

**ANNUAL
REPORT
2016
EN**





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CHAPTER

01

OPENING ADDRESS



Dear Shareholders,

the following pages present the Annual Report of NAFTA a.s., summarizing its financial results and providing substantive information about its operating activities and successful projects during 2016.

Compared to the situation in 2015, the hydrocarbon market has stabilized although commodity prices still remain relatively low. The current situation is the impetus for companies to be more effective in managing their activities, while coming up with new projects worthwhile of future development. NAFTA is fully aware of this and our flexible response enabled us to remain in 2016 a successful player in the energy market both in Slovakia and abroad.

After a long period of preparations, we reached a significant milestone last year in planned international cooperation. In July 2016, NAFTA via its daughter company NAFTA INTERNATIONAL B.V. started cooperation with Cub Energy Inc. to explore and produce hydrocarbons in Ukraine. The start of cooperation is seen as a successful step forward in our strategy to develop activities on foreign markets, where we believe NAFTA's long experience will stand up against international competition.

Also in 2016, progress was made in Underground Sun Storage, an innovative project in which NAFTA is partnering with consortium leader RAG. A mixture of hydrogen and natural gas was successfully injected into an underground structure and extraction is ongoing. We are aware of the continually growing importance of renewable resources and so there is a need to look for synergies with the gas industry to guarantee mutual support and fruitful use of both sources in the future. For this reason, in 2016 NAFTA in co-operation with scientists in Slovakia started to work on preparation of another potential project focusing on research into storing electricity in geological structures.

Even with these international and innovative projects in the pipeline, NAFTA's day-to-day operations still remain of utmost importance, and even in 2016 all divisions were operating reliably. In our operations, great emphasis was being placed on safety, which the company prioritizes at the highest level.

OPENING ADDRESS TO SHAREHOLDERS

Several investments were conducted in the area of operations safety last year. The activities included installation of safety valves to gas pipelines, well safety systems and also the general overhaul of the pipeline casing in the municipality Láb.

The company's underground storage facilities were 100% filled before the winter season began and throughout the year NAFTA was able to meet the demands of its customers with no restrictions, while bringing them flexible services. Last year we brought back the Option on Storage Capacity, a product that has repeatedly enjoyed extraordinary success.

In exploration and production of hydrocarbons, NAFTA also implemented remarkable projects during 2016. We launched the second phase of the project Záhorská Ves and also production

of hydrocarbons at several locations in eastern and western Slovakia. NAFTA also worked intensively to find partners for further development of exploration activities in Slovakia, finally signing a partnership agreement at the end of last year with the company from the group Vermilion Energy Inc.

2016 can be evaluated as a rewarding year not just in NAFTA's operations, but also in terms of new projects for the company. Such success would never have been achieved without the dedication given by our employees, and we would like to take this opportunity to thank them for the high-quality work they have done and continuous honing of their knowledge and skills. Their high competence and initiative is a guarantee for NAFTA that its strong position in the energy market will be maintained in the future.

Ing. Ján Špringl

Chairman of Board of Directors
of NAFTA a.s.



Ing. Robert Bundil

Member of Board of Directors
of NAFTA a.s.



Ing. Martin Bartošovič

General Director of NAFTA a.s.

