

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 2019

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

CONTENTS

	Page
Independent Auditor's Report	2
Consolidated Financial Statements (presented in accordance with IFRS as adopted by the EU):	
Consolidated Balance Sheets	4
Consolidated Statements of Profit and Loss	5
Consolidated Statements of Comprehensive Income and Income Tax Note Related to Other Comprehensive Income	6
Consolidated Statements of Changes in Equity	7
Consolidated Statements of Cash Flows	8
Notes to the Consolidated Financial Statements	9 – 39

NAFTA a.s.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders, Supervisory Board and Board of Directors of ENTITY 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 2019, and the consolidated statement of profit and loss, 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 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union (EU).

Basis for Opinion

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

Responsibilities of Management and Those Charged with Governance

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.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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.

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

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/sk/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

Deloitte provides audit, tax, consulting, transaction advisory and legal services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries and territories, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte's approximately 245,000 professionals are committed to making an impact that matters.

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.

We communicate with those charged with governance about, inter alia, the planned scope and time schedule of the audit and significant audit findings, including all material deficiencies of internal control identified during our audit.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on Information Disclosed in the Consolidated Annual Report

The statutory body is responsible for information disclosed in the consolidated 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 consolidated annual report.

In connection with the audit of consolidated financial statements, our responsibility is to gain an understanding of the information disclosed in the consolidated 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.

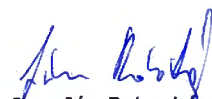
As at the issuance date of the auditor's report on the audit of consolidated financial statements, the consolidated annual report was not available to us.

When we obtain the consolidated annual report, we will assess whether the Group'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 consolidated annual report prepared for 2019 is consistent with the consolidated financial statements for the relevant year; and
- The consolidated annual report includes information pursuant to the Act on Accounting.

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

Bratislava, 14 March 2020



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 2019 and 31 December 2018
(Thousands of EUR)

	<i>Note</i>	<i>31 December 2019</i>	<i>31 December 2018</i>
ASSETS:			
NON-CURRENT ASSETS:			
Property, plant and equipment	4	366 351	391 216
Right-of-use assets	13	6 662	-
Intangible and other assets		9 577	9 387
Investments in joint ventures	5	53 119	48 598
Available-for-sale investments	6	745	747
Deferred tax asset	20.3	7 464	8 536
Long-term loans provided	9	90 432	-
Total non-current assets		<u>534 350</u>	<u>458 484</u>
CURRENT ASSETS:			
Inventories	7	3 640	8 866
Trade and other receivables	8	18 274	16 285
Financial receivables from group companies	9,12	22 000	155 851
Other financial receivables		2 862	-
Cash and cash equivalents		<u>50 258</u>	<u>62 258</u>
Total current assets		<u>97 034</u>	<u>243 260</u>
TOTAL ASSETS		<u>631 384</u>	<u>701 744</u>
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	(389)	(1 779)
Profit from previous years		16 745	10 176
Profit for the current year		<u>84 667</u>	<u>75 083</u>
Equity attributable to shareholders of NAFTA		<u>224 960</u>	<u>207 417</u>
TOTAL EQUITY		<u>224 960</u>	<u>207 417</u>
NON-CURRENT LIABILITIES:			
Long-term loans received	11	175 000	-
Provision for abandonment and restoration	14	151 478	155 717
Retirement and other long-term employee benefits	15	16 393	12 995
Deferred tax liability	20.3	6 676	12 792
Financial liabilities	13	5 930	-
Deferred income		1 587	1 648
Other non-current liabilities		<u>83</u>	<u>236</u>
Total non-current liabilities		<u>357 147</u>	<u>183 388</u>
CURRENT LIABILITIES:			
Trade and other payables	16	22 017	26 730
Current provisions	14, 17	7 285	10 912
Income tax liabilities		19 091	12 059
Short-term loans received	11	162	250 192
Financial liabilities to group companies	12	12	10 001
Other financial liabilities	13	<u>710</u>	<u>1 045</u>
Total current liabilities		<u>49 277</u>	<u>310 939</u>
TOTAL LIABILITIES		<u>406 424</u>	<u>494 327</u>
TOTAL EQUITY AND LIABILITIES		<u>631 384</u>	<u>701 744</u>

NAFTA a.s.
CONSOLIDATED STATEMENTS OF PROFIT AND LOSS
for the year ended 31 December 2019 and 31 December 2018
(Thousands of EUR)

