

NAFTA a.s.

**INDEPENDENT AUDITOR'S REPORT
AND CONSOLIDATED FINANCIAL
STATEMENTS (PRESENTED IN
ACCORDANCE WITH IFRS AS ADOPTED BY
THE EU)**

Year ended 31 December 2011

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of NAFTA a.s.:

We have audited the accompanying consolidated financial statements of NAFTA a.s. and subsidiaries (the "Company"), which comprise consolidated balance sheet as at 31 December 2011, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Statutory Body's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

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

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

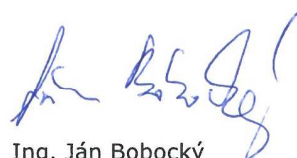
Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of NAFTA a.s. and subsidiaries as of 31 December 2011, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Bratislava 20 January 2012



Deloitte Audit s.r.o.
Licence SKAu No. 014



Ing. Ján Bobocký
Responsible Auditor
Licence UDVA No. 1043

CONSOLIDATED BALANCE SHEETS
as of 31 December 2011 and 31 December 2010
(Thousands of EUR)

	<i>Note</i>	31 December 2011	31 December 2010
ASSETS:			
NON-CURRENT ASSETS:			
Property, plant and equipment	4	988 652	940 457
Intangible and other assets		12 300	804
Investment in joint venture	5	52 643	51 592
Available for sale investments	6	-	-
Total non-current assets		<u>1 053 595</u>	<u>992 853</u>
CURRENT ASSETS:			
Inventories	7	3 868	6 052
Trade and other receivables	8	17 957	20 259
Income tax assets		12	365
Other financial assets		-	17
Cash and cash equivalents		<u>65 231</u>	<u>2 807</u>
Total current assets		<u>87 068</u>	<u>29 500</u>
TOTAL ASSETS		<u>1 140 663</u>	<u>1 022 353</u>
EQUITY AND LIABILITIES:			
EQUITY:			
Registered capital	9	107 235	107 235
Treasury shares, at cost	9	(4 745)	(4 745)
Other capital funds	9	9 673	23 017
Translation reserve		(274)	(197)
Hedging derivatives reserve	9	(1 725)	14
Property revaluation reserve		636 905	614 386
Profit/(loss) from previous years		22 290	(42 385)
Profit/(loss) for the current year		<u>95 881</u>	<u>79 811</u>
Equity attributable to shareholders of NAFTA		<u>865 240</u>	<u>777 136</u>
Minority interests of other owners of subsidiaries	3c	<u>2 120</u>	<u>1 853</u>
Total equity		<u>867 360</u>	<u>778 989</u>
NON-CURRENT LIABILITIES:			
Borrowings	11	12 000	12 000
Provision for abandonment and restoration	10	90 907	74 009
Retirement and other long-term employee benefits	12	1 478	1 389
Deferred tax liabilities	17.3	131 156	126 344
Other non-current liabilities		797	1 140
Deferred income		<u>2 051</u>	<u>2 841</u>
Total non-current liabilities		<u>238 389</u>	<u>217 723</u>
CURRENT LIABILITIES:			
Trade and other payables	13	23 170	20 768
Income tax liabilities		4 205	84
Borrowings	11	-	922
Other financial liabilities		2 130	-
Other current provisions	14	<u>5 409</u>	<u>3 867</u>
Total current liabilities		<u>34 914</u>	<u>25 641</u>
TOTAL LIABILITIES		<u>273 303</u>	<u>243 364</u>
TOTAL EQUITY AND LIABILITIES		<u>1 140 663</u>	<u>1 022 353</u>

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CONSOLIDATED STATEMENTS OF PROFIT AND LOSS
for the year ended 31 December 2011 and 31 December 2010
(Thousands of EUR)

	<i>Note</i>	<i>Year ended 31 December 2011</i>	<i>Year ended 31 December 2010</i>
REVENUES:			
Natural gas storage revenues and hydrocarbon sales	20.1	175 677	160 948
Geological works		3 892	3 295
Other revenues		5 102	4 153
Total revenues		<u>184 671</u>	<u>168 396</u>
OPERATING EXPENSES:			
Own work capitalized		6 577	19 353
Consumables and services		(23 403)	(32 805)
Labour and related costs	15	(21 126)	(20 760)
Depreciation and amortization		(36 001)	(44 301)
Other operating income/(expenses), net	16.1	333	5 443
Total operating income/(expenses), net		<u>(73 620)</u>	<u>(73 070)</u>
FINANCIAL INCOME/(EXPENSES):			
Interest income		257	56
Interest expense		(2 950)	(2 905)
Income from joint venture	5	5 049	5 147
Other financial income/(expenses), net	16.2	(29)	(410)
Total financial income/(expenses), net		<u>2 327</u>	<u>1 888</u>
PROFIT BEFORE INCOME TAXES		<u>113 378</u>	<u>97 214</u>
INCOME TAXES	17	(16 843)	(17 051)
NET PROFIT		<u>96 535</u>	<u>80 163</u>
Attributable to:			
Shareholders of NAFTA		95 881	79 811
Minority interests of other owners of subsidiaries	3c	654	352
NET PROFIT		<u>96 535</u>	<u>80 163</u>
EARNINGS PER SHARE (in EUR)	18	29.68	24.70

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**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
AND INCOME TAX NOTE RELATED TO OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2011 and 31 December 2010
(Thousands of EUR)**

	<i>Note</i>	<i>Year ended 31 December 2011</i>	<i>Year ended 31 December 2010</i>
PROFIT FOR THE YEAR AFTER INCOME TAXES		96 535	80 163
OTHER COMPREHENSIVE INCOME			
Effect of subsidiaries' foreign currency translations		(152)	173
Hedging derivatives		(2 147)	399
Revaluation increase/(decrease) of other property, plant and equipment	4	51 675	(5 288)
Share on other comprehensive income of joint venture	5	2 488	(11 209)
Other comprehensive income for the year before income taxes		51 864	(15 925)
Tax related to items of other comprehensive income		(9 886)	3 059
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		138 513	67 297
Total comprehensive income for the year attributable to:			
Equity shareholders of NAFTA		137 934	66 860
Minority interests of other owners of subsidiaries		579	437
		138 513	67 297

	<i>Year ended 31 December 2011</i>			<i>Year ended 31 December 2010</i>		
	<i>Before taxation</i>	<i>Tax</i>	<i>After taxation</i>	<i>Before taxation</i>	<i>Tax</i>	<i>After taxation</i>
Effect of subsidiaries' foreign currency translation	(152)	-	(152)	173	-	173
Hedging derivatives	(2 147)	408	(1 739)	399	(76)	323
Revaluation increase/(decrease) of property, plant and equipment	51 675	(9 821)	41 854	(5 288)	1 005	(4 283)
Share on other comprehensive income of joint venture	2 488	(473)	2 015	(11 209)	2 130	(9 079)
Total other comprehensive income/(loss) for the year	51 864	(9 886)	41 978	(15 925)	3 059	(12 866)

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CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
for the year ended 31 December 2011 and 31 December 2010
(Thousands of EUR)

	<i>Registered capital</i>	<i>Treasury shares, at cost</i>	<i>Other capital funds</i>	<i>Translation reserve</i>	<i>Property revaluation reserve</i>	<i>Hedging derivatives reserve</i>	<i>Profit/(loss) from previous years</i>	<i>Profit/(loss) for the current year</i>	<i>Attributable to shareholders of NAFTA</i>	<i>Minority interests</i>	<i>Total</i>
At 1 January 2010	107 235	(4 745)	23 017	(285)	642 581	(309)	(60 865)	75 263	781 892	1 620	783 512
Transfer of profit/(loss) for the current year	-	-	-	-	-	-	75 263	(75 263)	-	-	-
Dividends	-	-	-	-	-	-	(71 616)	-	(71 616)	(204)	(71 820)
Net profit for the year	-	-	-	-	-	-	-	79 811	79 811	352	80 163
Transfer of the revaluation reserve (net of deferred income tax); (Note 4)	-	-	-	-	(14 833)	-	14 833	-	-	-	-
Other comprehensive income/(loss) for the year	-	-	-	88	(13 362)	323	-	-	(12 951)	85	(12 866)
At 31 December 2010	107 235	(4 745)	23 017	(197)	614 386	14	(42 385)	79 811	777 136	1 853	778 989
Transfer of profit/(loss) for the current year	-	-	8 119	-	-	-	71 692	(79 811)	-	-	-
Transfer between funds	-	-	(21 463)	-	-	-	21 463	-	-	-	-
Dividends	-	-	-	-	-	-	(49 830)	-	(49 830)	(312)	(50 142)
Net profit for the year	-	-	-	-	-	-	-	95 881	95 881	654	96 535
Transfer of the revaluation reserve (net of deferred income tax); (Note 4)	-	-	-	-	(21 350)	-	21 350	-	-	-	-
Other comprehensive income/(loss) for the year	-	-	-	(77)	43 869	(1 739)	-	-	42 053	(75)	41 978
At 31 December 2011	107 235	(4 745)	9 673	(274)	636 905	(1 725)	22 290	95 881	865 240	2 120	867 360

CONSOLIDATED STATEMENTS OF CASH FLOWS
for the year ended 31 December 2011 and 31 December 2010
(Thousands of EUR)

