Annual Report 1998

Annual Report

1998

Content

SLOVNAFT
akciová spoločnosť

Annual Report
1998

„We will maintain market leadership of petroleum products in Slovakia and achieve leadership in urrounding regions, by responding to customer needs and becoming the lowest cost manufacturer. We wish to be seen as a quality company in everything we do, complying with European Union environment and safety standards“.

Against the wind, we let the future plans towards the sky on the wings of the last year's dreams. The higher we contrive to get them, the further will be their sight in our behalf.

At a Glance of the Group's

	1998	1997	1996	1998/97	1997/96
	SKK millions	SKK millions	SKK millions	index	index
Sales	36,734	42,376	37,945	0.87	1.11
Costs	(35,595)	(38,672)	(34,918)	0.92	1.10
Profit before taxation	1,139	3,704	3,027	0.31	1.22
Profit after taxation and after accounting of minority interest	76	1,816	1,581	0.04	1.15

Statement by the Chairman of the Board and Company President

In 1998 the Slovnaft Group achieved good results in various areas of its activities. It continues to be among the most prominent of business entities in the Slovak Republic, as well as being the market leader for chemical and pharmaceutical sectors in Slovakia. The core business of the Group is crude oil processing, distribution and sales of crude oil products. The Group once more expanded its activities in abroad. The average number of employees of the Group was 5,734. Company in profit making shows significant backward when compared to previous years' actual results. The reasons for a fall in profit were given mainly by several unfavourable influences within the macro-economic environment.

The most important changes to the Group's structure in 1998 were as follows:

The company Slovnaft Supply & Trading, s.r.o., which deals with the purchase and sale of crude oil, was established with Slovnaft, a. s. having a 100% capital share. Regarding investment, the Group gained new shares in the companies Theben, a. s. and the Bratislava Commodity Exchange as well as increased its interest in the companies Slovnaft Poland SA and Chémia, a. s. Further investments into the companies Slovnaft Montáže a opravy, a. s., Slovnaft Somea, a. s. and Benatech, a. s. did not increase the interest share of the Group. The company Apollo Oil Rohstoffhandels GmbH, in which Slovnaft has had a trade share of 67% since 1997, mediates the purchase of crude oil for Slovnaft.

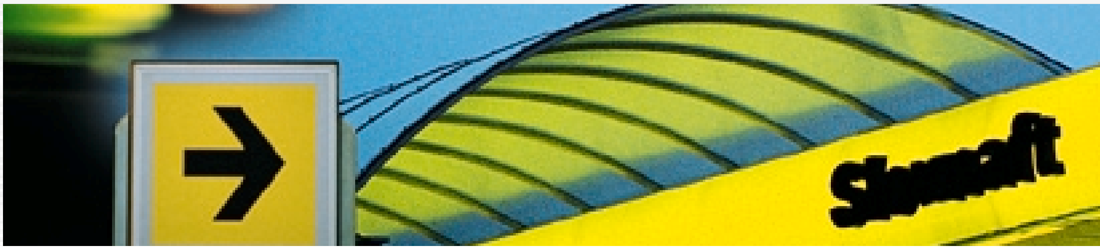
Slovnaft Metalchem, a. s. and Slovnaft DEOS, a. s. were dissolved without liquidation and incorporated to Slovnaft Montáže a opravy, a. s.

Slovnaft, a. s. sold its capital share in Slovnaftprojekt, spol. s r.o., to subsidiary Slovnaft Montáže a opravy, a. s.

Through the capital transactions, Slovnaft a. s. increased its capital share in Slovnaft Benzinol, a. s., from 63.80 % to 85.20 %. The company Benzinol plus terminated its trading activities with all its assets and liabilities being adopted by the company Slovnaft Benzinol, a. s. The affiliated company Petrimex, a. s. went into liquidation.

By 1 July 1998, a fundamental change in the organisational structure of Slovnaft, a. s. had been implemented. Main subsidiaries entered into contract with the parent company on the creation of a holding management structure handing over a certain range of their activities and legal attorney to the parent company. The strategy, trade, finance, investment, personnel and social policies are governed by universal rules within the holding for all companies. From the aspect of financial management and legal form of the individual companies, no actual change took place however, as legislation in the Slovak Republic does not permit such as yet. Those subsidiaries whose core business relates to the main activity of Slovnaft a. s., were included into the holding structure.

The former commercial section of the parent company was split up into a marketing section and section for retail trade. Additionally, a new section for personnel and management was created involving certain departments of the former economic, personnel and technical- investment sections. Apart from these changes, opera-



tion of the network of Slovnaft, a. s. service stations was leased to Slovnaft Benzinol, a. s. at the beginning of 1998, and numerous organisational changes were prepared for 1 January 1999, concerning in particular Slovnaft Benzinol, a. s. and its task to control operation and development of service stations network. Significant changes in the area of trade activities were prepared within the parent company for the beginning of 1999.

Slovnaft, a. s. processed 5.34 million tons of crude oil in 1998, which represents a slight increase on the previous year by 2.2 %. The entire quantity of crude oil was purchased in the Russian Federation via the company Apollo Oil Rohstoffhandels GmbH, and was transported by the pipeline system Druzhba. Supply of crude oil was fluent throughout the year and according to the requirements of the company.

The market required structure of the products was achieved thanks to the smooth operation of the production units, energy centres and ecological facilities. A cracking unit of the Hydrocrack complex recorded the highest level to date of processing distillates to components for blending of motor fuels. Inter-annual growth in production was recorded in refinery and petrochemical products as well as in plastics, which in summary represents an increase of 215,2 thousand tons.

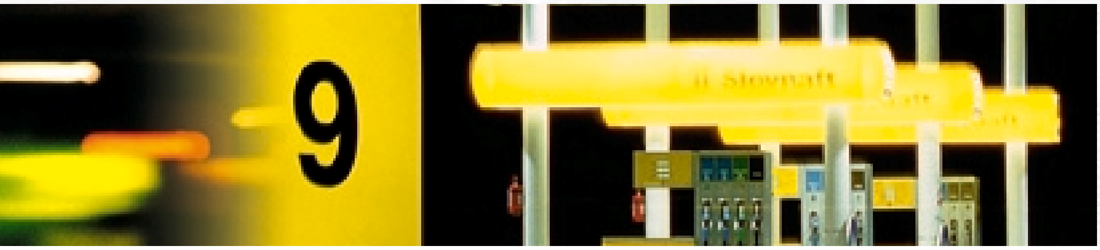
Also the successful implementation of one of the most important strategic development projects of the company – a reformer with continuous catalyst regeneration (CCR), which belongs among the most advanced fuel reforming processes world-wide, played an important part in an almost 10% increase of automobile fuel production compared to the previous year. Its technical design is based on the top licence of the American company UOP.

To satisfy our customers needs we offered to market and sell a complete assortment of refinery and petrochemical products and plastics, exceeding sales by more than 4 % in volume over 1997. We recorded higher sales in gasoline, diesel, n-paraffins, glycols, polyethylene, polypropylene and heating oils. In spite of this, sale of our own products in financial terms declined by more than 10 % compared to 1997, which was caused mainly by a long-term decline in prices of practically all products as a consequence of a sag in crude oil price on world markets, which started in 1997. The average prices of realised production significantly declined compared to the planned level and a decrease in the margin between inputs and outputs had a direct impact on profit making.

At the close of 1998, trading companies had 356 service stations in operation, from which 314 were in Slovakia. Slovnaft Group's share of the overall number of sites in Slovakia represented 52%. The improvement and expansion of retail network continued with the construction of 1 new service station and the reconstruction of 13 existing ones. The Slovnaft Benzinol, a. s. has introduced own chip-equipped card-payment system. The company Slovnaft CS, a. s. expanded its network in the Czech Republic by 4 service stations, and the company Slovnaft Poland SA commenced with the construction of the first two service stations in southern Poland.

Slovnaft VÚRUP, a. s. successfully completed its research work on additivation of low-sulphur diesel fuel, development of a new version of the additive Anabex 99 and resolution of the cascade additivation system of the motor oil Madit. Slovnaft Montáže a opravy, a. s., Slovnaft Stavos, a. s., Slovnaft Elektroservis, a. s. and Slovnaft Somea, a. s. successfully contributed to the construction of the EFPA complex. Favourable results were recorded also in other companies of the Group.