	<i>Note</i>	<i>Year ended 31 December 2019</i>	<i>Year ended 31 December 2018</i>
REVENUES:			
Natural gas storage revenues and hydrocarbon sales	23.1	201 669	145 685
Other revenues		7 556	5 818
Total revenues		<u>209 225</u>	<u>151 503</u>
OPERATING EXPENSES:			
Own work capitalised		1 286	72
Consumables and services		(41 997)	(22 507)
Labour and related costs	18	(28 985)	(18 760)
Depreciation and amortisation		(25 401)	(16 469)
Other operating income/(expenses), net	19.1	<u>(178)</u>	<u>231</u>
Total operating income/(expenses), net		(95 275)	(57 433)
FINANCIAL INCOME/(EXPENSES):			
Interest income		2 195	3 690
Interest expenses		(4 529)	(3 724)
Income/(loss) from joint venture	5	6 172	1 976
Other financial income/(expenses), net	19.2	<u>(3 309)</u>	<u>4 874</u>
Total financial income/(expenses), net		529	6 816
PROFIT BEFORE INCOME TAXES		<u>114 479</u>	<u>100 886</u>
INCOME TAXES	20	(29 812)	(25 803)
NET PROFIT		<u>84 667</u>	<u>75 083</u>
Attributable to:			
Shareholders of NAFTA		84 667	75 083
Minority interests of other owners of subsidiaries	3c	<u>-</u>	<u>-</u>
EARNINGS PER SHARE (in EUR)	21	26.20	23.24

NAFTA a.s.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
AND INCOME TAX NOTE RELATED TO OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2019 and 31 December 2018
(Thousands of EUR)

	<i>Note</i>	<i>Year ended 31 December 2019</i>	<i>Year ended 31 December 2018</i>
PROFIT FOR THE YEAR AFTER INCOME TAXES		84 667	75 083
OTHER COMPREHENSIVE INCOME			
<i>Items that may be reclassified subsequently to the profit and loss statement:</i>			
Hedging derivatives		3 879	(430)
Other comprehensive income/(loss) for the year before income taxes		3 879	(430)
Tax		(815)	91
Tax related to items of other comprehensive income/(loss)		(815)	91
<i>Items that will not be subsequently reclassified to the profit and loss statement:</i>			
Actuarial losses		(2 289)	(196)
Other comprehensive loss for the year before income taxes		(2 289)	(196)
Tax		615	41
Tax related to items of other comprehensive loss		615	41
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		86 057	74 589
Total comprehensive income for the year attributable to:			
Equity shareholders of NAFTA		86 057	74 589
Minority interests of other owners of subsidiaries		-	-
		86 057	74 589

	<i>Year ended 31 December 2019</i>			<i>Year ended 31 December 2018</i>		
	<i>Before taxation</i>	<i>Tax</i>	<i>After taxation</i>	<i>Before taxation</i>	<i>Tax</i>	<i>After taxation</i>
Hedging derivatives	3 879	(815)	3 064	(430)	91	(339)
Actuarial gains/(losses)	(2 289)	615	(1 674)	(196)	41	(155)
Total other comprehensive income/(loss) for the year	1 590	(200)	1 390	(626)	132	(494)

NAFTA a.s.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
for the year ended 31 December 2019 and 31 December 2018
(Thousands of EUR)

	<i>Registered capital</i>	<i>Treasury shares, at cost</i>	<i>Other capital funds</i>	<i>Hedging derivatives reserve and other reserves</i>	<i>Profit from previous years</i>	<i>Profit for the current year</i>	<i>Attributable to shareholders of NAFTA</i>	<i>Minority interests</i>	<i>Total equity</i>
At 1 January 2018	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
Transfer of profit for the current year	-	-	-	-	75 083	(75 083)	-	-	-
Dividends	-	-	-	-	(68 514)	-	(68 514)	-	(68 514)
Net profit for the year	-	-	-	-	-	84 667	84 667	-	84 667
Other comprehensive income/(loss) for the year	-	-	-	1 390	-	-	1 390	-	1 390
At 31 December 2019	107 235	(4 745)	21 447	(389)	16 745	84 667	224 960	-	224 960

NAFTA a.s.
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the year ended 31 December 2019 and 31 December 2018
(Thousands of EUR)

	<i>Year ended 31 December 2019</i>	<i>Year ended 31 December 2018</i>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit before income taxes and minority interests	114 479	100 886
Adjustments to reconcile profit before income taxes to net cash provided by operating activities:		
Depreciation and amortisation	25 401	16 469
Interest expense, net	2 334	34
Unrealised exchange rate differences	(15)	(6)
Impairment and provisions	4 057	1 707
Acquisition (Note 3 d.)	259	(5 333)
Profit from the sale of non-current assets	(20)	(10)
Income from financial investments	(168)	(235)
Income/(loss) from joint venture	(6 172)	(1 976)
Retirement and other long-term employee benefits	705	99
Other non-cash items	99	(780)
Changes in assets and liabilities:		
Inventories	5 109	(1 441)
Trade and other receivables	(1 578)	1 869
Trade and other payables	(8 170)	(3 806)
Provision for abandonment and restoration and other provisions	(2 442)	(1 913)
Employee benefits	(97)	(304)
Operating cash flows, net	<u>133 781</u>	<u>105 260</u>
Interest received	-	-
Interest paid	(1 959)	(1 791)
Income tax	(22 662)	(25 081)
Net cash flows from operating activities	<u>109 160</u>	<u>78 388</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to tangible and intangible non-current assets	(9 441)	(2 952)
Proceeds from sale of non-current assets	34	17
Acquisition of financial investments	(3)	(75 885)
Dividends received	168	235
Net cash flows from investing activities	<u>(9 242)</u>	<u>(78 585)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in loans and borrowings received	(75 000)	30 000
Net change in loans and borrowings provided	(2 615)	(436)
Net change in cash pooling	(32 000)	24 407
Dividends paid	(1 462)	(1 193)
Leasing payment	(858)	-
Net cash flows from financing activities	<u>(111 935)</u>	<u>52 778</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(12 017)	52 581
NET CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	62 258	9 677
EXCHANGE RATE DIFFERENCES ON CASH AND CASH EQUIVALENTS	17	-
NET CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>50 258</u>	<u>62 258</u>

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 3 d. 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 2019, 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 2019 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 16 "Leases"** – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019).