	<i>Year ended 31 December 2011</i>	<i>Year ended 31 December 2010</i>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit before income taxes and minority interests	113 378	97 214
Adjustments to reconcile profit before income taxes to net cash provided by operating activities:		
Depreciation and amortization	36 001	44 301
Interest expense, net	2 693	2 849
Unrealized exchange rate differences	70	(173)
Impairment and provisions	(2 098)	(8 775)
(Profit)/loss on sale of non-current assets	(1 872)	(250)
Income from joint venture	(5 049)	(5 147)
Retirement and other long-term employee benefits	165	222
Other non-cash items	(27)	(177)
Changes in assets and liabilities:		
Inventories	758	(220)
Trade and other receivables	(6 291)	(6 911)
Trade and other payables	7 358	(621)
Abandonment and restoration	(705)	(883)
Employee benefits	(76)	(130)
Other assets and liabilities	(344)	766
Operating cash flows, net	<u>143 961</u>	<u>122 065</u>
Interest received	229	56
Interest paid	(230)	(218)
Income tax	(15 828)	(23 521)
Net cash flows from operating activities	<u>128 132</u>	<u>98 382</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to tangible and intangible non-current assets	(29 459)	(62 706)
Proceeds from sale of non-current assets	8 868	357
Income received from joint venture	4 884	5 532
Net cash flows from investing activities	<u>(15 707)</u>	<u>(56 817)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in borrowings	(922)	707
Grants received	1 212	-
Dividends paid	(49 897)	(71 808)
Dividends paid to minority interests	(312)	-
Net cash flows from financing activities	<u>(49 919)</u>	<u>(71 101)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	<u>62 506</u>	<u>(29 536)</u>
NET CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2 807	32 208
EXCHANGE RATE DIFFERENCES ON CASH AND CASH EQUIVALENTS	(82)	135
NET CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>65 231</u>	<u>2 807</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2011
(Thousands of EUR)

1. GENERAL

1.1. Description of Business

NAFTA a.s. (hereinafter "NAFTA" or the "Company") is a joint stock company based in the Slovak Republic. The registered office of the Company is in Bratislava at Votrubova 1. The Company was established on 1 March 2006 and registered in the Commercial Registry of the Slovak Republic on 16 March 2006.

NAFTA, as described in Note 3d below (NAFTA Group), is involved in the underground storage of natural gas, hydrocarbon exploration and production, and geological works. Underground storage of natural gas is the primary source of revenue. The storage services are offered under transparent and non discriminatory principles. NAFTA provides storage services mainly in the form of seasonal flexibility (injecting natural gas into underground storage structures during the summer, which is consumed during the winter) and supports security of supply. NAFTA stores gas for its clients Slovenský plynárenský priemysel a. s. (hereinafter "SPP"), RWE Transgas, a. s., GDF SUEZ s. a., VNG-Verbundnetz Gas AG, Morgan Stanley Capital Group Inc. and other companies.

As of 31 December 2011, the Company's shares were held by SPP (56.2 %, EUR 60 217 thousand), E.ON Ruhrgas International AG (40.4 %, EUR 43 375 thousand), other minority shareholders (1.9 %, EUR 2 050 thousand), and NAFTA (treasury shares 1.5 %, EUR 1 593 thousand). The share of voting rights of the aforementioned shareholders equalled their shares in the registered capital of NAFTA.

1.2. Legal Basis for Preparing the Financial Statements

These consolidated financial statements have been prepared as the ordinary consolidated financial statements pursuant to Article 17 Paragraph 6 of Act No. 431/2002 Coll. on Accounting, as amended.

1.3. Comparatives

Some comparative information for prior period has been reclassified to conform to the current year presentation.

2. 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 2011. The following amendments to the existing standards issued by the International Accounting Standards Board and adopted by the EU are effective for the current accounting period:

- **Amendments to IAS 24 "Related Party Disclosures"** - Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party, adopted by the EU on 19 July 2010 (effective for accounting periods beginning on or after 1 January 2011),
- **Amendments to IAS 32 "Financial Instruments: Presentation"** - Accounting for rights issues, adopted by the EU on 23 December 2009 (effective for accounting periods beginning on or after 1 February 2010),
- **Amendments to IFRS 1 "First-time Adoption of IFRS"**- Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters, adopted by the EU on 30 June 2010 (effective for accounting periods beginning on or after 1 July 2010),
- **Amendments to various standards and interpretations "Improvements to IFRSs (2010)"** resulting from the annual improvement project of IFRS published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 18 February 2011 (amendments are to be applied for accounting periods beginning on or after 1 July 2010 or 1 January 2011 depending on standard/interpretation),
- **Amendments to IFRIC 14 "IAS 19 - The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction"** - Prepayments of a Minimum Funding Requirement, adopted by the EU on 19 July 2010 (effective for accounting periods beginning on or after 1 January 2011),
- **IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"**, adopted by the EU on 23 July 2010 (effective for accounting periods beginning on or after 1 July 2010).

The adoption of these amendments to the existing standards has not led to any changes in the Company's accounting policies.

At the date of authorisation of these financial statements the following standards, revisions, and interpretations adopted by the EU were in issue but not yet effective:

- **Amendments to IFRS 7 "Financial Instruments: Disclosures"** - Transfers of Financial Assets, adopted by the EU on 22 November 2011 (effective for accounting periods beginning on or after 1 July 2011).

The Company has elected not to adopt these standards, revisions, and interpretations in advance of their effective dates.

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

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following standards, amendments to the existing standards and interpretations, which were not endorsed for use as of 31 December 2011:

- **IFRS 9 "Financial Instruments"** (effective for accounting periods beginning on or after 1 January 2013),
- **IFRS 10 "Consolidated Financial Statements"** (effective for accounting periods beginning on or after 1 January 2013),
- **IFRS 11 "Joint Arrangements"** (effective for accounting periods beginning on or after 1 January 2013),

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- **IFRS 12 "Disclosures of Involvement with Other Entities"** (effective for accounting periods beginning on or after 1 January 2013),
- **IFRS 13 "Fair Value Measurement"** (effective for accounting periods beginning on or after 1 January 2013),
- **IAS 27 (revised in 2011) "Separate Financial Statements"** (effective for accounting periods beginning on or after 1 January 2013),
- **IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures"** (effective for accounting periods beginning on or after 1 January 2013),
- **Amendments to IFRS 1 "First-time Adoption of IFRS"** - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for accounting periods beginning on or after 1 July 2011),
- **Amendments to IAS 1 "Presentation of financial statements"** - Presentation of Items of Other Comprehensive Income (effective for accounting periods beginning on or after 1 July 2012),
- **Amendments to IAS 12 "Income Taxes"** - Deferred Tax: Recovery of Underlying Assets (effective for accounting periods beginning on or after 1 January 2012),
- **Amendments to IAS 19 "Employee Benefits"** - Improvements to the Accounting for Post-employment Benefits (effective for accounting periods beginning on or after 1 January 2013),
- **IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine"** (effective for accounting periods beginning on or after 1 January 2013).

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

At the same time, hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated. Based on the Company's estimates, application of hedge accounting for the portfolio of financial assets or liabilities pursuant to IAS 39: "Financial Instruments: Recognition and Measurement" would not significantly impact the financial statements, if applied as at the balance sheet date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Accounting

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted for use in the European Union. IFRS as adopted for use in the EU do not currently differ from IFRS as issued by the International Accounting Standards Board (IASB), except for portfolio hedge accounting under IAS 39, which has not been approved by the EU. The Company has determined that portfolio hedge accounting under IAS 39 would not impact the consolidated financial statements had it been approved by the EU at the balance sheet date.

The financial statements have been prepared on the historical cost basis, except for the revaluation of items of property, plant and equipment, and certain financial instruments. The principal accounting policies adopted are set out below.

b. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the process of applying the Company's accounting policies, which are described in Note 3, the Company has made the following judgements and key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year or that have the significant effect on the amounts recognized in the financial statements.

Financial Crisis and Economic Recession

The management of NAFTA is monitoring the impact of the financial crisis and the economic recession on the Company's business activities. The management of NAFTA believes that the financial crisis and recession will have no significant impact on the Company's business activities due to the nature of the Company's business activities, long-term contracts made with customers, and limited level of risk associated with the use of external sources of financing.

Energy legislation related to natural gas storage and price regulation

Primary energy legislation in gas industry is represented by Act No. 656/2004 Coll. on Energy and relating amendments and Act No. 276/2001 Coll. on Regulation in Network Industries and relating amendments. Among other obligations, the Company is required to provide non-discriminatory access to underground gas storage facilities and use of natural gas storage services. Based on updated laws the price for access to storage facilities and storage is subject to price regulation by the Regulatory Office for Network Industries (RONI) and shall apply generally to the period which starts 1 May of a calendar year and ends on 30 April of the following year, thus from 1 May 2011 for this year. Price regulation is exercised by determination of maximum prices based on a benchmark analysis of prices for access to the storage facilities and gas storage in other member countries of the European Union.

In 2009, the European Union approved the so-called 3rd Energy Package that presents, *inter alia*, Directive 2009/73/EC concerning common rules for the internal market on natural gas. The Directive's provisions can have an impact on the Company's operations in the future the extent of which will be known after the transposition in the Slovak legislation.

Revaluation of Property, Plant and Equipment

Property, plant, and equipment are recognized in revalued amounts in accordance with the revaluation accounting model pursuant to IAS 16 applied for the first time to the Company's core assets used for the underground storage of natural gas as of 31 December 2005, and for other assets as of 30 June 2006. As of 31 December 2011, the Company came to the conclusion that revalued amounts of property, plant, and equipment need to be updated, and the Company performed a new revaluation as disclosed in Notes 3f and 4.

The revaluation of assets at the Company was performed by independent appraisers using the depreciated replacement cost approach. The gas storage assets of a joint venture (recorded under the equity method of accounting) were revalued on the basis of the Company's estimates under the discounted cash flow method. The revaluation of assets has resulted in a surplus in the value of the assets and a corresponding increase in equity, and also in changes in the estimated residual useful life of such assets. The estimates used in the revaluation model are based upon an expert independent valuation report. The resulting reported amounts for these assets and the related revaluation reserve do not necessarily represent values at which these assets could or would be sold.