Revenues of the Group from the sale of goods and products amounted to SKK 36.3 billion,



which is down on the previous year by 13.9%. Export revenues accounted for 52.7%. Export to the Czech Republic amounting SKK 7.9 billion represents 21.7% of total sales. This drop in revenues can be accounted mainly to persistent drops in the prices of almost all crude oil products in both foreign and domestic markets.

The price decrease initiated at the parent company the additional interests from some of long term loans, amounting SKK 1.17 billion. This loans were used to cover operating capital. Generation of the profit was affected also by the depreciation of the Slovak crown as the Company had to create the provisions on the exchange rate loses in amount of SKK 1.6 billion. In the volume of SKK 0.29 billion a provisions were created for the claims from domestic as well as from foreign trade.

Consequently, profit before tax, amounting to SKK 909.6 million, declined almost by one third compared to 1997, and the net profit of only SKK 1.28 million was significantly influenced by non-deductible items from the tax base, first of all by the expenses spent on the provisions and correction items, mentioned above.

These unfavourable influences showed themselves considerably in the income statement of the Group. Even though the gross profit remained approximately on the same level as the previous year and working earnings were lower by one quarter, the pre-tax profit of SKK 1.14 billion represents less than one-third of that of the previous year. Total financial costs were up by 2.6 times, mainly in connection with the stated influences.

For acquisition of tangible assets, the Group input was SKK 10.3 billion. The volume of the invested means in parent company amounted SKK 8.03 billion. The key capital investment was the EFPA (Heavy residual upgrading project). From the total EFPA budget equal SKK 17.8 billion, more than 85 % has been spent and from total number of 15 project units 5 were completed. Start-up of the EFPA Project is scheduled for the second half of 1999. The retail network and environmental facilities were considered as a next investment priorities of the Group.

Even in spite of insufficient fulfilment of certain indicators, I should like to express my thanks to all, who in such severe economic conditions put great effort into accomplishment of their tasks and into the advancement of the Slovnaft Group. In 1999, our attention shall be focused on minimizing the unfavourable influences of a macro-economic nature on management of the Group, together with completion and start up of the EFPA technological complex and improvement of all our activities.

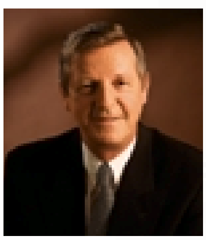
On behalf of the Board of Directors and employees of the Slovnaft Group, I express our gratitude to all shareholders for their continuing trust and confidence.

Bodies of Slovnaft, a. s.

Board of Directors

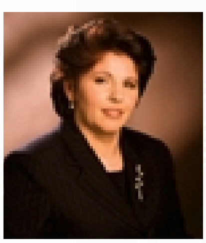
Slavomír Hatina

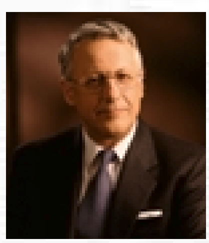
Chairman of the Board of Directors
President



Jolana Petrášová

Vice-Chairman of the Board of Directors
Senior Vice-President
Management and Human Resources



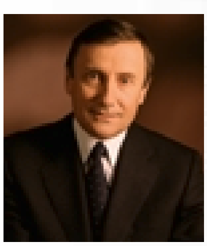


Vratko Kaššovic

Member of the Board of Directors
Senior Vice-President
Strategy and Investment

Ivan Horvát

Member of the Board of Directors
Senior Vice-President
Marketing

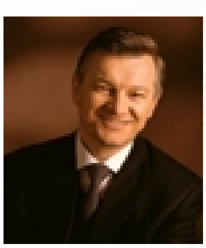


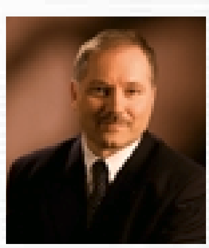
Dušan Durmis

Member of the Board of Directors
Senior Vice-President
Economics and Finance

Ján Kavec

Member of the Board of Directors
Senior Vice-President
Production





Daniel Krajniak

Member of the Board of Directors
Senior Vice-President
Retail Network

Supervisory Board

Peter Ďatel

Chairman of the Supervisory Board
Managing Director of the Slovnaft Benzinol, a. s.

Miroslav Švatarák

Member of the Supervisory Board
Director of the EFPA Plant, Slovnaft, a. s.

Norbert Vančo

Member of the Supervisory Board
Director of the Department of Planning and Budget, Slovnaft, a. s.

Marián Blaško

Member of the Supervisory Board
Employee of the Department of Control, Ministry of the Economy of the Slovak Republic

Pavol Buday

Member of the Supervisory Board
Chairman of the Trade UnionChémia, SR, in Slovnaft, a. s.

Mária Kobzová

Member of the Supervisory Board
Head of Department of Standards and Policy Development, Slovnaft, a. s.

Peter Krajčír

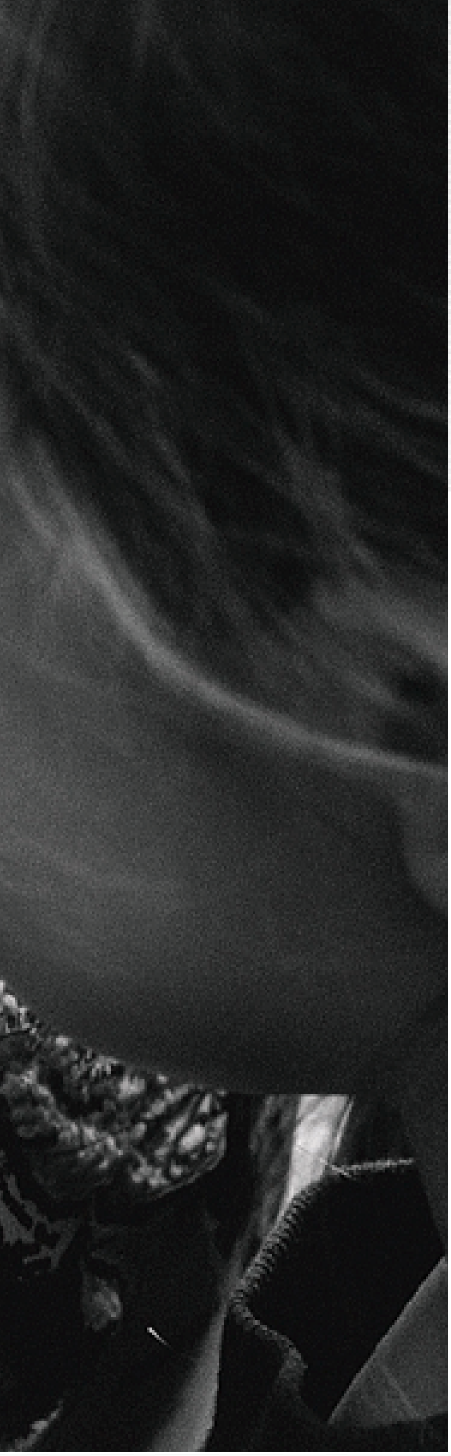
Member of the Supervisory Board
Vice-Chairman of the Trade UnionChémia, SR, in Slovnaft, a. s.

Report of the Board of Directors

Only common conviction of the rightness of our way gives us the power to cling to notions of how does this way have to run.

a) Commercial Activities

Slovnaft, a. s. has spread the export of own products into 28 countries of the world with the value of sales equal to volume of SKK 18.2 billion or 57.7 % of total sales of the parent company.



From that height, the sense of partition of the world fades. This country is us small as a finger. However, our commerce stands at the beginning of many another commerces, too.

In 1998, revenues of the Slovnaft Group gained from the sale of products and goods, reached a level of SKK 36.3 billion. Expenses incurred from sales amounted to SKK 24.5 billion, representing a gross profit of SKK 11.8 billion, with this being comparable to that of 1997 (SKK 12 billion).

The value of sales of own products, goods and services in the parent company Slovnaft, a. s. represented SKK 31.51 billion.

The principal raw material, crude oil, was purchased by Slovnaft via its subsidiary company Apollo Oil Rohstoffhandels GmbH, with this being transported to Bratislava by the 'Družba' pipeline, using services of the joint stock company Transpetrol Bratislava. Stocking of crude oil was fluent throughout the whole year.