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in Note 3. The impact of the adoption of IFRS 16 on the Company's financial statements is described below.

The date of initial application of IFRS 16 for the Company is 1 January 2019.

The Company has used the following practical expedients when applying the cumulative catch-up approach to leases previously classified as operating leases applying IAS 17.

- The Company has applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- The Company has adjusted the right-of-use asset at the date of initial application by the amount of provision for onerous leases recognised under IAS 37 in the statement of financial position immediately before the date of initial application as an alternative to performing an impairment review.
- The Company has elected not to recognise right-of-use assets and lease liabilities to leases for which the lease term ends within 12 months of the date of initial application.
- The Company has excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.

The Company has applied IFRS 16 using the cumulative catch-up approach which:

- Requires the Company to recognise the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application.
- Does not permit restatement of comparatives, which continue to be presented under IAS 17 and IFRIC 4.

The Company has applied IFRS 16 using the cumulative catch-up approach and therefore comparative information has not been restated and is presented under IAS 17. The details of accounting policies under both IAS 17 and IFRS 16 are presented separately below.

The Company has carefully assessed those leases whose terms include an option to extend or terminate the lease. Impact of the application of IFRS 16 - Leases had the following impact on the financial statements of the Company as at 1 January 2019: an increase in the right to use in long-term assets of EUR 7 471 thousand and increase of financial liabilities in amount of EUR 7 471 thousand.

- **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 – adopted by the EU on 13 March 2019 (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 – adopted by the EU on 8 February 2019 (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 – adopted by the EU on 14 March 2019 (effective for annual periods beginning on or after 1 January 2019),

- **IFRIC 23 "Uncertainty over Income Tax Treatments"** – adopted by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).

The adoption of these amendments to the existing standards has not led to any material changes in the Company's financial statements except of impact of the new IFRS 16 - Leases described in the 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 amendments to the existing standards were issued by IASB and adopted by the EU and which are not yet effective:

- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** - Definition of Material - adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to References to the Conceptual Framework in IFRS Standards** adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020).
- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures"** - Interest Rate Benchmark Reform - adopted by the EU on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020),

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"** - Classification of Liabilities as Current or Non-Current (effective for annual periods beginning on or after 1 January 2022),

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 within NAFTA group in 2019.

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 24.2.

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 14 for further details.

NAFTA a.s.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2019
(Thousands of EUR)

Unaudited Subsidiaries and Associate Undertakings

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

c. Basis of Consolidation

NAFTA consolidates the financial statements of all significant subsidiaries.

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

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

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

d. Subsidiaries and Business Combinations

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

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

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

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

NAFTA a.s.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2019
(Thousands of EUR)**

The following subsidiaries have been consolidated:

<i>Name of Company</i>	<i>Seat</i>	<i>Description of business</i>	<i>Ownership interest</i>	<i>Ownership status</i>
NAFTA Services, s.r.o.	No. 891, Dolní Bojanovice Czech Republic	service work	100%	subsidiary
NAFTA International B.V.	Schiphol Boulevard 477, Toren 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	Moos 7, 83135 Schechen, Germany	holding company	100%	subsidiary NAFTA International B.V.
NAFTA Bavaria GmbH	Moos 7, 83135 Schechen, Germany	holding company	100%	subsidiary NAFTA Germany GmbH
NAFTA Speicher Management GmbH	Moos 7, 83135 Schechen, Germany	general partner	100%	subsidiary NAFTA Bavaria GmbH
NAFTA Speicher GmbH & Co. KG	Moos 7, 83135 Schechen, Germany	natural gas storage	100%	subsidiary NAFTA Bavaria GmbH
NAFTA Speicher Inzenham GmbH	Moos 7, 83135 Schechen, Germany	natural gas storage	100%	subsidiary NAFTA Speicher GmbH & Co. KG

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 acquired 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.

Acquisition took place on 31 December 2018. The process of recognising and measuring of the identifiable assets and liabilities acquired at their acquisition-date fair values was not finalised to this date. Therefore the Company in accordance with IFRS 3 Business combinations 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 related gain on a bargain purchase in these consolidated financial statements.

The process of valuation of assets and liabilities acquired by the acquisition was finalised at the very last day of this accounting period. The difference between estimated and final valuation was not significant. The company recognised the impact of valuation difference in the profit of the current accounting period.

