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 2017

Company ID No. (IČO): 36 286 192
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This is an English language translation of the original Slovak language document.

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NAFTA a.s.

INDEPENDENT AUDITOR'S REPORT

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

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of NAFTA a.s. and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2017, the consolidated statement of profit and loss, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union (EU).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the provisions of Act No. 423/2015 Coll. on Statutory Audit and on Amendment to and Supplementation of Act No. 431/2002 Coll. on Accounting, as amended (hereinafter the "Act on Statutory Audit") related to ethical requirements, including the Code of Ethics for Auditors that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS as adopted in the EU, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on Information Disclosed in the Annual Report

The statutory body is responsible for information disclosed in the annual report prepared under the requirements of the Act on Accounting No. 431/2002 Coll. as amended (the "Act on Accounting"). Our opinion on the consolidated financial statements stated above does not apply to other information in the annual report.

In connection with the audit of consolidated financial statements, our responsibility is to gain an understanding of the information disclosed in the annual report and consider whether such information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit of the consolidated financial statements, or otherwise appears to be materially misstated.

As at the issuance date of the auditor's report on the audit of consolidated financial statements, the annual report was not available to us.

When we obtain the annual report, we will evaluate whether the Company's annual report includes information whose disclosure is required under the Act on Accounting, and based on procedures performed during the audit of the financial statements, we will express an opinion on whether:

- Information disclosed in the annual report prepared for 2017 is consistent with the consolidated financial statements for the relevant year; and
- The annual report includes information pursuant to the Act on Accounting.

Furthermore, we will disclose whether material misstatements were identified in the annual report based on our understanding of the Company and its position, obtained in the audit of the consolidated financial statements.

Bratislava, 2 March 2018

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

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

NAFTA a.s.
CONSOLIDATED BALANCE SHEETS
as at 31 December 2017 and 31 December 2016
(Thousands of EUR)

	Note	*31 December 2017*	*31 December 2016*
ASSETS:			
NON-CURRENT ASSETS:			
Property, plant and equipment	4	216 263	232 095
Intangible and other assets		9 802	10 580
Investments in joint ventures	5	47 432	28 104
Available-for-sale financial assets	6	744	744
Deferred tax asset	18.3	9 080	11 535
Long-term loans provided	9	225 716	222 069
Total non-current assets		509 037	505 127
CURRENT ASSETS:			
Inventories	7	6 618	4 526
Trade and other receivables	8	9 419	10 664
Income tax assets		-	1 196
Financial receivables from group companies	12	14 406	-
Other financial receivables		162	-
Cash and cash equivalents		9 677	17 709
Total current assets		40 282	34 095
TOTAL ASSETS		**549 319**	**539 222**
EQUITY AND LIABILITIES:			
EQUITY:			
Registered capital	10	107 235	107 235
Treasury shares, at cost	10	(4 745)	(4 745)
Other capital funds	10	21 447	21 447
Hedging derivatives reserve and other reserves	10	(1 285)	(1 986)
Profit from previous years		12 340	11 009
Profit for the current year		72 528	81 290
Equity attributable to shareholders of NAFTA		207 520	214 250
Total equity		207 520	214 250
NON-CURRENT LIABILITIES:			
Long-term loans received	11	175 000	175 000
Provision for abandonment and restoration	13	84 680	94 765
Retirement and other long-term employee benefits	14	3 633	3 568
Other non-current liabilities		257	368
Deferred income		1 709	1 770
Total non-current liabilities		265 279	275 471
CURRENT LIABILITIES:			
Trade and other payables	15	22 386	17 458
Income tax liabilities		1 048	-
Short-term loans	11	45 191	166
Financial liabilities to group companies	12	-	27 991
Other financial liabilities		777	1 814
Other current provisions	13, 16	7 118	2 072
Total current liabilities		76 520	49 501
TOTAL LIABILITIES		341 799	324 972
TOTAL EQUITY AND LIABILITIES		**549 319**	**539 222**

(Thousands of EUR)

	Note	*Year ended 31 December 2017*	*Year ended 31 December 2016*
REVENUES:			
Natural gas storage revenues and hydrocarbon sales	22.1	149 861	155 620
Geological works		-	1 814
Other revenues		6 130	5 154
Total revenues		155 991	162 588
OPERATING EXPENSES:			
Own work capitalised		480	1 395
Consumables and services		(20 803)	(24 277)
Labour and related costs	17	(20 951)	(21 073)
Depreciation and amortisation		(12 778)	(14 426)
Other operating income/(expenses), net	18.1	2 998	(3 470)
Total operating expenses, net		(51 054)	(61 851)
FINANCIAL INCOME/(EXPENSES):			
Interest income		3 805	3 903
Interest expenses		(4 284)	(5 033)
Income from joint venture	5	(2 382)	4 282
Other financial income/(expenses), net	18.2	(2 024)	(4 589)
Total financial income/(expenses), net		(4 885)	(1 437)
PROFIT BEFORE INCOME TAXES		100 052	99 300
INCOME TAXES	19	(27 524)	(20 036)
NET PROFIT		**72 528**	**79 264**
Attributable to:			
Shareholders of NAFTA		72 528	81 290
Minority interests of other owners of subsidiaries	3c	-	(2 026)
EARNINGS PER SHARE (in EUR)	20	22.45	24.53

(Thousands of EUR)

	Note	*Year ended 31 December 2017*	*Year ended 31 December 2016*
PROFIT FOR THE YEAR AFTER INCOME TAXES		72 528	79 264
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to the profit and loss statement:			
Hedging derivatives		1 199	(2 619)
Other comprehensive income/(loss) for the year before income taxes		1 199	(2 619)
Tax at the tax rate of 21% (2016: 22%)		(252)	576
Tax effect due to a change in the tax rate from 22% to 21% in 2016		-	(18)
Tax related to items of other comprehensive income/(loss)		(252)	558
Items that will not be subsequently reclassified to the profit and loss statement:			
Actuarial losses		(312)	(470)
Other comprehensive loss for the year before income taxes		(312)	(470)
Tax at the tax rate of 21% (2016: 22%)		66	103
Tax effect due to a change in the tax rate from 22% to 21% in 2016		-	(7)
Tax related to items of other comprehensive loss		66	96
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**73 229**	**76 829**
Total comprehensive income for the year attributable to:			
Equity shareholders of NAFTA		73 229	78 855
Minority interests of other owners of subsidiaries		-	(2 026)
		73 229	**76 829**

	Year ended 31 December 2017			*Year ended 31 December 2016*		
	Before taxation	*Tax*	*After taxation*	*Before taxation*	*Tax*	*After taxation*
Hedging derivatives	1 199	(252)	947	(2 619)	558	(2 061)
Actuarial gains/(losses)	(312)	66	(246)	(470)	96	(374)
Total other comprehensive income/(loss) for the year	**887**	**(186)**	**701**	**(3 089)**	654	**(2 435)**

