets are as follows:

| | |
|---|---|
| Border entry/exit points, domestic points | 21 – 50 |
| Compressor stations | 11 – 24 |
| Gas pipelines | 24 – 50 |
| Buildings | 18 – 40 |
| Machinery and equipment | 4 – 18 |
| Other non-current assets including intangible assets | 2 – 15 |

The initial useful lives of gas pipelines and Compressor stations, which were acquired as part of the contribution of a part of the business (refer to Note1.6 Contribution of part of the business), were set by independent valuator to 60 years and 25-50 years, respectively (Note 4 –Critical accounting judgements and key sources of estimation uncertainty). The above stated useful lives of gas pipelines and compressor stations stand for the remaining useful lives after the contribution.
Land is not depreciated as it is deemed to have an indefinite useful life.

At each reporting date an assessment is made as to whether there is any indication that the recoverable amount of the Company's fixed assets is less than the carrying amount. Where there is such an indication, the recoverable amount of the asset, being whichever is the higher of the fair value less costs of sale and the present value of future cash flows (“value in use”), is estimated. The resulting provision for an impairment loss is recognized in full in the income statement in the year in which the impairment occurs. The discount rates used to calculate the net present value of future cash flows reflect current market assessments of the time value of money and the risks specific to the asset. In the event that a decision is made to abandon a construction project in progress or significantly to postpone the planned completion date, the carrying amount of the asset is reviewed for potential impairment and a provision recorded therefor, if appropriate.

Expenditures relating to an item of fixed assets are capitalised to the carrying amount of the asset only if it is probable that future economic benefits, in excess of the original assessed standard of performance of the existing asset, will flow to the Company. All other subsequent expenditures are treated as repairs and maintenance and are expensed in the period when incurred.

### h) Business combinations

Assets and liabilities acquired by transfer of business from parties under common control is accounted for using the predecessor values method. Under this method the assets and liabilities of the business transferred under common control are recognised by the Company on the acquisition date at the predecessor entity’s carrying amounts. The predecessor entity is considered to be the highest reporting entity in which the business’s IFRS financial information was consolidated. Any difference between the carrying amount of net assets and the consideration for the acquisition, which increases equity of the Company, is accounted for in these financial statements as an adjustment to retained earnings within equity.

### i) Inventories

Inventories are recorded at the lower of their cost and their net realizable value. The cost of natural gas in the transmission network pipelines and raw materials and other inventories are calculated using the weighted arithmetic average method. Costs of raw materials and other inventories include acquisition costs and related costs; for inventories developed internally, costs include costs of materials, other direct costs and related production overheads. Increases in natural gas accumulation in the transmission network pipelines are valued at cost. There are no other costs related to acquisition of natural gas. Appropriate provision is set-up for obsolete and slow-moving inventories.

### j) Cash and Cash Equivalents

Cash and cash equivalents consist of cash in hand and cash in bank with insignificant risks of changes in value. Cash and cash equivalents are carried at amortised cost using the effective interest method.

### k) Bonds issued

Bonds issued are recognized initially at fair value net of transaction costs incurred. They are subsequently carried at amortized cost using the effective interest method.

### l) Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are initially measured at fair value. After initial recognition trade and other payables are measured at amortized cost using the effective interest rate method.

### m) Provisions

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

*Provision for environmental liabilities*

Provision for environmental liabilities is recognized when it is probable that the costs will be incurred to clean up the environment and these can be reliably estimated. The set-up of the provision generally corresponds with accepting a formal plan or other commitment to sell investments or dismantle unused assets on the site. The amount of recognized provision is the best estimate of the expenditures required. In case the liability will not be settled in the near future, the amount of recognized provision stands for the present value of estimated future expenditures.

### n) Greenhouse Gas Emissions

The Company receives free of charge emission rights as a result of its participation in the European Emission Trading Schemes. The rights are received on the annual basis and the Company is required to return emission rights equal to its actual emissions for a year. The Company recognizes a net liability resulting from the gas emissions produced. Therefore, a provision is only recognized when actual emissions production exceed the emission rights received free of charge. When emission rights are purchased from other parties, they are measured at cost and recorded as reimbursement right in intangible assets. When emission rights are acquired by exchange, they are measured at fair value at the acquisition date, and the difference between the fair value and acquisition cost is recognized in profit or loss for the period.

### o) Social Security and Pension Schemes

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

### p) Revenue Recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company’s activities.

The Company recognises revenue when the amount of revenue can be reliably measured; it is probable that future economic benefits will flow to the Company. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. Sales are recorded upon the delivery of products or performance of services, net of value added tax and discounts.

The Company records revenues mainly from fees for natural gas transmission, related services, revenues from the transmission network balance for operating purposes, and other revenues.

*(i)* Fees for natural gas transmission
Revenues from fees for natural gas transmission are recognised at the time, or in the period when a transmission capacity in the gas transmission network is assigned to a customer.

*(ii)* Revenues from the sale of gas in-kind not consumed
Revenues from the sale of surplus of gas in-kind for operating purposes are recognised when the gas is sold.

*(iii)* Revenues from connection fees to transmission network
Revenues from connection fees to transmission network are recognised when a customer is connected to the network.

*(iv)* Sales of services
Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

*(v)* Dividend income
Dividend income is recognised when the right to receive the payment is established.

*(vi)* Interest income
Interest income is recognised on an accrual basis in the period when it is incurred, independent of the actual payments of the interest.

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

The Company has a long-term employee benefit program comprising a lump-sum retirement benefit, social assistance benefit in material deprivation and life and work jubilee benefits, for which no separate financial funds were earmarked. In accordance with IAS 19, the employee benefits costs are assessed using the projected unit credit method. According to 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 as 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 recognized in the other comprehensive income in equity for the period when they arise. Past service costs are recognized immediately in the income statement.

**r) Leasing**

*Operating lease*
The lessee under an operating lease arrangement does not present assets subject to an operating lease on its balance sheet nor does it recognize operating lease obligations for future periods. Lease payments under an operating lease shall be recognized as an expense in the income statement on a straight-line basis over the lease term.

**s) Income Tax**

Current income tax is calculated from the accounting profit, as determined under the Slovak accounting principles, and adjusted for certain items in accordance with tax legislation, at the currently valid tax rate of 23%. The income tax rate valid starting 1 January 2014 is 22%.

In line with Act No. 235/2012 Coll., on a Special Levy on Business in Regulated Industries and on the Amendment to and Supplementation of Certain Acts, the Company is obliged to pay a monthly special levy from September 2012. The levy rate is 4.356% per annum. This levy is based on the profit before tax and is presented as a part of the current income tax pursuant to the IFRS requirements.

Deferred income tax is recognised, 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 realized or the liability is settled. Deferred tax is recognized in the income statement, except when it relates to items directly credited or charged directly to equity, in which case the deferred tax is also recognized in equity. The income tax rate valid since 1 January 2013 is 23%. The Company used for deferred income tax calculation tax rate of 22%, which is valid in Slovak Republic since 1 January 2014.

Major temporary differences arise from depreciation of fixed assets, various allowances, provisions, and derivative financial instruments. Deferred tax asset is recognized to the extent that it is probable that future taxable profit will be available against which the tax deductible temporary differences can be utilized.

**t) Foreign Currency Transactions**

Transactions in foreign currencies are initially recorded at the rates of the European Central Bank (ECB) prevailing at the date of transaction. Monetary assets, receivables and payables denominated in foreign currencies are translated into functional currency using the ECB exchange rates prevailing at the balance sheet date. Exchange rate gains and losses arising from the translations at the balance sheet date are recognized in the income statement.

### u) Accounting Principles Adopted for Government Grants

Government grants are recognized if there is reasonable assurance on the receipt of a grant and fulfilment of all the conditions necessary to obtain a grant. If a government grant relates to compensation of expenses, it is recognized as revenue over the period in which expenses, which the grant is intended to compensate, are incurred. If a grant relates to the acquisition of fixed assets, it is recognized as deferred revenue and is released in profit or loss on a straight-line basis over the estimated useful lives of the relevant assets. In the balance sheet government grants are recognized using the deferred revenue method.

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In applying the Company's accounting policies, which are described in Note 3, the Company took the following decisions concerning uncertainties and estimates that have a significant impact on the amounts recognized in the financial statements. There is a significant risk of material adjustments in future periods in respect of such matters in the following areas:

*Economic useful lives*

The estimation of the useful life of an item of fixed assets is a matter of management judgment based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage based on usage estimates, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments to future depreciation rates.