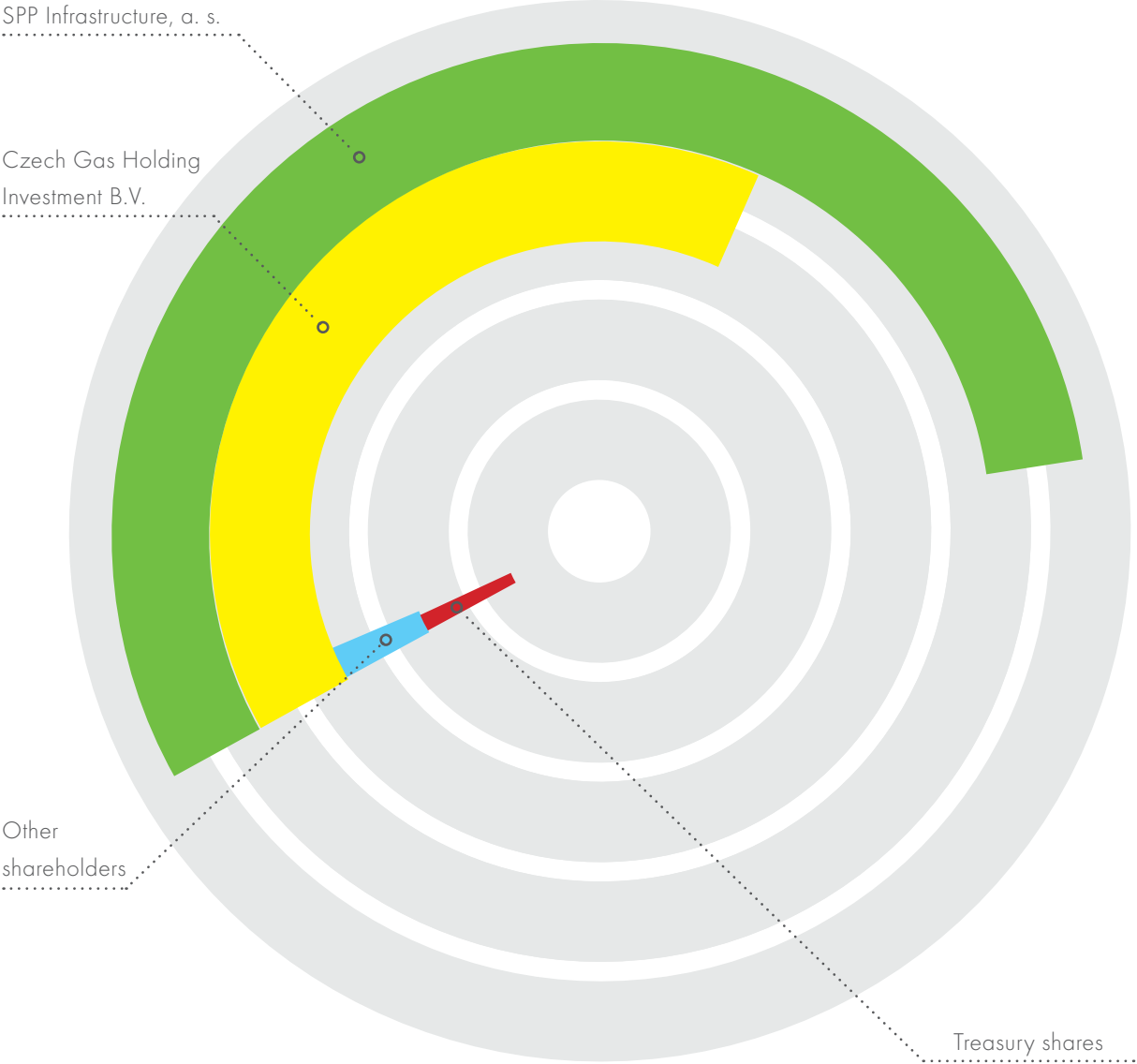




SHAREHOLDER STRUCTURE AND THEIR SHARES IN REGISTERED CAPITAL AS OF 31 DECEMBER 2016

	EURO	%
• SPP Infrastructure, a. s.	60,216,783 €	56,15
• Czech Gas Holding Investment B.V.	43,374,750 €	40,45
• Other shareholders	2,050,478 €	1,91
• Treasury shares	1,593,551 €	1,49
Total	107,235,562 €	100,00

SHAREHOLDER STRUCTURE



CHAPTER

02

COMPANY PROFILE



NAFTA is a modern company with extensive experience in natural gas storage and underground gas storage facilities development in Slovakia and is also the Slovak leader in the exploration and production of hydrocarbons.

The combination of favourable geological conditions and an advantageous location of the underground storage facilities of **NAFTA** close to the transmission system supplying gas to countries neighbouring Slovakia creates ideal conditions for becoming one of the key hubs in the European gas network.

Business Name::

NAFTA a.s.



Registered Office:

Votrubova 1
821 09 Bratislava
Slovak Republic

Company Reg. No.:

36 286 192

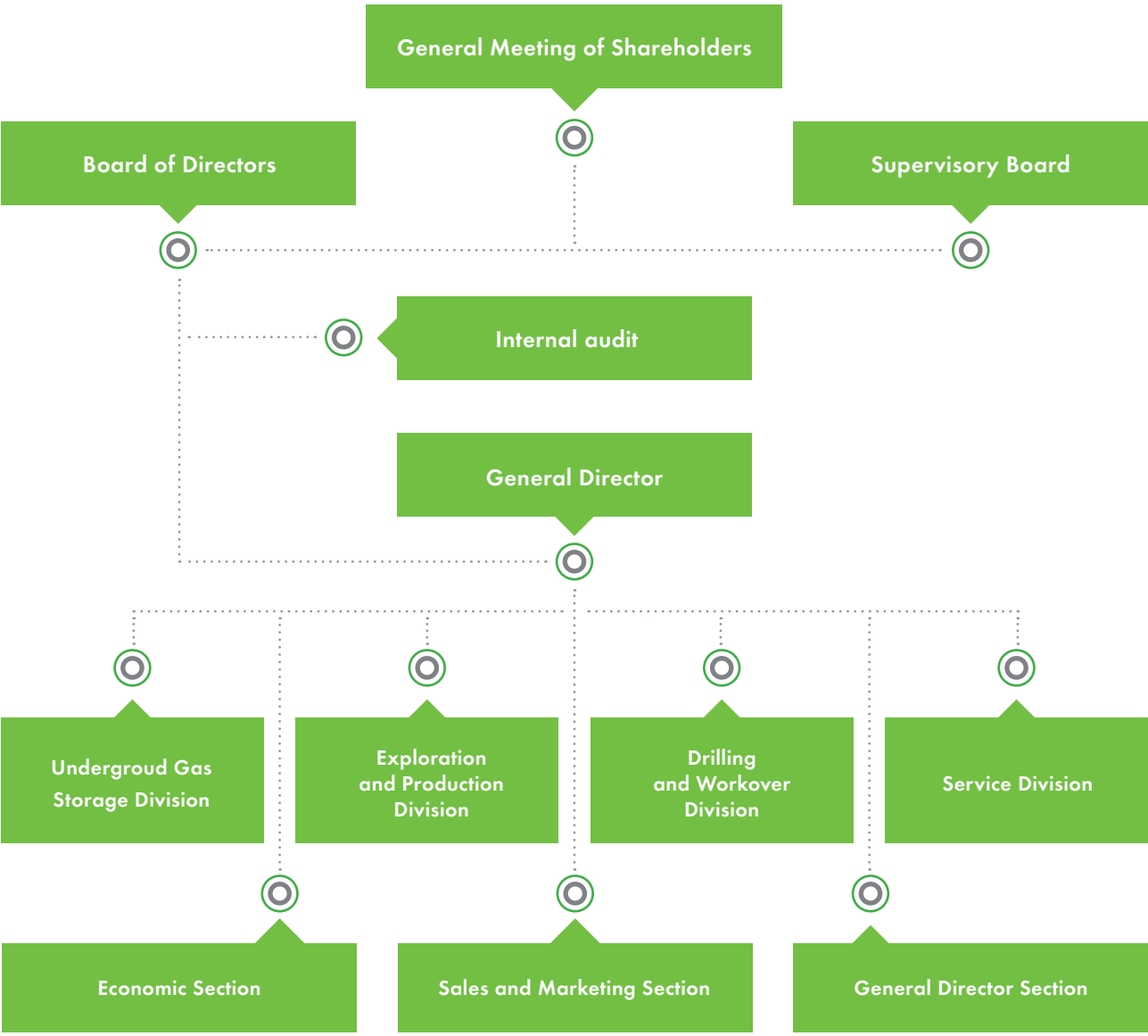
Commercial Register:

**Commercial Register of the Bratislava I
District Court, Section: Sa,
Insert No.: 4837/B**

Legal Form:

Joint stock company

ORGANIZATIONAL STRUCTURE NAFTA A.S. AS OF 31 DECEMBER 2016





Ing. Martin Bartošovič

General Director



Ing. Ladislav Goryl

Director of Underground
Gas Storage Division



Ing. Jozef Levoča, MBA

Director of Exploration
and Production Division



Ing. Michal Ševera

Director of Service Division



Ing. Gabriel Macejka

Director of Drilling
and Workover Division



Mgr. Peter Kučera

Director of Sales
and Marketing Section



Ing. Szilárd Kása

Director of Economic Section

NAFTA A.S. BOARD OF DIRECTORS AS OF 31 DECEMBER 2016



Ing. Jan Špringl

Chairman



RNDr. Pavol Kaločaj, PhD.

