**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 2018**

**Company ID No. (IČO): 36 286 192**
**Tax ID No. (DIČ): 2022146599**

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

## CONTENTS



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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 2018, 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 2018, 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.

### Emphasis of Matter

As stated in Note 3d – Subsidiaries and Business Combinations, the process of identification and measurement of assets and liabilities arising from the acquisition of underground storage facilities in Germany was not completed as at the reporting date. Therefore, in accordance with IFRS 3 "Business Combinations", the Group recognised provisional values for individual items of assets and liabilities and the related gain from a bargain purchase in the amount of EUR 5 333 thousand. Finalisation of the recognition of the business combination in 2019 may result in adjustments to the provisional values recognised in these consolidated financial statements.

Our opinion is not modified in respect of this matter.

### 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.

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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 consolidated financial statements, we will express an opinion on whether:

- Information disclosed in the annual report prepared for 2018 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, 29 March 2019

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

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

**NAFTA a.s.**
**CONSOLIDATED BALANCE SHEETS**
**as at 31 December 2018 and 31 December 2017**
**(Thousands of EUR)**

| | Note | 31 December 2018 | 31 December 2017 |
|---|---|---|---|
| **ASSETS:** | | | |
| NON-CURRENT ASSETS: | | | |
| Property, plant and equipment | 4 | 391 216 | 216 263 |
| Intangible and other assets | | 9 387 | 9 802 |
| Investments in joint ventures | 5 | 48 598 | 47 432 |
| Available-for-sale investments | 6 | 747 | 744 |
| Deferred tax asset | 19.3 | 8 536 | 9 080 |
| Long-term loans provided | 9 | - | 225 716 |
| Total non-current assets | | 458 484 | 509 037 |
| CURRENT ASSETS: | | | |
| Inventories | 7 | 8 866 | 6 618 |
| Trade and other receivables | 8 | 16 285 | 9 419 |
| Financial receivables from group companies | 9,12 | 155 851 | 14 406 |
| Other financial receivables | | - | 162 |
| Cash and cash equivalents | | 62 258 | 9 677 |
| Total current assets | | 243 260 | 40 282 |
| **TOTAL ASSETS** | | **701 744** | **549 319** |
| **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 | (1 779) | (1 285) |
| Profit from previous years | | 10 176 | 12 340 |
| Profit for the current year | | 75 083 | 72 528 |
| Equity attributable to shareholders of NAFTA | | 207 417 | 207 520 |
| Total equity | | 207 417 | 207 520 |
| NON-CURRENT LIABILITIES: | | | |
| Long-term loans received | 11 | - | 175 000 |
| Provision for abandonment and restoration | 13 | 155 717 | 84 680 |
| Retirement and other long-term employee benefits | 14 | 12 995 | 3 633 |
| Deferred tax liability | 19.3 | 12 792 | - |
| Other non-current liabilities | | 236 | 257 |
| Deferred income | | 1 648 | 1 709 |
| Total non-current liabilities | | 183 388 | 265 279 |
| CURRENT LIABILITIES: | | | |
| Trade and other payables | 15 | 26 730 | 22 386 |
| Income tax liabilities | | 12 059 | 1 048 |
| Short-term loans received | 11 | 250 192 | 45 191 |
| Financial liabilities to group companies | 12 | 10 001 | - |
| Other financial liabilities | | 1 045 | 777 |
| Other current provisions | 13, 16 | 10 912 | 7 118 |
| Total current liabilities | | 310 939 | 76 520 |
| TOTAL LIABILITIES | | 494 327 | 341 799 |
| **TOTAL EQUITY AND LIABILITIES** | | **701 744** | **549 319** |

**NAFTA a.s.**
**CONSOLIDATED STATEMENTS OF PROFIT AND LOSS**
**for the year ended 31 December 2018 and 31 December 2017**
**(Thousands of EUR)**

| | Note | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|---|
| REVENUES: | | | |
| Natural gas storage revenues and hydrocarbon sales | 22.1 | 145 685 | 149 861 |
| Other revenues | | 5 818 | 6 130 |
| Total revenues | | 151 503 | 155 991 |
| OPERATING EXPENSES: | | | |
| Own work capitalised | | 72 | 480 |
| Consumables and services | | (22 507) | (20 803) |
| Labour and related costs | 17 | (18 760) | (20 951) |
| Depreciation and amortisation | | (16 469) | (12 778) |
| Other operating income/(expenses), net | 18.1 | 231 | 2 998 |
| Total operating income/(expenses), net | | (57 433) | (51 054) |
| FINANCIAL INCOME/(EXPENSES): | | | |
| Interest income | | 3 690 | 3 805 |
| Interest expenses | | (3 724) | (4 284) |
| Income/(loss) from joint venture | 5 | 1 976 | (2 382) |
| Other financial income/(expenses), net | 18.2 | 4 874 | (2 024) |
| Total financial income/(expenses), net | | 6 816 | (4 885) |
| PROFIT BEFORE INCOME TAXES | | 100 886 | 100 052 |
| INCOME TAXES | 19 | (25 803) | (27 524) |
| NET PROFIT | | **75 083** | **72 528** |
| Attributable to: | | | |
| Shareholders of NAFTA | | 75 083 | 72 528 |
| Minority interests of other owners of subsidiaries | 3c | - | - |
| EARNINGS PER SHARE (in EUR) | 20 | 23.24 | 22.45 |