The economic useful lives of fixed assets are based on the best estimates as listed in the Note 3 g). The carrying values of these assets at the year ended 31 December 2013 and 31 December 2012 are presented in Note 7 and 8. Should the useful life of gas pipelines and compressor stations be longer by 5 years than management's estimate as at 31 December 2013, the depreciation charge of gas pipelines and compressor stations would decrease by EUR 20,343 thousand.

*Valuation of property, plant and equipment contributed to the Company*

As stated in Note 1.6 Contribution of part of the business, on 28 February 2013 SPP made a contribution to the Company of part of the business in the form of business combination under common control, which included the assets (especially natural gas transmission related assets - gas transmission pipelines, compressor stations), related liabilities and employees.

For the purpose of the contribution, valuation of the natural gas transmission related assets was performed by independent appraisers. Given the specific nature of the contributed assets, a depreciated replacement cost approach to valuation was used. The main assumptions in the valuation are as follows:

- cost of steel
- cost of ground related works
- cost of installation and assembly works
- initial useful lives of gas pipelines of 60 years
- initial useful lives of compressor stations of 25-50 years

The value of the contributed assets as per independent appraisers valuation did not significantly differ from the carrying value of the assets as they were recorded in the books of SPP, adopted the revaluation model under IAS 16 for its property, plant, and equipment used for natural gas transmission.

## 5. FINANCIAL INSTRUMENTS

### a) Financial risk

The Company is exposed to various financial risks. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial position of the Company. To manage certain risks, the Company enters into financial derivative instruments, e.g. forward or swap commodity contracts. The purpose of such practice is to manage risks related to movements in commodity prices arising from the Company's operations.

(EUR '000)

The main risks arising from financial instruments of the Company are exchange rate risk, commodity risk, interest rate risk, credit risk and liquidity risk.

**(1) Exchange rate risk**

The Company enters into contracts in foreign currencies and is exposed to foreign currency risk arising from currency volatility, especially to US dollars (USD).

Analysis of financial assets and financial liabilities by currency:

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | As at 31 December 2013 | As at 31 December 2012 | As at 31 December 2013 | As at 31 December 2012 |
| USD | 3,321 | 3,924 | 35 | 17 |

No contracts for exchange rates hedging were entered into in 2013.

The table below displays the sensitivity of the Company to a 3% strengthening or weakening of the euro against the US dollar. The sensitivity analysis only includes outstanding monetary items denominated in foreign currency and adjusts their translation at the end of the reporting period by the 3% FX change.

| | Impact of US dollar rate | |
|---|---|---|
| | As at 31 December 2013 | As at 31 December 2012 |
| Effect on profit before tax | 102 | 121 |

The effects mainly relate to risks to outstanding receivables in USD at the balance sheet date. Positive value indicates the potential gain recognised in the income statement in case of weakening of euro against related currency.

**(2) Commodity price risk**

Commodity price risk is the risk or uncertainty arising from possible movements in prices for natural gas and its impact on the Company's future performance and results of the Company's operations. A decline in the prices could result in a decrease in net income and cash flows.

The Company regularly performs estimations of the surplus of natural gas available for sale and enters into short and mid-term commodity swaps in order to hedge its selling prices.

The Company entered into commodity swaps in 2013 to hedge cash flow from sales of surplus of balancing gas.

The following table details swap commodity contracts outstanding at the balance sheet date:

| **Open commodity swaps** | 2013 | | 2013 | |
|---|---|---|---|---|
| | Fair value | | Nominal value | |
| | Cash flow hedging | Holding for trading | Cash flow hedging | Holding for trading |
| Natural gas sales | | | | |
| Less than 3 months | 392 | - | 15,256 | - |
| 3 to 12 months | (123) | - | 44,618 | - |
| Over 12 months | (88) | - | 9,213 | - |

**(EUR '000)**

| Open commodity swaps | 2012 | | 2012 | |
|---|---|---|---|---|
| | Fair value | | Nominal value | |
| | Cash flow hedging | Holding for trading | Cash flow hedging | Holding for trading |
| Natural gas sales | | | | |
| Less than 3 months | 776 | - | 15,017 | - |
| 3 to 12 months | 1,928 | - | 44,901 | - |
| Over 12 months | - | - | - | - |

The 3% change in the price of the natural gas would not have any material effect on the fair value of derivatives.

Movement in hedging reserve is disclosed in Note 18.

**(3) Interest rate risk**

The Company has no significant exposure to concentrations of interest rate risk. As at 31 December 2013 the Company issued bonds with fixed interest rate and also granted long-term loan with fixed interest rate. For details, refer to paragraph (4) Credit risk and Notes 9 and 15.

As at 31 December 2012 the Company had no outstanding long-term borrowings and long-term loans with fixed interest rate.

**(4) Credit risk**

The Company takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Company's sales of services on credit terms and other transactions with counterparties giving rise to financial assets. The credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, loans and trade receivables.

As for the cash and cash equivalents in banks, the Company has relationships only with those that have a high independent rating assessment.

The Company renders its services to various customers, none of which, individually or collectively, in terms of volume and margin represents a significant default risk. The Company has in place operational procedures ensuring that services are rendered to customers with good credit history and only up to acceptable credit limit. In addition to the existing trade receivables, the Company has receivables arising from loans issued to the parent and affiliated companies.

The maximum exposure to the default risk is represented by the carrying amount of each financial asset, including derivative financial instruments, recognized in the balance sheet, net of any bad debt provision. The default risk is partially eliminated through the securities received as disclosed in Note 11.

The Company's maximum exposure to credit risk by is as follows:

| | Note | 2013 | 2012 |
|---|---|---|---|
| **Loans issued** | **9** | **973,000** | **-** |
| **Receivables and prepayments** | | **134,372** | **284,195** |
| - Receivables from transmission activities | 11 | 36,042 | 43,796 |
| - Receivables from financial derivatives | 11 | 698 | 2,704 |
| - Other receivables | 11 | 97,632 | 237,695 |
| **Other assets** | 12 | ***1,821*** | ***3,275*** |
| **Cash and cash equivalents** | | ***68,474*** | ***54,534*** |
| **Total maximum exposure to credit risk** | | **1,177,667** | **342,004** |

Credit quality of cash at banks is as follows: rating A3 from Moody's: EUR 38,373 thousand, rating A from Fitch: EUR 28,790 thousand, rating AA- from Fitch: EUR 1,297 thousand and rating A- from Fitch: EUR 7 thousand.

**(EUR '000)**

### (5) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash with adequate maturity, availability of funding through an adequate amount of committed credit lines and the ability to close open market positions. The Company, as a member of the SPP core group, is part of the cash-pooling system. In the cash-pooling system flexibility is maintained by keeping committed credit lines available and synchronizing the maturity of financial assets with financial needs.

The Company entered into the agreement with European Investment Bank (EIB), based on which the Company has available opened credit line in total of EUR 75,000 thousand as at 31 December 2013.

The table below summarizes the maturity of the financial liabilities and contingent liabilities as at 31 December 2013 and 31 December 2012 based on contractual undiscounted payments:

| As at 31 December 2013 | On demand | Less than 3 months | 3 to 12 months | 1 to 5 years | > 5 years | Total |
|---|---|---|---|---|---|---|
| Bonds issued | - | - | 24,964 | 122,305 | 803,292 | 950,561 |
| Other financial liabilities | - | 3,443 | 5,352 | 160 | - | 8,955 |
| Trade and other payables | - | 28,559 | - | - | - | 28,559 |
| Guarantee issued | 945,488 | - | - | - | - | 945,488 |
| Swap commodity contracts recognized as hedging | - | - | - | 353 | 164 | 517 |

| As at 31 December 2012 | On demand | Less than 3 months | 3 to 12 months | 1 to 5 years | > 5 years | Total |
|---|---|---|---|---|---|---|
| Other financial liabilities | - | 5,774 | 112 | 154 | - | 6,040 |
| Trade and other payables | - | 20,874 | - | - | - | 20,874 |

### b) Capital risk management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt to equity ratio and ensuring a strong credit rating and healthy capital ratios.

The Company' s capital structure consists of equity attributable to the Company's owners, comprising registered capital, legal and other funds and retained earnings as disclosed in Notes 17 and 18, and issued bonds as disclosed in Note 15. Liabilities to capital (gearing) ratio was at the year-end of 2013 30% and 2012 nil.