Vice-Chairman



Ing. Robert Bundil

Member



Ing. Branislav Pavlakovič

Member



Ing. Bohumil Kratochvíl

Member

JUDr. Daniel Křetínský

Chairman

Dušan Sajko

Member

Mgr. Jan Stříteský

Member

Mgr. Jozef Dermek

Member

Mgr. Pavel Horský

Member

Ing. Drahomír Zajíček

Member

Ing. Daniel Kujan

Member

Mgr. Marek Spurný

Member

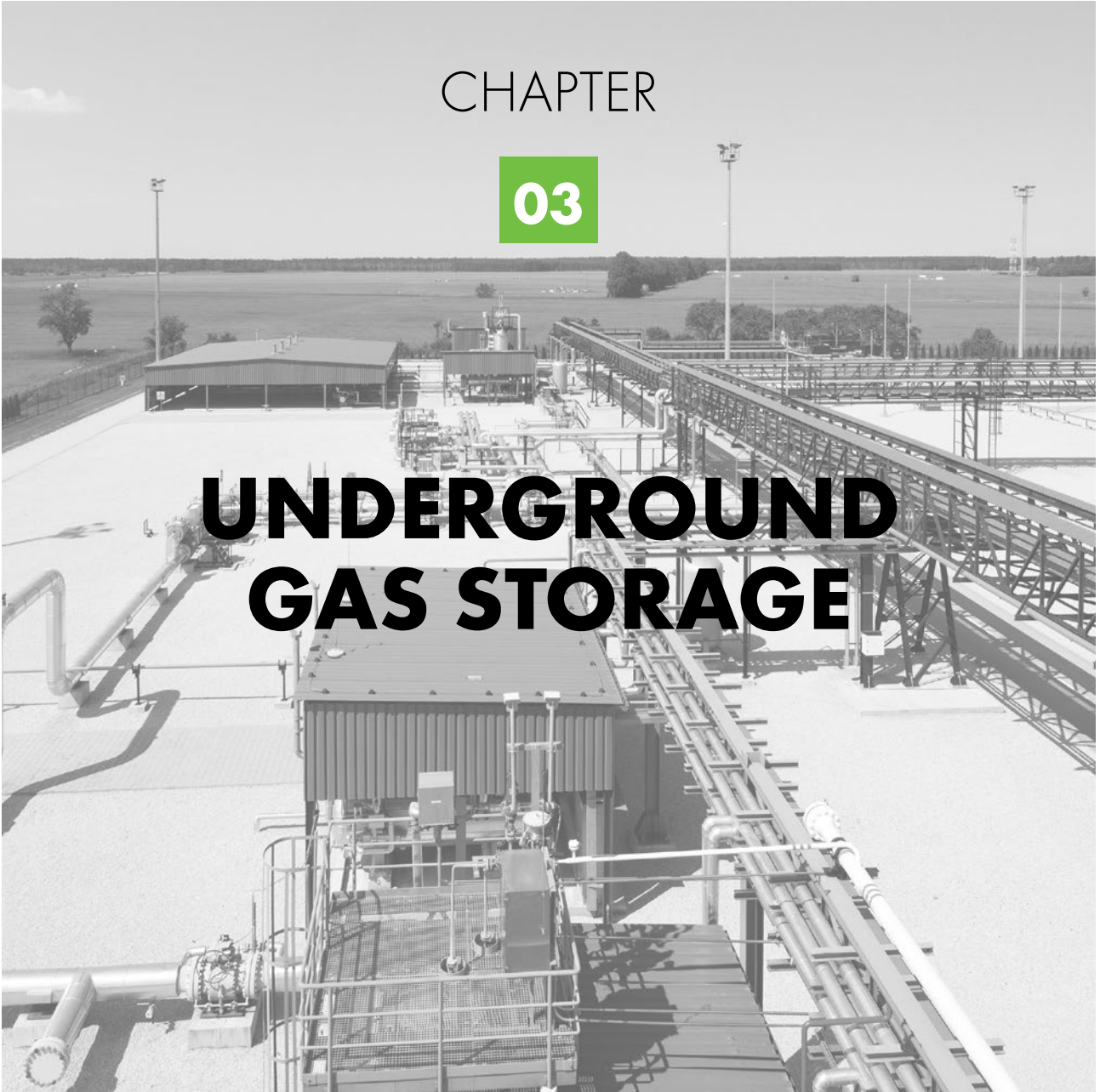
NAFTA A.S. SUPERVISORY BOARD AS OF 31 DECEMBER 2016



CHAPTER

03

UNDERGROUND GAS STORAGE



NAFTA is Slovakia's largest underground gas storage facility operator, utilizing the unique knowledge and data it has gathered over more than 40-year history. The underground gas storage is a key activity in the company.