**(Thousands of EUR)**

| | *Note* | *Year ended 31 December 2018* | *Year ended 31 December 2017* |
|---|---|---|---|
| PROFIT FOR THE YEAR AFTER INCOME TAXES | | 75 083 | 72 528 |
| OTHER COMPREHENSIVE INCOME | | | |
| *Items that may be reclassified subsequently to the profit and loss statement:* | | | |
| Hedging derivatives | | (430) | 1 199 |
| Other comprehensive income/(loss) for the year before income taxes | | (430) | 1 199 |
| Tax at the tax rate of 21% | | 91 | (252) |
| Tax related to items of other comprehensive income/(loss) | | 91 | (252) |
| *Items that will not be subsequently reclassified to the profit and loss statement:* | | | |
| Actuarial losses | | (196) | (312) |
| Other comprehensive loss for the year before income taxes | | (196) | (312) |
| Tax at the tax rate of 21% | | 41 | 66 |
| Tax related to items of other comprehensive loss | | 41 | 66 |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **74 589** | **73 229** |
| Total comprehensive income for the year attributable to: | | | |
| Equity shareholders of NAFTA | | 74 589 | 73 229 |
| Minority interests of other owners of subsidiaries | | - | - |
| | | **74 589** | **73 229** |

| | *Year ended 31 December 2018* | | | *Year ended 31 December 2017* | | |
|---|---|---|---|---|---|---|
| | *Before taxation* | *Tax* | *After taxation* | *Before taxation* | *Tax* | *After taxation* |
| Hedging derivatives | (430) | 91 | (339) | 1 199 | (252) | 947 |
| Actuarial gains/(losses) | (196) | 41 | (155) | (312) | 66 | (246) |
| **Total other comprehensive income/(loss) for the year** | **(626)** | **132** | **(494)** | **887** | **(186)** | **701** |

**NAFTA a.s.**
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**
**for the year ended 31 December 2018 and 31 December 2017**
**(Thousands of EUR)**

| | *Registered capital* | *Treasury shares, at cost* | *Other capital funds* | *Hedging derivatives reserve and other reserves* | *Profit from previous years* | *Profit for the current year* | *Attributable to shareholders of NAFTA* | *Minority interests* | *Total equity* |
|---|---|---|---|---|---|---|---|---|---|
| **At 1 January 2017** | **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) | - | - | - |
| Dividends | - | - | - | - | (79 959) | - | (79 959) | - | (79 959) |
| Net profit for the year | - | - | - | - | - | 72 528 | 72 528 | - | 72 528 |
| Other comprehensive income/(loss) 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** |
| Adoption of IFRS 9 | - | - | - | - | (133) | - | (133) | - | (133) |
| Transfer of profit for the current year | - | - | - | - | 72 528 | (72 528) | - | - | - |
| Dividends | - | - | - | - | (74 559) | - | (74 559) | - | (74 559) |
| Net profit for the year | - | - | - | - | - | 75 083 | 75 083 | - | 75 083 |
| Other comprehensive income/(loss) for the year | - | - | - | (494) | - | - | (494) | - | (494) |
| **At 31 December 2018** | **107 235** | **(4 745)** | **21 447** | **(1 779)** | **10 176** | **75 083** | **207 417** | | **207 417** |

**(Thousands of EUR)**

| | ***Year ended 31 December 2018*** | ***Year ended 31 December 2017*** |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Profit before income taxes and minority interests | 100 886 | 100 052 |
| Adjustments to reconcile profit before income taxes to net cash provided by operating activities: | | |
| Depreciation and amortisation | 16 469 | 12 778 |
| Interest expense, net | 34 | 479 |
| Unrealised exchange rate differences | (6) | 59 |
| Impairment and provisions | 1 707 | 4 612 |
| Deconsolidation of subsidiary | (5 333) | - |
| Profit from the sale of non-current assets | (10) | (4 722) |
| Income from financial investments | (235) | (182) |
| Income/(loss) from joint venture | (1 976) | 2 382 |
| Retirement and other long-term employee benefits | 99 | (24) |
| Other non-cash items | (780) | 172 |
| Changes in assets and liabilities: | | |
| Inventories | (1 441) | 2 848 |
| Trade and other receivables | 1 869 | 1 338 |
| Trade and other payables | (3 806) | (3 439) |
| Provision for abandonment and restoration and other provisions | (1 913) | (1 144) |
| Employee benefits | (304) | (223) |
| Operating cash flows, net | 105 260 | 114 986 |
| Interest received | - | 10 |
| Interest paid | (1 791) | (1 731) |
| Income tax | (25 081) | (23 129) |
| Net cash flows from operating activities | 78 388 | 90 136 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Additions to tangible and intangible non-current assets | (2 952) | (4 129) |
| Proceeds from sale of non-current assets | 17 | 6 596 |
| Acquisition of financial investments | (75 885) | (21 600) |
| Dividends received | 235 | 182 |
| Net cash flows from investing activities | (78 585) | (18 951) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Net change in loans and borrowings received | 30 000 | 17 000 |
| Net change in loans and borrowings provided | (436) | (1 877) |
| Net change in cash pooling | 24 407 | (60 000) |
| Dividends paid | (1 193) | (34 281) |
| Net cash flows from financing activities | 52 778 | (79 158) |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | 52 581 | (7 973) |
| NET CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 9 677 | 17 709 |
| EXCHANGE RATE DIFFERENCES ON CASH AND CASH EQUIVALENTS | - | (59) |
| **NET CASH AND CASH EQUIVALENTS, END OF PERIOD** | **62 258** | **9 677** |

# 1. GENERAL

## 1.1. Description of Business

NAFTA a.s. 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 (hereinafter "NAFTA" or the "Company"), 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 2018, 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). Because the Company holds its own shares the share of voting rights is as following: SPP Infrastructure, a.s. 57.0 %, Czech Gas Holding Investment B.V. 41.1 % and minority shareholders 1.9 %. The ultimate shareholders of SPP Infrastructure, a.s. are Energetický a průmyslový holding, a.s. ("EPH") holding a 34% share and management control, Slovenský plynárenský priemysel, a.s. ("SPP") holding a 51% share and a consortium of global institutional investors holding a 15 % share. Czech Gas Holding Investment B.V. is controlled by EPH (through its subsidiary EP Infrastructure, a.s.). An ultimate consolidating reporting entity of NAFTA a.s. is company EP Investment S.à r.l.