NAFTA a.s.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
for the year ended 31 December 2017 and 31 December 2016
(Thousands of EUR)

	Registered capital	***Treasury shares, at cost***	***Other capital funds***	***Translation reserve***	***Hedging derivatives reserve and other reserves***	***Profit from previous years***	***Profit for the current year***	***Attributable to shareholders of NAFTA***	***Minority interests***	***Total***
At 1 January 2016	**107 235**	**(4 745)**	**23 001**	**(354)**	**449**	**5 459**	**107 200**	**238 245**	**2 026**	**240 271**
Transfer of profit for the current year	-	-	-	-	-	107 200	(107 200)	-	-	-
Net profit for the year	-	-	-	354	-	-	81 290	81 644	(2 026)	79 618
Dividends	-	-	-	-	-	(103 204)	-	(103 204)	-	(103 204)
Transfer upon deconsolidation of a foreign subsidiary	-	-	(1 554)	-	-	1 554	-	-	-	-
Other comprehensive loss for the year	-	-	-	-	(2 435)	-	-	(2 435)		(2 435)
At 31 December 2016	**107 235**	**(4 745)**	**21 447**	-	**(1 986)**	**11 009**	**81 290**	**214 250**	-	**214 250**
Transfer of profit for the current year	-	-	-	-	-	81 290	(81 290)	-	-	-
Net profit for the year	-	-	-	-	-	-	72 528	72 528	-	72 528
Dividends	-	-	-	-	-	(79 959)	-	(79 959)	-	(79 959)
Other comprehensive income for the year	-	-	-	-	701	-	-	701	-	701
At 31 December 2017	**107 235**	**(4 745)**	**21 447**	**-**	**(1 285)**	**12 340**	**72 528**	**207 520**	**-**	**207 520**

(Thousands of EUR)

	Year ended 31 December 2017	***Year ended 31 December 2016***
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit before income taxes and minority interests	100 052	99 300
Adjustments to reconcile profit before income taxes to net cash provided by operating activities:		
Depreciation and amortisation	12 778	14 426
Interest expense, net	479	1 130
Unrealised exchange rate differences	59	(13)
Impairment and provisions	4 612	(281)
Deconsolidation of subsidiary	-	3 744
Profit from the sale of non-current assets	(4 722)	(307)
Income from financial investments	(182)	-
Income from joint venture	2 382	(4 282)
Retirement and other long-term employee benefits	(24)	213
Other non-cash items	172	(149)
Changes in assets and liabilities:		
Inventories	2 848	2 416
Trade and other receivables	1 338	2 548
Trade and other payables	(3 439)	(3 616)
Provision for abandonment and restoration and other provisions	(1 144)	(2 072)
Employee benefits	(223)	(231)
Operating cash flows, net	114 986	112 826
Interest received	10	19
Interest paid	(1 731)	(2 009)
Income tax	(23 129)	(19 772)
Net cash flows from operating activities	90 136	91 064
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to tangible and intangible non-current assets	(4 129)	(6 867)
Proceeds from sale of non-current assets	6 596	856
Acquisition of financial investments	(21 600)	(1 550)
Dividends received	182	-
Net cash flows from investing activities	(18 951)	(7 561)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in loans and borrowings received	17 000	(37 000)
Net change in loans and borrowings provided	(61 877)	(630)
Decrease in cash and cash equivalents upon deconsolidation	-	(1 247)
Dividends paid	(34 281)	(40 882)
Net cash flows from financing activities	(79 158)	(79 759)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(7 973)	3 744
NET CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	17 709	13 951
EXCHANGE RATE DIFFERENCES ON CASH AND CASH EQUIVALENTS	(59)	14
NET CASH AND CASH EQUIVALENTS, END OF PERIOD	**9 677**	**17 709**

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. The 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 the security of supply. NAFTA stores gas for significant Slovak and international companies.

As at 31 December 2017 the Company's shares were held by SPP Infrastructure, a.s. (56.2%, EUR 60 217 thousand), Czech Gas Holding Investment B.V. (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. The shareholders of SPP Infrastructure, a.s. are Energetický a průmyslový holding, a.s. ("EPH") holding a 49% share and management control, and Slovenský plynárenský priemysel, a.s. ("SPP") holding a 51% share. Czech Gas Holding Investment B.V. is controlled by EPH, which is also an ultimate consolidating reporting entity of NAFTA a.s.

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 22 of Act No. 431/2002 Coll. on Accounting, as amended.

1.3. Comparative Information for Previous Reporting Periods

Some comparatives for the previous reporting periods were reclassified in order to comply with the current year's 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 effective for annual periods beginning on 1 January 2017.

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

- **Amendments to IAS 7 "Statement of Cash Flows"** – Disclosure Initiative – adopted by the EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017);

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

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

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

- **IFRS 9 "Financial Instruments"** – adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018);

- **IFRS 15 "Revenue from Contracts with Customers**" and amendments to IFRS 15 "Effective Date of IFRS 15" – adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018);

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

- **Amendments to IFRS 4 "Insurance Contracts"** – Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" – adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied for the first time);

- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** – Clarifications to IFRS 15 "Revenue from Contracts with Customers" – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018).

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

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard;

- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021);

- **Amendments to IFRS 2 "Share-based Payment"** – Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018);

- **Amendments to IFRS 9 "Financial Instruments"** – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019);

- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded);

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

- **Amendments to IAS 40 "Investment Property"** – Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018);

- **Amendments to various standards "Improvements to IFRSs (cycle 2014 – 2016**)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018);

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

- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018);
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** (effective for annual periods beginning on or after 1 January 2019).

The Company anticipates that the adoption of these new standards, amendments to the existing standards and new interpretations will have no material impact on the financial statements of the Company in the period of initial application. The Company carried out an impact analysis of IFRS 15 "Revenue from Contracts with Customers" and concluded that adopting this standard has no material impact on the Company's financial statements.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Accounting

These 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 identified that portfolio hedge accounting under IAS 39 will have no material impact on consolidated financial statements if approved by the EU.

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 this note, 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 recognised in the financial statements.
Energy legislation related to natural gas storage and price regulation

Primary energy legislation in gas industry is represented by Act No. 251/2012 Coll. on Energy and Act No. 250/2012 Coll. on Regulation in Network Industries, which have been effective since 1 September 2012 and superseded previous energy legislation. The purpose of these laws was the transposition of the so-called 3rd Energy Package of the EU including the requirements of Directive 2009/73/EC concerning common rules for the internal market on natural gas. In accordance with the current energy legislation, the Company is required, amongst other obligations, to provide non-discriminatory access to underground gas storage facilities and the use of natural gas storage services. Natural gas storage was not subject to price regulation in 2017.