In 2016, NAFTA retained its strong market position as a reliable operator of storage facilities. NAFTA's storage capacity reflects the growth trend seen in the last 10 years, with working capacity reaching almost 2.7 billion cubic meters by the end of 2016.

NAFTA responds to significant structural changes in the gas market, such as stagnating natural gas consumption, a rise in storage capacity within Europe and a surplus of gas in world markets, which are also reflected in the change of the role storage facilities are playing. In addition to their standard tasks of balancing uneven seasonal gas consumption and ensuring the security of supply, the percentage of customers using storage to support their own trading in natural gas has significantly increased.

NAFTA has responded to these changes in market demands primarily by creating products that interest customers. These especially include products aimed at greater flexibility and a higher degree of customization. It is obvious that today downtime and various limitations have been and are already being minimized for customers, requiring systematic planning and control of maintenance work and reconstruction.

In 2016, NAFTA also kept investing in safety, increasing automation and using the quantity of information it collects to further optimize processes. We were paying much attention to optimizing the consumption of the fuel gas driving compressors, something also environmentally friendly. In addition, we strove to pursue innovative projects in an effort to take full advantage of our extensive know-how.

Accordingly, NAFTA resumed looking into establishing itself in Germany through potential acquisitions of existing storage facilities, with this process to proceed further in the coming year. Besides Germany, Turkey and Ukraine have also been the center of our attention in underground gas storage, where our ambition is the creation of partnerships to initiate new projects for the construction of underground storage facilities and also to acquire and develop existing ones.

In 2016, we made progress in Underground Sun Storage, a unique project involving the storage of energy from renewable resources in underground geological formations, and in this endeavor NAFTA is partnering with RAG, an Austrian-based company. The objective was to test the possibility of storing electricity in underground reservoirs as a mixture of natural gas and hydrogen. The project is in itself unique in that it did not take place under laboratory conditions, but directly at the reservoir. Physical injection of the hydrogen-gas mixture into the reservoir was completed in September 2016 and production has now begun.

Successful testing of this technology may make it possible in future to store surplus renewable energy, what could have been previously done only to a limited extent. For this reason the technology often remained unutilized. It is also driving other projects in this area, which are already being prepared.

We believe the results from such projects can help gradually transform our company from a traditional natural gas storage operator to a storer of energy, ensuring NAFTA remains stable and continues to operate effectively into the future.

CHAPTER

04

EXPLORATION AND PRODUCTION OF HYDROCARBONS



NAFTA's exploration and production of hydrocarbons is based on a long tradition dating back to 1913, when crude oil was first discovered in Záhorie. The industry is currently facing many challenges due to the fall in commodity prices. The market situation requires experience, particularly in managing production effectively and seeking out new prospective projects. This is something NAFTA succeeded in doing during 2016 not just in Slovakia but outside the country as well.

An important step taken in our planned expansion into foreign markets was the start of cooperation in Ukraine. In July 2016, NAFTA via daughter company NAFTA INTERNATIONAL B.V. assigned agreement of shares purchases and shareholders agreement with the company Cub Energy Inc. In accordance with agreement NAFTA INTERNATIONAL B.V. obtained 50% share in the new company CNG Holdings Netherlands B.V., which also owns Ukrainian company CNG LLC. CNG LLC is 100% owner of the Uzhgorod mining plot in the western Ukraine. The Uzhgorod license is geological extension of highly explored Slovakian territories and is in trend of discovered fields in Eastern Slovakia. Eastern part of the license adjoins nearby producing Rusko-Komarivske field, which is in 100% possession of Cub Energy Inc.

NAFTA has also successfully conducted projects in Slovakia, signing a cooperation agreement on exploration with a member of the Vermilion Energy Inc. group.

In 2016, one exploration well was drilled and the company pursued an assessment of existing geological data in order to develop new exploration projects. Our attention was also focused on the geological workover of Gajary 77, a well put into production after positive results. Other planned well workovers were postponed to 2017 in light of positive developments in their reserves.

In western Slovakia, we completed the second phase of Záhoriská Ves, a project involving the connection of a further three production wells to a gas gathering station. Another project focusing on production with a compressor was completed at the Trakovice gas gathering station. Work was also launched on production from reservoir at the Závod prieskum gas gathering station.