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There are uncertainties about future business conditions, changes in technology and the competitive environment within the industry that could require future adjustments to estimated revalued amounts and assets' lives, which could potentially result in material changes in reported financial position, equity and profit. Refer to Note 4 for further details.

Fair value of property, plant, and equipment could be significantly affected by a change in natural gas prices.

Litigations

The Company is involved in various legal proceedings for which management has assessed the probability of loss that may result in a cash outflow. In making this assessment, the Company has relied on the advice of external legal counsel, the latest available information on the status of the court proceedings, and an internal evaluation of the likely outcome. Details of the individual legal cases are included in Note 21.2 and 21.3.

Impairment of Property, Plant and Equipment

The Company has calculated and recorded significant amounts for impairment of property, plant, and equipment on the basis of an evaluation of their future use, planned liquidation, or sale. For some of these items, no final decision has yet been made and therefore the assumptions on use, liquidation, or sale of assets may change. Refer to Note 4 for details on impairment of property, plant, and equipment.

Provision for Abandonment and Restoration

The consolidated financial statements include significant amounts as a provision for abandonment and restoration of production and storage wells and centres. The provision is based on estimates of the future costs and is also significantly impacted by the estimate of the timing of cash flows and the Company's estimate of the discount rate used. The provision takes into account costs estimated for the abandonment of production and storage wells and centres and for the restoration of sites to their original condition based on previous experience and estimates of costs. In 2008, the Company prepared a detailed estimate of the abandonment and restoration which is yearly updated. Refer to Note 10 for further details.

Unaudited Subsidiaries and Associate Undertakings

Certain subsidiaries and associate undertakings included in these consolidated financial statements were not audited. Additionally, the financial statements of these subsidiaries and associate undertakings did not reflect the revaluation model for property, plant, and equipment under the Group's accounting policies. Unaudited subsidiaries represent less than 3% of the total consolidated assets, liabilities, income and expenses. Investments in the unaudited associates are accounted for using the cost method, and the share of NAFTA in the equity of these entities represents less than 1% of its total assets.

c. Basis of Consolidation

NAFTA consolidates the financial statements of all significant subsidiaries.

Those business undertakings in which NAFTA, directly or indirectly, has an interest of usually more than one-half of the voting rights or otherwise has the power to exercise control over the operations, are defined as subsidiary undertakings ("subsidiaries") and have been consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to NAFTA and are no longer consolidated from the date when such control ceases.

All transactions, balances, and unrealised surpluses and deficits on transactions within the NAFTA Group have been eliminated upon consolidation.

Minority interests of other investors in the net assets of consolidated subsidiaries are identified as a separate item in the equity in accordance with IFRS 3. Minority interests represent the other investors' proportionate share of the fair value at the acquisition date of the assets and liabilities of the relevant subsidiary, amended for the minority's share of subsequent profits and losses. Losses arising on minority interest exceeding the amount of the minority interest in the equity of the subsidiary are incorporated in NAFTA's equity.

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for the year ended 31 December 2011
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d. Subsidiaries and Business Combinations

The acquisition of subsidiaries is accounted for using the purchase method.

Goodwill arising on consolidation is recognized as an asset and represents the positive difference between acquisition cost of a business combination and the share of the NAFTA Group's interest in the net realizable value of the identifiable assets, liabilities, and contingent liabilities recognized. The negative difference between the acquisition cost of a business combination and the share of the NAFTA Group's interest in the net realizable value of the identifiable assets, liabilities, and contingent liabilities is recognized immediately in the profit and loss.

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

The following subsidiaries have been consolidated:

Name of Company	Seat	Description of business	Ownership interest	Ownership status
1. Karotáže a cementace, s. r. o. ⁽¹⁾	Velkomoravská 2606/83, Hodonín, Czech Republic	Logging and cementation	51%	Subsidiary
2. Naftárska leasingová spoločnosť a.s. ⁽¹⁾	Plavecký Štvrtok 900, Slovak Republic	Finance leasing	100%	Subsidiary
3. Nafta Exploration s.r.o. ⁽¹⁾	Plavecký Štvrtok 900, Slovak Republic	Exploration	100%	Subsidiary

⁽¹⁾ Unaudited subsidiary for the year ended 31 December 2011 and the year ended 31 December 2010 represents approximately less than 1% of total consolidated assets, liabilities, and shareholders' equity.

Certain subsidiaries have not been consolidated but have been accounted for under the cost method as full consolidation would have an immaterial effect on the consolidated financial statements, or these subsidiaries are in liquidation.

e. Investments in Associated Undertakings and Joint Ventures

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

Associated undertakings are such entities over which NAFTA has between 20% and 50% of the voting rights, and over which NAFTA has the power to exercise significant influence, but which it does not control. Joint ventures are entities in which NAFTA has jointly controlled interest. Provisions are recorded for long-term impairment in value.

The equity method of accounting involves recognizing in the statement of profit and loss NAFTA Group's share of its associates' and joint venture's profit or loss and the tax charge for the year. The interest of NAFTA Group in associated undertakings and joint ventures is carried in the balance sheet at an amount that reflects its share of the net assets of the associates and joint ventures and includes goodwill on acquisition.

The following joint venture has been recorded using the equity method:

Name of Company	Seat	Description of business	Ownership interest	Ownership status
POZAGAS a. s.	Malé námestie 1, Malacky, Slovak Republic	Natural gas storage	35%	Joint-venture

f. Property, Plant and Equipment and Intangible Assets

As of 31 December 2011, property, plant, and equipment are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The first revaluation was recorded as of 31 December 2005 for natural gas storage assets and as of 30 June 2006 for remaining assets. Revaluation was performed by independent valuation experts. Revalued amounts may differ from market value of a complete or partial sale of assets and the difference could be material. Revaluations are performed with the sufficient regularity (at least every five years) such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date. As at the balance sheet date, the Company assesses whether revalued amounts recognized in accounting books correspond to their fair values. As of 31 December 2011, based on such an assessment, the Company performed an update of revaluation of property, plant and equipment.

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For wells and sites, the estimated cost of dismantling and removing the asset and restoring the site ("dismantling asset") are recorded at fair value based on discounted future cash flows. Dismantling assets related to production wells are depreciated over the life of the proved producible reserves on a unit-of-production basis.

Any revaluation increase arising on the revaluation of the individual items of property, plant, and equipment is credited to the properties revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized in the income statement, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in the carrying amount arising on the revaluation of such property, plant, and equipment is charged to the income statement to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset. Depreciation on revalued property, plant, and equipment is charged to the income statement. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Production wells and related centres are depreciated over the life of the proved producible reserves on a unit-of-production basis. Other items of property, plant, and equipment are depreciated on the straight-line basis over estimated useful lives.

The estimated useful lives for the major classifications of property, plant, and equipment and intangible non-current assets are as follows:

	<i>Year ended</i>	
	31 December 2011	31 December 2010
Buildings, halls and structures used in natural gas storage	40 – 80 years	40 – 80 years
Cushion gas	1 000 years	1 000 years
Other buildings, halls and structures	25 – 40 years	25 – 40 years
Machines and equipment used in natural gas storage	4 – 40 years	4 – 40 years
Other machines, equipment and vehicles	4 – 30 years	4 – 30 years
Intangible assets	3 years	3 years

Expenditures related to hydrocarbon reserves exploration are accounted for in accordance with the successful efforts method. Under this method, exploration expenditures (exploration wells) are capitalized under assets in the course of construction when incurred and certain expenditures, such as geological and geophysical exploration costs, are expensed. A review is carried out at least annually, on a field-by-field basis, to ascertain whether proven reserves have been confirmed. When proven reserves are determined and production commenced, the relevant expenditures are transferred from assets in the course of construction to the relevant category of property, plant, and equipment. Expenditures related to efforts deemed to be unsuccessful are provided for.

Gains and losses on the disposal of property, plant, and equipment are fully recognized in the statement of profit and loss.

Subsequent expenditures relating to an item of property, plant, and equipment are added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the original assessed standard of performance of the existing asset, will flow to the Company. All other subsequent expenditures are treated as repairs and maintenance and are expensed in the period in which they are incurred.

In accordance with the requirements of IAS 36, at each balance sheet date an assessment is made as to whether there is any indication that the recoverable amount of the Company's property, plant, and equipment is less than the carrying amount. When there is such an indication, the recoverable amount of the asset, being the higher of the asset's net selling price and the present value of its net cash flows, is estimated. Any resulting estimated impairment loss is recognized in full in the statement of profit and loss or as decrease in revaluation reserve in the equity in the year in which the impairment occurs. The discount rates used to calculate the net present value of the cash flows are those considered appropriate to the Company in the economic environment in the Slovak Republic at each balance sheet date. In the event that a decision is made to abandon a construction project in progress or to significantly postpone its planned completion date, the carrying value of the asset is reviewed for potential impairment, and a provision is recorded, if appropriate.

Intangible assets include connection fee to transmission system related to the project Gajary – Baden.

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g. Cushion Gas

Cushion gas represents gas needed to run the underground reservoirs of natural gas. Its production would affect the ability of the underground reservoirs to serve. Cushion gas is disclosed as part of the value of the assets used for underground storage of natural gas.

h. Financial Assets

Investments are recognized and derecognized on the transaction date when the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value less direct transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: 'held-to-maturity' investments, financial assets 'at fair value through profit or loss' (FVTPL), 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of using the financial assets and is determined at the time of initial recognition.

As at the dates of the preparation of the financial statements, held-to-maturity' investments (debt securities NAFTA Group intends to hold up to their maturity) are recorded at amortised cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

Investments other than held-to-maturity debt securities are classified either as financial assets "at fair value through profit or loss" (investments held for trading) or as investments available for sale, which are measured as at the dates of the preparation of the following financial statements at fair value based on quoted market prices at the balance sheet date. Where securities are held for trading purposes, unrealised gains and losses are included in the statement of profit and loss. For available for sale investments, unrealised gains and losses are recognized directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognized is included in the statement of profit and loss. If the fair value of investments available for sale cannot be determined reliably (e.g. investments in unlisted companies), such investments are measured at cost less impairment losses.