The greatest export territory of the parent company was the Czech Republic, followed by Austria, Hungary, Germany and Poland. Exports to the Czech Republic accounted for 22.8% of total sales, this being SKK 624.2 million down on 1997. This decreased volume of sales was influenced by the persevering drop in prices of practically all products, caused as a result of persisting low prices of crude oil on the world markets.

In 1998, actual sales of motor fuels in service stations of Slovnaft Benzinol, a. s. amounted to 626 million litres, with average sales per service station being 2 million litres. Wholesale sales of crude oil by Slovnaft Benzinol, a. s. accounted for 441.7 thousand tons, while retail sales amounted to 497.8 tons. The overall volume of sales reached a level of 939.5 thousand tons. The year 1998 was also the year when Slovnaft Benzinol, a. s. became the exclusive distributor of MADIT lubricants in the Slovakia.

Crude oil purchasing

	1998		1997		1996	
	000 tonnes	%	000 tonnes	%	000 tonnes	%
Slovnaft, a. s.	5,365.0	100.00	5,269.5	100.00	5,049.0	95.90
Petrimex, a. s.	—	—	—	—	214.6	4.10
Total	**5,365.0**	**100.00**	**5,269.5**	**100.00**	**5,263.6**	**100.00**

Slovnaft Moravia, Ltd. provides wholesale sales and distribution of refinery products for Slovnaft, a.s. in the Czech Republic. Operation of the service stations was taken over by the subsidiary company Slovnaft CS, a. s.

At the close of 1998, the network of Slovnaft CS a. s. consisted of 33 service stations. The network sales reached here a volume of 79 million litres. An important step towards the lasting increase in the retail sales of fuels is the improvement of services, for instance the possibility of cash less credit card payment.

Ukrslovnaft, Ltd. operated 2 service stations in the Ukraine, and sold of 8 million litres of fuel, while wholesale sales of Slovnaft Ukrajina Ltd. has reached 6.6 thousand tons of fuel.

1998 Exports – Breakdown by Country

	1998		1997		1996	
	000 SKK	%	000 SKK	%	000 SKK	%
Czech Republic	7,196,660	39.6	7,820,840	38.4	7,162,882	39.9
Austria	2,871,822	15.8	3,226,520	15.8	2,368,539	13.2
Hungary	2,120,583	11.7	2,613,071	12.8	2,561,872	14.3
Germany	1,674,820	9.2	1,675,471	8.2	1,371,154	7.6
Poland	1,524,853	8.4	1,766,103	8.7	1,052,887	5.9
Italy	840,331	4.6	649,708	3.2	587,565	3.3
Yugoslavia	374,101	2.1	373,447	1.8	23,159	0.1
Slovenia	244,312	1.3	503,469	2.5	160,275	0.9
Romania	231,287	1.3	141,767	0.7	10,403	0.1
Netherlands	210,376	1.2	159,259	0.8	244,094	1.4
Belgium	209,678	1.2	227,591	1.1	215,948	1.2
Switzerland	186,474	1.0	315,193	1.5	1 288,131	7.2
Others	489,505	2.6	896,628	4.4	902,074	5.0
Total	**18,174,802**	**100.00**	**20,369,067**	**100.00**	**17,948,983**	**100.00**

The sale of motor fuels in the service stations network by the territories (in million litres)

Territory	Number of SS	1998	1997	1996
Slovak Republic	314			
Gasoline		430	460	493
Diesel fuel		196	226	237
Total		**626**	**686**	**730**
Czech Republic	33			
Gasoline		43	33	—
Diesel fuel		36	22	—
Total		**79**	**55**	**0**
Ukraine	2			
Gasoline		7	—	—
Diesel fuel		1	—	—
Total		**8**	**0**	**0**

Revenues from the sale of products and services of main subsidiary companies

Company	1998 revenues SKK millions	1998 of which Slovnaft, a. s. %	1997 revenues SKK millions	1997 of which Slovnaft, a. s. %
Slovnaft Montáže a opravy, a. s.	1,601.2	64.8	845.9	72.3
Slovnaft Trans, a. s.	183.4	62.0	152.9	74.0
Slovnaft Somea, a. s.	179.5	57.4	86.9	78.6
Slovnaft VÚRUP, a. s.	156.3	66.5	146.3	32.0
Slovnaft Stavos, a. s.	96.9	73.4	284.8	96.3
Slovnaft Elektroservis, a. s.	89.7	31.6	98.4	43.5

b) Production

Crude oil processing is maintained at an optimum level for several years up to now at just over 5 million tons, which corresponds to the technological configuration of the main production units. The volume processed in 1998 increased by 116 thousand tonnes over 1997.

The world goes round at evergrowing speed to keep abreast of the times. We stand together on the same side. We put together our power and we invest our whole weightiness into our work.

The quality parameters of crude oil imported from the Russian Federation did not display any great fluctuations throughout the year. In comparison with 1997, there was a higher level of production in diesel fuel, gasoline, white spirit, n-paraffines, polyethylene, sulphur, polypropylene, glycols and other products. The most massive product was diesel fuel with an amount of 1,863.2 thousand tons, which represents 34.9 % of all processed crude oil. This was followed by heavy heating oils in a quantity of 1,065.2 thousand tons, gasoline produced to a volume of 909.2 thousand tons, 176.1 thousand tons of polyethylene and 175.0 thousand tons of asphalts. During the year there were 9 new and innovated products introduced into production programme, the road asphalt APOLLOPLAST for example, which was awarded the Gold Medal at International Chemical Fair Incheba '98. Towards the end of 1998 a new fully-synthetic motor oil with extremely low viscosity was launched on the market, going under the name of Madit ZERO OW-40.

Feed Stocks Processing (in thousand tonnes)

	1998	1997	1996
Total feed stocks	5,616	5,487	5,421
from that crude oil	5,344	5,228	5,180
Toll processing	12	18	8

Production split-up (in thousand tonnes)

	1998	1997	1996
Refinery products	4,352.3	4,237.2	4,135.5
Petrochemical products	317.8	227.1	297.0
Plastics	249.1	239.7	237.9

c) Investment Activities

In terms of investment, 1998 proved to be an extremely active year, representing the second greatest volume of invested finances in the history of Slovnaft, a. s. with an investment input of SKK 8.03 billion. The most significant investment activity also in 1998 was posed by the project of heavy residuals upgrading – EFPA (Environmental Fuel Project Apollo).

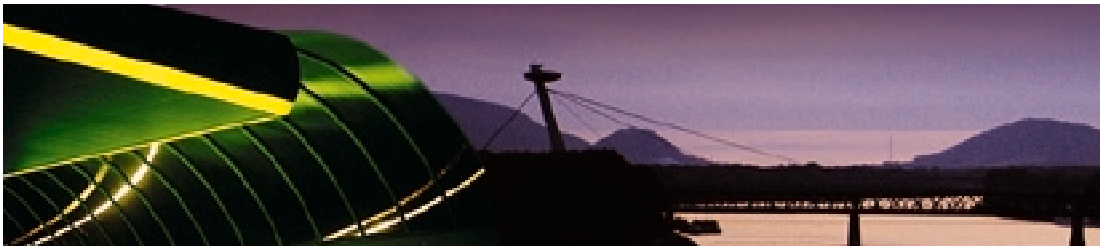
Those reasonable of us can discern the right ways also at full speed. We invest a lot in therm to make those, who are to come after us, have a way to go.

In the course of 1998, altogether 19 sites were completed and put into operation, from which 5 were part of the EFPA complex, these having a value of SKK 1.8 billion. Here belong: central control room, main transformer station, reconstruction of storage tanks at the block 51, additives tanks and others.

The investment programme in Slovnaft Benzinol, a. s. was preferentially aimed at the construction and modernisation of service stations. The investment costs has reached SKK 1.3 billion.

Slovnaft CS, a. s., spent on approximately CZK 139 million resulting in 4 new service stations and overall improvement of security equipment, air condition, etc. Elements of unified corporate identity were also implemented within the whole retail network.

In 1998, Slovnaft VÚRUP, a. s., invested principally in the purchase of laboratory equipment. The activity of Slovnaft Montáže a opravy, a. s., was aimed at the EFPA constructions, with total investment input of SKK 37.2 million. Investments of the company Slovnaft Trans, a. s., amounted to SKK 13.4 million, Slovnaft Elektroservis, a. s., invested SKK 231 million, Slovnaft Stavos, a. s. SKK 10.6 million, and Slovnaft Somea, a. s. SKK 5.9 million.



d) Personnel

In all companies of the Group, great attention is paid to human resources, from the point of personal and professional development as well as from medical care and social welfare level. The parent company maintains its own Secondary vocational school and Institute of education.