Impairment of Property, Plant and Equipment

As at the reporting date, the Company made an assessment as to whether there is any indication that the recoverable amount of the Company's property, plant, and equipment is below their 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 future cash flows, is estimated.

In assessing the recoverable amount of property, plant, and equipment, certain assumptions and estimates, specific to individual cash-generating units, were considered that may be subject to changes in the future. Core cash-generating units represent gas storage assets and assets designated for hydrocarbon production and exploration. The recoverable amount of the gas storage assets depends on the future demand for gas storage services. The recoverable amount of property, plant, and equipment for the cash-generating unit "exploration and production" depends on the estimates of producible hydrocarbon reserves, production costs and hydrocarbon prices on the global markets. Further information on the impairment of property, plant, and equipment is disclosed in Note 4.

Litigations

With respect to litigations, management estimates a probable loss, which may result in certain financial expenses. In making this assessment, the Company relies 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 23.2.

Provision for Abandonment and Restoration

These financial statements include significant amounts as a provision for the 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 the 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 abandonment and restoration which is updated yearly. Refer to Note 13 for further details.

(Thousands of EUR)

Unaudited Subsidiaries and Associate Undertakings

Certain subsidiaries and associate undertakings included in these consolidated financial statements were not audited. Unaudited subsidiaries represent less than 1% of the total consolidated assets, liabilities, income and expenses.

c. Basis of Consolidation

NAFTA consolidates the financial statements of all significant subsidiaries.

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.

d. Subsidiaries and Business Combinations

Business undertakings in which NAFTA, directly or indirectly, has an interest of more than one-half of the voting rights or otherwise has the power to exercise control over their operations, are defined as subsidiary undertakings ("subsidiaries").

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

Goodwill arising on consolidation is recognised 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 realisable value of the identifiable assets, liabilities, and contingent liabilities recognised. The negative difference between the acquisition cost of a business combination and the share of the NAFTA Group's interest in the net realisable value of the identifiable assets, liabilities, and contingent liabilities is recognised 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 recognised 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***
Nafta Exploration s.r.o. (1)	Plavecký Štvrtok 900, Slovak Republic	Exploration	100%	Subsidiary
NAFTA Services, s.r.o. (1)	No. 891,Dolní Bojanovice Czech Republic	Service work	100%	Subsidiary
NAFTA International B.V. (1)	Schiphol Boulevard 403, Tower C-4, 1118 BK Schiphol, Netherlands	Holding company	100%	Subsidiary
NAFTA RV (1)	04116, Kyiv, Starokyivska, 10-G, Ukraine	Exploration and production	100%	Subsidiary NAFTA International B.V.

1) *Unaudited subsidiaries for the year ended 31 December 2017 and 31 December 2016 account for approximately 1% of total consolidated assets, liabilities, and shareholders' equity.*

During 2016, the NAFTA Group established a subsidiary, NAFTA RV, to expand its exploration and production activities in Ukraine.

(Thousands of EUR)

As at 31 October 2016, the Company deconsolidated Karotáž a cementace, s.r.o. (subsidiary). In the financial statements, the subsidiary was recognised at cost, as its consolidation using the full method of consolidation would not have had a significant impact on the consolidated financial statements.

The income statement of Karotáž a cementace, s.r.o. (subsidiary) for the ten-month period ended 31 October 2016 is included in the consolidated income statement. Deconsolidated net assets can be summarised as follows:

Non-current assets	1 734
Current assets	2 744
Of which: cash and cash equivalents	*1 247*
Liabilities	(344)
Foreign exchange differences	354
Total	**4 488**
Less: cost	(744)
Value of deconsolidated assets, net:	**3 744**
Of which:	
Equity share attributable to minority shareholders	*2 026*
Equity share attributable to NAFTA	*1 718*

e. Investments in Associated Undertakings and Joint Ventures

Associated undertakings and joint ventures are companies where NAFTA has, directly or indirectly, a substantial, but not controlling influence.

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 recognising 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 ventures were recognised using the equity method:

Name of Company	***Seat***	***Description of business***	***Ownership interest***
CNG Holdings Netherlands B.V.	Strawinskylaan 1263, 1077XX Amsterdam, Netherlands	Holding company	50%
CNG LLC	5 km, Taynya street, village of Vovkove, Uzhgorod, District, Zakarpattya Region, 89452, Ukraine	Exploration and production	50%
POZAGAS a.s.	Malé námestie 1, Malacky, Slovak Republic	Natural gas storage	65%

f. Property, Plant and Equipment and Intangible Assets

As at 31 December 2017 and 2016, property, plant, and equipment are stated in the balance sheet at cost less any subsequent accumulated depreciation and provisions due to the permanent and temporary impairment of assets. Cost includes the costs of contracted work, direct material, wages and salaries, overheads and capitalised interest on received loans and borrowings directly attributable to the acquisition, construction or production of the relevant asset.

For wells and sites, the estimated cost of dismantling and removing the asset and restoring the site ("dismantling asset") are stated at the initial recognition at the present 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. Changes in the provision for abandonment and restoration as a result of changes in the estimated timing of cash flows and discount rates are credited or debited, with a counter-entry, to the dismantling asset.

(Thousands of EUR)

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:

	Year ended	
	31 December 2017	***31 December 2016***
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	4 – 30 years	4 – 30 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 capitalised under assets in the course of construction when incurred and certain expenditures, such as geological and geophysical exploration costs, are expensed. A review is carried out at least annually, on a field-by-field basis, to ascertain whether proven reserves have been confirmed. When proven reserves are determined and production commenced, the relevant expenditures are transferred from assets in the course of construction to the relevant 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 recognised in the statement of profit and loss.

Expenditures relating to the items of property, plant, and equipment after they are put into use are added to the carrying amount of the asset when they meet criteria for the recognition of property, plant, and equipment, and the Company may expect future economic benefits, in excess of the original performance. 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 recognised in full in the statement of profit and loss 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 primarily include a connection fee to the transmission system related to the project Gajary – Baden.

g. Cushion Gas

Cushion gas represents gas needed to run the underground reservoirs of natural gas. Its production would affect the operability of underground reservoirs. Cushion gas is disclosed as part of land, buildings and structures.

h. Financial Assets

Investments are recognised and derecognised 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 date 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 recognised 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 recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised is included in the statement of profit and loss. If the fair value of investments available for sale cannot be determine 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 recognised 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 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 realisable value. Cost includes raw materials, other direct costs and related overheads. Net realisable 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 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;
- If it is part of an identified portfolio of financial instruments that the Company manages and has a pattern of a short-term profit-taking portfolio;
- If it is a derivative that is not designated and effective as a hedging instrument.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised 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 recognised on an effective yield basis, except for short-term liabilities when the recognition of interest would be immaterial.

m. Provisions

Provisions are recognised 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.

n. Revenue Recognition

NAFTA records revenue from the 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. Current and Deferred Income Taxes

Income taxes are provided on accounting profit as determined under the applicable legislation at a rate of 21%, after adjustments for certain items for taxation purposes. Taxation for other jurisdictions is calculated at rates prevailing in the respective jurisdictions Refer also to Note 19.