Trade receivables, loans, and other receivables that have fixed or variable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

i. Cash and Cash Equivalents

Cash and cash equivalents consist of cash in hand and the balances with banks, and highly liquid investments with insignificant risk of changes in value and original maturities of three months or less at the date of acquisition.

j. Inventories

Materials and supplies are stated at the lower of cost or net realizable value. Cost includes raw materials, other direct costs and related overheads. Net realizable value is an estimate of the selling price in the ordinary course of business, less selling expenses.

k. Accruals

Expenses and liabilities are recorded in the accounting records and reported in the financial statements of the periods to which they relate.

l. Financial Liabilities

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

A financial liability is classified as 'held for trading':

- If it has been incurred principally for the purpose of repurchasing in the near future; or
- If it is a part of an identified portfolio of financial instruments that the Company manages and has a pattern of a short-term profit-taking portfolio; or
- If it is a derivative that is not designated and effective as a hedging instrument.

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Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognized on an effective yield basis, except for short-term liabilities when the recognition of interest would be immaterial.

m. Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

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

Changes in the provisions for dismantling and site restoration that relate to assets carried under the revaluation model under IAS 16, except for the unwinding of the discount, alter the related revaluation surplus or deficit in accordance with IFRIC 1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities". Such a change in the liability also results in a reassessment of the dismantling asset previously recognized to ensure the asset is presented at fair value at the balance sheet date.

n. Revenue Recognition

NAFTA records revenue from underground storage of natural gas, hydrocarbon sales and other activities on the accrual basis. Revenue is measured at the fair value of the consideration received or receivables and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and value added tax.

o. Income Taxes

Income taxes are provided on accounting profit as determined under the applicable legislation at a rate of 19%, after adjustments for certain items for taxation purposes. Taxation for other jurisdictions is calculated at rates prevailing in the respective jurisdictions.

p. Deferred Income Taxes

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax is charged or credited to the statement of profit and loss, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also recorded in equity. The valid income tax rate for 2011 is 19% (2010: 19%).

The most significant temporary differences arise as a result of differences between net tax value and the net book value of property, plant, and equipment (including revaluation) and due to the provision for abandonment and restoration costs. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised.

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

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q. Transactions in Foreign Currencies

Transactions in foreign currencies are translated at the exchange rate in effect on the day of the transaction. Resulting exchange differences are recognized as an expense or as income in the statement of profit and loss. At the balance sheet date, assets and liabilities denominated in foreign currencies are converted to EUR using the exchange rates of the ECB on the balance sheet date. Unrealized gains and losses due to fluctuations in exchange rates are fully recognized in the profit and loss statement.

On consolidation, the assets and liabilities of the Company's foreign subsidiaries are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Company's exchange differences reserve. Such exchange differences are recognised as income or as expenses in the period in which the subsidiary is disposed of.

r. Borrowing Costs

Revised standard IAS 23 requires borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. However, borrowing costs incurred during the acquisition, construction, or production of assets measured at fair values, are included directly in the profit or loss when they are incurred. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

s. Financial Instruments

Financial assets and liabilities are recognized on the NAFTA Group's balance sheet when the NAFTA Group became a party to the contractual provisions of the instrument.

t. Derivative Financial Instruments

Derivative financial instruments are initially recorded at cost and are re-measured to fair value at subsequent reporting dates.

Changes in the fair value of derivative financial instruments that are designated and effective as cash flow hedges are recognized directly in equity. At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in cash flows of the hedged item. Amounts deferred in equity are recognized in the statement of profit and loss in the same period in which the hedged firm commitment or forecasted transaction affects net profit or loss.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in the statement of profit and loss as they arise.

u. Social Security and Pension Schemes

Contributions are made to the government's health, retirement benefit and unemployment schemes at the statutory rates in force during the year, based on gross salary payments. The cost of social security payments is charged to the statement of profit and loss in the same period as the related salary cost. The Company has no obligation to contribute to these schemes beyond the statutory rates in force. The Company also makes contributions to a supplementary pension fund for employees.

v. Retirement and Other Long-term Employee Benefits

The Company operates un-funded long-term defined benefit programs comprising lump-sum post-employment. According to IAS 19, the employee benefits costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the statement of profit and loss so as to spread the regular cost over the service lives of employees. The benefit obligation is measured as the present value of the estimated future cash outflows discounted by the market yields on government bonds, which have terms to maturity approximating the terms of the related liability.

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w. Finance Lease

Assets acquired under finance lease are recognized as assets at their fair value as at the acquisition date. The related payable to the lessor is recognized as obligations under finance leases in the balance sheet. Financial expenses representing the difference between total obligations under finance leases and fair value of acquired assets are recognized in the statement of profit and loss over the lease term using the internal rate of return.

x. Emission Rights

Emission quotas issued free of charge are accounted at zero book value. Transactions that have been made on market are recorded at cost. The liabilities resulting from potential differences between available emission quotas and emission quotas to be delivered are accounted for as a liability, at fair market value.

y. Government and European Union Grants

Grants are not recognized until there is reasonable assurance that (i) the Company will comply with the conditions associated with receiving the grants, and (ii) the grants will be received.

Grants are recognized in the income statement on a systematic basis over the periods in which the Company has recognized costs that are intended to be compensated by the grants. Specifically, government grants whose primary condition is that the Company should purchase, construct, or otherwise acquire non-current assets are recognized as deferred revenue in the balance sheet and accounted in the profit or loss on a systematic and rational basis over the economic useful lives of the related assets.

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4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are comprised of the following:

<i>Year ended 31 December 2010</i>	<i>Land, buildings & structures</i>	<i>Plant, machinery & equipment</i>	<i>Dismantling assets</i>	<i>Natural gas storage assets</i>	<i>Assets in course of construction</i>	<i>Total</i>
Net Book Value as at 1 January 2010	25 790	9 886	2 972	839 149	24 623	902 420
Additions	-	-	-	-	78 672	78 672
Transfers	4 193	3 063	-	1 309	(8 565)	-
Disposals	-	(108)	-	(18)	(27)	(153)
Depreciation	(3 414)	(3 108)	(548)	(19 649)	-	(26 719)
Exchange rate differences	57	24	-	-	5	86
Change in provision recorded to assets	-	-	693	6 820	-	7 513
(Additions)/Release of provision through profit or loss	(5 365)	(646)	-	(806)	(9 257)	(16 074)
(Additions)/Release of provision through revaluation reserve	(3 139)	(235)	-	(1 914)	-	(5 288)
Net Book Value as at 31 December 2010	18 122	8 876	3 117	824 891	85 451	940 457
Amount at revaluation as at 31 December 2010	39 472	12 766	34 590	847 242	119 699	1 053 769
Accumulated depreciation and provisions as at 31 December 2010	(21 350)	(3 890)	(31 473)	(22 351)	(34 248)	(113 312)
Net Book Value as at 31 December 2010	18 122	8 876	3 117	824 891	85 451	940 457
Net Book Value using historical costs as at 31 December 2010	16 394	7 687	3 117	116 814	85 451	229 463

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<i>Year ended 31 December 2011</i>	<i>Land, buildings & structures</i>	<i>Plant, machinery & equipment</i>	<i>Dismantling assets</i>	<i>Natural gas storage assets</i>	<i>Assets in course of construction</i>	<i>Total</i>
Net Book Value as at 1 January 2011	18 122	8 876	3 117	824 891	85 451	940 457
Additions	-	-	-	-	24 409	24 409
Transfers	333	1 760	-	14 060	(16 153)	-
Disposals	(6)	(32)	-	(7 011)	-	(7 049)
Depreciation	(2 815)	(2 133)	(1 141)	(23 582)	-	(29 671)
Exchange rate differences	(24)	(11)	-	-	1	(34)
Change in provision recorded to assets	-	-	561	14 234	-	14 795
Change in revaluation recorded to revaluation reserve	1 106	1 381	-	51 209	-	53 696
Change in revaluation recorded to profit and loss	(533)	144	-	(46)	-	(435)
(Additions)/Release of provision through profit or loss	(57)	98	-	(363)	(5 173)	(5 495)
(Additions)/Release of provision through revaluation reserve	432	-	-	(2 453)	-	(2 021)
Net Book Value as at 31 December 2011	16 558	10 083	2 537	870 939	88 535	988 652
Amount at revaluation as at 31 December 2011	16 558	10 083	35 151	870 939	121 554	1 054 285
Accumulated depreciation and provisions as at 31 December 2011	-	-	(32 614)	-	(33 019)	(65 633)
Net Book Value as at 31 December 2011	16 558	10 083	2 537	870 939	88 535	988 652
Net Book Value using historical costs as at 31 December 2011	13 811	7 739	2 537	138 051	88 535	250 673

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Property, plant, and equipment are recognized at revalued amounts. As at 31 December 2011, property, plant, and equipment used in the storage of natural gas as well as other non-current tangible assets were revalued based on the observed asset conditions and asset replacement costs as at 31 August 2011 by Arthur D. Little, independent valuers, by reference to market evidence of recent transactions for similar properties and replacement cost estimation methodologies. Replacement cost estimates are based on estimated costs of building Modern Equivalent Assets (MEA) and estimating the residual asset value from the MEA cost, useful life and age of existing assets and depletion ratio (Depreciated Replacement Cost methodology). In certain instances the amounts recognized as a result of the revaluation are adjusted based on the results of profitability tests using the discounted cash flow method.

Property, plant, and equipment used in the storage of natural gas include land, buildings and structures, plant, machinery and equipment, cushion gas, and dismantling assets.