As a part of the social welfare policy, financial means from the social fund were rendered to employee recreation in own recreational centres. These centres offer the possibility of relaxation, rehabilitation and recondition stays. From the social fund were supported also accommodation and catering, pre-school facilities for children, as well as various social events for seniors.

In the field of health care, Slovnaft's own Industrial Health Centre provides selected preventative programmes aimed at health protection. The cardiovascular and the oncological disease treatment programs were performed in the period of 1995 – 1998. They provide also consulting programmes regarding nutrition, life style, fitness, stop smoking, etc.

In 1998, the Group's companies provided financial donations mainly to the purposes and legal bodies as follows:

Research and education: – secondary schools in the Bratislava region, the Baťa Junior Achievement programme, Chemical-Technological Faculty of the Slovak Technical University, the Polymers Institute of the Slovak Academy of Sciences.

Health service – the Slovak Institute of Cardiovascular Diseases, the Clinic of Occupational Medicine and Toxicology and Industrial Health Centre of Slovnaft.

Culture – the International Film Festival ART FILM in Trenčianske Teplice, The Opera of the Slovak National Theatre, the artistic ensemble Lúčnica, The Bralen theatre of dance, the ballroom dancing ensemble Interklub Madit, the folklore ensemble Vienok.

Sport – AŠK Inter Slovnaft, athletics meeting Slovnaft 1998, the Slovak Special Olympic Games Movement.

Humanitarian help and charity – help for citizens stricken by floods, Children's Centre in Ružomberok, the Anti-Cancer League, the Slovak Red Cross, the Slovak Committee for UNICEF.

Ecology – revitalisation of small city park at Avion in Bratislava.

Number of Employees in the Main Companies of the Slovnaft Group

	1998	1997	1996
Slovnaft, a. s.	4,250	4,730	4,885
Slovnaft Benzinol, a. s.	1,308	1,180	1,230
Slovnaft Moravia, spol. s r. o.	28	29	36
Slovnaft Montáže a opravy, a. s.	895	355	329
Slovnaft Trans, a. s.	98	101	102
Slovnaft Elektroservis, a. s.	91	77	79
Slovnaft Stavos, a. s.	99	97	106
Slovnaft Somea, a. s.	310	79	82
Slovnaft VÚRUP, a. s.	156	157	156

The total volume of emissions into the air was 2.7% lower than in 1997. Due to the termination of demolition and dumping works related to the EFPA complex, total volume of waste in 1998 was significantly lower than that of 1997.

Environmental Protection

e)

Environmental protection is an integral part of our current production activity as well as of our long-term development strategy. The minimizing of the ecological impact of production is achieved by step-by-step lowering of emitted pollution, as well as by extension of the range of environment friendly products.

In June 1998, inspection audit of the environmental management system according to ISO 14001 was successfully handled. For the second time already has the Company received the prestigious prize Golden World Award, awarded in the world-wide competition by the London based International PR Association. In 1998 the prize won our media project focused on the environmental education of Children.

In Slovnaft Benzinol, a. s., there activities were determined to get service stations facilities into conformity with the legal requirements of environmental protection.

The systems of hydraulic protection of underground water are installed also at all wholesale terminals.

In 1998, the company collected and reprocessed 2,060 tons of used motor oils, which were then utilised as heating fuel.

The other companies of the Group also keep bringing their own contribution to environmental protection.

f) Economic Results

The profit generated by the Group amounted to SKK 76 million in 1998. The economic results of the Group were influenced by several external factors which could not be controlled by the companies of the Group.

At the ends of the right ways there are small paradises – our right of a little bit of shadow, because result of our work is the next pottle of apples of knowledge.

It was mainly a growth in the exchange rate of SKK against US dollar caused by the introduction of floating on the Slovak crown and then crude oil prices. The increase in the exchange rate caused higher costs for crude oil in the parent company and the increase of the loan-related reserves.

The greatest impact of exchange rate development hit the area of financial costs. The largest part of financial costs is represented by interests paid, and other costs related to loans and borrowings. The increase over previous years was caused by the drawing down of borrowings used for the capital investment programmes mainly in Slovnaft, a. s., and Slovnaft Benzinol, a. s. The Group as a whole paid interest costs of SKK 2,574 million, and other loan-related costs of SKK 32 million. From that SKK 514 million was capitalised into investment projects.

Taxation

Income tax is calculated as 40 % of the earnings before taxation adjusted for non- deductible and non-taxable items. In 1998 the Group tax charge

Income Statement

	1998	1997	1996
	SKK millions	SKK millions	SKK millions
Revenues from operations	36,529	42,525	37,898
Operating cost	(32,506)	(37,182)	(34,071)
Operating profit	4,023	5,343	3,827
Financial revenues	152	(128)	47
Financial cost	(3,089)	(1,490)	(774)
Statement of net income of companies of the Group	53	(21)	(73)
Profit before taxation	1,139	3,704	3,027
Income tax	(877)	(1,728)	(1,217)
Minority interests	(186)	(160)	(229)
Net profit	**76**	**1,816**	**1,581**

was fulfilling obligations to the state budget SKK 877 million. In any year, taxes paid may be reviewed by the tax authorities for the previous three years.

Dividend Income

Dividend Income in 1998 was not significant to the net income of the Group. All the net income, generated by Group companies other than the parent company, was mainly re-invested in their development programmes. The Group received dividend income of SKK 16 million from companies in which it has minority interest. No payment of dividends is anticipated from the companies Slovnaft, a. s. and Slovnaft Benzinol, a. s. for 1998.

Acquisitions

In November 1998, Slovnaft a. s. increased its share in Slovnaft Benzinol, a. s. from 63.8% to 85.2% as a result of capital transactions with shareholders.

Benzinol plus concluded its commercial activities in August 1998, with all assets and liabilities being taken over by the parent company Benzinol, a. s., which was its 100% shareholder.

Throughout 1998, the Group inserts further investment into its subsidiaries and affiliated companies, with such going to the companies Slovnaft Montáže a opravy, a. s., Slovnaft Somea, a. s. and Benatech, a. s. This did not however involve increasing the Groups share interest, as the increase in the registered capital of these companies was implemented by shareholders' subscriptions towards the registered capital being proportionate to their share in it. The Group also invested to the company Theben (SKK 4 million) and to the Bratislava Commodity Exchange (SKK 2 million).

Cash Flow and Financing

During 1998 cash and cash equivalence decreased by SKK 2,828 million which is consistent with the long term development program of the Group. The Group generated net cash from operations of SKK 4,449 million and made net investments of SKK 10, 300 million. The required additional cash came principally from a net increase of long-term loans of SKK 5,052 million. The net repayments of short term loans were SKK 1,137 million.

The Group drew down SKK 1,272 million of loans in Slovak crown and SKK 20,319 million in foreign currencies from both domestic and foreign credit institutions. Loans were provided at the risk of the companies and none put the Groups property up as collateral. In connection with the stated loans, certain contractual conditions had to be adhered to. By 31 December 1998 the Group had breached some of the provisions of the loan agreements. The banks waived discharging of such conditions and new conditions were agreed upon for 1999.

Price Risk Management

The company is exposed to influences of interest rates, exchange rate fluctuations and commodity prices risks, which arise predominantly as a result of accepting loans, but which are also due to the influence of common trading activities in foreign currencies. In managing the risk against the impact of price changes, the company uses financial derivatives with which the subsidiary company Slovfin, o.c.p., Ltd., performs transa-

ctions. The Group does not handle speculative transactions with derivatives.

Capital Market

Stocks of Slovnaft a. s. are to be found on the market of listed securities of the Bratislava Stock Exchange (BCPB) and Luxembourg Stock Exchange. The overall volume of trading on the BCPB in 1998 reached the level of SKK 299,081 million during the 243 days of trading. From the mentioned volume, the volume of trading with stocks of Slovnaft, a. s. (anonymous and direct) represented SKK 2,237 million, of which SKK 62.4 million was via anonymous trading and SKK 2,174.1 million by direct trading. Trading with Slovnaft a. s. stocks on the BCPB was executed on 132 of the trading days, which puts it in fourth place among listed securities in terms of days of trading. The total volume of anonymous trade done on the BCPB with listed securities represented SKK 220.6 million. The volume of SKK 62.4 million related to Slovnaft, a. s. represented a share of 28.31%. The mean share price from the first issue had a slightly falling tendency throughout the year. The minimum price SKK 596 was dated of 29 June 1998, and the maximum price SKK 946 of 10 February 1998. The last rate from December 18, 1998, which was the final trading day of the year, resulted in a price of SKK 660. The shares from the second issue were traded only direct trading in 1998, having an overall trading volume of SKK 20.7 million.