The gearing ratio at the year-end:

| | As at 31 December 2013 | As at 31 December 2012 |
|---|---|---|
| Debt (i) | (754,960) | - |
| Cash and cash equivalents | 68,474 | 54,534 |
| Net debt | (686,486) | - |
| Equity (ii) | 2,325,814 | 370,989 |
| **Net debt to equity ratio** | **30 %** | **0%** |

*(i) Debt is defined as long-term and short-term issued bonds.*
*(ii) page 4*

As stated in the incorporation deed of the Company, the indebtedness ratio may not exceed a predefined value.

**(EUR '000)**

### c) Categories of financial instruments

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| **Financial assets** | | |
| Derivative financial instruments recognised as hedging | 698 | 2,704 |
| Loans and receivables (including cash and cash equivalents) | 203,969 | 339,300 |
| Loans at amortised costs | 973,000 | - |
| Investments available for sale in fair value | 6,600 | 6,600 |
| **Financial liabilities** | | |
| Derivative financial instruments recognised as hedging | 517 | - |
| Financial liabilities carried at amortised costs | 791,957 | 26,760 |

For the purposes of measurement, IAS 39 “Financial Instruments: Recognition and Measurement”, classifies financial assets into the following categories: loans and receivables; available-for-sale investments and hedging financial derivatives.

All of the Company’s financial assets fall in the loans and receivables category except available-for-sale financial assets and hedging financial derivatives.

All of the Company’s financial liabilities except for hedging financial derivatives were carried at amortised cost.

### d) Estimated fair value of financial instruments

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

#### (1) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period:

The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

| As at 31 December 2013 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Financial assets at fair value** | **-** | **698** | **6,600** | **7,298** |
| Financial derivatives recognised as hedging | - | 698 | - | 698 |
| Financial assets available for sale | - | - | 6,600 | 6,600 |
| **Financial liabilities at fair value** | **-** | **517** | **-** | **517** |
| Financial derivatives recognised as hedging | - | 517 | - | 517 |
| Guarantee issued | - | - | - | - |

| As at 31 December 2012 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Financial assets at fair value** | **-** | **2,704** | **6,600** | **9,304** |
| Financial derivatives recognised as hedging | - | 2,704 | - | 2,704 |
| Financial assets available for sale | - | - | 6,600 | 6,600 |
| **Financial liabilities at fair value** | **-** | **-** | **-** | **-** |
| Financial derivatives recognised as hedging | - | - | - | - |

**(EUR '000)**

The fair value of commodity swaps is determined using forward commodity prices as at the reporting date.

Fair value of available-for-sale financial investment was estimated based on the present value of future cash flows, which were estimated by the management based on the available financial results of the investment and its approved budget.

Fair value of guarantee issued and described in Note 28 Commitments and contingencies was determined as EUR nil as t was provided under the current market conditions and it is not probable that the Company will have to fulfil its obligation resulting from the guarantee.

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

There were no movements in financial instruments classified at level 3 in 2013.

**(2) Non-recurring fair value measurements**

As further described in Note 1.6 Contribution of a part of the business assets and liabilities acquired in business combination were recognised in financial statements of the Company at their fair values at the date of the transaction. The fair value measurement of the assets and liabilities acquired in business combination belongs to Level 3 of fair value hierarchy. Details on the fair value measurement are disclosed in Note 4 Critical accounting judgements and key sources of estimation uncertainty

**(3) Assets and liabilities not measured at fair value**

The fair value of financial assets and financial liabilities at different levels and their carrying values:

| As at 31 December 2013 | Level 1 | Level 2 | Level 3 | Carrying value |
|---|---|---|---|---|
| **Financial assets** | **-** | **-** | **973,000** | **973,000** |
| Loans issued | - | - | 973,000 | 973,000 |
| **Financial liabilities** | **-** | **769,095** | **-** | **754,938** |
| Bonds issued | - | 769,095 | - | 754,938 |

Fair value of the issued loan with fixed interest was estimated based on the expected future cash flows discounted by the interest rate, which the Company would obtain of a new loans with the similar maturity and credit risk.

Fair value of bonds issued was estimated with reference to market value of the bonds issued by SPP Infrastructure Financing B.V. (refer to Note 28).

The fair value of other financial assets and financial liabilities approximate their carrying amounts at the balance sheet date.

Non-current trade receivables and trade payables were discounted unless the effect of discounting was inconsiderable.

**(4) Embedded derivative instruments**

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

The Company assessed all other significant contracts and agreements for embedded derivatives that should be recorded and concluded that there are no embedded derivatives in these contracts and agreements that are required to be measured and separately recognized as at 31 December 2013 and 31 December 2012 under the requirements of IAS 39 (as revised in 2003).

## 6. SEGMENT REPORTING

The Company assessed segment information for the current and comparative reporting periods in accordance with IFRS 8 Operating segments.
According to the nature of products and services provided, the Board of Directors has identified one operating segment which is used to manage the Company's business, allocate resources and make strategic decisions. The Company's activities are concentrated in Slovakia, where all the fixed assets are placed.
The main indicators used by the Board of Directors in their decision making are earnings before interests, taxes, depreciation and amortisation (EBITDA) and capital expenditure cash outflows. For the decision making, the Board of Directors uses the financial information consistent with the information disclosed in these individual financial statements of the Company.

**(EUR '000)**

## 7. PROPRETY, PLANT AND EQUIPMENT

| Year ended 31 December 2013 | Border entry/exit points, domestic points | Compressor stations | Gas pipelines | Buildings and land | Machinery and equipment | Other non-current tangible assets | Assets under construction | Total |
|---|---|---|---|---|---|---|---|---|
| Opening net book value | **15,610** | **4,955** | **2,988** | **5,963** | **18,542** | **1,567** | **1,256** | **50,881** |
| Additions | - | - | - | - | - | - | 39,952 | 39,952 |
| Business combination (Ref Note 1.6.) | 54,273 | 400,652 | 1,890,278 | 22,236 | 2,660 | 20 | 40,487 | 2,410,606 |
| Put in use | 965 | 4,135 | 3,558 | 159 | 955 | 578 | (10,350) | - |
| Reclassifications from prepayments | - | - | - | - | - | - | 27,694 | 27,694 |
| Disposals | - | - | - | - | (5) | (14) | (662) | (681) |
| Depreciation charge | (3,041) | (29,296) | (48,460) | (1,120) | (4,403) | (822) | - | (87,142) |
| Change in provisions | - | (1,027) | - | (3) | (3) | (1) | (683) | (1,717) |
| **Closing net book value** | **67,807** | **379,419** | **1,848,364** | **27,235** | **17,746** | **1,328** | **97,694** | **2,439,593** |
| **As at 31 December 2013** | | | | | | | | |
| Acquisition cost | 72,292 | 409,970 | 1,896,896 | 28,834 | 34,767 | 4,901 | 98,221 | 2,545,881 |
| Provisions and accum. depreciation | (4,485) | (30,551) | (48,532) | (1,599) | (17,021) | (3,573) | (527) | (106,288) |
| **Net book value** | **67,807** | **379,419** | **1,848,364** | **27,235** | **17,746** | **1,328** | **97,694** | **2,439,593** |

| Year ended 31 December 2012 | Border entry/exit points, domestic points | Compressor stations | Gas pipelines | Buildings and land | Machinery and equipment | Other non-current tangible assets | Assets under construction | Total |
|---|---|---|---|---|---|---|---|---|
| **As at 1 December 2012** | | | | | | | | |
| Acquisition cost | 7,040 | 2,644 | 1,887 | 2,757 | 27,688 | 4,548 | 16,725 | 63,269 |
| Provisions and accum. depreciation | (709) | (76) | (22) | (24) | (12,215) | (2,427) | - | (15,473) |
| **Net book value** | **6,331** | **2,568** | **1,865** | **2,733** | **15,453** | **2,121** | **16,725** | **47,796** |
| Opening net book value | 6,331 | 2,568 | 1,865 | 2,733 | 15,453 | 2,121 | 16,725 | 47,796 |
| Additions | - | - | - | - | - | - | 9,034 | 9,034 |
| Put in use | 10,017 | 2,625 | 1,173 | 3,734 | 6,781 | 173 | (24,503) | - |
| Reclassifications | - | - | - | - | - | - | - | - |
| Disposals | - | - | - | - | (5) | (3) | - | (8) |
| Depreciation charge | (738) | (238) | (50) | (454) | (3,671) | (713) | - | (5,864) |
| Change in provisions | - | - | - | (50) | (16) | (11) | - | (77) |
| **Closing net book value** | **15,610** | **4,955** | **2,988** | **5,963** | **18,542** | **1,567** | **1,256** | **50,881** |
| **As at 31 December 2012** | | | | | | | | |
| Acquisition cost | 17,057 | 5,192 | 3,060 | 6,440 | 33,611 | 4,614 | 1,256 | 71,230 |
| Provisions and accum. depreciation | (1,447) | (237) | (72) | (477) | (15,069) | (3,047) | - | (20,349) |
| **Net book value** | **15,610** | **4,955** | **2,988** | **5,963** | **18,542** | **1,567** | **1,256** | **50,881** |

The contributed gas transmission related assets were the most significant addition to property, plant and equipment (refer to Note 1.6 Contribution of part of the business).