As of September 2012, the Company is obliged to pay under applicable legislation a monthly special levy on business in regulated industries in addition to corporation tax; the levy is classified as an income tax in accordance with International Financial Reporting Standards. The levy rate for 2017 is 0.00726 per month and is calculated from the profit/loss determined in accordance with Slovak Accounting Standards. 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 realised or the liability is settled. Deferred tax is recognised in 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 deferred tax balance as at 31 December 2017 was recalculated using the tax rate of 21% (31 December 2016: 21%).

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 and due to the provision for abandonment and restoration costs. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available, against which the deductible temporary differences can be utilised. Deferred tax is also recognised in the case of 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.

Due to the legislative abolition of the time limit of the validity of the special levy on business in 2016, a deferred special levy on business was recognised in the financial statements as at 31 December 2016 and 31 December 2017.

A deferred special levy on business is recognised from temporary differences between the net book value of assets and liabilities and the amount of assets and liabilities recognised in accordance with Slovak Accounting Standards. The deferred special levy on business is calculated by applying the special levy rate that is expected to apply to the period when the relevant asset is expected to be realised or the liability settled. The deferred special levy is recognised in the income statement. The annual rate of the deferred special levy on business used to recalculate the special levy is 4.356%.

The most significant temporary differences arise as a result of differences between the net book value of property, plant and equipment determined under International Accounting Standards and their amount determined under Slovak Accounting Standards.

p. 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 recognised 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 European Central Bank on the balance sheet date. Unrealised gains and losses due to fluctuations in exchange rates are fully recognised 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.

q. Borrowing Costs

Borrowing costs are recognised as expenses in the period in which they are incurred, except for borrowing costs directly attributable to the acquisition, construction or production of qualifying non-current assets. Such costs are recognised in cost until the relevant assets are put into use.

r. Financial Instruments

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

s. 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 as cash flow hedges are recognised 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 recognised 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 recognised in the statement of profit and loss as they arise.

t. 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.

u. 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, 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, the maturity term of which approximates the term of the related liability. Changes in the reserve due to changes in actuarial estimates are recognised in the statement of other comprehensive income.

v. Finance Lease

Assets acquired under finance lease are recognised as assets at their fair value as at the acquisition date. The related payable to the lessor is recognised 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 recognised in the statement of profit and loss over the lease term using the internal rate of return.

w. Emission Rights

Emission quotas issued free of charge are accounted at zero book value. Transactions that have been made on the 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.

x. Government and European Union Grants

Grants are not recognised 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 recognised in the statement of profit and loss on a systematic basis over the periods in which the Company has recognised costs that are intended to be compensated by the grants. Specifically, government grants the primary condition of which is that the Company should purchase, construct, or otherwise acquire non-current assets are recognised 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.

(Thousands of EUR)

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are comprised of the following:

Year ended 31 December 2016	*Land, buildings & structures*	*Plant, machinery & equipment*	*Dismantling assets*	*Assets in course of construction*	*Total*
Net Book Value as at 1 January 2016	**131 658**	**79 134**	**27 136**	**6 018**	**243 946**
Additions	-	-	-	5 851	5 851
Transfers	2 585	3 680	-	(6 265)	-
Disposals	(342)	(261)	(106)	(9)	(718)
Depreciation	(6 890)	(7 446)	(1 007)	-	(15 343)
Change in provision recorded to assets	-	-	(3 123)	-	(3 123)
Deconsolidation of a subsidiary (Note 3d)	(625)	(950)	-	(159)	(1 734)
(Additions)/Release of provision	3 664	220	590	(1 258)	3 216
Net Book Value as at 31 December 2016	**130 050**	**74 377**	**23 490**	**4 178**	**232 095**
Cost as at 31 December 2016	303 443	194 995	67 750	38 656	604 844
Accumulated depreciation and provisions as at 31 December 2016	(173 393)	(120 618)	(44 260)	(34 478)	(372 749)
Net Book Value as at 31 December 2016	**130 050**	**74 377**	**23 490**	**4 178**	**232 095**

Year ended 31 December 2017	*Land, buildings & structures*	*Plant, machinery & equipment*	*Dismantling assets*	*Assets in course of construction*	*Total*
Net Book Value as at 1 January 2017	**130 050**	**74 377**	**23 490**	**4 178**	**232 095**
Additions	-	-	-	3 155	3 155
Transfers	3 241	3 269	-	(6 510)	-
Disposals	(1 087)	(292)	(55)	(1 408)	(2 842)
Depreciation	(12 676)	(7 163)	(753)	-	(20 592)
Foreign exchange differences	-	1	-	-	1
Changes in provisions recorded to assets	-	-	(4 540)	-	(4 540)
(Additions to)/Release of provision	5 774	(146)	213	3 145	8 986
Net Book Value as at 31 December 2017	**125 302**	**70 046**	**18 355**	**2 560**	**216 263**
Cost as at 31 December 2017	301 719	196 781	62 422	33 815	594 737
Accumulated depreciation and provisions as at 31 December 2017	(176 417)	(126 735)	(44 067)	(31 255)	(378 474)
Net Book Value as at 31 December 2017	**125 302**	**70 046**	**18 355**	**2 560**	**216 263**

(Thousands of EUR)

As at 31 December 2017 and 31 December 2016, 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 based on the present value of future cash flows, liquidation plan, estimated sale price or the sale price of other assets. A discount rate of 12% (31 December 2016: 12%) was used to calculate the present value of future cash flows of the "hydrocarbon production and exploration" cash-generating unit. The carrying amount of the cash-generating unit based on the recoverable amount as at 31 December 2017 represents EUR 2 779 thousand (31 December 2016: EUR 3 901 thousand).

Assets in the course of construction include:

	31 December 2017			***31 December 2016***		
	Cost	***Provision***	***Net***	***Cost***	***Provision***	***Net***
Exploration wells	24 819	(24 819)	-	26 388	(26 388)	-
Facilities with suspended completion	5 831	(5 653)	178	5 962	(5 707)	255
Other	3 165	(783)	2 382	6 306	(2 383)	3 923
Total	**33 815**	**(31 255)**	**2 560**	**38 656**	**(34 478)**	**4 178**

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 2017, the Company did not capitalise the costs of hydrocarbon reserves exploration (31 December 2016: EUR 802 thousand).