## 1.2. Legal Basis for Preparing the Financial Statements

These consolidated financial statements have been prepared as the ordinary consolidated financial statements for the accounting period from 1 January until 31 December 2018 pursuant to Article 22 of Act No. 431/2002 Coll. on Accounting, as amended.

The accounting policies described in Note 3 were applied in preparing these consolidated financial statements and the comparatives stated in these consolidated financial statements.

## 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

**First adoption of new additions to the existing standards effective for current reporting period**
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:

- **IFRS 9 "Financial Instruments"** – adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018). This standard replaced the original accounting standard IAS 39 "Financial Instruments: Recognition and Measurement".

  The basic requirements of the new standard can be summarised in the following three areas:

  ***Classification and Measurement*** – IFRS 9 introduced a new approach for the classification of financial assets, which is based on cash flow characteristics and the business model.

  The classification of debt instruments depends on the business model used by the reporting entity for management of financial assets and on whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held for the collection of cash flows, it can only be measured at amortised cost if it meets the SPPI requirement. Debt instruments that meet the SPPI requirement and are part of a portfolio held by the reporting entity for the collection of cash flows and, at the same time, for the possibility to sell financial assets from such a portfolio, may be classified as FVOCI. Financial assets whose cash flows do not represent the SPPI must be measured at FVTPL (eg financial derivatives). Embedded derivatives are no longer recognised separately from financial assets, but are considered when evaluating the SPPI test.

  ***Impairment*** – IFRS 9 introduced a new impairment model based on the expected losses model that will require more-timely recognition of expected credit losses. The new standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.

  ***Hedge accounting –*** IFRS 9 introduced a revised model for hedge accounting with enhanced disclosures on risk management activity. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities.

  The Company applied changes arising from the new IFRS 9 on a retrospective basis, but used the exception which allows the Company not to restate data for the comparable period as at 31 December 2017. The effect of transition to the new standard is recognised as a restatement of the opening balance of retained earnings as at 1 January 2018. Changes to hedge accounting were applied prospectively and had no impact on the comparable period, or the presentation thereof. The application of the new IFRS 9 resulted in an increase of provisions for impairment of financial assets in the total amount of EUR 118 thousand, which was recognised as a decrease in retained earnings as at 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); This standard replaced the original accounting standard IAS 18 "Revenue", IAS 11 "Construction contracts" and several revenue-related interpretations.

  The new standard introduced the principle under which revenues must be recognised at the transaction price at the time the goods or services are transferred to the customer. Any bundle of goods or services which are distinct must be recognised separately and discounts or refunds of the selling price must be allocated to individual items. If the price is variable for any reasons, a minimum amount that is highly probable not to be reversed must be recognised. The costs of securing a contract with a customer must be capitalised and amortised over the period during which economic benefits flow to the Company under the contract with a customer.

  The Company applied a simplified method of transition effective from 1 January 2018.

  The adoption of the new IFRS 15 has not led to any material changes in the Company's financial statements.

- **Amendments to IFRS 2 "Share-based Payment"** – Classification and Measurement of Share-based Payment Transactions – adopted by the EU on 27 February 2018 (effective for annual periods beginning on or after 1 January 2018);

- **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);

- **Amendments to IAS 40 "Investment Property"** – Transfers of Investment Property – adopted by the EU on 14 March 2018 (effective for annual periods beginning on or after 1 January 2018);

- **Amendments to IFRS 1 and IAS 28** due to "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);

- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** – adopted by the EU on 28 March 2018 (effective for annual periods beginning on or after 1 January 2018).

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

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

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 16 "Leases" (effective for annual periods beginning on or after 1 January 2019);

- Amendments to IFRS 9 "Financial Instruments" – Prepayment Features with Negative Compensation – adopted by the EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019);

- Amendments to IAS 19 "Employee Benefits" – Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019);

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

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

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

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

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

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new 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 3 "Business Combinations" – Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period);

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

- Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" – Definition of Material (effective for annual periods beginning on or after 1 January 2020);

- Amendments to References to the Conceptual Framework in IFRS Standards (effective for annual periods beginning on or after 1 January 2020).

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.

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

## 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. The purpose of these laws is to ensure 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 2018.

*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 sites. 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 sites and for the restoration of sites to their original condition based on previous experience and estimates of costs. In 2018, the Company prepared a new detailed estimate of abandonment and restoration. Refer to Note 13 for further details.

*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.

**(Thousands of EUR)**

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 Services, s.r.o. | No. 891,Dolní Bojanovice Czech Republic | service work | 100% | Subsidiary |
| NAFTA International B.V. | Schiphol Boulevard 477, Tower C-4, 1118 BK Schiphol, Netherlands | holding company | 100% | Subsidiary |
| NAFTA RV | 04116, Kyiv, Starokyivska, 10-G, Ukraine | exploration and production | 100% | Subsidiary NAFTA International B.V. |
| NAFTA Germany GmbH (Blitz 18-326 GmbH) (1) | Leopoldstraße 8-10, c/o Hengeler Mueller, 80802 München, Germany | holding company | 100% | Subsidiary NAFTA International B.V. |
| NAFTA Bavaria GmbH (Blitz 18-327 GmbH) (1) | Leopoldstraße 8-10, c/o Hengeler Mueller, 80802 München, Germany | holding company | 100% | Subsidiary NAFTA Germany GmbH |
| NAFTA Speicher Management GmbH (DEA Speicher Management Gmbh) (1) | Moos 7, 83135 Schechen, Germany | general partner | 100% | Subsidiary NAFTA Bavaria GmbH |
| NAFTA Speicher GmbH & Co. KG (DEA Speicher Holding GmbH & Co., KG) (1) | Moos 7, 83135 Schechen, Germany | natural gas storage | 100% | Subsidiary NAFTA Bavaria GmbH |
| NAFTA Speicher Inzenham GmbH (DEA Speicher GmbH) (1) | Moos 7, 83135 Schechen, Germany | natural gas storage | 100% | Subsidiary NAFTA Speicher GmbH & Co. KG |

1) *Change of the Company name*

In February 2018 NAFTA International B.V. acquired the company NAFTA Germany GmbH including the 100 % ownership of its subsidiary NAFTA Bavaria GmbH in total amount of 50 thousand EUR.