The cost of fully depreciated non-current assets (including non-current intangible assets) that were still in use as at 31 December 2013 amounted to EUR 12,483 thousand (31 December 2012: EUR 5,581 thousand).

The Company recognised non-current assets that were in use, but not yet registered in the Land Registry, in the net book value of EUR 442 thousand.

There were no interest expenses capitalized in the period ended 31 December 2013 and 31 December 2012.

Type and amount of insurance for property, plant and equipment and intangible assets (in EUR thousand):

| Insured object | Type of insurance | Acquisition cost of insured assets 2013 | Acquisition cost of insured assets 2012 | Name and seat of the insurance company |
|---|---|---|---|---|
| Buildings, halls, structures, machinery, equipment, fixture & fittings, low-value TFA, other TFA, Works of art, inventories | Insurance of assets | 995,018 | 35,072 | Allianz-Slovenská poisťovňa, a.s. Kooperativa, a.s |
| Motor vehicles | MTPL, motor vehicle insurance against damage, destruction and theft | 8,570 | 8,350 | Allianz-Slovenská poisťovňa, a.s. |

**(EUR '000)**

## 8. INTANGIBLE ASSETS

| Year ended 31 December 2013 | Software | Other non-current intangible assets | Assets under construction | Total |
|---|---|---|---|---|
| Opening net book value | 7,630 | 147 | 1,653 | 9,430 |
| Additions | - | - | 1,074 | 1,074 |
| Put in use | 2,407 | 93 | (2,500) | - |
| Reclassifications | - | - | - | - |
| Disposals | - | (62) | - | (62) |
| Amortization charge | (2,670) | (65) | - | (2,735) |
| Change in provisions | - | - | - | - |
| **Closing net book value** | **7,367** | **113** | **227** | **7,707** |
| **As at 31 December 2013** | | | | |
| Acquisition cost | 13,290 | 465 | 227 | 13,982 |
| Provisions and accumulated depreciation | (5,923) | (352) | - | (6,275) |
| **Net book value** | **7,367** | **113** | **227** | **7,707** |

| Year ended 31 December 2012 | Software | Other non-current intangible assets | Assets in the course of construction | Total |
|---|---|---|---|---|
| **As at 1 December 2012** | | | | |
| Acquisition cost | 7,911 | 794 | 3,365 | 12,070 |
| Provisions and accumulated depreciation | (1,382) | (182) | - | (1,564) |
| **Net book value** | **6,529** | **612** | **3,365** | **10,506** |
| Opening net book value | 6,529 | 612 | 3,365 | 10,506 |
| Additions | - | - | 1,813 | 1,813 |
| Put in use | 3,337 | 188 | (3,525) | - |
| Reclassifications | - | - | - | - |
| Disposals | - | (505) | - | (505) |
| Amortization charge | (2,236) | (148) | - | (2,384) |
| Change in provisions | - | - | - | - |
| **Closing net book value** | **7,630** | **147** | **1,653** | **9,430** |
| **As at 31 December 2012** | | | | |
| Acquisition cost | 10,979 | 478 | 1,653 | 13,110 |
| Provisions and accumulated depreciation | (3,349) | (331) | - | (3,680) |
| **Net book value** | **7,630** | **147** | **1,653** | **9,430** |

| Reconciliation of Investments (cash effective) to additions to non-current assets: | 31 December 2013 | 31 December 2012 |
|---|---|---|
| **Investments (cash effective)** | **27,873** | **22,466** |
| Assets acquired but not paid for | 15,478 | 4,359 |
| Payments to assets acquired in prior periods | (2,325) | (15,978) |
| **Additions to PP&E and intangibles** | **41,026** | **10,847** |

**(EUR '000)**

## 9. FINANCIAL INVESTMENTS

Non-current financial investments include:

| | Loans issued | Shares | 31 December 2013 | 31 December 2012 |
|---|---|---|---|---|
| Acquisition cost | 973,000 | 6,600 | 979,600 | 6,600 |
| Impairment | - | - | - | - |
| **Closing balance, net** | **973,000** | **6,600** | **979,600** | **6,600** |

The Company granted a loan to a company under common control - SPP Infrastructure, a.s. in the amount of EUR 964,314 thousand with maturity in year 2020. The interest rate is fixed and equals to 4.245% and is payable together with the principal. This loan is not secured.

The loan was an upstream loan to its indirect shareholders. As the loan was provided to the shareholders of the parent company, management believes that the risk of impairment of the loan is remote.

Shares represent equity interests in the following company:

| Name | Country of registration | Equity interest in % | Core activity |
|---|---|---|---|
| **Other equity interests** | | | |
| Central European Gas HUB AG (further „CEGH“) | Austria | 15 | Intermediation of natural gas trading |

## 10. INVENTORIES

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Natural gas used for balancing | 12,328 | 14,926 |
| Material and other inventories | 11,932 | 11,641 |
| Provision | (4,020) | (1,011) |
| **Total** | **20,240** | **25,556** |

The balance of natural gas represents natural gas accumulated in the pipelines used for balancing the transmission system.

As at 31 December 2013 and 31 December 2012, only a provision for inventories of unusable or damaged raw materials in stock was created.

## 11. RECEIVABLES AND PREPAYMENTS

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Receivables from transmission activities | 36,042 | 43,796 |
| Receivables from financial derivatives | 698 | 2,704 |
| Prepayments | 25 | 32 |
| Other receivables | 97,607 | 237,663 |
| Other taxes | 1,986 | 1,110 |
| **Total** | **136,358** | **285,305** |

**(EUR '000)**

As at 31 December 2013, the Company recorded due and overdue receivables in the amount of EUR 136,253 thousand and EUR 293 thousand, respectively, excluding an impairment provision. As at 31 December 2012, the Company recorded receivables due and overdue in the amount of EUR 285,541 thousand and EUR 237 thousand, respectively, excluding an impairment provision.

Receivables and prepayments are disclosed net of provisions for bad and doubtful receivables in the amount of EUR 188 thousand (31 December 2012: EUR 173 thousand).

Receivables and prepayments as at 31 December 2013 include receivables from SPP (rating A-) in the amount of EUR 94,686 thousand (31 December 2012: EUR 236,744 thousand) and from SPP – distribúcia, a.s. (rating A-) in the amount of EUR nil thousand (31 December 2012: EUR 933 thousand).

Receivables from transmission activities are against highly rated international shippers. As to the date of the issue of the financial statements Receivables from transmission activities of EUR 5 thousand remains unsettled.

Other receivables represent mainly cash pooling receivables against SPP of EUR 91,928 thousand. Terms of cash pooling receivables are comparable with terms of common bank deposits.

Movements in provision for receivables were as follows:

| | **31 December 2013** | **31 December 2012** |
|---|---|---|
| Opening balance | (173) | (174) |
| Creation | (15) | (2) |
| Use | - | 3 |
| Reversal | - | - |
| **Closing balance** | **(188)** | **(173)** |

**Receivables securities**

To secure the Company's receivable several bank guarantees were issued in the total amount of EUR 4,494 thousand (31 December 2012: EUR 5,084 thousand).