Trading with the stocks of Slovnaft, a. s. concluded via the Registration Centre Slovakia (RMS) system represented a volume of SKK 13.1 million at a mean price of SKK 740. The lowest price recorded for the year was SKK 554.50, and the highest SKK 940.50. Trading with our company's shares was here executed on 231 days.

g)

Quality Management System (QMS)

Slovnaft, a. s. has held the international certificate ISO 9001 covering the Company's management system since 1995.

The compliance with this certification was confirmed by SQS auditors in 1997. In June 1998 a renewal of audit for ISO 9001 was carried out for the whole company Slovnaft. On the basis of very good results from an external audit as per criteria of the Slovak Republic Award for Quality, in November 1998 Slovnaft, a. s. was awarded this prestigious Prize for the second time. The first time Slovnaft, a. s. received the Slovak Republic Award for Quality was in 1995. Simultaneously the process of gradual implementation of TQM within our company has continued all the year.

Slovnaft Benzinol, a. s., introduced the QMS according ISO 9002 at its commercial outlets. During 1998, certification of all service stations was carried out as well as a renewal of the certification audit at the terminal in Horný Hričov.

Knowledge make us owe our improving to it. We reckon with it as a kind of figures. Accuracy at it is a precondition of the right solution to make satisfied those, for whom we bring results.

Slovnaft Montáže a opravy, a. s. was awarded the ISO 9002 certificate in June 1997. In December 1998 was awarded the certificate of quality for welding in accordance with EN-729-2.

Slovnaft VÚRUP, a. s., received certification as per ISO 9001 and Slovnaft Elektroservis, a. s., was awarded the ISO 9002 certificate.

Slovnaft Somea, a. s. received the Prize of the Slovak Republic for quality.

Implementation of QMS is running also in the rest of companies of the Group.

Consolidated financial statements

Introduction

These consolidated financial statements have been prepared in accordance with International Accounting Standards („IAS“) for the year ended 31 December 1998 for Slovnaft, a.s. („the Company“) and its subsidiary undertakings, together „the Group“.

The comparative consolidated balance sheet at 31 December 1997 and related consolidated statements of income, changes in equity and cash flows for the year then ended were audited by the Company’s auditors. Their report dated 25 March 1998 expressed an unqualified opinion on the consolidated financial statements from which these comparatives were derived.

Slovnaft, a.s. was incorporated in Slovakia as a joint stock company on 1 May 1992. Prior to that date it was a state owned enterprise. The Company is limited by shares and was set up in accordance with Slovak regulations. The company has its primary listing on the Bratislava stock exchange, with further listings in Luxembourg.

Principal activity

The Group’s principal activity is the processing of crude oil and distribution and sale of refined products. Up to 31 December 1997, prior approval was required from the State Authorities for price rises on certain products. From 1 January 1998, this restriction has been withdrawn.

Employees

The average number of employees of the Group during 1998 was 5,734 (1997: 5,949).

Year 2000

The Group has established a programme to address the year 2000 issue, which arises from the inability of many older computer programs to deal with the century date change. The Company has conducted a compliance review of its computer systems and processes and has implemented a plan to repair and modify those systems affected. Given the complexity of the problem, it is impossible to guarantee that no Year 2000 problems will remain. However, the Company believes that it will achieve an acceptable state of readiness.

Total incremental costs associated with Year 2000 changes are estimated at Skkk 48 million of which Sk 5.6 million was incurred in 1998, with the remainder expected in 1999.

Reporting currency

These consolidated financial statements have been presented in millions of Slovak Crowns („SKK million“).

Registered address

The Company’s registered address is:
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Slovak Republic

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Independent auditors' report to the Board of Directors of Slovnaft, a.s.

We have audited the accompanying consolidated balance sheet of Slovnaft, a.s. at 31 December 1998, and the related consolidated statements of income, changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Slovnaft, a.s. at 31 December 1998 and the results of its operations, changes in equity and cash flows for the year then ended in accordance with International Accounting Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers
Bratislava, Slovak Republic

30 July 1999

Consolidated balance sheet at 31 December 1998

	Notes	1998 in SKK millions	1997 in SKK millions
Non-current assets			
Equity investments	1,2,3	1,611	1,421
Other investments	4	211	573
Property, plant and equipment	5	42,507	34,176
Total non-current assets		**44,329**	**36,170**
Current assets			
Inventories	6	3,402	4,343
Receivables and prepayments	7	5,535	5,779
Marketable securities	8	288	0
Cash and cash equivalents	26	1,669	4,497
Total current assets		**10,894**	**14,619**
Total assets		**55,223**	**50,789**
Capital and reserves			
Ordinary shares	14	16,469	16,469
Treasury shares	14	0	– 963
Reserves	15	9,261	9,107
Total capital and reserves		**25,730**	**24,613**
Minority interest	16	**494**	**1,837**
Non-current liabilities			
Borrowings	9	15,902	13,496
Provisions for liabilities and charges	10	176	358
Deferred income	11	797	691
Deferred income tax liabilities	12	45	8
Accounts payable		54	21
Total non-current liabilities		**16,974**	**14,574**
Current liabilities			
Trade and other payables	13	5,563	5,767
Borrowings	9	6,462	3,998
Total current liabilities		**12,025**	**9,765**
Total liabilities		**28,999**	**24,339**
Total equity and liabilities		**55,223**	**50,789**

Consolidated income statement at 31 December 1998

	Notes	1998 in SKK millions	1997 in SKK millions
Sales	17	**36,344**	**42,204**
Cost of sales	18	(24,547)	(30,204)
Gross profit		**11,797**	**12,000**
Other operating income	18	185	321
Distribution costs	18	(793)	(785)
Operating expenses	18	(7,166)	(6,193)
Operating profit		**4,023**	**5,343**
Income / (loss) from investments	20	205	(149)
Net foreign exchange losses		(1,238)	(1,133)
Borrowing costs	21	(1,851)	(357)
Profit before taxation		**1,139**	**3,704**
Taxation	22	(877)	(1,728)
Profit after taxation		**262**	**1,976**
Minority interest	16	(186)	(160)
Net profit		**76**	**1,816**
Earnings per share	23	SKK 4.9	SKK 117.1

The notes form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity (in SKK millions)

	Share capital	Treasury shares	Legal Reserve fund	Other funds	Trans-lation reserve	Retained earnings	Total
At 1 January 1997	16,469	(963)	1,553	4,736	—	1,412	23,207
Net profit for the year	—	—	—	—	—	1,816	1,816
Dividends (Note 24)	—	—	—	—	—	(309)	(309)
Transl. differences (Note 15)	—	—	—	—	(101)	—	(101)
Allocations (Note 15)	—	—	65	817	—	(882)	—
At 31 December 1997	**16,469**	**(963)**	**1,618**	**5,553**	**(101)**	**2,037**	**24,613**
At 1 January 1998	16,469	(963)	1,618	5,553	(101)	2,037	24,613
Net profit for the year	—	—	—	—	—	76	76
Dividends (Note 24)	—	—	—	—	—	(466)	(466)
Transl. differences (Note 15)	—	—	—	—	109	—	109
Capital transactions with shareholders (Note 14)	—	963	—	—	—	435	1,398
Allocations (Note 15)	—	—	85	1,158	—	(1,243)	—
At 31 December 1998	**16,469**	**—**	**1,703**	**6,711**	**8**	**839**	**25,730**

The notes form an integral part of these consolidated financial statements.