In Eastern Slovakia, the well Senné 46 was successfully put into production alongside the launch of the project of second phase production from reservoir at the Ptrukša gas gathering station.

Streamlining production from our reserves is one effective way NAFTA is endeavoring to extend hydrocarbon production in Slovakia.

The company is using its geological know-how not just to develop our own activities both in Slovakia and abroad, but also to participate to a significant degree in the geological management of gas storage at external companies, confirming our employees' expertise and the quality of the services they provide.

A black and white photograph of two industrial workers in a facility. One worker, wearing a white hard hat and safety glasses, stands on a metal platform, reaching towards a large piece of machinery. The other worker, also in a white hard hat and safety glasses, stands on the ground, looking up at the first worker. The background shows various industrial structures and pipes under a clear sky.

CHAPTER

05

EMPLOYMENT, EDUCATION AND CORPORATE CULTURE

One of the main pillars of our company's success is our employees. Their professional performance and values-driven attitude play a key role in NAFTA meeting its objectives and strategies. Significant attention was therefore paid over the past year to activities aimed at their professional growth and development.

Our staff completed a number of training and development courses both locally and abroad, while NAFTA organized and supported a number of employee events and activities aimed at building our teams and toward them functioning better. Internal activities included successfully continuing the cycle of lectures at NAFTA University. We shared our expertise and experience with the public through the active participation of our experts in various conferences held inside and outside Slovakia.

Besides concentrating on the professional growth of our employees, we also encouraged a human dimension with our col-

leagues actively involved in charitable events and fundraisings. As part of our own employee financial collection, NAFTA and its employees helped individuals and families in resolving difficult life situations. The exceptional feeling of being part of the human solidarity could also be experienced through the common blood donation of our employees, NAFTA's Drop of Blood. For the third year running, this charitable event was held in our company's offices.

Our main objective in the coming period is to carry on organizing activities aimed at building our staff's human and professional potential, advancing their development and strengthening our corporate culture through the exercise of key corporate values in the everyday life of NAFTA.

As of 31 December 2016 NAFTA employed 649 people.

CHAPTER

06

CORPORATE RESPONSIBILITY



We act responsibly towards everybody involved in the company's operations, toward the environment in which we operate and in respect to the local community. Increasing safety in facilities, occupational safety and health among employees, suppliers and those living near our operations and likewise environmental protection are part of the day-to-day routine at NAFTA.

NAFTA fully respects and applies both European and national standards. In 2016, the company significantly invested toward raising the level of safety at its operations. Funds were directed mainly toward general overhaul of the DN 800 gas pipeline casing at Láb, embedding safety valves and increasing security at stations.

In cooperation with the Fire and Rescue Service of the Slovak Republic and invited voluntary fire brigades, we organized the training of mining rescuers focused on the long-distance transport of water to the site of a simulated accident over a total

length of 1.7 kilometers. This was the first exercise of its type ever attempted in Malacky District.

Likewise, we concentrated on improving the environment by removing burdens placed on it. Towards the end of 2016, we returned more than 450 sites where the company had drilled, established wells and built stations for producing hydrocarbons to their original condition. In addition, volunteer staff members and their friends planted 300 trees around the closed Gbely-Bašty dump.

In 2016, independent company DNV GL conducted a process safety audit under the International Safety Rating System (ISRS 8). Since the last audit in 2011, NAFTA improved its score and reached significantly above-average rating.

NAFTA also demonstrated in 2016 its commitment to the surrounding environment and communities and sees its responsibility in the safety sphere as being of major importance.



CHAPTER

07

COMMUNITY ACTIVITIES

Support for community projects represents an integral part of corporate responsibility, something we see as very important. NAFTA is a partner in a number of community development activities as well as in environmental initiatives, while contributing in education, culture, health, family and sports. Again in 2016, our goal was to contribute toward improving the quality of life in the regions where our company operates.

This support included sponsoring in 2016 different municipal as well as international cultural, social and sporting events. We helped create interesting educational programs in schools and also contributed to upgrading educational facilities. Our sponsorship activities were directed toward either constructing or reconstructing sports facilities, playgrounds and healthcare centers.