The differences between estimated and final valuation of assets and liabilities are included in these consolidated financial statements as follows:

	Final valuation	Estimated valuation
NON-CURRENT ASSETS:		
Property, plant and equipment	177 730	180 112
Intangible and other assets	3	8
CURRENT ASSETS:		
Inventories	979	979
Trade and other receivables	3 854	3 295
Other financial receivables	294	294
Cash and cash equivalents	42 381	42 381
NON-CURRENT LIABILITIES:		
Provision for abandonment and restoration	(71 159)	(68 810)
Retirement and other long-term employee benefits	(9 371)	(9 371)
Deferred tax liability	(8 994)	(12 792)
CURRENT LIABILITIES:		
Trade and other payables	(6 096)	(6 096)
Income tax liabilities	(11 761)	(11 761)
Assets and liabilities, net	117 860	118 239
A gain on bargain purchase	(5 074)	(5 333)
Acquisition price	112 786	112 906
Received cash and cash equivalents	42 381	42 381
Receivable to former owners regarding to transaction tax	(5 360)	(5 360)
Net decrease in cash and cash equivalents	75 765	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.

The following joint ventures have been recognised using the equity method:

<i>Name of Company</i>	<i>Seat</i>	<i>Description of business</i>	<i>Ownership interest</i>
CNG Holdings Netherlands B.V.	Strawinskyiaan 613, 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%
Slovakian Horizon Energy, s.r.o.	Mlynské Nivy 44/c, Bratislava, Slovak Republic	exploration and production	50%

In March 2019 Company acquired 50 % share of the company Slovakian Horizon Energy, s.r.o. The Company created 100 % provision for this investment in accordance with the Note 3 f.

f. Property, Plant and Equipment and Intangible Assets

As at 31 December 2019 and 2018, 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:

	<i>Year ended</i>	
	<i>31 December 2019</i>	<i>31 December 2018</i>
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 permanent 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.

Impairment of Financial Assets

For the impairment of loan receivables, the Company applies a three-stage model of expected 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 2019 and 31 December 2018, the Company assessed the impairment of loan receivables from borrowings provided to the Group (see Note 9) 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.

Derecognition of Financial Assets

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 20.

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 2019 is 0.00545 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 2019 was recalculated using the tax rate of 21 % applied in Slovak Republic respectively 26,93 % applied in Germany (31 December 2018: 21% respectively 26,93 %).

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 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. Leases

Policies applicable from 1 January 2019:

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease or another systematic basis.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

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.

NAFTA a.s.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2019
(Thousands of EUR)

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are comprised of the following:

<i>Year ended 31 December 2018</i>	<i>Land, buildings & structures</i>	<i>Plant, machinery & equipment</i>	<i>Dismantling assets</i>	<i>Assets in course of construction</i>	<i>Total</i>
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 provisions recorded to assets	-	-	8 266	-	8 266
(Additions)/Release of provisions	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
<i>Year ended 31 December 2019</i>	<i>Land, buildings & structures</i>	<i>Plant, machinery & equipment</i>	<i>Dismantling assets</i>	<i>Assets in course of construction</i>	<i>Total</i>
Net Book Value as at 1 January 2019	234 300	101 868	51 941	3 107	391 216
Additions	-	-	-	8 574	8 574
Transfers	1 083	4 862	-	(5 945)	-
Disposals	(72)	(28)	(653)	(238)	(991)
Depreciation	(6 567)	(12 104)	(2 929)	-	(21 600)
Exchange rate differences	-	3	-	-	3
Change in provisions recorded to assets	-	-	(7 061)	-	(7 061)
(Additions)/Release of provisions	449	394	(1 570)	(681)	(1 408)
Difference between estimated and final valuation (Note 3 d.)	(86 311)	82 822	(1 137)	2 244	(2 382)
Net Book Value as at 31 December 2019	142 882	177 817	38 591	7 061	366 351
Cost as at 31 December 2019	323 058	320 673	88 863	36 600	769 194
Accumulated depreciation and provisions as at 31 December 2019	(180 176)	(142 856)	(50 272)	(29 539)	(402 843)
Net Book Value as at 31 December 2019	142 882	177 817	38 591	7 061	366 351

The accompanying notes are an integral part of the consolidated financial statements.
This is an English language translation of the original Slovak language document.

As at 31 December 2019 and 31 December 2018, 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 2018: 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 2019 represents EUR 1 165 thousand (31 December 2018: EUR 3 963 thousand).

Assets in the course of construction include:

	<i>31 December 2019</i>			<i>31 December 2018</i>		
	<i>Cost</i>	<i>Provision</i>	<i>Net</i>	<i>Cost</i>	<i>Provision</i>	<i>Net</i>
Exploration wells	24 158	(24 158)	-	23 311	(23 311)	-
Facilities with suspended completion	4 794	(4 794)	-	4 919	(4 919)	-
Other	7 648	(587)	7 061	3 808	(701)	3 107
Total	36 600	(29 539)	7 061	32 038	(28 931)	3 107

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 2019 the Company capitalised EUR 1 042 thousand referring to cost of hydrocarbon reserves exploration (31 December 2018: EUR 0 thousand).

The cost of fully depreciated items of property, plant and equipment that were still in use as at 31 December 2019 amounts to EUR 91 490 thousand (31 December 2018: EUR 91 921 thousand).