Consolidated cash flow statement at 31 December 1998

	Notes	1998 in SKK millions	1997 in SKK millions
Operating activities			
Cash generated from operations	25	8,022	5,094
Interest paid		(1,721)	(1,174)
Interest received		257	430
Income tax paid		(2,109)	(1,126)
Net cash inflow from operating activities		**4,449**	**3,224**
Investing activities			
Purchase of investments in equity accounted subsidiaries and associates	2	(169)	0
Purchase of other investments	4	(33)	(1,312)
Proceeds from sales of other investments	4	79	1,294
Purchase of property, plant and equipment	5	(10,290)	(10,557)
Proceeds from the sale of prop., plant and equip.	5	50	195
Income from investments		21	36
Government grants received	11	78	152
Net cash outflow from investing activities		**(10,264)**	**(10,192)**
Financing activities			
Proceeds from long-term borrowings		5,052	6,978
Payments on short-term borrowings		(1,137)	(945)
Dividends paid to group shareholders	24	(462)	(309)
Dividends paid to minority interest	16, 24	(50)	0
Net cash flow from exchange losses		(416)	(703)
Net cash inflow from financing activities		**2,987**	**5,021**
Net decrease in cash and cash equivalents		**(2,828)**	**(1,947)**
Cash and cash equival. at the begin. of the year	**28**	**4,497**	**6,444**
Cash and cash equival. at the end of the year	**28**	**1,669**	**4,497**

The notes form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

The principal accounting policies adopted in the preparation of these consolidated financial statements, which have been applied consistently, are as follows:

(a) Basis of preparation

The consolidated financial statements of the Group are prepared in accordance with and comply with International Accounting Standards. The consolidated financial statements are prepared under the historical cost convention.

The Group has adopted IAS 12 (revised) Income Taxes in preparing these consolidated financial statements. IAS 12 (revised) is operative for accounting periods beginning on or after 1 January 1998. The adoption of this standard did not give rise to prior year adjustments, but has resulted in some changes in disclosure and presentation of these consolidated financial statements. The presentation of comparative information has been adjusted in this respect.

(b) Principles of consolidation

The consolidated financial statements include the financial statements of the parent company („the Company") and its subsidiaries. A subsidiary is an entity that is controlled by the Company, usually evidenced by ownership directly or indirectly of more than 50% of the voting share capital. Subsidiaries are fully consolidated or are accounted for under the equity method depending on their impact on the consolidated financial statements (Notes 1, 2 and 3).

Associated entities in which the Company has a significant but not a controlling influence are accounted for using the equity method (Note 3). Significant influence is usually evidenced by the Company owning directly or indirectly between 20% and 50% of the voting share capital.

Joint ventures in which the Company has a joint controlling influence are accounted for using the equity method due to their minor impact on the consolidated financial statements (Note 3).

The effects of transactions between entities within the Group are eliminated.

(c) Method of consolidation

Acquisitions are recorded by use of the purchase method of accounting. The Company's interest in the individual assets and liabilities acquired is recognised separately at the date of acquisition, and measured at their fair value at that date.

(d) Investments

Investments held for the long term, other than subsidiaries, associates and joint ventures, are stated at cost unless there has been a permanent impairment in value below cost. In that case, the investment is written down to its realisable value and the decrease is charged to income.

(e) Goodwill

Goodwill or negative goodwill arises from the purchase of subsidiary and associated undertakings. It represents the excess, or in the case of negative goodwill the shortfall, of the purchase consideration over the acquirer's interest in the fair value of the net assets acquired. Goodwill or negative goodwill is capitalised at the date of acquisition, in the case of negative goodwill by transfer to deferred income, and amortised on a straight line basis over the expected period of benefit, normally five years. If an undertaking is subsequently divested, the appropriate goodwill is accounted for through the income statement in the period of disposal, as part of the calculation of gain or loss on divestment.

(f) Property, plant and equipment

Property, plant and equipment other than land are carried at cost less accumulated depreciation. Cost includes all costs directly attributable to bringing the asset to working condition for its intended use, and borrowing costs directly attributable to the production of that asset, to the extent that they accrue in respect of the period of construction.

Land has been stated at the values attributed to it in the legislation which transferred ownership to the Group. These values are treated as cost.

Items of property, plant and equipment that are retired or otherwise disposed of are eliminated from the balance sheet, along with any corresponding accumulated depreciation. Any gain or loss resulting from such retirement or disposal is included in the income statement.

Depreciation is recorded by a charge to income computed on a straight line basis so as to amortise the cost of the assets to their estimated residual values over their remaining economic lives. The economic lives used are as follows:

The economic lives used are as follows:

	Years
Buildings	30 – 40
Plant and machinery	8 – 15
Other fixed assets	4 – 8

Land is not depreciated as it is deemed to have an infinite life.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated on a first in, first out (FIFO) basis. Cost of work in progress and finished goods inventories includes materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Appropriate provision is made against obsolete and slow-moving inventories.

(h) Trade receivables

Trade receivables are valued at expected realisable value, including provisions for bad and doubtful accounts.

(i) Cash and cash equivalents

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

(j) Marketable securities

Marketable securities held for the short term are stated at the lower of cost and market value determined on an individual investment basis.

(k) Deferred income tax

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. Currently enacted tax rates are used to determine deferred income tax.

The principal temporary differences arise from depreciation on property, plant and equipment, and unrealised foreign exchange losses. 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.

(l) Foreign currencies

On consolidation, assets and liabilities of foreign subsidiary undertakings are translated at closing rates of exchange. Income and cash flow statements are translated at average rates of exchange.

Exchange differences arising from the retranslation of net investments in foreign subsidiary and associated undertakings at closing rates, together with differences between income statements translated at average rates and closing rates, are taken to the translation reserve.

All other exchange gains and losses on settlement or translation, at closing rates of exchange, of monetary assets and liabilities are included in the income statement.

(m) Repairs and maintenance

Technical repair programmes are maintained for each production facility. Based on these programmes, a provision is calculated annually for the estimated cost of repairs and maintenance of plant which are carried out periodically.

(n) Revenue recognition

Sales, which exclude value added tax and excise tax and which comprise the value of goods and services provided excluding those between Group undertakings included by full consolidation, are recognised when earned.

(o) Research and development

Research and development costs are charged to income as incurred.

(p) Borrowing costs

Costs incurred on borrowings to finance significant capital projects are capitalised, to the extent that they accrue in respect of the period of construction. All other borrowing costs are charged to income as incurred.

(q) Environmental liabilities

Environmental liabilities are recognised if available information indicates that the event of loss is probable and can reasonably be estimated.

(r) 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 income in the same period as the related salary cost. The Group has no obligation to contribute to these schemes beyond the statutory rates in force.

(s) Government grants

Government grants provided for construction of fixed assets are recorded as deferred income and recognised in the income statement on a systematic basis over the useful lives of the related assets.

(t) Derivative financial instruments

The Group uses derivative financial instruments (derivatives) to hedge against some exposures to fluctuations in foreign currency exchange rates, interest rates and changes in oil prices.

Derivatives are valued by marking to market off balance sheet, and any resulting gains or losses are recognised in the income statement in the same period as losses or gains arising on related underlying financial instruments or transactions.

1. Group structure

Principal subsidiaries, joint ventures and associates at 31 December 1998 were as follows:

Name	Country of incorporation	Effective ownership %	Method of consolidation	Principal activity
Subsidiaries				
Slovnaft Benzinol, a.s.	Slovakia	85.2	Full	Retail
Slovnaft Moravia s.r.o.	Czech Republic	100.0	Full	Wholesale
Slovnaft CS, a.s.(3)	Czech Republic	95.3	Full	Retail
Benol s.r.o. (2)	Czech Republic	100.0	Full	Wholesale
Apollo Oil Rohstoffhandels GmbH	Austria	67.0	Full	Crude oil trading
Benatech, a.s.(1)	Slovakia	85.2	Equity	Repairs & mainten.
Slovnaft Montáže a opravy, a.s.	Slovakia	100.0	Equity	Repairs & mainten.
Slovnaftprojekt s.r.o.(4)	Slovakia	92.1	Equity	Projection works
Slovnaft Elektroservis, a.s.	Slovakia	100.0	Equity	Tel. & electro services
Slovnaft Somea, a.s.	Slovakia	100.0	Equity	Automat. tech. ser.
Slovnaft Stavos, a.s.	Slovakia	100.0	Equity	Civil engineering
Slovfin o.c.p., a.s.	Slovakia	100.0	Equity	Securities trading
SWS s.r.o.	Slovakia	51.2	Equity	Transhipment
Slovnaft Reprografia s.r.o.	Slovakia	95.3	Equity	Reprography
Slovnaft Senes s.r.o.	Slovakia	92.8	Equity	Repairs & mainten.
Slovnaft Trans, a.s.	Slovakia	100.0	Equity	Road transport
CHZP Apollo, a.s.	Slovakia	51.0	Not consolid.	Health insurance
Priemysel. zdravot. centrum a.s.	Slovakia	100.0	Equity	Health care
Slovnaft Ukrajina	Ukraine	89.0	Equity	Wholesale
UkrSlovnaft s.r.o.	Ukraine	85.0	Equity	Retail
Slovnaft VURUP, a.s.	Slovakia	100.0	Equity	R & D
Slovnaft Rekreacentrum, a.s.(5)	Slovakia	97.1	Equity	Recreation services
Slovnaft Polska SA	Poland	100.0	Equity	Wholesale and retail
Slovnaft SAT, a.s.	Slovakia	100.0	Equity	Control device serv.
Slovnaft Supply & Trading s.r.o.	Slovakia	100.0	Equity	Crude oil trading
Joint venture				
Slovpack s.r.o.	Slovakia	50.0	Equity	Foil production
Associates				
MG Slovnaft s.r.o.	Slovakia	49.0	Equity	Tech. gases produc.
Chemia, a.s.(6)	Slovakia	42.3	Equity	Property administr.
Theben, a.s.	Slovakia	36.4	Equity	Publishing house
Bratislavská komoditná burza	Slovakia	33.3	Equity	Comm. Stock Exch.
Petrimex, a.s. (in liquidation)	Slovakia	33.2	Not consolid.	Trade

(1) 100% shareholding held directly by Slovnaft Benzinol, a.s.
(2) 100% shareholding held directly by Slovnaft Moravia s.r.o. since 26 June 1998
(3) shareholding held directly by Slovnaft Moravia (38.5%), Benol (29.5%) and Slovnaft Benzinol (32.0%)
(4) shareholding held directly by Slovnaft Montáže a opravy, a.s.
(5) shareholding held directly by Slovnaft, a.s. (80.5%) and Slovnaft Benzinol, a.s. (19.5%)
(6) shareholding held directly by Slovnaft, a.s. (39.9%) and Slovnaft Benzinol, a.s. (2.8%)

The activities of the undertakings shown above are for the most part connected with the principal activity of the Group.

All of Slovnaft's subsidiary, associate and joint venture undertakings are unlisted.

All holdings are in the ordinary share capital of the undertaking concerned and are unchanged from 1997, except for the acquisitions described in Note 2 and the change described in the following paragraph.

Slovnaft, a.s. acquired 67% of the voting share capital of Apollo Oil Rohstoffhandels GmbH („Apollo Oil") in 1997. Apollo Oil has been fully consolidated for the first time from 1 January 1998 as the volume of transactions undertaken by this company in 1998 was significant. The impact on these consolidated financial statements of including Apollo Oil in 1998 was not material. The impact of consolidation of Apollo Oil in 1997 would have been similarly immaterial, and accordingly 1997 comparative figures have not been amended.

Apollo Health Insurance Company is not included by full consolidation at 31 December 1998 and 1997 but is presented within Other Investments at nil value, because it is a non-profit making organisation from which no return is expected.

Slovnaft holds a 33.2% interest in Petrimex a.s., a company incorporated in Slovakia. Petrimex is in liquidation. The cost of investment, SKK 10 million and all receivables have been fully written off. Slovnaft has no further liabilities towards Petrimex and does not exercise any control over it. Accordingly Petrimex has not been consolidated. Petrimex was also not consolidated in previous years, the cost of investment was presented within Other Investments, as its financial statements were not available.

2 Acquisitions

(a) On 27 November 1998 Slovnaft, a.s. increased its shareholding in Slovnaft Benzinol, a.s. from 63.8% to 85.2 % as a result of capital transactions with shareholders (Note 14).

Details of net assets acquired and goodwill are follows:

	in SKK millions
Fair value of assets acquired:	
– 2.2% share in Slovnaft	559
– 22.4% share in Slovnaft Benzinol	381
Total fair value acquired	**940**
Purchase consideration:	
– Treasury shares	963
– Loss on capital transaction in Slovnaft Benzinol	(104)
Total purchase consideration	**859**
Negative goodwill (Notes 11 and 14)	**81**

(b) On 31 August 1998 Benzinol plus s.r.o., a company 100% owned by Slovnaft Benzinol, a.s., ceased trading and all its assets and liabilities were assimilated by Slovnaft Benzinol, a.s.

Slovnaft Benzinol's cost of investment of SKK 205 million was eliminated. The assets and liabilities of Benzinol plus s.r.o. at 31 August 1998 were as follows:

	in SKK millions
Fixed assets	54
Receivables	150
Cash	4
Total assets	**208**
Share capital	200
Retained profits	2
Total	**202**
Liabilities	6
Total	**208**

The assimilation resulted in a loss of SKK 3 million, included in other operating costs in 1998.

2 Acquisitions (continued)

(c) During 1998 the Group made further investments in subsidiaries and associates as shown below. The Group's percentage shareholding in Slovnaft Montáže a Opravy („SMaO“), Slovnaft Somea, a.s. and Benatech, a.s. was not increased since new capital was issued by these companies to existing shareholders in proportion to their current stake. The Group invested for the first time in Theben, a.s. and Bratislavská Komoditná burza („BKB“).

(in SKK millions)	SMaO	Somea	Benatech	Slovnaft Polska	Chémia	Theben	BKB	Total
New sharehold. acquired (%)	—	—	—	33%	6%	36,4%	33,3%	
Cash paid	—	—	—	148	15	4	2	169
Non-cash consideration	**10**	**6**	**13**	**—**	**—**	**—**	**—**	**29**
Total purchase consideration	**10**	**6**	**13**	**148**	**15**	**4**	**2**	**198**
Fair value of net ass. acquired				**(148)**	**(15)**	**(4)**	**(2)**	
Goodwill				**—**	**—**	**—**	**—**	

3 Equity investments

(in SKK millions)	Subsidiary undertakings	Joint venture undertakings	Associated undertakings	1998 Total	1997 Total
Opening net book value	972	61	388	1,421	1,139
Additions	177	—	21	198	370
Disposals	(2)	—	—	(2)	(67)
Assimilation of Benzinol plus	(205)	—	—	(205)	—
Movement in provision	146	—	—	146	—
Group share of net profit	44	9	—	53	(21)
Closing net book value	**1,132**	**70**	**409**	**1,611**	**1,421**

The Group's principal subsidiary, joint venture and associate undertakings are set out in Note 1.

4 Other investments

(in SKK millions)	Shares	Bonds	1998 total	1997 total
Opening net book value	193	380	573	674
Additions	33	0	33	1.292
Disposals	(35)	(60)	(95)	(1.356)
Reclassifications (Notes 8)	0	(290)	(290)	0
Provis. against impair. in value	(10)	0	(10)	(37)
Closing net book value	**181**	**30**	**211**	**573**

Investments in shares comprise shareholdings of less than 20% except as described below.

Bonds bear interest at 12.9% p.a. (31 December 1997: 11 - 12.9%). The bonds mature in 2001.

Between September and November 1997 a subsidiary undertaking purchased and re-sold shares in a listed Slovak company, in private transactions. In general, the purchase prices of the shares were above open market prices on the date of the transactions and the selling prices below market prices. The transactions resulted in losses of SKK 129 million (Note 20).

At 31 December 1998 investments in shares include the Group's 23.7% holding in DDP Horizont, a pension fund established in Slovakia, at cost of SKK 45 million (31 December 1997: SKK 15 million). DDP Horizont is not included by the equity method of accounting since it is neither under the control nor significant influence of the Group.