As of 31 December 2018 NAFTA Bavaria GmbH completed acquisition of underground storage facilities with a storage capacity of 1.8 billion cubic meters (Inzenham – West, Wolfersberg and Breitbrunn/Eggstätt) located in the German State of Bavaria. As part of the transaction it became 100% owner of the following companies - NAFTA Speicher Management GmbH, NAFTA Speicher GmbH & Co. KG and NAFTA Speicher Inzenham GmbH.

As the acquisition took place on a very last day of the accounting period the process of business plan preparation and relating tax effects calculation is still ongoing. Therefore the recognising and measuring of the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values is not finalised. In accordance with IFRS 3 Business combinations the Company in these consolidated financial statements recognised provisional amounts for respective assets and liabilities, specifically for non-current assets, deferred tax receivable, deferred tax liability, provision for abandonment and restoration and relating gain on a bargain purchase.

The provisional valuation of acquired assets and liabilities was performed by the valuation advisors and based on the analysis of discounted future cash flows and the replacement cost model. Among the best estimations and judgments belong forecasts and projections of the future activity of underground gas storage facilities and market conditions for theirs usage after 2027, when the long-term contracts with the current customers will terminated. Final accounting procedures for the business combination in 2019 may change the provisionally determined valuation recognised in these consolidated financial statements.

**(Thousands of EUR)**

The provisional valuation of assets and liabilities acquired by the acquisition of underground storage facilities which are included in these consolidated financial statements are as follows:

| | **31 December 2018 (estimated fair value)** |
|---|---|
| NON-CURRENT ASSETS: | |
| Property, plant and equipment | 180 112 |
| Intangible and other assets | 8 |
| CURRENT ASSETS: | |
| Inventories | 979 |
| Trade and other receivables | 3 295 |
| Other financial receivables | 294 |
| Cash and cash equivalents | 42 381 |
| NON-CURRENT LIABILITIES: | |
| Provision for abandonment and restoration | (68 810) |
| Retirement and other long-term employee benefits | (9 371) |
| Deferred tax liability | (12 792) |
| CURRENT LIABILITIES: | |
| Trade and other payables | (6 096) |
| Income tax liabilities | (11 761) |
| **Assets and liabilities, net** | **118 239** |
| A gain on bargain purchase | (5 333) |
| **Acquisition price** | **112 906** |
| Received cash and cash equivalents | 42 381 |
| Receivable to former owners regarding to transaction tax | 5 360 |
| **Net decrease in cash and cash equivalents** | **75 885** |

*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.

(Thousands of EUR)

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 2018 and 2017, 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.

Production wells and related sites 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 2018 | Year ended 31 December 2017 |
|---|---|---|
| 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. Provision in full amount is created to exploration wells.

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

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

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

<u>Impairment of Financial Assets</u>

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

As at 31 December 2018 and 31 December 2017, the Company assessed the impairment of loan receivables from borrowings provided to the Group (see Note 8) and concluded that the 12-month expected credit losses approximated zero given the low risk of default and expected loss, and given the method of settling the borrowing by offsetting against the payable from dividends paid.

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

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

<u>Derecognition of Financial Assets</u>

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

*i. Derivative Financial Instruments*

The Company enters into a number of derivative contracts in order to manage the risk of changes in commodity prices and interest rates.

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

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

Hedge Accounting

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

Cash Flow Hedges

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

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

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

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

*j. 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.

*k. 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.

*l. Accruals*

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

*m. Financial Liabilities*

Financial liabilities are classified as either financial liabilities at amortised costs or financial liabilities ‘at fair value through profit or loss’ (FVTPL).

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

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

*n. 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 sites 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 sites, 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.

*o. Revenue Recognition*

NAFTA records revenues from the underground storage of natural gas, revenues from the sale of hydrocarbons 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. The Company recognises revenues from the underground gas storage and revenues from the sale of natural hydrocarbons in one segment due to the relatively low share of revenues from sales of natural hydrocarbons in this segment and total operating revenues.

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

Revenues from the sale of hydrocarbons are recognised when the commodity is transferred to the customer at the fair value of the consideration received or receivable.

Revenues from other services include, in particular, revenues from operator services related to the storage of natural gas that are recognised in the course of providing the service to the customer and revenues related to drilling and workover that are recognised as revenue during the service delivery according to the level of completion.

*p. 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 2018 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 2018 was recalculated using the tax rate of 21% (31 December 2017: 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 cannot be controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

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 special levy on business used to recalculate the deferred 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.

*q. Transactions in Foreign Currencies*

Transactions in foreign currencies are translated at the exchange rate in effect on the day of the transaction. Resulting exchange differences are 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.

*r. 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.

*s. 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.

*t. 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.

*u. 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.

*v. 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.