The net book value of property, plant and equipment that are temporarily unused amounts to EUR 1 951 thousand (31 December 2018: EUR 1 573 thousand), and the related provision of EUR 1 951 thousand (31 December 2018: EUR 1 573 thousand) was recorded; thus, such items are stated at a zero net book value as at 31 December 2019 and 31 December 2018.

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 2019 and 31 December 2018, 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.:

<i>Name of Company</i>	<i>Interest</i>	<i>Ownership Relationship</i>
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.
Slovakian Horizon Energy, s.r.o.	50 %	joint venture

POZAGAS a.s. is controlled by SPP Infrastructure, a.s., and thus, NAFTA recognises the investment using the equity method.

In March 2019 Company acquired 50 % share of the company Slovakian Horizon Energy, s.r.o. The Company created 100 % provision for this investment in accordance with the Note 3 f.

NAFTA a.s.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2019
(Thousands of EUR)**

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

	<i>31 December 2019</i>	<i>31 December 2018</i>
Cost of acquisition including goodwill:	23 586	23 583
Impairment of investments including goodwill:	(1 498)	(1 495)
Share of post-acquisition profit, net of dividends received:	31 031	26 510
Net book value	53 119	48 598

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

	<i>Year ended</i>	
	<i>31 December 2019</i>	<i>31 December 2018</i>
Non-current assets	19 613	19 182
Current assets	45 568	38 572
	<u>65 181</u>	<u>57 754</u>
Non-current liabilities	(9 695)	(7 653)
Current liabilities	(2 367)	(1 502)
	<u>(12 062)</u>	<u>(9 155)</u>
Net assets	53 119	48 599
Revenues	19 443	17 502
Profit before tax	6 175	1 976
Income tax including deferred tax	(1 654)	(770)
Profit /(loss) after tax	4 521	1 206

The following amounts represent NAFTA's share of the assets, liabilities, revenues, and expenses of CNG Holdings Netherlands, CNG LLC and Slovakian Horizon Energy s.r.o., which are involved in hydrocarbon reserves exploration:

	<i>Year ended</i>	
	<i>31 December 2019</i>	<i>31 December 2018</i>
Non-current assets	42	26
Current assets	614	347
	<u>656</u>	<u>373</u>
Non-current liabilities	(3 212)	(1 617)
Current liabilities	(284)	(146)
	<u>(3 496)</u>	<u>(1 763)</u>
Net assets	(2 840)	(1 390)
Revenues	5	19
Profit before tax	(1 124)	(95)
Income tax including deferred tax	-	-
Profit /(loss) after tax	(1 124)	(95)

6. AVAILABLE-FOR-SALE INVESTMENTS

	<i>31 December 2019</i>	<i>31 December 2018</i>
Cost	750	752
Diminution in value	<u>(5)</u>	<u>(5)</u>
Closing net book value	<u>745</u>	<u>747</u>

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

<i>Name of Company</i>	<i>Seat</i>	<i>Effective ownership</i>	<i>Principal activity</i>
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
EP Ukraine B.V.	Schiphol Boulevard 477, Toren C-4, 1118 BK Schiphol, Holandsko	10 %	exploration and production

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

In May 2019 Company acquired 10 % share of the Company EP Ukraine B.V. The Company created 100 % provision for this investment in accordance with the Note 3 f.

7. INVENTORIES

Inventories, net are comprised of the following:

	<i>31 December 2019</i>	<i>31 December 2018</i>
Materials and supplies	5 303	9 607
Finished goods	237	1 044
Less: provision for old and obsolete items	<u>(1 900)</u>	<u>(1 785)</u>
Total inventories, net	<u>3 640</u>	<u>8 866</u>

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:

	<i>31 December 2019</i>	<i>31 December 2018</i>
Trade receivables		
Domestic customers	3 642	3 042
Foreign customers	<u>6 920</u>	<u>6 113</u>
Total trade receivables	10 562	9 155
Less: provisions for doubtful amounts	<u>(283)</u>	<u>(74)</u>
Total trade receivables, net	10 279	9 081
Other receivables	7 995	7 204
Less: provisions for doubtful amounts	-	-
Trade and other receivables, net	<u>18 274</u>	<u>16 285</u>

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

The average credit period on sales of goods and services is 16 days (2018: 17 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.

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:

	<i>Year ended</i>	
	<i>31 December 2019</i>	<i>31 December 2018</i>
Balance at beginning of the year	(74)	-
Adoption of IFRS 9	-	(118)
Creation, reversal	(209)	44
Use	-	-
Balance at end of the year	(283)	(74)

NAFTA a.s.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2019
(Thousands of EUR)

9. LOANS PROVIDED

As at 31 December 2019 the Company recognised the following loans provided to:

Company	Currency	Interest method	Effective interest rate %	Maturity	Receivable (brutto)	Provision	Receivable (netto)	Note
SPP Infrastructure, a.s.	EUR	variable	1,0	2023	50 333	-	50 333	Note A
Czech Gas Holding Investment B.V.	EUR	variable	1,6	2023	40 099	-	40 099	Note A
CNG Holdings Netherlands B.V.	EUR	fixed	6,5	2023	6 069	(6 069)	-	Note B
Slovakian Horizon Energy s.r.o.	EUR	fixed	6,0	2026	55	(55)	-	Note B
EP Ukraine B.V.	EUR	fixed	4,0	2020	15	(15)	-	Note B
Total					96 571	(6 139)	90 432	

Note A: Loan is secured by option of offsetting with future possible dividends.