The cost of fully depreciated items of property, plant and equipment that were still in use as at 31 December 2017 amounts to EUR 81 047 thousand (31 December 2016: EUR 81 362 thousand).

The net book value of property, plant and equipment that are temporarily unused amounts to EUR 1 617 thousand (31 December 2016: EUR 1 481 thousand), and the related provision of EUR 1 617 thousand (31 December 2016: EUR 1 481 thousand) was recorded; thus, such items are stated at a zero net book value as at 31 December 2017 and 31 December 2016.

NAFTA's non-current tangible assets are insured against all significant risks through the "ALLRISK" insurance policy. The insured amount is EUR 656 059 thousand.

As at 31 December 2017 and 31 December 2016, NAFTA had no limited right to handle non-current tangible assets.

5. INVESTMENTS IN JOINT VENTURES

NAFTA has a substantial influence in the following companies. See also Note 3 (e):

Name of Company	***Interest***	***Ownership Relationship***
POZAGAS a.s.	65%	joint venture
CNG Holdings Netherlands B.V.	50%	joint venture - NAFTA International B.V.
CNG LLC	50%	100% subsidiary CNG Holdings Netherlands B.V.

As at 31 December 2016, POZAGAS a. s. was jointly controlled by NAFTA (35%), SPP Infrastructure (35%) and GDF INTERNATIONAL S.A.S. with pro-rata sharing of the risk and rewards of ownership and operation of the joint venture. In December 2017, the Company increased its existing share in POZAGAS a.s. to 65% by acquiring a 30% share from GDF INTERNATIONAL S.A.S. POZAGAS a.s. is controlled by SPP Infrastructure, a.s., and thus, NAFTA continues to recognise the investment using the equity method.

In 2016, NAFTA acquired a financial investment in CNG Holdings Netherlands B.V., as a result of which it also acquired an ownership interest in CNG LLC to expand its exploration and production activities in Ukraine.

(Thousands of EUR)

The cost of acquisition also includes goodwill. CNG LLC owns assets primarily related to hydrocarbon reserves exploration. As stated in Note 3(d), the Company created a 100% provision for goodwill that arose.

	31 December 2017	***31 December 2016***
Cost of acquisition including goodwill:	23 583	1 983
Goodwill impairment:	(1 495)	(1 495)
Share of post-acquisition profit, net of dividends received:	25 344	27 616
Net book value	**47 432**	**28 104**

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

	Year ended	
	31 December 2017	***31 December 2016***
Non-current assets	24 781	19 646
Current assets	33 913	15 492
	58 694	35 138
Non-current liabilities	(9 554)	(5 475)
Current liabilities	(1 708)	(1 559)
	(11 262)	(7 034)
Net assets	**47 432**	**28 104**
Revenues	18 437	10 988
Profit before tax	(2 382)	4 337
Income tax including deferred tax	110	(965)
Profit after tax	**(2 272)**	**3 372**

The following amounts represent NAFTA's share of the assets, liabilities, revenues, and expenses of CNG Holdings Netherlands and CNG LLC:

	Year ended	
	31 December 2017	***31 December 2016***
Non-current assets	7	-
Current assets	218	235
	225	235
Non-current liabilities	(1 402)	(642)
Current liabilities	(19)	(96)
	(1 421)	(738)
Net assets	**(1 196)**	**(503)**
Revenues	3	3
Profit before tax	(1 286)	(614)
Income tax including deferred tax	-	-
Profit after tax	**(1 286)**	**(614)**

(Thousands of EUR)

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale investments comprise the following:

	31 December 2017	*31 December 2016*
Cost	744	744
Diminution in value	-	-
Closing net book value	**744**	**744**

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

Name of Company	*Seat*	*Effective ownership*	*Principal activity*
Karotáž a cementace, s.r.o.	Velkomoravská 2606/83, Hodonín, Czech Republic	51%	Logging and cementation
AUTOKAC, s. r. o., Hodonín (1)	Velkomoravská 2606/83, Hodonín, Czech Republic	42%	Dormant, in liquidation

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

7. INVENTORIES

Inventories, net are comprised of the following:

	31 December 2017	*31 December 2016*
Materials and supplies	6 917	4 014
Finished goods	1 519	1 682
Less: provision for old and obsolete items	(1 818)	(1 170)
Total inventories, net	**6 618**	**4 526**

NAFTA’s inventories are insured against all significant risks under the “ALLRISK” insurance policy.

(Thousands of EUR)

8. TRADE AND OTHER RECEIVABLES

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

	31 December 2017	*31 December 2016*
Trade receivables		
Domestic customers	6 141	4 648
Foreign customers	2 089	4 596
Total trade receivables	8 230	9 244
Less: provisions for doubtful amounts	-	(30)
Total trade receivables, net	8 230	9 214
Other receivables	1 189	1 450
Less: provisions for doubtful amounts	-	-
Trade and other receivables, net	**9 419**	**10 664**

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

The average credit period on sales of goods and services is 16 days (2016: 17 days). The Company has created 100% provisions for all receivables overdue by more than 365 days because previous experience suggests that receivables that are past due beyond 365 days are generally unrecoverable. 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:

	Year ended	
	31 December 2017	*31 December 2016*
Balance at beginning of the year	**(30)**	**(32)**
Creation, reversal	30	(30)
Use	-	-
Deconsolidation of a subsidiary	-	32
Balance at end of the year	**-**	**(30)**

9. LOANS PROVIDED

As at 31 December 2017, the Company provided its direct shareholders with long-term loans amounting to EUR 225 716 thousand with a variable interest rate. The average effective interest rate for such loans is 1.61%. The long-term loans fall due in 2019. The loans are secured by an option of their offsetting against future potential dividends.

NAFTA also provided loans totalling EUR 2 511 thousand with a credit line of EUR 9 500 thousand to entities in which it has an equity share. The average effective interest rate for such loans is 6.50%. The loans fall due in 2021 and 2023. These entities own assets primarily related to hydrocarbon reserves exploration. As stated in Note 3(c), the Company created a 100% provision for the loans.

10. EQUITY

Registered capital includes certificate-form registered shares. As at 31 December 2017, the total number of issued and fully paid shares was 3 230 960, with nominal value of EUR 33.19 per share (31 December 2016: 3 230 960 shares with nominal value of EUR 33.19 per share).