*w. 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 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 |
| Change in provision recorded to assets | - | - | (4 540) | - | (4 540) |
| (Additions)/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** |

| *Year ended 31 December 2018* | *Land, buildings & structures* | *Plant, machinery & equipment* | *Dismantling assets* | *Assets in course of construction* | *Total* |
|---|---|---|---|---|---|
| **Net Book Value as at 1 January 2018** | **125 302** | **70 046** | **18 355** | **2 560** | **216 263** |
| Additions | - | 17 | - | 2 517 | 2 534 |
| Transfers | 898 | 1 572 | - | (2 470) | - |
| Disposals | (52) | (5) | (156) | (912) | (1 125) |
| Depreciation | (6 068) | (6 754) | (2 084) | - | (14 906) |
| Change in provision recorded to assets | - | - | 8 266 | - | 8 266 |
| (Additions )/Release of provision | 2 287 | 662 | (4 289) | 1 412 | 72 |
| Acquisition (Note 3 d.) | 111 933 | 36 330 | 31 849 | - | 180 112 |
| **Net Book Value as at 31 December 2018** | **234 300** | **101 868** | **51 941** | **3 107** | **391 216** |
| Cost as at 31 December 2018 | 409 677 | 233 936 | 100 992 | 32 038 | 776 643 |
| Accumulated depreciation and provisions as at 31 December 2018 | (175 377) | (132 068) | (49 051) | (28 931) | (385 427) |
| **Net Book Value as at 31 December 2018** | **234 300** | **101 868** | **51 941** | **3 107** | **391 216** |

**(Thousands of EUR)**

As at 31 December 2018 and 31 December 2017, 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 2017: 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 2018 represents EUR 3 963 thousand (31 December 2017: EUR 2 779 thousand).

Assets in the course of construction include:

| | *31 December 2018* | | | *31 December 2017* | | |
|---|---|---|---|---|---|---|
| | ***Cost*** | ***Provision*** | ***Net*** | ***Cost*** | ***Provision*** | ***Net*** |
| Exploration wells | 23 311 | (23 311) | - | 24 819 | (24 819) | - |
| Facilities with suspended completion | 4 919 | (4 919) | - | 5 831 | (5 653) | 178 |
| Other | 3 807 | (700) | 3 107 | 3 165 | (783) | 2 382 |
| **Total** | **32 037** | **(28 930)** | **3 107** | **33 815** | **(31 255)** | **2 560** |

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 2018 and 2017, the Company did not capitalise the costs of hydrocarbon reserves exploration.

The cost of fully depreciated items of property, plant and equipment that were still in use as at 31 December 2018 amounts to EUR 91 921 thousand (31 December 2017: EUR 81 047 thousand).

The net book value of property, plant and equipment that are temporarily unused amounts to EUR 1 573 thousand (31 December 2017: EUR 1 617 thousand), and the related provision of EUR 1 573 thousand (31 December 2017: EUR 1 617 thousand) was recorded; thus, such items are stated at a zero net book value as at 31 December 2018 and 31 December 2017.

NAFTA's non-current tangible assets are insured against all significant risks through the "ALLRISK" insurance policy. The insured amount is EUR 776 519 thousand.

As at 31 December 2018 and 31 December 2017, 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.

**(Thousands of EUR)**

Investments in joint ventures are recognised at cost net of impairment, if any:

| | ***31 December 2018*** | ***31 December 2017*** |
|---|---|---|
| Cost of acquisition including goodwill: | 23 583 | 23 583 |
| Goodwill impairment: | (1 495) | (1 495) |
| Share of post-acquisition profit, net of dividends received: | 26 510 | 25 344 |
| **Net book value** | **48 598** | **47 432** |

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

| | ***Year ended*** | |
|---|---|---|
| | ***31 December 2018*** | ***31 December 2017*** |
| Non-current assets | 19 182 | 24 781 |
| Current assets | 38 572 | 33 913 |
| | 57 754 | 58 694 |
| Non-current liabilities | (7 653) | (9 554) |
| Current liabilities | (1 502) | (1 708) |
| | (9 155) | (11 262) |
| **Net assets** | **48 599** | **47 432** |
| Revenues | 17 502 | 18 437 |
| Profit before tax | 1 976 | (2 382) |
| Income tax including deferred tax | (770) | 110 |
| **Profit after tax** | **1 206** | **(2 272)** |

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 2018*** | ***31 December 2017*** |
| Non-current assets | 26 | 7 |
| Current assets | 347 | 218 |
| | 373 | 225 |
| Non-current liabilities | (1 617) | (1 402) |
| Current liabilities | (146) | (19) |
| | (1 763) | (1 421) |
| **Net assets** | **(1 390)** | **(1 196)** |
| Revenues | 19 | 3 |
| Profit before tax | (95) | (1 286) |
| Income tax including deferred tax | - | - |
| **Profit after tax** | **(95)** | **(1 286)** |

**(Thousands of EUR)**

## 6. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise the following:

| | *31 December 2018* | *31 December 2017* |
|---|---|---|
| Cost | 752 | 744 |
| Diminution in value | (5) | - |
| **Closing net book value** | **747** | **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. – v likvidaci (1) | Velkomoravská 2606/83, Hodonín, Czech Republic | 42 % | Dormant, in liquidation |
| Nafta Exporation s. r. o. v likvidácii | Plavecký Štvrtok 900, Slovak Republic | 100 % | Dormant, in liquidation |

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

## 7. INVENTORIES

Inventories, net are comprised of the following:

| | *31 December 2018* | *31 December 2017* |
|---|---|---|
| Materials and supplies | 9 607 | 6 917 |
| Finished goods | 1 044 | 1 519 |
| Less: provision for old and obsolete items | (1 785) | (1 818) |
| **Total inventories, net** | **8 866** | **6 618** |

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

## 8. TRADE AND OTHER RECEIVABLES

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

| | *31 December 2018* | *31 December 2017* |
|---|---|---|
| Trade receivables | | |
| Domestic customers | 3 042 | 6 141 |
| Foreign customers | 6 113 | 2 089 |
| Total trade receivables | 9 155 | 8 230 |
| Less: provisions for doubtful amounts | (74) | - |
| Total trade receivables, net | 9 081 | 8 230 |
| Other receivables | 7 204 | 1 189 |
| Less: provisions for doubtful amounts | - | - |
| **Trade and other receivables, net** | **16 285** | **9 419** |

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

The average credit period on sales of goods and services is 17 days (2017: 16 days).