Note B: The purpose of providing the loan is to finance a hydrocarbon reserves exploration, to which a 100 % provision was made in accordance with Note 3 f.

10. EQUITY

Registered capital includes certificate-form registered shares. As at 31 December 2019, the total number of issued and fully paid shares was 3 230 960, with nominal value of EUR 33.19 per share (31 December 2018: 3 230 960 shares with nominal value of EUR 33.19 per share).

As at 31 December 2019 and 31 December 2018, 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 2019 (31 December 2018: 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 2019 are relevant. The amount of retained earnings under the Company's separate financial statements, prepared as at 31 December 2019, distributable to shareholders is EUR 71 483 thousand. In 2019, the dividend payment to shareholders from profit for 2018 was approved in the amount of EUR 21.57 per share.

The hedging reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in profit or loss when the hedged transaction impacts the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy. Other reserves represent actuarial gains and losses related to a change in estimates used to calculate retirement and other long-term employee benefits.

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

	<i>Year ended</i>	
	<i>31 December 2019</i>	<i>31 December 2018</i>
Balance at beginning of the year	(1 779)	(1 285)
Profit/(loss) recognised on cash flow hedges:		
Commodity swap contracts	1 166	3 306
Forward currency contracts	-	(271)
Actuarial losses	(2 289)	(196)
Income tax related to profit/loss recognised in equity	370	(596)
Transfer to profit or loss:		
Commodity swap contracts	2 713	(3 574)
Forward currency contracts	-	109
Income tax related to profit/loss recognised in profit or loss	(570)	728
Balance at end of the year	(389)	(1 779)

11. LOANS RECEIVED

As at 31 December 2019, a bank loan was drawn in the amount of EUR 175 000 thousand from a long-term credit facility totalling EUR 250 000 thousand. The long-term credit facility consists of a fixed portion amounting to EUR 175 000 thousand, which falls due in 2024, and a variable portion (revolving loan), which is used on a three-month basis and 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 2019.

The Company has open unused credit lines, including the revolving loan stated above amounting to EUR 90 000 thousand. See also Note 25.2 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 liability of EUR 10 001 thousand as at 31 December 2018, which was repaid in 2019.

In 2019, the Company also provided funds under the cash pooling financing. The balance of the cash pooling receivable amounted to EUR 22 000 thousand as at 31 December 2019.

13. LEASES

As at 31 December 2019, the Company recognises the right to use the leased assets with a residual value of EUR 6 662 thousands. The company leases lands, office space and cars. The average rental period is 12 years (2018: 13 years).

Lease liabilities	31 December 2019
Non-current	5 930
Current	683
Total	6 613

The Company does not face a significant liquidity risk with regard to its lease liabilities.

Short-term rental costs where the Company applied an exception to IFR16 - Leases were immaterial as at 31 December 2019.

14. 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 2018	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
Reversal of the provision to assets	(7 061)
Reversal of the provision through profit or loss	(4 350)
Interest on discounting	2 376
Utilisation of provision	(2 442)
Difference between estimated and final valuation (Note 3 d.)	2 349
Balance as at 31 December 2019	154 542

NAFTA currently has 141 production wells in addition to 291 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 (1,12 % respectively 1,29 %). 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 2020 and 2093 as follows:

Costs incurred	Within 1 Year	1 – 5 Years	5 – 20 Years	More than 20 Years	Total
Present value	4 515	21 599	50 309	78 119	154 542

15. 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 2019 there were 681 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:

	<i>Year ended</i>	
	<i>31 December 2019</i>	<i>31 December 2018</i>
Liabilities as at 1 January, net	12 995	3 633
Net change in provision (actuarial estimate), included in statement of profit and loss	1 206	99
Actuarial losses included in other comprehensive income	2 289	196
Employee benefits paid	(97)	(304)
Acquisition (Note 3 d.)	-	9 371
Liabilities as at 31 December, net	16 393	12 995

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

	<i>31 December 2019</i>	<i>31 December 2018</i>
Discount rate	0,2 respectively 1,2 %	0,6 respectively 2,3 %
Future expected annual rate of salary increases	2,1 respectively 2,4 %	2,1 respectively 2,4 %
Expected fluctuation	5,0 % 63	5,0 % 62 respectively
Retirement age in years		64

16. TRADE AND OTHER PAYABLES

Trade and other payables consist of the following:

	<i>31 December 2019</i>	<i>31 December 2018</i>
Trade payables	10 643	11 161
Payables to employees	5 259	4 296
Other tax liabilities	2 282	3 910
Social security liabilities	1 624	1 431
Other payables	2 209	5 932
Total trade and other payables	22 017	26 730

The average credit period is 35 days (2018: 36 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 2019 (2018: EUR 0 thousand).