NAFTA regularly concentrates its attention on the environment. In 2016, we participated in several volunteer activities. One of them was taking place at Pieskovňa, a lake near the village of Plavecký Štvrtok, which is a popular recreational center for the entire region. This volunteer event was supported by NAFTA

financially, and its employees also actively participated in it. One key example of corporate social responsibility is NAFTA's promotion of education. After experiencing success in the first year, we kept going with NAFTA Children's University. Our staff visited 8th and 9th year classes at selected primary schools and also welcomed students from these classes to the UGS central station in Gajary. The project aims not just to provide children with information about the geological wealth of the region where they live and facts about gas and storage, but also to motivate them toward choosing further education and a future career in this sector.

We are proud to have been able again in 2016 to become a partner in such an attractive project as Student Personality of Slovakia. The objective behind it is to encourage outstanding students studying different disciplines at Slovak universities and doctorate students at research institutes in the Slovak Academy of Sciences by giving them the opportunity to win recognition at home and abroad. The competition also motivates other students to perform exceptionally.

CHAPTER

08

REPORT ON THE COMPANY'S BUSINESS ACTIVITIES

Development of Assets and Results of Operations of NAFTA a. s. for the Year ended 31 December 2016 and 2015 under Separate Financial Statements presented in accordance with International Financial Reporting Standards as adopted by the EU.

Summarised Separate Balance Sheets as of 31 December 2016 and 31 December 2015 (Thousands of EUR):

	2016	2015
TOTAL ASSETS	528 133	595 647
Non-current assets	494 405	528 700
Property, plant and equipment	232 089	241 948
Intangible and other assets	10 578	10 810
Investments in subsidiaries and a joint venture and available-for-sale investments	18 134	18 134
Deferred tax asset	11 535	7 808
Long-term loans provided	222 069	250 000
Current assets	33 728	66 947
Inventories	4 526	6 649
Trade and other receivables	10 682	13 446
Income tax assets	1 208	3 567
Financial receivables		30 806
Cash and cash equivalents	17 312	12 479

REPORT ON THE COMPANY'S BUSINESS ACTIVITIES

	2016	2015
EQUITY AND LIABILITIES	528 133	595 647
Equity	203 336	229 422
Registered capital and treasury shares	102 490	102 490
Other capital funds	21 447	21 447
Hedging derivatives reserve and other reserves	(1 986)	449
Profit from previous years	1 832	1 571
Profit for the current year	79 553	103 465
Liabilities	324 797	366 225
Non-current liabilities	275 471	278 605
Current liabilities	49 326	87 620

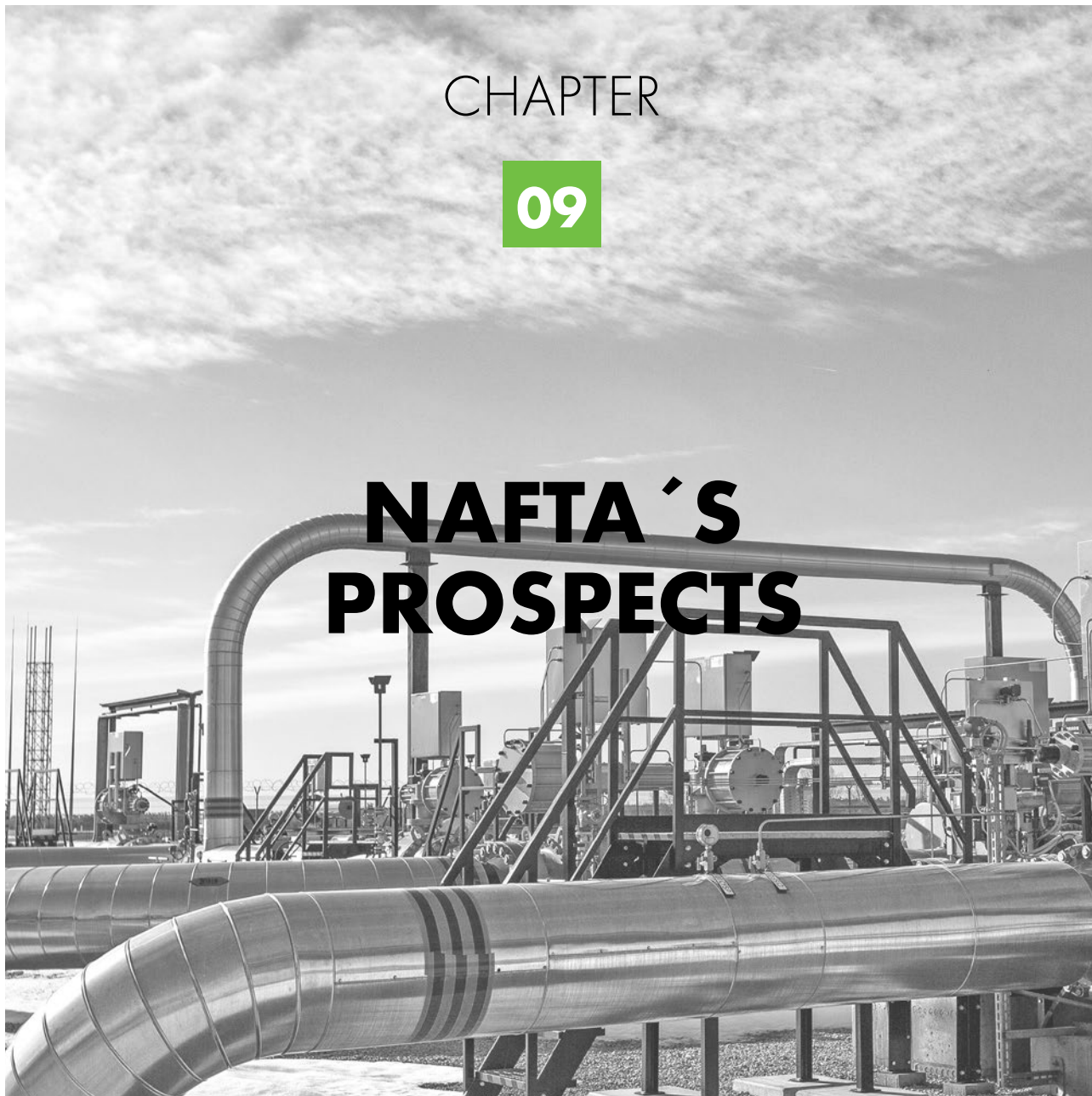
Summarised Separate Statements of Profit and Loss for the year ended 31 December 2016 and 2015 (Thousands of EUR):