For trade and other receivables the Company applies so-called simplified model for accounting for impairment losses. Provisions for trade receivables with low credit risk are recognised on the basis of an estimate of total expected credit losses resulting from previous experience of defaults and future developments.

**(Thousands of EUR)**

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.

Movement in the provision for doubtful debts:

| | *Year ended* | |
|---|---|---|
| | ***31 December 2018*** | ***31 December 2017*** |
| **Balance at beginning of the year** | **-** | **(30)** |
| Adoption of IFRS 9 | (118) | - |
| Creation, reversal | 44 | 30 |
| Use | - | - |
| **Balance at end of the year** | **(74)** | **-** |

## 9. LOANS PROVIDED

As at 31 December 2018 the Company recognised the following loans provided to:

- its direct shareholders in the amount of EUR 155 851 thousand with variable interest rate and maturity in 2019. The average effective interest rate of these loans is 1.61 %. Loans are secured by option of offsetting with future possible dividends.

- its subsidiary in the amount of EUR 3 306 thousand with fixed interest rate and maturity in 2021 and 2023 to finance a geological exploration of natural hydrocarbon reserves, to which a 100 % provision was made in accordance with Note 3 (c). The credit facility of loans is EUR 11 500 thousand. The average effective interest rate for these loans is 6,63 %.

## 10. EQUITY

Registered capital includes certificate-form registered shares. As at 31 December 2018, the total number of issued and fully paid shares was 3 230 960, with nominal value of EUR 33.19 per share (31 December 2017: 3 230 960 shares with nominal value of EUR 33.19 per share).

As at 31 December 2018 and 31 December 2017, 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 2018 (31 December 2017: 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 2018 are relevant. The amount of retained earnings under the Company's separate financial statements, prepared as at 31 December 2018, distributable to shareholders is EUR 69 857 thousand. In 2018, the dividend payment to shareholders from profit for 2017 was approved in the amount of EUR 23,51 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.

**(Thousands of EUR)**

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

| | Year ended | |
|---|---|---|
| | *31 December 2018* | *31 December 2017* |
| **Balance at beginning of the year** | **(1 285)** | **(1 986)** |
| Profit/(loss) recognised on cash flow hedges: | | |
| Commodity swap contracts | 3 306 | 1 126 |
| Forward currency contracts | (271) | 179 |
| Actuarial losses | (196) | (312) |
| Income tax related to profit/loss recognised in equity | (596) | (208) |
| Transfer to profit or loss: | | |
| Commodity swap contracts | (3 574) | (208) |
| Forward currency contracts | 109 | 102 |
| Income tax related to profit/loss recognised in profit or loss | 728 | 22 |
| **Balance at end of the year** | **(1 779)** | **(1 285)** |

## 11. LOANS RECEIVED

As at 31 December 2018 the Company recognised a bank loan in the amount of EUR 250 192 thousand, while the amount of EUR 250 000 thousand represents withdrawn credit facility and EUR 192 thousand represents the accumulated interests. The 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 June 2019. In January 2019, the Company signed a new bank loan agreement to refinance the original loan. Its ultimate maturity is in 2024.

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 2018.

The Company has open unused credit lines, including the revolving loan stated above amounting to EUR 15 000 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 receivable of EUR 14 406 thousand as at 31 December 2017, which was repaid in 2018.

In 2018, the Company also drew funds under the cash pooling financing. The balance of the cash pooling liability amounted to EUR 10 001 thousand as at 31 December 2018.

## 13. PROVISION FOR ABANDONMENT AND RESTORATION

The Company estimates the costs of abandonment of production, exploration, and storage wells (including the related sites 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 2017** | **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** |
| Creation of the provision to assets | 8 266 |
| Reversal of the provision through profit or loss | (4 952) |
| Interest on discounting | 1 929 |
| Utilisation of provision | (1 913) |
| Acquisition (Note 3 d.) | 68 810 |
| **Balance as at 31 December 2018** | **163 670** |

**(Thousands of EUR)**

NAFTA currently has 141 production wells in addition to 288 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 (1,4 %, respectively 1,6 %). The provision takes into account the costs estimated for the abandonment of production and storage wells and sites, and for the restoration of the site to its original condition. These costs are expected to be incurred between 2019 and 2093 as follows:

| Costs incurred | Within 1 Year | 1 – 5 Years | 5 – 20 Years | More than 20 Years | Total |
|---|---|---|---|---|---|
| Present value | 9 404 | 21 334 | 25 017 | 107 915 | 163 670 |

## 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 2018 there were 648 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 2018*** | ***31 December 2017*** |
| **Liabilities as at 1 January, net** | **3 633** | **3 568** |
| Net change in provision (actuarial estimate), included in labour and related expenses | 99 | (24) |
| Actuarial losses included in other comprehensive income | 196 | 312 |
| Employee benefits paid | (304) | (223) |
| Acquisition (Note 3 d.) | 9 371 | - |
| **Liabilities as at 31 December, net** | **12 995** | **3 633** |

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

| | ***31 December 2018*** | ***31 December 2017*** |
|---|---|---|
| Discount rate | 0,6 respectively 2,3 % | 0.8% |
| Future expected annual rate of salary increases | 2,1 respectively 2,4 % | 2.0% |
| Expected fluctuation | 5,0 % | 5.0% |
| Retirement age in years | 62 respectively 64 | 62 years |

## 15. TRADE AND OTHER PAYABLES

Trade and other payables consist of the following:

| | ***31 December 2018*** | ***31 December 2017*** |
|---|---|---|
| Trade payables | 11 161 | 11 991 |
| Payables to employees | 4 296 | 3 888 |
| Other tax liabilities | 3 910 | 2 311 |
| Social security liabilities | 1 431 | 1 590 |
| Other payables | 5 932 | 2 606 |
| **Total trade and other payables** | **26 730** | **22 386** |

The average credit period is 36 days (2017: 40 days). The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

The Company records no payables overdue as at 31 December 2018 (2017: EUR 0 thousand).