The change on Social Fund liabilities recognised in the balance sheet as at 31 December 2019 and 31 December 2018 is analysed as follows:

	<i>Year ended</i>	
	<i>31 December 2019</i>	<i>31 December 2018</i>
Payables as at 1 January	319	259
Total creation:	336	338
<i>from expenses</i>	179	166
<i>from profit</i>	157	172
Total drawing:	(299)	(278)
<i>catering services</i>	(103)	(107)
<i>other</i>	(196)	(171)
Payables as at 31 December	356	319

17. CURRENT PROVISIONS

Current provisions consist of provisions for liabilities and charges, especially provision for abandonment and restoration, refer to Note 14 and litigation and other, refer to Note 24.2.

18. LABOUR AND RELATED EXPENSES

Labour and related expenses are comprised of the following:

	<i>Year ended</i>	
	<i>31 December 2019</i>	<i>31 December 2018</i>
Wages and salaries	(21 006)	(12 869)
Social security costs and other social expenses	(7 979)	(5 891)
Total labour and related expenses	(28 985)	(18 760)

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 15. The average number of employees for the year ended 31 December 2019 was 655, thereof 5 managers (year ended 31 December 2018: 656, thereof 6 managers).

19. OTHER OPERATING AND FINANCIAL INCOME/(EXPENSES)**19.1. Other Operating Income/(Expenses), Net**

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

	<i>Year ended</i>	
	<i>31 December 2019</i>	<i>31 December 2018</i>
Profit from the sale of non-current assets and inventories	(134)	222
Provision for abandonment and restoration costs and other provisions	4 350	3 500
Provisions for receivables, net	(209)	44
Insurance charges	(583)	(448)
Taxes and charges	(3 365)	(2 805)
Other income/(expenses), net	(237)	(282)
Total other operating income/(expenses), net	(178)	231

19.2. Other Financial Income/(Expenses), Net

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

	<i>Year ended</i>	
	<i>31 December 2019</i>	<i>31 December 2018</i>
Acquisition (Note 3 d.)	(259)	5 333
Provision for intragroup borrowings	(2 910)	(588)
Exchange rate differences, net	15	10
Other financial income/(expenses), net	(155)	119
Total other financial income/(expenses), net	(3 309)	4 874

20. INCOME TAXES**20.1. Income Taxes Reconciliation**

Reconciliation between the income tax calculated at the statutory tax rate of 21% (2018: 21%) and income tax expenses is as follows:

	<i>Year ended</i>	
	<i>31 December 2019</i>	<i>31 December 2018</i>
Profit before income taxes	114 479	100 886
Tax at a domestic income tax rate of 21%	(24 041)	(21 186)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(768)	2
Special levy on business in regulated services	(5 146)	(6 781)
Tax effect of tax non-deductible expenses, non-taxable income and tax related to previous periods: 1,74 % (2018: 2.9 %)	1 797	2 932
Tax effect of shares in profit/loss of joint venture	(1 654)	(770)
Total income tax charges	(29 812)	(25 803)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2019
(Thousands of EUR)

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.

20.2. Income Taxes

Income tax expenses comprise the following:

	<i>Year ended</i>	
	<i>31 December 2019</i>	<i>31 December 2018</i>
Current income tax	(24 221)	(17 863)
Share of taxation attributable to the joint venture	(1 654)	(770)
Deferred income tax	1 209	(389)
Current special levy on business	(5 383)	(6 469)
Deferred special levy on business	237	(312)
Total income taxes	(29 812)	(25 803)

20.3. Deferred Income Taxes

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

	<i>31 December 2019</i>	<i>31 December 2018</i>
Deferred tax asset	7 464	8 536
Deferred tax liability	(6 676)	(12 792)
Total	788	(4 256)

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:

	<i>1 January 2018</i>	<i>Acquisition</i>	<i>Transfer</i>	<i>Charge (credit) to equity</i>	<i>Charge (credit) to profit</i>	<i>31 December 2018</i>
Property, plant and equipment	(12 892)	(29 248)	(1 736)	-	(223)	(44 099)
Provision for abandonment and restoration costs	19 221	16 456	1 736	-	(732)	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)

	<i>1 January 2019</i>	<i>Difference between estimated and final valuation</i>	<i>Transfer</i>	<i>Charge (credit) to equity</i>	<i>Charge (credit) to profit</i>	<i>31 December 2019</i>
Property, plant and equipment	(44 099)	641	18 814	-	3 041	(21 603)
Provision for abandonment and restoration costs	36 681	632	(976)	-	(3 777)	32 560
Retirement and other long-term employee benefits	761	-	1 461	615	118	2 955
Inventories	375	-	-	-	24	399
Derivatives	220	-	-	(815)	-	(595)
Other	1 806	2 525	(19 299)	-	2 040	(12 928)
Total	(4 256)	3 798	-	(200)	1 446	788

21. 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.

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

The costs of services of an audit firm comprised EUR 162 thousand for the audit of the financial statements (2018: EUR 38 thousand), and EUR 152 thousand for accounting or tax advisory services (2018: EUR 6 thousand).

23. SIGNIFICANT TRANSACTIONS WITH THIRD PARTIES AND RELATED PARTIES**23.1. 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.

23.2. 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 2019, receivables and loans from related parties amounted to EUR 122 949 thousand (31 December 2018: EUR 159 758 thousand).