As at 31 December 2011 and 31 December 2010, the Company has reassessed the impairment of property, plant and equipment in accordance with IAS 36 "Impairment of Assets" on the basis of an evaluation of their future use, liquidation, or sale. The Company has determined the amount of the provision on the basis of expert valuations, liquidation plan, estimated sale price or the estimated sale price of different assets.

Assets in the course of construction include:

	<i>Cost</i>	<i>Provision</i>	<i>31 December 2011 Net</i>	<i>31 December 2010 Net</i>
Exploration wells	26 473	(26 473)	-	-
Facilities with suspended completion	5 962	(5 707)	255	261
Other	89 119	(839)	88 280	85 190
Total	121 554	(33 019)	88 535	85 451

NAFTA recorded a provision in respect of exploration wells, the success of which was uncertain or which were impaired, and also in respect of related facilities, the construction of which was suspended. In 2011, the Company capitalised EUR 4 895 thousand referring to cost of hydrocarbon reserves exploration (31 December 2010: EUR 11 781 thousand).

Other assets in the course of construction primarily relate to the extension of Gajary - Baden gas storage facility and construction and modernisation of non-current assets related to the underground storage facility of natural gas. Put in use of this investment is expected during 2012.

NAFTA's non-current tangible assets are insured against all risks through the "ALLRISK" insurance policy. The insured amount is EUR 757 464 thousand.

As at 31 December 2011, NAFTA had no limited right to handle non-current tangible assets (31 December 2010: EUR 1 238 thousand).

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5. INVESTMENT IN JOINT VENTURE

	31 December 2011	31 December 2010
Cost of investment	433	433
Effect of revaluation of natural gas storage assets	35 266	34 247
Share of post-acquisition profit, net of dividends received	24 297	24 265
Change in nominal value of shares	<u>(7 353)</u>	<u>(7 353)</u>
Net book value	<u>52 643</u>	<u>51 592</u>

The change in the nominal value of shares relates to reduction of the Pozagas registered capital paid out to the shareholders.

The NAFTA Group has the following significant interest in this joint venture:

Name of Company	Seat	Effective ownership	Principal activity
POZAGAS a. s.	Malé námestie 1, Malacky, Slovak Republic	35%	Natural gas storage

POZAGAS a. s. is jointly controlled by NAFTA and two other entities with proportional sharing of the risk and rewards of ownership and operation of the joint venture.

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

	Year ended 31 December 2011	Year ended 31 December 2010
Non-current assets	60 934	59 560
Current assets	<u>4 480</u>	<u>4 118</u>
	65 414	63 678
Non-current interest-bearing borrowings	-	-
Other non-current liabilities	(11 070)	(10 716)
Current liabilities	<u>(1 701)</u>	<u>(1 370)</u>
	(12 771)	(12 086)
Net assets	<u>52 643</u>	<u>51 592</u>
Revenues	11 442	11 388
Profit before tax	5 049	5 147
Income tax including deferred tax	<u>(1 129)</u>	<u>(1 154)</u>
Profit after tax	<u>3 920</u>	<u>3 993</u>

As of 31 December 2011 and 31 December 2010, property, plant, and equipment used for storage of natural gas at POZAGAS a.s. (a joint venture recorded under the equity method) were revalued to fair value using an estimate derived from a discounted cash flow calculation. The future cash flows related to such property, plant, and equipment were discounted using an estimated discount rate which the Company believes approximates the time value of money, represented by the current market risk free rate of interest and the price for bearing the uncertainty and risks inherent in the asset. The discount rate was estimated to be 10%. The NAFTA Group's share of the resulting revaluation reserve represents an amount of EUR 35 266 thousand (31 December 2010: EUR 34 247 thousand), net of deferred tax.

The Company's share of non-current assets as of 31 December 2011 would be EUR 17 395 thousand if such assets were not revalued (as of 31 December 2010: EUR 17 280 thousand).

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6. AVAILABLE FOR SALE INVESTMENTS

Available for sale investments comprise the following:

	31 December 2011	31 December 2010
Cost	6 477	12 358
Diminution in value	<u>(6 477)</u>	<u>(12 358)</u>
Closing net book value	<u>-</u>	<u>-</u>

Available for sale investments comprise the following unconsolidated subsidiaries and other shareholdings:

Name of Company	Seat	Effective ownership	Principal activity
Unconsolidated subsidiaries			
AUTOKAC, s. r. o., Hodonín ⁽¹⁾	Velkomoravská 2606/83, Hodonín, Czech Republic	51%	Dormant
Other shareholdings			
AG Banka, a. s. v konkurze (in bankruptcy)	Coboriho 2, Nitra, Slovak Republic	39%	Dormant, in bankruptcy

⁽¹⁾ Shareholding held directly by Karotáže a cementace, s. r. o. Hodonín

These investments represent equity investments whose fair value cannot be reliably measured as these are unquoted equity investments. These investments are carried at cost less any provision for impairment.

The company THERMO-SHIELD EUROPA, a. s., in which NAFTA held 30 % share, was written off without liquidation during 2011. The company Eurographia S.A. was canceled and deleted from the commercial register.

7. INVENTORIES

Inventories, net are comprised of the following:

	31 December 2011	31 December 2010
Materials and supplies	4 250	5 066
Work in progress	136	11
Finished goods	235	1 492
Less: provision for old and obsolete items	<u>(753)</u>	<u>(517)</u>
Total inventories, net	<u>3 868</u>	<u>6 052</u>

NAFTA's inventories are insured against all risks under the "ALLRISK" insurance policy.

8. TRADE AND OTHER RECEIVABLES

Trade and other receivables, net are comprised of the following:

	31 December 2011	31 December 2010
Trade receivables		
Domestic customers	11 197	14 954
Foreign customers	<u>3 190</u>	<u>2 390</u>
Total trade receivables	14 387	17 344
Less: provisions for doubtful amounts	<u>(1 262)</u>	<u>(1 370)</u>
Total trade receivables, net	13 125	15 974
Other receivables	23 165	26 599
Less: provisions for doubtful amounts	<u>(18 333)</u>	<u>(22 314)</u>
Trade and other receivables, net	<u>17 957</u>	<u>20 259</u>

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Included in other receivables as of 31 December 2011 is the amount of EUR 18 297 thousand (31 December 2010: EUR 18 297 thousand) outstanding from SPX Trading, a. s., company in liquidation. The receivable was fully provided for. As of 31 December 2010, the other receivables also included a receivable from a court deposit in relation to litigation with Slovenská kreditná banka, a.s. As of 31 December 2010 this receivable was fully provided for (refer also to Note 21.2).

The trade receivables include also advance payments for non-current assets purchasing.

During 2010 the European Commission decided on granting funds to refinance some expenses related to the investment project concerning the underground gas storage facility, which will enable reverse flow in the event of short term supply disruption and improve security of gas supplies in Slovak Republic and other European countries. During 2011 part of grant in the amount of EUR 1 212 thousand was received by NAFTA. The relevant receivable in the amount of EUR 941 thousand is recognized as other receivables.

The average credit period on sales of goods and services is 21 days (2010: 21 days). The Company has provided fully for all receivables over 365 days because previous experience is such that receivables that are past due beyond 365 days are generally not recoverable. Trade receivables between 60 days to 365 days are provided for based on estimated irrecoverable amounts from the sale of goods and services, determined by reference to previous default experience.

Movement in the provision for doubtful debts:

	<i>Year ended</i> 31 December 2011	<i>Year ended</i> 31 December 2010
Balance at beginning of the year	(23 684)	(19 713)
Additions to and release of provisions	4 077	(3 975)
Amounts written off as uncollectible	12	4
Balance at end of the year	(19 595)	(23 684)

9. EQUITY

Registered capital includes certificate-form registered shares. As of 31 December 2011, total number of issued and fully paid shares was 3 230 960, with nominal value of EUR 33.19 per share (31 December 2010: EUR 33.19).

As of 31 December 2011 and 31 December 2010, NAFTA held 48 013 own shares at cost of EUR 4 745 thousand. The amount of shares held is in no way limited by law.

Other capital funds are comprised of the legal reserve fund, which amounts to EUR 8 198 thousand as of 31 December 2011 (31 December 2010: EUR 21 542 thousand) and other funds that amount to EUR 1 475 thousand as of 31 December 2011 (31 December 2010: EUR 1 475 thousand). Under the Company's Articles of Association, the legal reserve fund is not available for distribution and can be used to cover losses and to increase the registered capital.

For the profit distribution purposes the separate financial statements of the Company prepared under IFRS as of 31 December 2011 are relevant. The amount of retained earnings under the Company's financial statements prepared as of 31 December 2011, distributable to the shareholders is EUR 108 258 thousand. In 2011, dividend payment to the shareholders from profit for 2010 was approved in the amount of EUR 15.68 per share.

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The hedging reserve represents hedging gains and losses recognized on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognized in profit or loss when the hedged transaction impacts the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.

Hedging reserve:	Year ended 31 December 2011	Year ended 31 December 2010
Balance at beginning of the year	14	(309)
Profit/(loss) recognized on cash flow hedges:		
Forward currency contracts	(216)	(1 034)
Commodity swap contracts	(1 991)	-
Option commodity contracts	-	159
Interest rate swap contracts	(235)	17
Income tax related to profit/loss recognized in equity	464	163
Transferred to profit or loss:		
Forward currency contracts	185	1 303
Commodity swap contracts	63	-
Option commodity contracts	-	(46)
Interest rate swap contracts	47	-
Income tax related to profit/loss recognized in profit or loss	(56)	(239)
Balance at end of the year	(1 725)	14

10. PROVISION FOR ABANDONMENT AND RESTORATION

The Company estimates the costs of abandonment of production, exploration, and storage wells (including the related centres and pipes) and other related costs of restoration.