**(Thousands of EUR)**

The change on Social Fund liabilities recognised in the balance sheet as at 31 December 2018 and 31 December 2017 is analysed as follows:

| | *Year ended* | |
|---|---|---|
| | ***31 December 2018*** | ***31 December 2017*** |
| **Payables as at 1 January** | **259** | **205** |
| Total creation: | 338 | 317 |
| *from expenses* | *166* | *142* |
| *from profit* | *172* | *175* |
| Total drawing: | (278) | (263) |
| *catering services* | *(107)* | *(114)* |
| *other* | *(171)* | *(149)* |
| **Payables as at 31 December** | **319** | **259** |

## 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 2018*** | ***31 December 2017*** |
| Wages and salaries | (12 869) | (14 119) |
| Social security costs and other social expenses | (5 891) | (6 832) |
| **Total labour and related expenses** | **(18 760)** | **(20 951)** |

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 2018 was 656, thereof 6 managers (year ended 31 December 2017: 630, thereof 6 managers).

## 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 2018*** | ***31 December 2017*** |
| Profit from the sale of non-current assets and inventories | 222 | 5 074 |
| Provision for abandonment and restoration costs and other provisions | 3 500 | 2 056 |
| Provisions for receivables, net | 44 | 30 |
| Insurance charges | (448) | (501) |
| Taxes and charges | (2 805) | (3 070) |
| Other income/(expenses), net | (282) | (591) |
| **Total other operating income/(expenses), net** | **231** | **2 998** |

(Thousands of EUR)

### 18.2. Other Financial Income/(Expenses), Net

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

| | Year ended | |
|---|---|---|
| | 31 December 2018 | 31 December 2017 |
| A gain on a bargain purchase (Note 3 d.) | 5 333 | - |
| Exchange rate differences, net | (588) | (2 031) |
| Provision for intragroup borrowings | 10 | (47) |
| Other financial income/(expenses), net | 119 | 54 |
| **Total other financial income/(expenses), net** | **4 874** | **(2 024)** |

## 19. INCOME TAXES

### 19.1. Income Taxes Reconciliation

Reconciliation between the income tax calculated at the statutory tax rate of 21% (2017: 21%) and income tax expenses is as follows:

| | Year ended | |
|---|---|---|
| | 31 December 2018 | 31 December 2017 |
| Profit before income taxes | 100 886 | 100 210 |
| Tax at a domestic income tax rate of 21% | (21 186) | (21 044) |
| Special levy on business in regulated services | (6 781) | (6 725) |
| Tax effect of tax non-deductible expenses, non-taxable income and tax related to previous periods: 2,9% (2017: 0.1%) | 2 932 | 133 |
| Tax effect of shares in profit/loss of joint venture | (770) | 110 |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | 2 | 2 |
| **Total income tax charges** | **(25 803)** | **(27 524)** |

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.

Currently, companies must submit tax returns separately and it is not possible to prepare a consolidated tax return for a group of companies.

### 19.2. Income Taxes

Income tax expenses comprise the following:

| | Year ended | |
|---|---|---|
| | 31 December 2018 | 31 December 2017 |
| Current income tax | (17 863) | (19 764) |
| Share of taxation attributable to the joint venture | (770) | 110 |
| Deferred income tax | (389) | (1 145) |
| Current special levy on business | (6 469) | (5 601) |
| Deferred special levy on business | (312) | (1 124) |
| **Total income taxes** | **(25 803)** | **(27 524)** |

### 19.3. Deferred Income Taxes

The following is an analysis of the deferred tax receivable and deferred tax liability for balance sheet purposes:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Deferred tax asset | 8 536 | 9 080 |
| Deferred tax liability | (12 792) | - |
| **Total** | **(4 256)** | **9 080** |

**(Thousands of EUR)**

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 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** |

| | ***1 January 2018*** | ***Acquistion*** | ***Charge (credit) to equity*** | ***Charge (credit) to profit*** | ***31 December 2018*** |
|---|---|---|---|---|---|
| Property, plant and equipment | (12 892) | (29 248) | - | (1 959) | (44 099) |
| Provision for abandonment and restoration costs | 19 221 | 16 456 | - | 1 004 | 36 681 |
| Retirement and other long-term employee benefits | 763 | - | 41 | (43) | 761 |
| Inventories | 382 | - | - | (7) | 375 |
| Derivatives | 129 | - | 91 | - | 220 |
| Other | 1 477 | | 25 | 304 | 1 806 |
| **Total** | **9 080** | **(12 792)** | **157** | **(701)** | **(4 256)** |

## 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.

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

The costs of services of an audit firm comprised EUR 38 thousand for the audit of the financial statements (2017: EUR 47 thousand), and EUR 6 thousand for accounting or tax advisory services (2017: EUR 0 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).

NAFTA is in a joint project of exploration and production of hydrocarbon reserves with the corporation from the Vermillion Energy Inc.

### 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 2018, receivables and loans from related parties amounted to EUR 159 758 thousand (31 December 2017: EUR 243 038 thousand).

**(Thousands of EUR)**

As at 31 December 2018, payables to related parties amounted to EUR 11 734 thousand (31 December 2017: EUR 2 526 thousand).

Revenues and other considerations from transactions with related parties for the year ended 31 December 2018 amounted to EUR 111 869 thousand (year ended 31 December 2017: EUR 107 237 thousand).