	2016	2015
Revenues	160 107	198 812
Operating expenses	(58 205)	(63 710)
Profit before interests and taxes	101 902	135 102
Financial income/(expenses)	(3 297)	(3 007)
Profit before income taxes	98 605	132 095
Income taxes	(19 052)	(28 630)
Net profit	79 553	103 465

CHAPTER

09

NAFTA'S PROSPECTS



In 2016 NAFTA reaffirmed that it is a modern and flexible participant in the energy market. The company is operating reliably in all areas while constantly upgrading its technology, optimizing its processes and developing new products. We are seeking interesting opportunities for cooperation abroad and also participation in innovative power-to-gas projects. The combination of these activities is seen by us as critical to NAFTA successfully operating in the future, so we will be following up on them.

Yet the company's key activity remains underground gas storage. In this area, we will be working in the coming year toward improving the efficiency of our storage facilities, closely monitoring and automating them while placing particular emphasis on safety in our operations. In this area, safety systems on several wells and pipelines were implemented last year and we plan to invest into the safety of operation also in the future.

Likewise, we are prepared to adapt our services to the demands and requirements of customers in light of the current market situation. In today's rapidly changing environment it is precisely the ability to create flexible and innovative products that is an important factor when choosing a gas storage company.

The Exploration and Production Division will be carrying on in exploring areas with a long tradition of production. Although sole exploration activities are currently lower, we plan to explore other locations where we see space for developing hydrocarbon production in Slovakia in cooperation with an outside partner.

NAFTA intends to proceed further in its expansion into foreign markets. The mentioned cooperation with Cub Energy Inc. is just the beginning of planned international activities. We will be continuing to search intensively for suitable cooperation opportunities and at present NAFTA is already working on several potential projects involving exploration and production of hydrocarbons

and underground gas storage. The company is focusing its attention on countries like Ukraine, Turkey and Germany, where we can utilize the experience gained from our long-term operations in Slovakia.

Recently, we have been paying a lot of attention inside NAFTA to the concept of power-to-gas. Projects such as Underground Sun Storage and Large-scale Energy Storage are seen by us as interesting opportunities for future use of underground reservoirs even for the storage of electricity. The existence of appropriate geological structures together with the experience of our staff enables NAFTA, a traditional natural gas storage operator, to become an innovative storer of energy.

NAFTA is looking ahead to a successful future not just in its traditional operations in Slovakia. We believe our many years of know-how can establish our company in foreign markets, while also make NAFTA a green energy partner in promising projects.