Movements in the provision for abandonment and restoration are summarised as follows:

Balance as at 31 December 2009	66 824
Additions/(Release) of provision to assets	7 513
Additions/(Release) through profit or loss	1 499
Interest on discounting	2 702
Utilization of provision	(883)
Balance as at 31 December 2010	77 655
Additions/(Release) to provision to assets	14 795
Additions/(Release) through profit or loss	1 832
Interest on discounting	2 617
Utilization of provision	(705)
Balance as at 31 December 2011	96 194

The provision is included in liabilities as follows:

	Current liabilities	Non-current liabilities	Total
At 31 December 2010	3 646	74 009	77 655
At 31 December 2011	5 287	90 907	96 194

NAFTA currently has 182 production wells in addition to 251 storage wells. Production wells that are currently in production or are being used for other purposes are expected to be abandoned after reserves have been fully produced or when it has been determined that the wells will not be used for any other purposes. Storage wells are expected to be abandoned after the end of their useful lives. NAFTA has the obligation to dismantle the production and storage wells, decontaminate contaminated soil, restore the area and restore the site to its original condition to the extent as stipulated by law.

The provision for abandonment and restoration has been estimated using existing technology and reflects expected future inflation. The present value of these costs was calculated using a discount rate, which reflects current market assessment of the time value of money and risks specific to the liability (2.9%). The provision takes into account costs estimated for the abandonment of production and storage wells and centres, and for the restoration of the site to its original condition. These costs are expected to be incurred between 2012 and 2084.

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11. BORROWINGS

	<i>Current</i>		<i>Non-current</i>	
	<i>31 December 2011</i>	<i>31 December 2010</i>	<i>31 December 2011</i>	<i>31 December 2010</i>
Unsecured – at amortised cost				
Bank loans and borrowings	-	922	12 000	12 000
Total	-	922	12 000	12 000

The Company has opened credit lines amounting to EUR 30 000 thousand. See also Note 22.2 (v). In 2011, the Company drew down loans denominated in EUR at floating interest rates. The current weighted average effective interest rate on bank loans equals 2.27% p.a. The long-term loans are payable in 2013 and are not secured by any assets. In relation to long-term loans the Company entered into interest rate swaps to hedge against the risk of interest rate volatility. See also Note 22.

Under the loan agreements, the Company is required, *inter alia*, to comply with certain financial covenants as at the end of a calendar half-year (as of 30 June and 31 December). As of 31 December 2011 the Company complied with these covenants.

12. RETIREMENT AND OTHER LONG-TERM EMPLOYEE BENEFITS

The long-term employee benefits program at the Company is a defined benefit program, under which employees are entitled to a lump-sum payment upon old age or disability retirement as a multiple of the employee's average salary and, subject to vesting conditions. As of 31 December 2011 there were 748 employees at the Company covered by this program. To date it has been an unfunded program, with no separately allocated assets to cover the program's liabilities.

The change in net liabilities stated in the balance sheet for the year ended 31 December 2011 and the year ended 31 December 2010 is summarised as follows:

	<i>Long-term benefits</i>	<i>Total employee benefits 31 December 2011</i>	<i>Total employee benefits 31 December 2010</i>
Liabilities as at 1 January, net	1 389	1 389	1 297
Net change in provision (actuarial estimate), included in labour and related expenses	165	165	222
Employee benefits paid	(76)	(76)	(130)
Liabilities as at 31 December, net	1 478	1 478	1 389

Key assumptions used by the Company in estimating the actuarial assessment:

	<i>At 31 December 2011</i>	<i>At 31 December 2010</i>
Discount rate	2.9%	3.4%
Future expected annual rate of salary increases	2.2%	2.2%
Expected fluctuation	5.0%	5.0%
Retirement age	62 years	62 years

13. TRADE AND OTHER PAYABLES

Trade and other payables consist of the following:

	<i>31 December 2011</i>	<i>31 December 2010</i>
Trade payables	11 308	14 503
Payables to employees	2 677	2 664
Social security liabilities	1 140	1 034
Other tax liabilities	4 547	1 690
Other payables	3 498	877
Total trade and other payables	23 170	20 768

The average credit period is 26 days (2010: 28 days). The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

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The closing balance of the Group's trade payables includes payables of EUR 401 thousand (2010: EUR 401 thousand), which are overdue as at the balance sheet date.

The change on Social Fund liabilities disclosed in the balance sheet as of 31 December 2011 and 31 December 2010 is analysed as follows:

	Year 2011	Year 2010
Payables as at 1 January	40	89
Total creation:	413	367
<i>from expenses</i>	190	167
<i>from profit</i>	223	200
Total drawing:	416	416
<i>catering services</i>	99	99
<i>recreation</i>	74	74
<i>other</i>	243	243
Payables as at 31 December	37	40

14. OTHER CURRENT PROVISIONS

Other current provisions consist of provisions for liabilities and charges as follows:

	31 December 2011	31 December 2010
Provision for abandonment and restoration	5 287	3 646
Litigation liabilities and other provisions	122	221
Total other current provisions	5 409	3 867

For details on provisions for abandonment and restoration, refer to Note 10. Provisions are also recorded for various litigation and potential disputes. Refer also to Note 21.2.

15. LABOUR AND RELATED EXPENSES

Labour and related expenses are comprised of the following:

	Year ended	
	31 December 2011	31 December 2010
Wages and salaries	(14 331)	(13 928)
Social security costs and other social expenses	(6 795)	(6 832)
Total labour and related expenses	(21 126)	(20 760)

The average number of employees for the year ended 31 December 2011 was 809, thereof managers 12 (year ended 31 December 2010: 827, thereof managers 12).

16. OTHER OPERATING AND FINANCIAL INCOME/(EXPENSES)

16.1. Other Operating Income/(Expenses), net

Other operating income/(expenses), net consist of the following items:

	Year ended	
	31 December 2011	31 December 2010
Taxes and charges	(2 480)	(2 591)
Profit/(loss) on sale of non-current assets and inventories	2 009	289
Provisions for receivables, net	4 072	(3 957)
Provisions for inventories, net	(241)	(269)
Provision for abandonment and restoration costs	(1 832)	(1 499)
Provision for potential losses from litigations and other provisions	99	14 500
Insurance charges	(672)	(860)
Other income/(expenses), net	(622)	(170)
Total other operating income/(expenses), net	333	5 443

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16.2. Other Financial Income/(Expenses), net

Other financial income/(expenses), net consist of the following items:

	<i>Year ended</i>	
	31 December 2011	31 December 2010
Exchange rate differences, net	209	1 105
Profit/(loss) from derivative transactions	(185)	(1 303)
Other financial income/(expenses), net	(53)	(212)
Total other financial income/(expenses), net	(29)	(410)

17. INCOME TAXES

17.1. Income Taxes Reconciliation

Reconciliation between income taxes calculated at the statutory rate of 19% to income tax expenses provided is as follows:

	<i>Year ended</i>	
	31 December 2011	31 December 2010
Profit before income taxes	113 378	97 214
Tax at domestic income tax rate of 19%	(21 542)	(18 471)
Tax effect of expenses not deductible, tax effect of non-taxable income, tax related to previous periods	5 828	2 574
Tax effect of shares in profit/loss of joint venture	(1 129)	(1 154)
Total income tax charges	(16 843)	(17 051)

The overall effective tax rate differs from the statutory tax rate of 19% primarily due to differences in the classification of certain expense and revenue items for accounting and tax purposes and tax rules for group of companies compiling the consolidated financial statements in the Slovak Republic. Currently, companies in the Slovak Republic must submit tax returns separately and no possibility exists to prepare a consolidated tax return for a group of companies.

17.2. Income Taxes

Income tax expenses comprise the following:

	<i>Year ended</i>	
	31 December 2011	31 December 2010
Current income tax of NAFTA and subsidiaries	(20 312)	(20 583)
Share of taxation attributable to the joint venture	(1 129)	(1 154)
Deferred income tax	4 598	4 686
Total income taxes	(16 843)	(17 051)

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17.3. Deferred Income Taxes

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

	<i>As at 1 January 2010</i>	<i>Charge (credit) to equity for the period</i>	<i>Charge (credit) to profit for the period</i>	<i>As at 31 December 2010</i>
Property, plant and equipment	(142 313)	1 005	3 802	(137 506)
Provision for abandonment and restoration costs	9 532	-	855	10 387
Retirement and other long-term employee benefits	246	-	18	264
Inventories	435	-	(173)	262
Litigations	79	-	(79)	-
Derivatives	72	(76)	-	(4)
Other	(10)	-	263	253
Total	(131 959)	929	4 686	(126 344)

	<i>As at 1 January 2011</i>	<i>Charge (credit) to equity for the period</i>	<i>Charge (credit) to profit for the period</i>	<i>As at 31 December 2011</i>
Property, plant and equipment	(137 506)	(9 821)	3 976	(143 351)
Provision for abandonment and restoration costs	10 387	-	1 248	11 635
Retirement and other long-term employee benefits	264	-	17	281
Inventories	262	-	(139)	123
Derivatives	(4)	408	-	404
Other	253	3	(504)	(248)
Total	(126 344)	(9 410)	4 598	(131 156)

Certain deferred tax assets and liabilities have been offset in accordance with the Company's accounting policy. The following is an analysis of the deferred tax balances (after offset) for balance sheet purposes:

	<i>31 December 2011</i>	<i>31 December 2010</i>
Deferred tax asset	-	-
Deferred tax liability	(131 156)	(126 344)
Total	(131 156)	(126 344)

18. EARNINGS PER SHARE

Earnings per share are calculated using the net profit after tax attributable to shareholders of NAFTA divided by the weighted average number of shares in existence during the accounting period.

19. COSTS OF SERVICES PROVIDED BY THE COMPANY'S AUDITORS

Costs of the services of an audit firm comprised EUR 43 thousand for the audit of the financial statements (2010: EUR 43 thousand) and EUR 9 thousand for accounting or tax advisory services (2010: EUR 0).