Expenses and other deliveries from transactions with related parties for the year ended 31 December 2018 amounted to EUR 10 827 thousand (year ended 31 December 2017: EUR 10 649 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, 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 are not involved in any transactions with the Company´s management and members of theirs statutory bodies, 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 2018 and 31 December 2017 was as follows:

| | *Year ended* | |
|---|---|---|
| | ***31 December 2018*** | ***31 December 2017*** |
| Salaries | 1 232 | 1 283 |
| Discretionary bonuses | - | - |
| **Total** | **1 232** | **1 283** |

Salaries and bonuses are included in labour and related expenses.

## 23. COMMITMENTS AND CONTINGENCIES

### 23.1. Capital Expenditures

As at 31 December 2018, capital expenditures in the amount of EUR 790 thousand (31 December 2017: EUR 137 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 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 2013 through 2017 are open and subject to review.

### 23.4. Bank Guarantees

As at 31 December 2018, the Company provided no bank guarantees (31 December 2017: EUR 0 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 2017.

The gearing ratio at year-end was as follows:

| | *31 December 2018* | *31 December 2017* |
|---|---|---|
| Debt (i) | 260 193 | 220 191 |
| Cash and cash equivalents | (62 258) | (9 677) |
| **Net debt** | **197 935** | **210 514** |
| Equity (ii) | 207 417 | 207 678 |
| **Net debt to equity ratio** | **95,43 %** | **101,37%** |

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

### 24.2. Categories of Financial Instruments

| | *31 December 2018* | *31 December 2017* |
|---|---|---|
| Cash and cash equivalents (at amortised costs) | 62 258 | 9 677 |
| Loan receivables (at amortised costs) | 155 851 | 240 284 |
| Trade receivables and other receivables (at amortised costs) | 16 285 | 9 419 |
| Financial derivatives recognised as hedging (at fair value) | - | - |
| **Financial assets** | **234 394** | **259 380** |
| Loans (at amortised costs) | (260 193) | (220 191) |
| Interest free liabilities (at amortised costs) | (26 966) | (22 643) |
| Financial derivatives recognised as hedging (at fair value) | (1 045) | (777) |
| **Financial liabilities** | **(288 204)** | **(243 611)** |

### (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 thousands of EUR) denominated in a foreign currency at the balance sheet date are as follows:

| | *Assets* | | *Liabilities* | |
|---|---|---|---|---|
| | *31 December 2018* | *31 December 2017* | *31 December 2018* | *31 December 2017* |
| CZK | 1 987 | 2 193 | 243 | 186 |
| USD | 615 | 715 | 98 | 47 |

**(Thousands of EUR)**

The following table shows the Company's sensitivity to a 1 % increase or decrease of EUR against CZK (2017: 5 %) and a 5 % increase or decrease of EUR against USD (2017: 15 %). The sensitivity analysis includes foreign currency denominated monetary items and adjusts their translation at the period end for the aforementioned change in foreign currency rates. A positive number below indicates an increase in profit in the case of a decrease in EUR against the relevant currency. Where EUR strengthens against the relevant currency, there would be an opposite impact on the profit, and the balances below would be negative.

| | ***CZK*** | | ***USD*** | |
|---|---|---|---|---|
| | ***31 December 2018*** | ***31 December 2017*** | ***31 December 2018*** | ***31 December 2017*** |
| Profit or loss (i) | 17 | 100 | 26 | 100 |

*(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*** | |
|---|---|---|---|---|
| | ***2018*** | ***2017*** | ***2018*** | ***2017*** |
| Less than 3 months | - | 459 | - | 41 |
| 3 to 12 months | - | 1 362 | - | 121 |
| Over 12 months | - | - | - | - |
| **Total** | **-** | **1 821** | **-** | **162** |

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.

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

| | ***Contract value*** | | ***Fair value*** | |
|---|---|---|---|---|
| | ***2018*** | ***2017*** | ***2018*** | ***2017*** |
| Less than 3 months | 3 310 | 4 162 | (477) | (217) |
| 3 to 12 months | 9 314 | 9 846 | (981) | (488) |
| Over 12 months | 9 455 | 4 340 | 413 | (72) |
| **Total** | **22 079** | **18 348** | **(1 045)** | **(777)** |

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 2018 and 31 December 2017, 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.
A significant part of trade receivables and loan receivables are concentrated against the shareholders of the Company operating in the energy industry in the Slovak Republic and Czech Republic.

**(Thousands of EUR)**

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* |
|---|---|---|---|---|---|---|
| **2018** | | | | | | |
| Variable interest rate instruments | 0,90 % | 188 | 75 375 | 175 285 | - | 250 848 |
| Fixed interest rate instruments | 0,75 % | - | - | 3 280 | - | 3 280 |
| Non-interest bearing | - | 21 666 | 1 758 | 26 | 236 | 23 686 |
| **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 |

The Company has access to credit facilities. The total unused amount of such facilities is EUR 15 000 thousand at the balance sheet date (2017: EUR 45 000 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 recognised 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 Infrastructure a.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 EP Investment S.à.r.l., after being approved by the company's bodies and General Meeting, will be available at its registered office (39, Avenue John F. Kennedy, L-1855 Luxembourg, Luxembourg) and at the Luxembourg Business Registers G.I.E. , Luxembourg.

### 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 2018

| | |
|---|---|
| ***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 | Mgr. Jozef Dermek |
| Member | Mgr. Pavel Horský |
| Member | Ing. Daniel Kujan |
| Member | Gary Wheatley Mazzotti |
| 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 | Ing. Mgr. Ladislav Barkoci |

## 26. EVENTS AFTER THE BALANCE SHEET DATE

With the exception of loan refinancing (Note 11), there were no other events after 31 December 2018 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 37 were signed on 29 March 2019 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