Overdue receivables that were not provided for:

| | **2013** | **2012** |
|---|---|---|
| Less than 2 months | 88 | 54 |
| 2 to 3 months | - | - |
| 3 to 6 months | - | - |
| 6 to 9 months | - | - |
| 9 to 12 months | - | - |
| More than 12 months | - | - |
| **Total** | **88** | **54** |

Overdue receivables that were provided for:

| | **2013** | **2012** |
|---|---|---|
| Less than 2 months | - | - |
| 2 to 3 months | 23 | 11 |
| 3 to 6 months | - | 1 |
| 6 to 9 months | - | - |
| 9 to 12 months | - | - |
| More than 12 months | 182 | 171 |
| **Total** | **205** | **183** |

**(EUR '000)**

## 12. DEFERRED INCOME

Deferred revenue represent grants allocated by the European Commission for co-financing of the reverse flow projects of the Compressor station 4 and Plavecký Peter gas pipelines, the cross-border interconnection between Poland and Slovakia and between Hungary and Slovakia, and a project related to emission reduction (DLE) in Compressor stations 3 and 4.

Changes in deferred revenue recognised in the balance sheet for the year ended 31 December 2013 are as follows:

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Opening balance | 3,784 | - |
| Grants allocated during the period | 1,827 | 3,842 |
| Derecognition | (784) | - |
| Reversal | (32) | (58) |
| **Closing balance** | **4,795** | **3,784** |

| | Current portion (included in other current liabilities) | Non-current portion | Total |
|---|---|---|---|
| As at 31 December 2013 | 8 | 4,787 | 4,795 |
| As at 31 December 2012 | 26 | 3,758 | 3,784 |

The non-current portion of the grant in total of 1,821 thousand EUR is recognised as other non-current assets. As at 31 December 2013 it is represented by grant given in 2013 for project of investments into emission reduction (DLE) on KS 3 and KS 4.

## 13. RETIREMENT AND OTHER LONG-TERM EMPLOYEE BENEFITS

The long-term employee benefits program of the Company was launched in 2006. This is a defined benefit program, under which the employees are entitled to a lump-sum payment upon old age or disability retirement and, subject to vesting conditions, life and work jubilee payments. In 2013, the Company signed a new collective agreement under which employees are entitled to a retirement benefit based on the number of years with the SPP core group companies at the date of retirement. The retirement benefits range from one month to six months of the employee's average salary. As at31 December 2013 and 31 December 2012, the obligation relating to retirement and other long-term employee benefits was calculated on the basis of valid collective agreements in the given years.

As at 31 December 2013, there were 836 (31 December 2012: 975) employees covered by this program. The program is an un-funded program, with no separately allocated assets to cover the program's liabilities.

Movements in the net liability recognized in the balance sheet for the year ended 31 December 2013 are as follows:

| | Long-term benefits | Post-employment benefits | Total at 31 December 2013 | Total at 31 December 2012 |
|---|---|---|---|---|
| Net liabilities at 1 January | 457 | 1,916 | 2,373 | 2,126 |
| Net expense/ (revenue) recognised | (76) | 683 | 607 | 321 |
| Contribution | 10 | 44 | 54 | - |
| Benefits paid | (53) | (18) | (71) | (74) |
| **Net liabilities** | **338** | **2,625** | **2,963** | **2,373** |

**(EUR '000)**

| | Current liabilities (included in other current liabilities) | Non-current liabilities | Total |
|---|---|---|---|
| As at 31 December 2013 | 119 | 2,844 | 2,963 |
| As at 31 December 2012 | 64 | 2,309 | 2,373 |

Key assumption used in actuarial valuation:

| | At 31 December 2013 | At 31 December 2012 |
|---|---|---|
| Market yield on government bonds | 3.154 % | 3.686 % |
| Future real rate of salary increase, p. a. | 2.00 % | 2.00 % |
| Employee turnover, p. a. | 1.44 % | 1.44 % |
| Retirement ages (male and female) | 62 for male a 60 for female | 62 for male a 60 for female |

## 14. PROVISIONS

Movements in provisions are summarised as follows:

| | Environmental provision | Other provisions | Total at 31 December 2013 | Total at 31 December 2013 |
|---|---|---|---|---|
| Balance at 1 January | - | 62 | 62 | 3 788 |
| Contribution of part of the business | 8,344 | - | 8,344 | - |
| Effect of discounting | (441) | - | (441) | - |
| Creation of provision | - | 93 | 93 | 62 |
| Use of provision | (1) | (62) | (63) | (505) |
| Reversal of provision | - | - | - | (3,283) |
| **Closing balance** | **7,902** | **93** | **7,995** | **62** |

Provisions are included in liabilities as follows:

| | Current provisions (included in other current liabilities) | Non-current provisions | Total provisions |
|---|---|---|---|
| As at 31 December 2013 | 93 | 7,902 | 7,995 |
| As at 31 December 2012 | 62 | - | 62 |

Environmental provision

In 2011, a project for the identification of environmental loads on all compressor stations (“CS”) operated by the Company took place. Oil and condensate from gas transportation pollution was confirmed on all compressor stations. A partial decontamination in areas apart from gas facilities in operation took place on three of them (CS01, CS02, CS03). The pollution detected at all compressor stations concerns the soil underneath the 6MW turbo machinery halls. The Company recognised the provision for decontamination works based on current existing technologies and prices adjusted for expected inflation factor at amortised costs. Discount rate taken into consideration reflected the current market assessments of the time value of money and the risk specific factors (rate of approximately 2.68% was used). The provision was recognised as part of the contribution of part of the business in the amount of EUR 8,344 thousand (refer also to Note 1.6).

To cover the liability related to the produced CO2 emissions, the Company created a provision in the amount of EUR 93 thousand. The provision will be used at the delivery of the 2013 emission rights in April 2014.

**(EUR '000)**

In 2007, following the ruling of the Anti-Monopoly Office of the Slovak Republic ("PMU") imposing a fine on the Company, a provision of EUR 3,283 thousand was created. The fine was paid in 2008, thereby using the provision in full. In 2009, following a ruling by the Bratislava Regional Court, PMU deposited the fine in the full amount into the Company's bank account. As the litigation was not lawfully completed at that time, a provision of EUR 3,283 thousand was created in 2009. In 2012, however, the Anti-Monopoly Office of the Slovak Republic decided to suspend the litigation because the Act on Protection of Competition had not been violated and therefore, the provision was reversed.

## 15. BONDS ISSUED

In 2013, the Company issued private unsecured bonds through which it received funds in the amount of EUR 746,555 thousand.

The bonds were issued in EUR, in two tranches, with a fixed interest rate of 4.12% p.a. (coupon). The Bonds have a fixed final maturity date, as lump-sum at the final maturity date on 15 July 2020.

The effective interest rate of the first tranche (EUR 494,134 thousand) is 4.12% p.a. and of the second tranche (EUR 248,006 thousand) is 3.819% p.a. The whole volume of issued bonds were bought by an entity under common control - SPP Infrastructure Financing B.V. with registered seat in the Netherlands.

| | 31 December 2013 secured | 31 December 2013 unsecured | 31 December 2013 total | 31 December 2012 secured | 31 December 2012 unsecured | 31 December 2012 total |
|---|---|---|---|---|---|---|
| Bonds issued | - | 754,938 | 754,938 | - | - | - |
| **Total** | **-** | **754,938** | **754,938** | **-** | **-** | **-** |
| Bonds issued according to currency: | | | | | | |
| EUR | | | | | | |
| – fixed interest rate | - | 754,938 | 754,938 | - | - | - |
| **Total** | **-** | **754,938** | **754,938** | **-** | **-** | **-** |
| Loans due are as follows: | | | | | | |
| More than 5 years | - | 754,938 | 754,938 | - | - | - |
| **Total** | **-** | **754,938** | **754,938** | **-** | **-** | **-** |

| | Carrying amount | | Fair value (note 5 (d) (3)) | |
|---|---|---|---|---|
| | 31 December 2013 | 31 December 2012 | 31 December 2013 | 31 December 2012 |
| Bonds issued | 754,938 | - | 769,095 | - |
| **Total** | **754,938** | **-** | **769,095** | **-** |

**(EUR '000)**

## 16. TRADE AND OTHER PAYABLES

| | At 31 December 2013 | At 31 December 2012 |
|---|---|---|
| Trade payables | 25,752 | 17,586 |
| Other liabilities | 8,278 | 5,886 |
| Liabilities from transmission activities | 2,807 | 3,288 |
| Liabilities from financial derivatives | 517 | - |
| ***Total financial liabilities*** | ***37,354*** | ***26,760*** |
| Liabilities to employees | 4,988 | 7,238 |
| Liabilities from social insurance and other taxes | 2,576 | 2,265 |
| ***Total non - financial liabilities*** | ***7,564*** | ***9,503*** |
| **Total** | **44,918** | **36,263** |

As at 31 December 2013, trade and other liabilities include liabilities to SPP in the amount of EUR 10,107 thousand (31 December 2012: EUR 962 thousand) and to SPP – distribúcia, a.s. in the amount of EUR nil (31 December 2012: EUR 9,069 thousand).