As at 31 December 2017 and 31 December 2016, NAFTA held 48 013 own shares at cost of EUR 4 745 thousand. This 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 21 447 thousand as at 31 December 2017 (31 December 2016: EUR 21 447 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 profit distribution purposes the separate financial statements of the Company prepared under IFRS as at 31 December 2017 are relevant. The amount of retained earnings under the Company's separate financial statements, prepared as at 31 December 2017, distributable to shareholders is

(Thousands of EUR)

EUR 76 134 thousand. In 2017, the dividend payment to shareholders from profit for 2016 was approved in the amount of EUR 25.13 per share.

The hedging reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised 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. Other reserves represent actuarial gains and losses related to a change in estimates used to calculate retirement and other long-term employee benefits.

Changes to the hedging derivatives reserve and other reserves can be summarised as follows:

	Year ended	
	31 December 2017	***31 December 2016***
Balance at beginning of the year	**(1 986)**	**449**
Profit/(loss) recognised on cash flow hedges:		
Commodity swap contracts	1 126	(3 405)
Forward currency contracts	179	(84)
Actuarial losses	(312)	(470)
Income tax related to profit/loss recognised in equity	(208)	846
Transfer to profit or loss:		
Commodity swap contracts	(208)	905
Forward currency contracts	102	(35)
Income tax related to profit/loss recognised in profit or loss	22	(192)
Balance at end of the year	**(1 285)**	**(1 986)**

11. LOANS RECEIVED

As at 31 December 2017, a bank loan was drawn in the amount of EUR 220 191 thousand from a long-term credit facility totalling EUR 250 000 thousand. The long-term credit facility consists of a fixed portion amounting to EUR 175 000 thousand, which falls due in 2019, and a variable portion (revolving loan), which is used on a short-term, need-be basis and its ultimate maturity is in 2019.

The loans are denominated in EUR with a variable interest rate. The average effective interest rate for bank loans is 0.9% p.a. The bank loans are not secured by any assets.

Under the loan agreements, the Company is obliged, *inter alia*, to comply with certain financial covenants as at the end of a calendar half-year (30 June and 31 December). The Company complied with the financial covenants as at 31 December 2017.

The Company has open unused credit lines, including the revolving loan stated above amounting to EUR 45 000 thousand. See also Note 24.2 (e).

12. FINANCIAL RECEIVABLES FROM AND FINANCIAL LIABILITIES TO GROUP COMPANIES

The Company has concluded a cash pooling contract with other Group companies. In accordance with the contract, the Company recorded a liability of EUR 28 000 thousand as at 31 December 2016, which was repaid in 2017.

In 2017, the Company also provided funds under the cash pooling financing. The balance of the cash-pooling receivable amounted to EUR 14 406 thousand as at 31 December 2017.

(Thousands of EUR)

13. 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 1 January 2016	**99 083**
Reversal of the provision to assets	(3 123)
Reversal of the provision through profit or loss	(1 030)
Interest on discounting	3 080
Utilisation of provision	(1 277)
Balance as at 31 December 2016	**96 733**
Reversal of the provision to assets	(4 540)
Reversal of the provision through profit or loss	(2 056)
Interest on discounting	2 537
Utilisation of provision	(1 144)
Balance as at 31 December 2017	**91 530**

NAFTA currently has 154 production wells in addition to 244 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 the law.

The provision for abandonment and restoration has been estimated using existing technology and reflects expected future inflation. The present value of these costs was calculated using a discount rate, which reflects the current market assessment of the time value of money and risks specific to the liability (2.15%). The provision takes into account the 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 2018 and 2093 as follows:

Costs incurred	Within 1 Year	1 – 5 Years	5 – 20 Years	More than 20 Years
Present value	6 850	24 105	21 006	39 569

As at 31 December 2017, the Company changed its methodology for estimating expected future inflation (effect of the change to the methodology: inflation decrease by 0.47%). The following table shows the Company's sensitivity to a 0.47% decrease in expected inflation:

Assets	(7 592)
Provision for abandonment and restoration	9 307
Profit for the current year	(1 715)

14. 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 at 31 December 2017 there were 596 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.

A change in long-term employee benefits can be summarised as follows:

	Year ended	
	31 December 2017	***31 December 2016***
Liabilities as at 1 January, net	**3 568**	**3 116**
Net change in provision (actuarial estimate), included in labour and related expenses	(24)	213
Actuarial losses included in other comprehensive income	312	470
Employee benefits paid	(223)	(231)
Liabilities as at 31 December, net	**3 633**	**3 568**

(Thousands of EUR)

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

	31 December 2017	*31 December 2016*
Discount rate	0.8%	0.8%
Future expected annual rate of salary increases	2.0%	1.8%
Expected fluctuation	5.0%	5.0%
Retirement age	62 years	62 years

15. TRADE AND OTHER PAYABLES

Trade and other payables consist of the following:

	31 December 2017	*31 December 2016*
Trade payables	11 991	9 314
Payables to employees	3 888	2 749
Other tax liabilities	2 311	2 109
Social security liabilities	1 590	1 233
Other payables	2 606	2 053
Total trade and other payables	**22 386**	**17 458**

The average credit period is 40 days (2016: 34 days). The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

The Group records no payables overdue as at 31 December 2017 (2016: EUR 0 thousand).

The change on Social Fund liabilities disclosed in the balance sheet as at 31 December 2017 and 31 December 2016 is analysed as follows:

	Year ended	
	31 December 2017	*31 December 2016*
Payables as at 1 January	**205**	**60**
Total creation:	317	439
from expenses	*142*	*211*
from profit	*175*	*228*
Total drawing:	(263)	(294)
catering services	*(114)*	*(120)*
other	*(149)*	*(174)*
Payables as at 31 December	**259**	**205**

16. OTHER CURRENT PROVISIONS

Other current provisions consist of provisions for liabilities and charges, and include provision for abandonment and restoration, refer to Note 13 and litigation and other, refer to Note 23.2.

17. LABOUR AND RELATED EXPENSES

Labour and related expenses are comprised of the following:

	Year ended	
	31 December 2017	*31 December 2016*
Wages and salaries	(14 119)	(14 664)
Social security costs and other social expenses	(6 832)	(6 409)
Total labour and related expenses	**(20 951)**	**(21 073)**

Labour and related expenses also include changes in the provision for retirement and other long-term employee benefits recognised in the statement of profit and loss statement. See also Note 12. The average number of employees for the year ended 31 December 2017 was 630, thereof 6 managers (year ended 31 December 2016: 686, thereof 7 managers).