20. SIGNIFICANT TRANSACTIONS WITH THIRD PARTIES AND RELATED PARTIES

20.1. Significant Transactions

NAFTA provides underground storage of natural gas for SPP (parent company), RWE Transgas, a. s., GDF SUEZ s. a., VNG-Verbundnetz Gas AG, Morgan Stanley Capital Group Inc. and other companies. NAFTA performs operation services of underground storage facilities of natural gas at POZAGAS (joint venture).

NAFTA cooperates with OMV Slovakia Exploration in joint exploration and production of hydrocarbons in the Vienna Basin.

20.2. Related Parties

Related parties of the company have been identified as unconsolidated subsidiaries and associates (see Notes 5 and 6), companies under common ownership (SPP Group), shareholders, directors, and management of the Company.

Transactions between NAFTA and the related parties are performed under the arm's length principle.

As of 31 December 2011, receivables from related parties amounted to EUR 5 930 thousand (31 December 2010: EUR 11 317 thousand).

As of 31 December 2011, payables to related parties amounted to EUR 474 thousand (31 December 2010: EUR 726 thousand).

Revenues from transactions with related parties for the year ended 31 December 2011 amounted to EUR 111 158 thousand (year ended 31 December 2010: EUR 108 320 thousand).

Expenses and other deliveries from transactions with related parties for the year ended 31 December 2011 amounted to EUR 13 867 thousand (year ended 31 December 2010: EUR 3 868 thousand).

Transactions with related parties represent mainly services related to underground storage, sale and purchase of natural gas mainly to the direct or indirect owners of the Company (SPP, POZAGAS a. s., GDF SUEZ s. a., E.ON Ruhrgas AG). Other related party transactions represent other maintenance services (other companies) and advisory services (E.ON Ruhrgas AG, GDF SUEZ, organisational unit).

Amounts related to each separate entity have not been disclosed as management of the Company believes this would breach confidentiality and/or trade secrets and/or may cause damage to the Company.

NAFTA is not involved in any transactions with the Company's management and members of its statutory bodies of any NAFTA Group company except for the employment relationship transactions.

20.3. Board Members' and Directors' Remuneration

Remuneration to board members and directors recorded during the year ended 31 December 2011 and 31 December 2010 was as follows:

	<i>Year ended</i>	
	31 December 2011	31 December 2010
Salaries	1 376	1 315
Discretionary bonuses	-	-
Total	1 376	1 315

Salaries and bonuses are included in labour and related expenses.

21. COMMITMENTS AND CONTINGENCIES

21.1. Capital Expenditures

As of 31 December 2011, capital expenditures in the amount of EUR 8 749 thousand (31 December 2010: EUR 27 246 thousand) have been committed under contractual arrangements that are not recognized in these consolidated financial statements and relate primarily to the construction and modernisation of non-current assets related to the underground storage facility of natural gas.

21.2. Litigation

Following the merger of NAFTA with NAFTA TRADE, a.s. in 2001, NAFTA assumed a guarantee for a loan granted to Naftárska leasingová spoločnosť, a.s. ("NLS") by Slovenská kreditná banka, a.s. ("SKB"). Even though this loan was repaid by NLS in line with a contract for the safe assignment of receivables agreed between SKB, NLS, and SPP, the bankruptcy administrator of SKB submitted a proposal for execution against NLS and NAFTA for payment of the principal in the amount of EUR 3 982 thousand and related interests. The court dismissed the above motion for granting an authorisation for execution. The bankruptcy trustee of SKB has filed an appeal against this ruling. The appeal court cancelled the decision and returned the matter to the original court responsible for the original decision. The original court has issued an execution order. NAFTA has appealed this decision on the execution order and requested suspension of the execution. The court agreed with the motion and suspended the execution until the legal dispute is lawfully ended. Based on the consent of the court, NAFTA deposited EUR 3 982 thousand to an escrow account of the court. In October 2009, the Regional Court issued a decision on the debt expiration. In December 2009, the bankruptcy administrator filed an appeal for cancellation of this verdict. In December 2010, SKB, NLS, SPP, and NAFTA signed an out-of-court settlement agreement, based on which NAFTA released provision created for this litigation in the past and recorded a provision to cover the risks related to the receivable from the court's escrow account. These adjustments have resulted in the increase of the operating profit by EUR 8 246 thousand for the year ended 31 December 2010. During 2011 all petitions and appeals were taken back on all courts, and all legal suits were cancelled and in 2011 court deposit was released back to NAFTA. This resulted into reversal of provisions for receivables in the amount of EUR 3 982 thousand into income.

In addition to the legal cases described above, the Company is also involved in other litigations arising in the normal course of business and it is not expected, either individually or in the aggregate, that they would have a significant adverse impact on the accompanying consolidated financial statements.

21.3. Taxes

The tax environment under which the NAFTA Group operates in the Slovak Republic is dependent on the prevailing tax legislation and practice with relatively little existing precedent. As the tax authorities are reluctant to provide official interpretations with respect to the tax legislation, there is an inherent risk that the tax authorities may require adjustments of the corporate income tax base. Corporate income tax in the Slovak Republic is levied on each individual legal entity and, as a consequence, there is no concept of group taxation or relief. The Tax Authorities in the Slovak Republic have broad powers of interpretation of tax laws, which could result in unexpected results of tax examinations. The amount of any potential tax liabilities related to these risks cannot be estimated.

The Company has had a tax audit for the years 1996 to 1998. In March 2001, the tax audit report was delivered to the Company and an additional tax liability of EUR 2 771 thousand was raised, partially in relation to related party transactions. In respect of the additional tax liability, the Tax Authority also charged penalty that amounts to 100% of the additional tax liability. The amount of the additional tax liability and tax penalty was recorded in the Company's financial statements as of 31 December 2001 and paid subsequently. The Company has filed a claim, the result of which has been that the Supreme Court has cancelled the decision of the Tax Directorate of the Slovak Republic. The Tax Directorate has confirmed its initial decision. NAFTA has filed a claim to review the decision. The Regional Court dismissed the claim. The Company appealed against this judgement to the Supreme Court of the Slovak Republic. The Supreme Court dismissed the petition. The Company has filed a constitutional complaint against the resolution to the Constitutional Court, which accommodated the complaint and rescinded the judgement of the Supreme Court of the Slovak Republic, and remanded the matter for further procedures, in which the Supreme Court rescinded the Tax Authority's decisions and remanded the matter for further proceedings. The Tax Directorate reconfirmed its original decisions. The Company filed a law suit against the Tax Directorate's decisions. The decisions of the Tax Directorate were contested by the protests of Prosecutor. Based on the prosecutor's arguments the Ministry of Finance of the Slovak Republic amended the Tax Directorate's decisions so that the assessed additional tax liability was reduced to EUR 1 304 thousand. The resolutions made by the Ministry of Finance became legally effective in January 2011.

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In 2007, the Company had a repeated tax audit for 1999. In December 2007, the tax audit report was delivered to the Company containing the assessment of additional tax liability. Both the additional tax liability of EUR 1 064 thousand and estimated tax penalty of EUR 136 thousand were recorded in the financial statements as of 31 December 2007. The Company has appealed against the tax audit report and assessment note issued. The Tax Directorate confirmed the tax protocol and tax assessment. The Company filed a law suit against the Tax Directorate's decision and paid the assessed additional tax to the Tax Authority in 2010. Ministry of Finance accepted the protest of the prosecutor, cancelled the decision of the Tax Directorate and returned the case back to the Tax Directorate for a new proceeding in which Tax Directorate accepted the company's appeal and changed the additional tax protocol and tax assessment. During 2011 the Company assigned its claims related to these tax audits to a third party. The relating receivables towards third party were settled and IFRS criterias to record these revenues (refer also to Note 17.1) within realised gains are met.

Tax declarations remain open and subject to inspection for at least a five-year period. The fact that a year has been reviewed does not close that year, or any tax declaration applicable to that year, from further review during the next five-year period. Consequently, the Company's tax declarations for the years 2006 through 2011 are open and subject to review.

21.4. Bank Guarantees

The Company did not record any bank guarantees as of 31 December 2011.

22. FINANCIAL INSTRUMENTS

22.1. Capital Risk Management

The Company manages its capital to ensure that entities in the Group will be able to continue as a going concern with the aim to achieve an optimum debt and equity balance. The Group's overall strategy remains unchanged from 2010.

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

	31 December 2011	31 December 2010
Debt (i)	(12 000)	(12 922)
Cash and cash equivalents	65 231	2 807
Net debt	53 231	(10 115)
Equity (ii)	(867 360)	(778 989)
Net debt to equity ratio	N/A	1.3%

(i) Debt is defined as long- and short-term borrowings.
(ii) Note 9.

22.2. Categories of Financial Instruments

	31 December 2011	31 December 2010
Financial derivatives recognized as hedging	-	17
Loans and receivables (including cash and cash equivalents)	83 462	23 066
Financial assets	83 462	23 083
Financial derivatives recognized as hedging	(2 130)	-
Interest free liabilities	(23 967)	(21 908)
Bank loans carried at amortised cost	(12 000)	(12 922)
Financial liabilities	(38 097)	(34 830)

(1) Financial Risk Factors

The Company's activities expose it to a variety of financial risks, including the effects of changes in foreign currency exchange rates, fluctuations of commodity prices, and loan interest rates. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the company.