As at 31 December 2013, the Company recorded due liabilities of EUR 32,729 thousand and overdue liabilities of EUR 12,189 thousand. As at 31 December 2012, the Company recorded due liabilities of EUR 36,263 thousand; no overdue payables were recorded.

**Social fund liabilities**

| | 2013 | 2012 |
|---|---|---|
| Opening balance at 1 January 2013 | 258 | 258 |
| Total creation: | 323 | 313 |
| *from expenses* | *313* | *313* |
| *contribution* | *10* | - |
| Total drawing: | (285) | (313) |
| *social assistance benefit in material deprivation* | - | - |
| *monetary rewards and gifts* | *(25)* | *(33)* |
| *life jubilee benefits* | *(23)* | *(17)* |
| *work jubilee benefits* | *(30)* | *(39)* |
| *catering allowance* | *(95)* | *(105)* |
| *other drawing as per CA* | *(112)* | *(119)* |
| **Closing balance at 31 December 2013** | **296** | **258** |

**Liabilities secured by pledge or other form of collateral**

As at 31 December 2013, the Company has established a bank guarantee in Tatra banka totalling EUR 700 thousand for liabilities to the Customs Office (31 December 2012: EUR 332 thousand).

For the payables to CEGH arising from the Membership Contract, a collateral in the amount of EUR 140 thousand was established at Všeobecná úverová banka.

## 17. REGISTERED CAPITAL

The registered capital consists of 10 ordinary certificate-form shares at the face value of EUR 3,319.39 per share, 1 ordinary certificate-form share at the face value of EUR 82,895,533.19 and 1 ordinary certificate-form share at the face value of EUR 200,000,000.00. SPP is the 100% owner of the shares referred to above. The registered capital was incorporated in the Commercial Register in the full amount.

**(EUR '000)**

## 18. LEGAL RESERVE FUND AND RETAINED EARNINGS

Since 1 January 2008 the Company has been required to prepare individual financial statements in accordance with IFRS as adopted by the EU. Retained earnings represent amounts based on the individual financial statements.

***Legal reserve fund***

The legal reserve fund in the amount of EUR 56,586 thousand (31 December 2012: EUR 16,586 thousand) is created in accordance with Slovak law and is not distributable to shareholders. The reserve is created from retained earnings to cover possible future losses or increases of the registered capital. Transfers of at least 10% of the current year's profit are required to be made until the reserve is equal to at least 20% of the registered capital. The legal reserve fund in the Company has already attained 20% of the registered capital. The legal reserve fund in the amount of EUR 40,000 thousand was created as part of contribution of part of the business (see also Note 1.6).

| Allotment | Profit allotment for 2012 | Profit allotment for 2011 |
|---|---|---|
| Allotment to legal reserve fund | - | - |
| To cover losses from previous years | - | - |
| Dividends | 265,939 | 187,059 |
| **Total profit to be distributed** | **265,939** | **187,059** |

**Hedging reserves**

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.

| | Year ended 31 December 2013 | Year ended 31 December 2012 |
|---|---|---|
| **Opening balance** | **2,081** | **7,573** |
| Gain/(loss) on cash-flow hedging | | |
| Currency forward contracts | - | - |
| Commodity forward contracts | - | - |
| Commodity swap contracts | (1,129) | (4,205) |
| Interest swap contracts | - | - |
| Deferred Income tax applicable to gains/losses recognised through equity | 584 | 1,154 |
| **Transfer to profit/loss** | | |
| Currency forward contracts | - | - |
| Commodity forward contracts | - | - |
| Commodity swap contracts | (1,400) | (2,441) |
| Interest swap contracts | - | - |
| Deferred Income tax applicable to gains/losses recognised through equity | - | - |
| **Transfer to initial carrying amount of the hedged item** | | |
| Currency forward contracts | - | - |
| Commodity forward contracts | - | - |
| Commodity swap contracts | - | - |
| Interest swap contracts | - | - |
| Deferred Income tax applicable to amounts transferred to the initial carrying amount of the hedged item | - | - |
| **Closing balance** | **136** | **2,081** |

A hedging reserve represents the cumulative effective portion of gains or losses arising from changes in fair value of hedging instruments entered into for cash flow hedges.

**(EUR '000)**

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

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

| | **Year ended 31 December 2013** | **Year ended 31 December 2012** |
|---|---|---|
| Revenues from sale of services | - | - |
| Natural gas transmission (revenue) | (1,400) | (2,441) |
| Purchases of natural gas, consumables and services | - | - |
| Other costs, net | - | - |
| Financial expenses | (62) | (86) |
| Income tax charged to expenses | - | - |
| **Total** | **(1,462)** | **(2,527)** |

## 19. REVENUES FROM SALES OF SERVICES

| | **Year ended 31 December 2013** | **Year ended 31 December 2012** |
|---|---|---|
| Natural gas transmission | 695,167 | 764,206 |
| Other | 1,814 | 20,860 |
| **Total** | **696,981** | **785,066** |

In 2013, the Company fully implemented a long-term contract for natural gas transmission (with ship-or-pay conditions) through the Slovak Republic with a significant Russian natural gas exporter. This contract enables the use of gas pipelines in line with the transmission capacity required by this exporter to fulfil long-term export contracts signed with customers in Central and Western Europe.

The Company provides access to the transmission network and transmission services on the basis of ship-or-pay contracts. The major user of the network (shipper) is a significant Russian natural gas exporter, followed by other customers, usually leading European gas companies transmitting gas from Russian and Asian reservoirs to Europe. The major part of the transmission capacity is ordered on the basis of long-term contracts, which comprise more than 80% of the Company's revenues. In addition, eustream, within the entry-exit system, also concludes short-term transmission contracts.

The Company is paid transmission fees directly to its accounts by the relevant shipper. Tariffs have been fully regulated since 2005. The regulator annually issues pricing decisions on the basis of a proposal submitted by the Company.

On the basis of the regulated business and pricing terms, shippers also provide the Company with a portion of the tariffs in kind as gas for operating purposes, covering gas consumption during the operation of the transmission network. In accordance with the regulated trade and price conditions, the shippers are allowed to provide this part of tariff in the financial form as well.

The revenues from the transmission of natural gas are originated in the Slovak Republic.

**(EUR '000)**

## 20. STAFF COSTS

| | Year ended 31 December 2013 | Year ended 31 December 2012 |
|---|---|---|
| Wages, salaries and bonuses | 25,405 | 25,537 |
| Pension security costs | 3,606 | 3,119 |
| Social security costs | 5,461 | 4,723 |
| Other social security costs and severance pay | 6,901 | 5,389 |
| **Total** | **41,373** | **38,768** |

The Company is required to make social and pension security contributions, amounting to 35.2% of salary bases as determined by law, up to a maximum amount ranging approx. EUR 3.9 thousand, except of accident insurance, where salary base is not limited. The employees contribute an additional 13.4% of the relevant base up to the above limits.