(Thousands of EUR)

18. OTHER OPERATING AND FINANCIAL INCOME/(EXPENSES)

18.1. Other Operating Income/(Expenses), Net

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

	Year ended	
	31 December 2017	***31 December 2016***
Profit from the sale of non-current assets and inventories	5 074	373
Provision for abandonment and restoration costs	2 056	1 030
Provisions for receivables, net	30	(30)
Insurance charges	(501)	(517)
Provisions for inventories, net	(648)	332
Taxes and charges	(3 070)	(2 957)
Other income/(expenses), net	57	(1 701)
Total other operating income/(expenses), net	**2 998**	**(3 470)**

18.2. Other Financial Income/(Expenses), Net

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

	Year ended	
	31 December 2017	***31 December 2016***
Exchange rate differences, net	(2 031)	(614)
Provision for intragroup borrowings	(47)	3
Deconsolidation of a subsidiary	-	(3 744)
Other financial income/(expenses), net	54	(234)
Total other financial income/(expenses), net	**(2 024)**	**(4 589)**

19. INCOME TAXES

19.1. Income Taxes Reconciliation

Reconciliation between the income tax calculated at the statutory tax rate of 21% (2016: 22%) and income tax expenses is as follows:

	Year ended	
	31 December 2017	***31 December 2016***
Profit before income taxes	100 210	99 300
Tax at a domestic income tax rate of 21% (2016: 22%)	(21 044)	(21 846)
Special levy on business in regulated services	(6 725)	(3 610)
Tax effect of tax non-deductible expenses, tax effect of non-taxable income, tax related to previous periods – 0.1% (2016: 0.44%)	133	442
Tax effect of a deferred special levy on business due to a change of validity of the Act to an indefinite period	-	6 171
Tax effect due to change in tax rate from 22% to 21%	-	(230)
Tax effect of shares in profit/loss of joint venture	110	(965)
Effect of different tax rates of subsidiaries operating in other jurisdictions	2	2
Total income tax charges	**(27 524)**	**(20 036)**

The overall effective tax rate differs from the statutory tax rate 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.

(Thousands of EUR)

19.2. Income Taxes

Income tax expenses comprise the following:

	Year ended 31 December 2017	*Year ended* 31 December 2016
Current income tax	(19 764)	(18 596)
Share of taxation attributable to the joint venture	110	(965)
Deferred income tax	(1 145)	(3 098)
Current special levy on business	(5 601)	(3 548)
Deferred special levy on business	(1 124)	6 171
Total income taxes	**(27 524)**	**(20 036)**

19.3. Deferred Income Taxes

The following are the major deferred tax liabilities and assets including a special levy on business recognised by the Company, and the movements thereon, during the current and prior reporting periods:

	1 January 2016	*Deconso-lidation of a subsidiary*	*Charge (credit) to equity*	*3*	*Charge (credit)to profit*	*31 December 2016*
Property, plant and equipment	(16 148)	124	-		4 618	(11 406)
Provision for abandonment and restoration costs	21 798	-	-		(797)	21 001
Retirement and other long-term employee benefits	686	-	96		(33)	749
Inventories	331	-	-		(85)	246
Derivatives	(177)	-	558		-	381
Other	1 194	-	-		(630)	564
Total	**7 684**	**124**	**654**		**3 073**	**11 535**

	1 January 2017	*Charge (credit) to equity*	*Charge (credit) to profit*	*31 December 2017*
Property, plant and equipment	(11 406)	-	(1 486)	(12 892)
Provision for abandonment and restoration costs	21 001	-	(1 780)	19 221
Retirement and other long-term employee benefits	749	66	(52)	763
Inventories	246	-	136	382
Derivatives	381	(252)	-	129
Other	564	-	913	1 477
Total	**11 535**	**(186)**	**(2 269)**	**9 080**

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:

	31 December 2017	*31 December 2016*
Deferred tax asset	9 080	11 535
Deferred tax liability	-	-
Total	**9 080**	**11 535**

20. 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 reporting period.

(Thousands of EUR)

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

The costs of services of an audit firm comprised EUR 47 thousand for the audit of the financial statements (2016: EUR 36 thousand), and EUR 0 thousand for accounting or tax advisory services (2016: EUR 3 thousand).

22. SIGNIFICANT TRANSACTIONS WITH THIRD PARTIES AND RELATED PARTIES

22.1. Significant Transactions

NAFTA provides the underground storage of natural gas for Slovenský plynárenský priemysel a.s. and other significant international companies. NAFTA performs operation services of underground storage facilities of natural gas at POZAGAS (joint venture).

In 2016, NAFTA signed an agreement on the joint exploration and production of hydrocarbons with company from Vermillion Energy Group.

22.2. 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 Infrastructure Group, Energetický a Průmyslový holding, a.s.), shareholders, directors, and management of the Company.

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

As at 31 December 2017, receivables and loans from related parties amounted to EUR 243 038 thousand (31 December 2016: EUR 229 197 thousand).

As at 31 December 2017, payables to related parties amounted to EUR 2 526 thousand (31 December 2016: EUR 30 633 thousand).

Revenues and other considerations from transactions with related parties for the year ended 31 December 2017 amounted to EUR 107 237 thousand (year ended 31 December 2016: EUR 108 534 thousand).

Expenses and other deliveries from transactions with related parties for the year ended 31 December 2017 amounted to EUR 10 649 thousand (year ended 31 December 2016: EUR 7 985 thousand).

Transactions with related parties mainly represent services related to the underground storage, sale and purchase of natural gas mainly to the direct or indirect owners of the Company SPP and POZAGAS a. s. (joint venture) and via NAFTA Services, s.r.o. (subsidiary), which provides services to SPP Storage, a.s. (SPP Infrastructure Group).

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

NAFTA, its subsidiaries, joint ventures and associates made no transactions with Company management and members of the statutory bodies of any NAFTA Group company, except for employment relationship transactions.

22.3. Board Members' and Directors' Remuneration

Remuneration to board members and directors recorded during the year ended 31 December 2017 and 31 December 2016 was as follows:

	Year ended	
	31 December 2017	***31 December 2016***
Salaries	1 283	1 463
Discretionary bonuses	-	-
Total	**1 283**	**1 463**

Salaries and bonuses are included in labour and related expenses.

(Thousands of EUR)

23. COMMITMENTS AND CONTINGENCIES

23.1. Capital Expenditures

As at 31 December 2017, capital expenditures in the amount of EUR 137 thousand (31 December 2016: EUR 625 thousand) have been committed under contractual arrangements that are not recognised in these financial statements and relate primarily to the construction and modernisation of non-current assets related to the underground storage facility of natural gas.

23.2. Litigation

The Company is involved in other litigations arising in the normal course of business and it is not expected, either individually or in aggregate, that such litigations would have a significant adverse impact on the accompanying financial statements.

23.3. 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 applies a multi-level control during the preparation of tax returns. 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 2012 through 2016 are open and subject to review.