As at 31 December 2019, payables to related parties amounted to EUR 2 030 thousand (31 December 2018: EUR 11 734 thousand).

Revenues and other considerations from transactions with related parties for the year ended 31 December 2019 amounted to EUR 103 461 thousand (year ended 31 December 2018: EUR 111 869 thousand).

Expenses and other deliveries from transactions with related parties for the year ended 31 December 2019 amounted to EUR 12 787 thousand (year ended 31 December 2018: EUR 10 827 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 their statutory bodies, except for employment relationship transactions.

23.3. Board Members' and Directors' Remuneration

Remuneration to board members and directors recorded during the year ended 31 December 2019 and 31 December 2018 was as follows:

	<i>Year ended</i>	
	<i>31 December 2019</i>	<i>31 December 2018</i>
Salaries	1 349	1 232
Discretionary bonuses	-	-
Total	1 349	1 232

Salaries and bonuses are included in labour and related expenses.

24. COMMITMENTS AND CONTINGENCIES**24.1. Capital Expenditures**

As at 31 December 2019, capital expenditures in the amount of EUR 611 thousand (31 December 2018: EUR 790 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.

24.2. 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.

24.3. 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 2014 through 2018 are open and subject to review.

24.4. Bank Guarantees

As at 31 December 2019 and 31 December 2018 the Company provided no bank guarantees.

25. FINANCIAL INSTRUMENTS**25.1. 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 2018.

The gearing ratio at year-end was as follows:

	<i>31 December 2019</i>	<i>31 December 2018</i>
Debt (i)	175 174	260 193
Cash and cash equivalents	(50 258)	(62 258)
Net debt	124 916	197 935
Equity (ii)	224 960	207 417
Net debt to equity ratio	55,53 %	95,43 %

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

(ii) Note 10.

25.2. Categories of Financial Instruments

	<i>31 December 2019</i>	<i>31 December 2018</i>
Cash and cash equivalents (at amortised costs)	50 258	62 258
Loan receivables (at amortised costs)	112 432	155 851
Trade receivables and other receivables (at amortised costs)	18 274	16 285
Financial derivatives recognised as hedging (at fair value)	2 862	-
Financial assets	183 826	234 394
Loans (at amortised costs)	(175 162)	(260 193)
Lease liabilities (at amortised costs)	(6 613)	-
Interest free liabilities (at amortised costs)	(22 112)	(26 966)
Financial derivatives recognised as hedging (at fair value)	(27)	(1 045)
Financial liabilities	(203 914)	(288 204)

(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:

	<i>Assets</i>		<i>Liabilities</i>	
	<i>31 December 2019</i>	<i>31 December 2018</i>	<i>31 December 2019</i>	<i>31 December 2018</i>
CZK	1 201	1 987	230	243
USD	574	615	55	98

The following table shows the Company's sensitivity to a 1 % increase or decrease of EUR against CZK (2018: 1 %) and a 2 % increase or decrease of EUR against USD (2018: 5 %). 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.

	<i>CZK</i>		<i>USD</i>	
	<i>31 December 2019</i>	<i>31 December 2018</i>	<i>31 December 2019</i>	<i>31 December 2018</i>
Profit or loss (i)	10	17	10	26

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

As at 31 December 2019 and 31 December 2018, the Company has no open forward currency contracts designated and evaluated as effective hedging instruments.

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:

	<i>Contract value</i>		<i>Fair value</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
Less than 3 months	2 173	3 310	741	(477)
3 to 12 months	5 913	9 314	1 719	(981)
Over 12 months	1 796	9 455	375	413
Total	9 882	22 079	2 835	(1 045)

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 2019 and 31 December 2018, 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 and companies within the group.

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.

	<i>Weighted average effective interest rate</i>	<i>Less than 1 month</i>	<i>1 – 3 months</i>	<i>3 months to 1 year</i>	<i>1 – 5 years</i>	<i>Total</i>
2019						
Variable interest rate instruments	0,90 %	162	394	1 181	179 833	181 570
Fixed interest rate instruments	1,82 %	46	91	411	899	1 447
Non-interest bearing		19 077	2 870	897	4 434	27 278
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

The Company has access to credit facilities. The total unused amount of such facilities is EUR 90 000 thousand at the balance sheet date (2018: EUR 15 000 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.

26. SUPPLEMENTARY INFORMATION TO THE CONSOLIDATED FINANCIAL STATEMENTS ACCORDING TO THE STATUTORY REQUIREMENTS**26.1. 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.

26.2. Unlimited Guarantee

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

26.3. Members of the Company's Bodies as at 31 December 2019**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	doc. JUDr. Boris Balog, PhD
Member	JUDr. Peter Hajduček
Member	Mgr. Pavel Horský
Member	Ing. Daniel Kujan
Member	Gary Wheatley Mazzotti
Member	Dušan Sajko
Member	Mgr. Jan Stříteský
Member	Ing. Peter Šefara

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

27. EVENTS AFTER THE BALANCE SHEET DATE

From 31 December 2019 up to the date of the approval of these financial statements there were no significant events that would significantly impact these financial statements of the Company.

28. PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements on pages 4 to 39 were signed on 14 March 2020 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