The use of financial derivatives is governed by the Company's policies approved by the Board of Directors, which provide principles of management of foreign exchange risk, commodity price fluctuation risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

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(i) Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to US dollars. The Company uses derivative instruments to reduce this risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the balance sheet date are as follows:

	Liabilities		Assets	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
USD	102	43	3 567	1 953
CZK	296	163	3 717	2 941

The following table details the Company's sensitivity to a 17% increase and decrease of EUR against USD (in 2010: 17%) and a 16% increase and decrease of EUR against CZK (2010: 15%). The sensitivity analysis includes foreign currency denominated monetary items and adjusts their translation at the period end for the aforementioned change in foreign currency rates. A positive number below indicates an increase in profit in the case of a decrease in EUR against the relevant currency. Where EUR strengthens against the relevant currency, there would be an opposite impact on the profit, and the balances below would be negative.

	USD		CZK	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
Profit or loss (i)	589	325	547	417

(i) This is mainly attributable to the exposure outstanding on USD and CZK receivables, payables and cash at the year end.

The following table details the forward foreign currency (FC) contracts outstanding at the balance sheet date:

Outstanding forward foreign currency contracts	Average exchange rate EUR/USD		Foreign currency (USD '000)		Contract value (EUR '000)		Fair value (EUR '000)	
	2011	2010	2011	2010	2011	2010	2011	2010
Cash flow hedges								
<u>Sell USD</u>								
Less than 3 months	0.71	-	460	-	356	-	(31)	-
3 to 12 months	-	-	-	-	-	-	-	-

During 2011, the Company has entered into foreign currency forward contracts to hedge the exchange rate risk arising from the anticipated future transactions associated with the Company's sales in USD.

(ii) Commodity Price Risk

The Company is a party to framework agreements for the purchase of services and material related to underground storage facilities of natural gas and natural gas and oil production. In addition, the Company enters into contracts for oil and natural gas sales and underground storage of natural gas. The Company uses commodity derivative instruments to reduce risks related to changes in oil and natural gas prices.

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The following table details the swap commodity contracts designated and evaluated as effective hedge, outstanding at the balance sheet date:

Outstanding swap commodity contracts	Contract value (EUR '000)		Fair value (EUR '000)	
	2011	2010	2011	2010
Cash flow hedges				
Crude oil	5 420	-	(234)	-
Natural Gas	17 640	-	(1 695)	-
Sell crude oil				
Less than 3 months	1 355	-	(59)	-
3 to 12 months	4 065	-	(175)	-
Sell natural gas				
Less than 3 months	4 410	-	(424)	-
3 to 12 months	13 230	-	(1 271)	-

The Company has entered into swap commodity contracts to hedge the market risk arising from crude oil and natural gas price changes in anticipated future transactions associated with the Company's sales in 2012.

As of 31 December 2011, the aggregate amount of unrealised losses under swap commodity contracts deferred in the hedging reserve relating to these anticipated future purchase transactions is EUR 1 929 thousand (2010: EUR 0).

(iii) Interest Rate Risk

The Company's operating income and operating cash flows are independent of changes in market interest rates. The Company has no significant interest-bearing assets other than cash and cash equivalents. In relation to a drawn long-term loan, the Company entered into an interest rate swap in 2010 to hedge against the risk of interest rate volatility.

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2011 would have increased or decreased by EUR 61 thousand (2010: change EUR 65 thousand). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings. Due to the concluded interest swaps as of 31 December 2011 the Company's exposure to interest rates was virtually reduced to zero in the next periods.

In the interest rate swap contracts the Company undertook to exchange the difference in interest between fixed and variable interest rates calculated from notional principal amounts that reflect the timing and amounts due under the loan agreements. These contracts allow the Group to eliminate the risk that cash flow will be exposed to variable rate debt instruments. The fair value of the interest rate swaps at the end of the accounting period is determined by discounting future cash flows using curves at the end of the accounting period and credit risk arising from the contract as specified below.

The following table details notional principal amounts and other terms and conditions of interest rate swap contracts, outstanding as at balance sheet date.

Outstanding Interest Rate Swap Contracts	Notional Fixed Interest Rate (%)		Notional Principal (EUR'000)		Fair Value (EUR'000)	
	2011	2010	2011	2010	2011	2010
Cash Flow Hedge (receipt of a variable interest rate and payment of a fixed interest rate)						
Less than 1 year	1.72	1.72	12 000	12 000	(58)	6
From 1 to 2 years	1.72	1.72	12 000	12 000	(112)	6
From 2 to 5 years	-	1.72	-	12 000	-	5

NAFTA a.s.
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(iv) Credit Risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group has adopted a policy of only dealing with credit-worthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

Derivative counter-parties and cash transactions, if any, are limited to high credit quality financial institutions. The Company does not have policies that limit the amount of credit exposure to any one financial institution.

(v) Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit lines and the ability to close out market positions. The Company maintains sufficient cash and credit lines, and has no open market positions other than open positions from derivative transactions.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows during the term of the loan agreement.

	Weighted average effective interest rate	Less than 1 month	1 – 3 months	3 months to 1 year	1 – 5 years	Total
2011						
Non-interest bearing	-	22 687	29	454	797	23 967
Variable interest rate instruments	2.27%	55	71	208	12 257	12 591
2010						
Non-interest bearing	-	20 129	38	601	1 140	21 908
Variable interest rate instruments	1.31%	1	62	1 051	12 297	13 411

The Company has access to financing facilities. The total unused amount of such facilities is EUR 30 000 thousand at the balance sheet date (2010: EUR 52 078 thousand). The Company expects to meet its other obligations from operating cash flows and maturing financial assets.

The following table details the Group's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted net cash inflows/(outflows) on the derivative instrument that settle on a net basis and the undiscounted gross inflows and (outflows) on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the balance sheet date.

	Less than 1 month	1 – 3 months	3 months to 3 years	Total
2011				
Net settled:				
Forward currency contracts	(31)	-	-	(31)
Commodity swap contracts	(161)	(322)	(1 446)	(1 929)
Interest rate swap contracts	(5)	(10)	(155)	(170)
Total	(197)	(332)	(1 601)	(2 130)
2010				
Net settled:				
Interest rate swap contracts	-	-	17	17
Total	-	-	17	17

(2) Fair Value Estimation

The fair value of publicly traded derivatives and trading and available-for-sale securities is based on quoted market prices at the balance sheet date. The fair value of interest swaps is calculated as the present value of the estimated future cash flows. The fair value of interest-currency swap contracts is determined using foreign exchange market rates at the balance sheet date.

In assessing the fair value of non-traded derivatives and other financial instruments, the Company uses a variety of methods and market assumptions that are based on market conditions existing at the balance sheet date. Other techniques, mainly estimated discounted value of future cash flows, are used to determine fair value for the remaining financial instruments.

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Company for similar financial instruments.

According to the Company's management, carrying amounts of financial assets and liabilities disclosed in the financial statements at amortised cost approximate their fair value.

23. SUPPLEMENTARY INFORMATION TO THE CONSOLIDATED FINANCIAL STATEMENTS ACCORDING TO THE STATUTORY REQUIREMENTS

23.1. Consolidated Financial Statements

NAFTA prepares consolidated financial statements for consolidated group which includes NAFTA as a parent company and other business companies, in which NAFTA holds at least a 20% share in their registered capital. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted for use in the European Union.

After the consolidated financial statements are approved by Company's bodies and the General Meeting, the financial statements are available for inspection in the Company's registered office (Votrubova 1, 821 09 Bratislava) and at the Commercial Registry of the District Court Bratislava I, administered by the Registration Court (Záhradnícka 10, Bratislava).

NAFTA is a subsidiary of Slovenský plynárenský priemysel, a.s., with the registered office in Bratislava, Mlynské nivy 44/a, which holds a 56.2% share in the Company's registered capital. SPP prepares consolidated financial statements in accordance with International Financial Reporting Standards as adopted for use in the EU.

After SPP's consolidated financial statements are approved by SPP's bodies and the General Meeting, the financial statements are available for inspection in SPP's registered office (Mlynské nivy 44/a, Bratislava) and at the Commercial Registry of the District Court Bratislava I, administered by the Registration Court (Záhradnícka 10, Bratislava).

23.2. Unlimited Guarantee

NAFTA is not a partner with unlimited guarantee in any business company.

23.3. Members of the Company's Bodies as of 31 December 2011:

Board of Directors:	Chairman	Dipl. Kfm. Alexander Spies
	Vice-Chairman	Dipl. Ing. Jean-Luc Rupp
	Member	Dr. Michael Fipper
	Member	Dipl. Ing. Jacques Badet
Supervisory Board:	Chairman	Ing. Peter Kordoš
	Vice-Chairman	Dr. Achim Šaul
	Member	Ing. Peter Čulen
	Member	Peter Dubaj
	Member	Mgr. Roman Holeš
	Member	Ing. Roman Sova
	Member	Ing. Peter Šefara
	Member	MUDr. Michal Varga
	Member	Ing. Bystrík Žák
Top Management:	General Director	Ing. Martin Hollý
	Director of Underground Gas Storage Division	Ing. Ladislav Goryl
	Director of Exploration and Production Division	Ing. Jozef Levoča
	Director of Workover and Drilling Division	Ing. Marián Marcin, PhD.
	Director of Service Division	Ing. Michal Ševera
	Director of Economic Section	Ing. Szilárd Kása
	Director of Sales and Marketing Section	Mgr. Peter Kučera
Director of Human Resources Section	Ing. Mgr. František Kajánek	

24. EVENTS AFTER THE BALANCE SHEET DATE

From 31 December 2011 up to the date of the approval of these consolidated financial statements there were no significant events that would significantly impact the assets and liabilities of the Company.

25. PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements on pages 3 to 37 are signed on 20 January 2012 on behalf of the Board of Directors by:



Dipl. Kfm. Alexander Spies
Chairman of Board of Directors



Dipl. Ing. Jean-Luc Rupp
Vice-Chairman of Board of Directors

Signature of the person responsible for preparing the financial statements:



Ing. Szilárd Kása
Director of Economic Section

Signature of the person responsible for bookkeeping:



Ing. Ivana Kocáková
Head of Financial Accounting Department