23.4. Bank Guarantees

As at 31 December 2017, the Company provided no bank guarantees (31 December 2016: EUR 77 thousand).

24. FINANCIAL INSTRUMENTS

24.1. 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 2016.

The gearing ratio at year-end was as follows:

	31 December 2017	***31 December 2016***
Debt (i)	220 191	203 157
Cash and cash equivalents	(9 677)	(17 709)
Net debt	**210 514**	**185 448**
Equity (ii)	207 678	214 250
Net debt to equity ratio	**101.37%**	**86.56%**

(i) Debt is defined as long-term and short-term borrowings.
(ii) Note 10.

24.2. Categories of Financial Instruments

	31 December 2017	***31 December 2016***
Loans and receivables (including cash and cash equivalents)	259 218	250 442
Financial derivatives recognised as hedging	162	-
Financial assets	**259 380**	**250 442**
Loans	(220 191)	(203 157)
Interest free liabilities	(22 643)	(17 826)
Financial derivatives recognised as hedging	(777)	(1 814)
Financial liabilities	**(243 611)**	**(222 797)**

(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.

a) Foreign exchange risk

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

Carrying amounts of monetary assets and monetary liabilities (in EUR '000) denominated in a foreign currency at the balance sheet date are as follows:

	Assets		***Liabilities***	
	31 December 2017	***31 December 2016***	***31 December 2017***	***31 December 2016***
CZK	2 193	888	186	119
USD	715	544	47	84

The following table shows the Company's sensitivity to a 5% increase or decrease of EUR against CZK (2016: 12%) and a 15% increase or decrease of EUR against USD (2016: 16%). 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.

	CZK		***USD***	
	31 December 2017	***31 December 2016***	***31 December 2017***	***31 December 2016***
Profit or loss (i)	100	92	100	74

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

The following table shows open forward currency contracts designated and qualified as effective hedging instruments as at the balance sheet date:

	Contract value		***Fair value***	
	2017	***2016***	***2017***	***2016***
Less than 3 months	459	589	41	(17)
3 to 12 months	1 362	1 751	121	(50)
Over 12 months	-	1 821	-	(52)
Total	**1 821**	**4 161**	**162**	**(119)**

b) 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, natural gas and gas condensate sales and underground storage of natural gas. The Company uses commodity derivative instruments to reduce risks related to changes in oil, natural gas and gas condensate prices.

(Thousands of EUR)

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

	Contract value		***Fair value***	
	2017	***2016***	***2017***	***2016***
Less than 3 months	4 162	4 417	(217)	(436)
3 to 12 months	9 846	10 574	(488)	(738)
Over 12 months	4 340	8 559	(72)	(521)
Total	**18 348**	**23 550**	**(777)**	**(1 695)**

c) Interest Rate Risk

The Company's operating income and operating cash flows are independent of changes in market interest rates. In addition to cash and cash equivalents, the Company has other interest-bearing assets. The Company manages interest rate risk by maintaining an appropriate ratio and structure between the interest rates for provided and received loans.

As at 31 December 2017 and 31 December 2016, the Company had no open interest rate derivatives.

d) 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 has policies that limit the amount of credit exposure to financial institutions.

e) 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, funds from cash pooling and the ability to close out market positions. The Company maintains sufficient cash and credit lines, and has no significant open market positions.

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.

	Weighted average effective interest rate	***Less than 1 month***	***1 – 3 months***	***3 months to 1 year***	***1 – 5 years***	***Total***
2017						
Variable interest rate instruments	0.9%	165	45 330	1 181	177 986	224 662
Non-interest bearing		19 672	2 396	321	254	22 643
2016						
Variable interest rate instruments	0.9%	28 000	394	1 181	177 986	207 561
Non-interest bearing		14 434	2 296	728	368	17 826

The Company has access to credit facilities. The total unused amount of such facilities is EUR 45 000 thousand at the balance sheet date (2016: EUR 90 000 thousand). The Company expects to meet its other obligations from operating cash flows, maturing financial assets, funds from cash pooling and funds from an unused credit facility.

(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 based on forward interest rates as at the balance sheet date and agreed forward rates reflecting the credit risk of various parties. The fair value of interest rate-currency swap contracts is determined using forward currency exchange rates at the balance sheet date and agreed forward exchange rates discounted using interest rates, which reflect the credit risk of various parties.

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, the carrying amounts of financial assets and liabilities disclosed in the financial statements at amortised cost approximate their fair value.

(Thousands of EUR)

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

25.1. Consolidated Financial Statements

NAFTA prepares consolidated financial statements for the 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 will be available at the Company's registered office (Votrubova 1, Bratislava) and at the Commercial Registry of the District Court Bratislava I, administered by the Registration Court (Záhradnícka 10, Bratislava).

NAFTA is a direct subsidiary of SPP Infrastructure, 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 Infrastructure a.s. prepares consolidated financial statements in accordance with International Financial Reporting Standards as adopted for use in the EU. The consolidated financial statements of SPP Infrastructure a.s., after being approved by the Company's bodies and the General Meeting, will be available at 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).

The consolidated financial statements of EPH, after being approved by the Company's bodies and General Meeting, will be available at EHP's registered office (Příkop 843/3, Brno, Czech Republic) and at the Commercial Registry of the Regional Court in Brno, Czech Republic.

25.2. Unlimited Guarantee

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

25.3. Members of the Company's Bodies as at 31 December 2017

Board of Directors:	
Chairman	Ing. Jan Špringl
Vice-Chairman	Ing. Ján Majerčík
Member	Ing. Robert Bundil
Member	Ing. Bohumil Kratochvíl
Member	Ing. Rastislav Kupka
Supervisory Board:	
Chairman	JUDr. Daniel Křetínský
Member	Stéphane Brimont
Member	Mgr. Jozef Dermek
Member	Mgr. Pavel Horský
Member	Ing. Daniel Kujan
Member	Dušan Sajko
Member	Mgr. Jan Stříteský
Member	Ing. Drahomír Zajíček
Top Management:	
General Director	Ing. Martin Bartošovič
Director of Underground Gas Storage Division	Ing. Ladislav Goryl
Director of Exploration and Production Division	Ing. Jozef Levoča, MBA
Director of Economic Section	Ing. Szilárd Kása
Director of Sales and Marketing Section	Mgr. Peter Kučera

26. EVENTS AFTER THE BALANCE SHEET DATE

From 31 December 2017 up to the date of the approval of these financial statements, there were no significant events that would significantly impact the assets and liabilities of the Company.

27. PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements on pages 4 to 36 were signed on 2 March 2018 on behalf of the Board of Directors by:

Ing. Jan Špringl
Chairman of Board of Directors

Ing. Robert Bundil
Member 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