## 21. COSTS OF AUDIT SERVICE

| | Year ended 31 December 2013 | Year ended 31 December 2012 |
|---|---|---|
| Audit of financial statements | 23 | 20 |
| Other assurance services | 14 | - |
| Tax advisory services | - | 1 |
| Other related services provided by the auditor | 5 | 2 |
| **Total** | **42** | **23** |

## 22. FINANCIAL INCOME

| | Year ended 31 December 2013 | Year ended 31 December 2012 |
|---|---|---|
| Interest income | 9,842 | 806 |
| Derivative instruments | 54 | 1,016 |
| Dividends | 420 | - |
| Other financial income, net | 139 | - |
| **Total** | **10,455** | **1,822** |

## 23. FINANCIAL EXPENSE

| | Year ended 31 December 2013 | Year ended 31 December 2012 |
|---|---|---|
| Interest expense | 7,943 | 1 |
| FX differences - loss/(profit) (see Note 24) | 114 | 124 |
| Other financial expense | 33 | 82 |
| **Total** | **8,090** | **207** |

## 24. FOREIGN EXCHANGE RATE DIFFERENCES

| | Year ended 31 December 2013 | Year ended 31 December 2012 |
|---|---|---|
| Foreign exchange rate losses (gains) arising from: | | |
| – operating activities | 33 | (293) |
| – financing activities (Note 23) | 114 | 124 |
| **Total** | **147** | **(169)** |

**(EUR '000)**

## 25. TAXATION

### 25.1. Income tax

Income tax comprises of the following:

| | Year ended 31 December 2013 | Year ended 31 December 2012 |
|---|---|---|
| Current income tax | 97,698 | 61,002 |
| Special levy | 16,781 | 4,761 |
| Deferred income tax (see Note 25.2) | (27,698) | 1,356 |
| *– current year* | *(7,439)* | *867* |
| *– adjustment of deferred tax due to the change in the tax rate* | *(20,259)* | *489* |
| **Total** | **86,781** | **67,119** |

The reconciliation between the reported income tax expense and the theoretical amount that would arise using the standard tax rates is as follows:

| | Year ended 31 December 2013 | Year ended 31 December 2012 |
|---|---|---|
| Profit before taxation | 406,143 | 333,058 |
| Income tax at 23% (2012: 19 %) and special levy on business in regulated industries | 110,194 | 68,042 |
| Effect of adjustments from permanent differences between accounting and tax value of assets and liabilities | 700 | (314) |
| Other adjustments | 6 | (193) |
| Tax impact due to the change in the tax rate from 23 % to 22% (2012: from 19% to 23%) | (20,259) | 489 |
| Effect of special levy as a tax-deductible item | (3,860) | (905) |
| **Total** | **86,781** | **67,119** |

Adjustments primarily include non-tax deductible costs.

The effective tax rate differs from the tax rate stipulated by law of 23% in 2013 mainly due to the change in the current tax rate valid for the reporting period from 1 January 2014 and due to the special levy.

For the deferred tax calculation the Company applied the income tax rate of 22% that is valid in Slovakia as of 1 January 2014.

In line with Act No. 235/2012 Coll. on a Special Levy on Business in Regulated Industries and on the Amendment to and Supplementation of Certain Acts, the Company is obliged to pay a monthly special levy from September 2012. The levy rate is 0.00363 per month based on the profit before tax and is presented as a part of the current income tax pursuant to the IFRS requirements.

The taxation years from 2008 to 2013 are still open for inspection by the tax authorities.

The Company is of the opinion that part of tax liabilities disclosed in the financial statements as of 31 December 2013 (in explicit tax liability, which arose as a result of the contribution of part of business as of 28 February 2013) is uncertain. However, following a prudence principle, the Company posted the concerned liability. This shall not be read as waiving of rights and claims relating to the liability, nor shall be explained as agreement with the applicability of Act no. 235/2012 on special levy for the transaction of contribution of part of business.

**(EUR '000)**

### 25.2. Deferred Income Tax

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

| | At 1 January 2013 | Charge to equity for the period | (Charge)/credit to profit for the period | At 31 December 2013 |
|---|---|---|---|---|
| Difference in net book value of non-current assets | (4,579) | (472,484) | 27,440 | (449,623) |
| Change in fair value of derivatives | (622) | 584 | - | (38) |
| Employee benefits and other provisions | 1,536 | 1,940 | (746) | 2,730 |
| Provisions for assets | - | | 344 | 344 |
| Provisions for inventories | 232 | - | 652 | 884 |
| Other | 1 | - | 8 | 9 |
| **Total** | **(3,432)** | **(469,960)** | **27,698** | **(445,694)** |

Deferred tax liability from the temporary difference in net book value of non-current assets and deferred tax asset from employee benefits and other provisions was charged to equity as it relates to the contribution of part of the business (see also Note 1.6).

| | At 1 January 2012 | Charge to equity for the period | (Charge)/credit to profit for the period | At 31 December 2012 |
|---|---|---|---|---|
| Difference in net book value of non-current assets | (3,317) | - | (1,262) | (4,579) |
| Change in fair value of derivatives | (1,776) | 1,154 | - | (622) |
| Employee benefits and other provisions | 1,707 | - | (171) | 1,536 |
| Provisions for inventories | 158 | - | 74 | 232 |
| Other | (2) | - | 3 | 1 |
| **Total** | **(3,230)** | **1,154** | **(1,356)** | **(3,432)** |

In accordance with the Company's accounting policy, certain deferred tax assets and liabilities were mutually offset. The following table shows the balances (after offsetting) of deferred tax for the purposes of recognition in the balance sheet:

| | At 31 December 2013 | At 31 December 2012 |
|---|---|---|
| Deferred tax liability | 445,694 | 3,432 |
| **Total** | **445,694** | **3,432** |

Non-current and current part of deferred tax liability:

| | At 31 December 2013 | At 31 December 2012 |
|---|---|---|
| Deferred tax asset expected to be utilized within 12 months | 1,694 | 1,294 |
| Deferred tax asset expected to be utilized later than 12 months | 2,274 | 482 |
| Deferred tax liability expected to be utilized within 12 months | (9,593) | (993) |
| Deferred tax liability expected to be utilized later than 12 months | (440,069) | (4,215) |
| **Deferred tax liability, net** | **(445,694)** | **(3,432)** |

**(EUR '000)**

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

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

| At 31 December 2013 | Before tax | Tax | After tax |
|---|---|---|---|
| Cash flow hedging | (2,529) | 584 | (1,945) |
| **Other comprehensive income for the period** | **(2,529)** | **584** | **(1,945)** |

| At 31 December 2012 | Before tax | Tax | After tax |
|---|---|---|---|
| Cash flow hedging | (6,646) | 1,154 | (5,492) |
| **Other comprehensive income for the period** | **(6,646)** | **1,154** | **(5,492)** |

## 27. CASH FLOWS FROM OPERATING ACTIVITIES

| | Year ended 31 December 2013 | Year ended 31 December 2012 |
|---|---|---|
| Profit before tax | 406,143 | 333,058 |
| Adjustments: | | |
| Depreciation and amortisation | 89,870 | 8,201 |
| Interests, net | (1,899) | (805) |
| Financial investments income | (420) | - |
| FX differences | 13 | 39 |
| Derivatives | (1,448) | (3,458) |
| Provisions, allowances and other non-cash items | 3,232 | (3,090) |
| (Gain)/loss from sale of non-current assets | 11 | (24) |
| Loss from impairment of assets | 1,561 | - |
| (Increase)/decrease in receivables and prepayments | 159,555 | (13,309) |
| (Increase)/decrease in inventories | 2,285 | (3,965) |
| Increase/(decrease) in trade and other liabilities | (14,666) | (5,687) |
| **Cash flows from operating activities** | **644,237** | **310,960** |

## 28. COMMITMENTS AND CONTINGENCIES

### Capital Expenditure Commitments

As at 31 December 2013, capital expenditures of EUR 65,633 thousand (as at 31 December 2012: EUR 18,018 thousand) had been committed under contractual arrangements for the acquisition of non-current assets, but were not recognised in the financial statements.

### Guarantee issued

The Company is a guarantor for bonds issued by the entity under common control - SPP Infrastructure Financing B.V. in the amount of EUR 762,868 thousand as at 31 December 2013 (as at 31 December 2012: EUR nil). The Company has committed to guarantee payment of the bonds by SPP Infrastructure Financing BV and as such is exposed to all the risks thereof resulting.

### Operating Lease Arrangements

The Company operated until 28 February 2013 the international natural gas transmission network under the Contract for Operating Lease with the owner — SPP. As a result of the business contribution of part of the business (see also Note 1.6) the contract was terminated. The lease payments for the year ended 31 December 2013 amounted to EUR 52,708 thousand (31 December 2012: EUR 306,193 thousand).

**(EUR '000)**

The Company leases means of transport under an operating lease agreement. The agreement is made for four years and the Company has no pre-emptive right to purchase the assets after the expiry of the lease term. The lease payments for the year ended 31 December 2013 amounted to EUR 1,905 thousand (31 December 2012: EUR 1,971 thousand).

Non-cancellable operating lease payables amount to:

| **Period** | **2013** | **2012** |
|---|---|---|
| Up to 1 year | 1,111 | 308,163 |
| 1 to 5 years | - | 1,150 |
| More than 5 years | - | - |
| **Total** | **1,111** | **309,313** |

**Taxation**

The Company has significant transactions with shareholders and other related parties. The tax environment in which the Company operates in the Slovak Republic is dependent on the prevailing tax legislation and practice. As the tax authorities are reluctant to provide official interpretations in respect of the tax legislation, there is an inherent risk that the tax authorities may require, for example, transfer pricing or other adjustments of the corporate income tax base. The tax authorities in the Slovak Republic have broad powers of interpretation of tax laws which could result in unexpected results from tax inspections. The amount of any potential tax liabilities related to these risks cannot be estimated.

**(EUR '000)**

## 29. RELATED PARTY TRANSACTIONS

In 2013, the Company entered into the following transactions with related parties:

| | Year ended 31 December 2013 | | | | As at 31 December 2013 | |
|---|---|---|---|---|---|---|
| | **Revenues** | **Expenses** | **Dividends** | **Other** | **Receivables** | **Liabilities** |
| SPP | 39,737 | 53,501 | 265,939 | 6,751 | 94,686 | 10,240 |
| Related parties under control of EPH | 51,158 | 8,823 | - | 6,965 | 973,220 | 755,782 |
| Related parties under influence of NPF | 253 | 2,891 | - | 40 | 63 | 130 |
| Other related parties | 420 | 125 | - | - | 52 | 6 |

| | Year ended 31 December 2012 | | | | As at 31 December 2012 | |
|---|---|---|---|---|---|---|
| | **Revenues** | **Expenses** | **Dividends** | **Other** | **Receivables** | **Liabilities** |
| SPP | 102,522 | 307,995 | 187,059 | 1,017 | 236,744 | 962 |
| Related parties under control of GDF and E.ON | 73,440 | 1,505 | - | 13,149 | 968 | 9,580 |
| Related parties under influence of NPF | 2 | 5,083 | - | - | 10 | 1,246 |
| Other related parties | - | 9 | - | 42 | - | - |

The Company's management considers the transactions with related parties to be transactions made on an arm's length basis.

Transactions with SPP represented distribution of dividends and other transactions related mainly to the lease of transmission assets of EUR 52,708 thousand, (2012: EUR 306,193 thousand) and transmission, purchase and sale of natural gas of EUR 32,365 thousand (2012: EUR 98,765 thousand).

In 2013, SPP made the contribution of a part of the business of EUR 2,429,205 thousand (see also Note 1.6).

Transactions with related parties under control of EPH in 2013 comprise mainly of provided loan (see also Note 9), issued bonds (see also Note 15), services related to transmission, purchases and sale of natural gas, and other services of EUR 35,264 thousand.

The Company provided the guarantee to SPP Infrastructure Financing B.V. in 2013 (see also Note 28).

Transactions with related parties under control of GDF and E.ON in 2012 comprise mainly of services related to the transmission, purchase and sale of natural gas, of EUR 50,212 thousand.

**(EUR '000)**

The Government of the Slovak Republic has a significant influence over the financial and operating policy decisions of the Company through its ownership of 51% of the shares of SPP by the National Property Fund of the Slovak Republic ("NPF") (NPF does not have managerial control). Therefore, the Slovak Government and the companies controlled or jointly controlled by the Government of the Slovak Republic are classified as related parties of the Group ("Government related entities").

Except as disclosed above, the Company had no individually significant transactions with the Government related entities either 2013 or 2012.

The Company applied exemption from disclosure of transactions with Government related entities according to IAS 24, par. 25.

The compensation paid to the members of the Company's bodies and executive management was as follows:

| | **Year ended 31 December 2013** | **Year ended 31 December 2012** |
|---|---|---|
| Total amount of used financial or other remunerations for personal use by the Members of statutory body, supervisory body or other body of the accounting unit, which are accounted for - total | 598 | 711 |
| *of which – Board of Directors and executive management* | *231* | *593* |
| *– Supervisory Board* | *127* | *118* |
| *– Supervisory Committee* | *85* | - |
| *– former members of the Board of Directors and executive management* | *151* | - |
| *– former members of the Supervisory Board* | *5* | - |
| Post-employment benefits to the members of the Board of Directors, Supervisory Board, executive management and former members of the bodies – total | - | - |
| Other long-term benefits to the members of the Board of Directors, Supervisory Board, executive management and former members of the bodies – total | 170 | - |
| *of which – Board of Directors and executive management* | *170* | - |
| Benefits in kind to the members of the Board of Directors, Supervisory Board, executive management and former members of the bodies - total | 15 | 17 |
| *of which – Board of Directors and executive management* | *15* | *17* |
| Other remuneration (including loans, guarantees or other securization) to the 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* | - | - |
| Total amount of used financial or other remunerations for personal use by the Members of statutory body, supervisory body or other body of the accounting unit, which are accounted for together | 14 | 14 |
| *of which – Board of Directors and executive management* | *11* | *9* |
| *– former members of the Board of Directors and executive management* | *3* | *5* |

(EUR '000)

## 30. MEMBERS OF THE COMPANY'S BODIES

| Body | Position | Name |
|---|---|---|
| **Board of Directors** | Chairman | Jean-Luc Rupp – until 23 Jan 2013 |
| | Chairman | Ing. Tomáš Mareček – from 24 Jan 2013 |
| | Vice-Chairman | Ing. Robert Hančák |
| | Member | Gunnar Löwensen – until 23 Jan 2013 |
| | Member | Vladimír Mlynář- from 24 Jan 2013 |
| **Supervisory Board** | Chairman | Ing. Peter Trgiňa, MBA |
| | Vice-Chairman | Thierry Kalfon – until 24 Jan 2013 |
| | Vice-Chairman | JUDr. Daniel Křetínský – from 13 Feb 2013 until 4 Mar 2013 |
| | Vice-Chairman | Ing. Miroslav Bodnár – from 23 Apr 2013 |
| | Member | JUDr. Daniel Křetínský – from 25 Jan 2013 until 12 Feb 2013 |
| | Member | Ing. Miroslav Bodnár – from 5 Mar 2013 until 22 Apr 2013 |
| | Member | RNDr. Otto Halás, PhD |
| | Member | Ing. Viera Peťková, PhD. |
| | Member | Bc. Andrej Lendvay |
| | Member | Viktor Mihalik |
| **Supervisory Committee** | Chairman | Mgr. Hana Krejčí, PhD. – from 13 Mar 2013 |
| | Vice-Chairman | Ing. Ružena Lovasová – from 13 Mar 2013 |
| | Member | Mgr. Hana Krejčí, PhD. – from 4 Mar 2013 until 12 Mar 2013 |
| | Member | Ing. Ružena Lovasová – from 4 Mar 2013 until 12 Mar 2013 |
| | Member | Ing. Miroslav Bodnár – from 4 Mar 2013 |
| | Member | Ing. Roman Karlubík, MBA – from 4 Mar 2013 |
| | Member | Mgr. Jan Stříteský – from 4 Mar 2013 |
| **Executive management** | General Director | Ing. Pavol Janočko – until 26 May 2013 |
| | General Director | Ing. Miloš Pavlík – from 27 May 2013 |

## 31. POST-BALANCE SHEET EVENTS

No events occurred subsequent to 31 December 2013 that would have a material impact on the financial statements of the Company.

| Prepared on: 9 April 2014 | Signature of a member of the statutory body of the reporting entity |
|---|---|
| Ing. Tomáš Mareček<br>Chairman of the Board of Directors | Ing. Robert Hančák<br>Vice-Chairman of the Board of Directors |

**Approved on: 3 June 2014**

**Proposal**
**of profit distribution**
**for the year 2013**

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The proposal of profit distribution for the year 2013 is prepared in line with the Articles of Association of eustream, a.s. Article XXIII - DISTRIBUTION OF PROFIT, Article XXII – CREATION AND USE OF RESERVE FUND, and in line with the provisions of the Commercial Code No. 513/1991 Coll., as amended.

The proposal of the profit distribution for the year 2013 is based on the audited financial statements for the year 2013.

| | | |
|---|---|---|
| **I.** | **Profit after tax** | **319,362,415.52 €** |
| **II.** | **Allocation to the statutory reserve fund**<br>in accordance with the Article XXII of<br>the Articles of Association the reserve fund<br>exceeds 20% of registered capital | **0.00 €** |
| **III.** | **The amount of net profit**<br>**determined as dividends** | **319,362,415.52 €** |
| **IV.** | **The amount of retained earnings**<br>**determined as dividends** | **305,637,584.48 €** |
| **V.** | **The amount total determined as dividends** | **625,000,000.00 €** |

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