5 Property, plant and equipment

	Land	Buildings	Plant and machinery	Other fixed assets	Capital work in progress	Total
	in SKK mill.	**in SKK mill.**	**in SKK mill.**	**in SKK mill.**	**in SKK mill.**	**in SKK mill.**
Year ended 31 Decem. 1997						
Opening net book value	4.643	8.640	6.014	500	4.813	24.610
Exchange differences	(8)	(62)	(47)	(6)	(21)	(144)
Additions	—	—	—	—	11.653	11.653
Taken into use	42	1.813	1.354	307	(3.516)	—
Disposals	(32)	(167)	(286)	(44)	(20)	(549)
Depreciat. charge (Notes 18, 25)	—	(345)	(875)	(174)	—	(1.394)
Closing net book value	**4.645**	**9.879**	**6.160**	**583**	**12.909**	**34.176**
At 31 December 1997						
Cost	4.645	13.874	17.076	1.258	12.909	49.762
Accumulated depreciation	—	(3.995)	(10.916)	(675)	—	(15.586)
Net book value	**4.645**	**9.879**	**6.160**	**583**	**12.909**	**34.176**
Year ended 31 Dec. 1998						
Opening net book value	4.645	9.879	6.160	583	12.909	34.176
Exchange differences	15	136	32	7	27	217
Additions	—	—	—	—	9.967	9.967
Taken into use	32	2.299	4.021	437	(6.789)	—
Assimilation of Benzinol plus	9	40	5	—	—	54
Disposals	(14)	(66)	(44)	(29)	(24)	(177)
Depreciat. charge (Notes 18, 25)	—	(382)	(1.124)	(224)	—	(1.730)
Closing net book value	**4.687**	**11.906**	**9.050**	**774**	**16.090**	**42.507**
At 31 December 1998						
Cost	4.687	16.245	20.747	1.635	16.090	59.404
Accumulated depreciation	—	(4.339)	(11.697)	(861)	—	(16.897)
Net book value	**4.687**	**11.906**	**9.050**	**774**	**16.090**	**42.507**

6 Inventories

	1998	1997
	in SKK millions	in SKK millions
Raw materials	1.646	1.976
Work in progress and semi-finished products	759	1.284
Finished goods	997	1.030
Other goods for resale	—	53
	3.402	**4.343**

Raw materials inventories are shown after provisions for obsolete and slow-moving items of SKK 112 million (31 December 1997: SKK 112 million).

The 1997 comparative amount for finished goods includes SKK 140 million, which was classified as semi-finished products at 31 December 1997, and SKK 213 million which was classified as other goods for resale.

7 Receivables and prepayments

	1998	1997
	in SKK millions	in SKK millions
Trade receivables	2,824	4,086
Amounts due from group undertakings accounted for on an equity basis	430	360
Income tax prepayment	815	5
Other tax receivables	321	562
Other receivables	609	404
Prepayments	536	362
	5,535	**5,779**

All amounts are receivable within one year.

Trade receivables are shown after provisions for bad and doubtful accounts of SKK 2,426 million (31 December 1997: SKK 1,818 million).

The income tax prepayment arose from advance payments made during the year.

8 Marketable securities

	1998	1997
	in SKK millions	in SKK millions
Opening net book value	—	—
Reclassifications	290	—
Decrease in market value	(2)	—
Closing net book value	**288**	**—**

The Company made a decision to sell bonds with a cost of SKK 290 million within one year, and accordingly these securities were reclassified from long term to current assets (Note 4). These bonds are valued at market value at the close of business on 31 December 1998 by reference to Stock Exchange quoted prices. Realised gains/losses and increase/decrease in market value are included in other borrowing costs (Note 21).

9 Borrowings

	1998 Unsecured	1998 Secured	1998 Total	1997 Total
	in SKK millions	**in SKK millions**	**in SKK millions**	**in SKK millions**
Slovak crowns loans:				
Bank loans	292	—	292	150
Debentures	980	—	980	980
	1,272	**—**	**1,272**	**1,130**
For. curr. loans denominat. in				
US dollars				
– fixed rate	2,042	—	2,042	2,764
– floating rate	15,252	—	15,252	10,378
DEM				
– fixed rate	—	—	—	555
– floating rate	2,312	—	2,312	2,005
Swiss Francs				
– floating rate	200	—	200	198
Czech crown				
– fixed rate	513	773	1,286	464
	20,319	**773**	**21,092**	**16,364**
Total borrowings	**21,591**	**773**	**22,364**	**17,494**
Repaym. fall due as follows:				
Within 1 year	6,462	—	6,462	3,998
Between 1 and 2 years	2,736	—	2,736	4,048
Between 2 and 5 years	9,096	773	9,869	6,451
After more than 5 years	3,297	—	3,297	2,997
	21,591	**773**	**22,364**	**17,494**

At 31 December 1998 the portion of long-term borrowings repayable within 1 year was SKK 3,615 million (31 December 1997: SKK 139 million).

Bank loans of SKK 21,591 million at 31 December 1998 were unsecured. A bank loan of SKK 773 million at 31 December 1998 was secured by 877,881 shares in Slovnaft Benzinol, a.s. held by Slovnaft, a.s.. All borrowings at 31 December 1997 were unsecured.

Interest is payable on borrowings at the following rates:

	1998	1997
	%	%
Slovak crown loans	21.5 – 23	13.2 – 25
Czech crown loans	10.13 – 17.5	15 – 16
Foreign currency fixed rate loans	5.76 – 8.129	4.35 – 8.375
Foreign currency floating rate loans	LIBOR – 0.25 to + 5	LIBOR – 0.25 to + 1.875
Debentures	11.85	11.85

On loans totalling USD 150 million, the Group's interest rate is linked to the market price of crude oil if the market price falls below a certain level. In 1998 this linkage raised the effective interest rate on these loans by an average of 21.6% and resulted in additional interest charges of SKK 1,169 million (1997: nil) (Note 21). Subsequent to the year end, USD 50 million of these loans have been repaid and part of the remaining interest rate risk has been hedged as described in Note 31.

The above loans require compliance with a number of covenants. At the balance sheet date the Group had breached these covenants, however these breaches have been subsequently waived by the banks and revised covenants agreed for 1999. From 1 January 2000 the original covenants apply. The Directors are confident that in 2000 the Group will either comply with the original covenants or those prevailing at that time. The Group has agreed to a 1% increase in annual interest rates on certain loans with effect from 1 January 1999. This increase relates to loans denominated in Slovak Crowns, US Dollars, Deutschmarks, Czech Crowns and Swiss Francs equivalent to SKK 16.2 billion at the balance sheet date. The Group has accepted certain restrictions on the payment of dividends in the years 1999, 2000 and 2001. In respect of the years 1999 and 2000 these restrictions cease to be applicable if compliance with the original covenants is achieved and if, in certain circumstances, a strategic investor has acquired an equity interest in Slovnaft a.s. They cease to be applicable in respect of 2001 if the Group complies with the covenants in force at 31 December 2000.

Debentures are repayable by a subsidiary undertaking at face value in 2001, or at 101% of face value in 1999 at the option of the subsidiary undertaking. These debentures have been classified as long-term borrowings as the intention is to repay them in 2001.

The Group has issued bills of exchange to banks, in respect of unsecured loans of SKK 3,839 million (31 December 1997: SKK 3,848 million), for which no additional cash was received. These bills have maturity dates on or after the final due dates of the related loans and become enforceable should the loans not be repaid.

The carrying amounts and fair values of certain non-current borrowings are as follows:

	1998 Carrying amounts	1998 Fair values
	in SKK millions	in SKK millions
Long term loans and debentures	15,902	15,371
Of which:		
Debentures	980	857
Long term loans	14,922	14,514

The fair values are based on discounted cash flows using a discount rate based upon the borrowing rate, which the Directors expect would be available to the Group at the balance sheet date. The carrying amounts of short-term borrowings approximate their fair value.

Comparative figures have not been provided as they are not readily available.

10 Provisions for liabilities and charges

	1998	1997
	in SKK millions	in SKK millions
Repair and maintenance provisions	146	328
Environmental provisions	30	30
	176	**358**

The repair and maintenance provisions relate to the estimated future cost of periodic technical repair programmes established in previous years. In 1998 the Group has not created any further provisions in respect of such costs.

The environmental provision relates to the estimated costs of clean up of wastage from production prior to 1 May 1992.

11 Deferred income

	Government grants	Negative goodwill	1998 Total	1997 Total
	in SKK millions	in SKK millions	in SKK millions	in SKK millions
Opening net book value	542	149	691	413
Grants received	78	0	78	194
Negative goodwill increase (Notes 2 and 14)	—	81	81	111
Amortisation for the year (Notes 18, 25)	(12)	(41)	(53)	(27)
Closing net book value	**608**	**189**	**797**	**691**

Government grants are provided for the construction of fixed assets, most of which are included in capital work in progress (Note 5).

The negative goodwill arose on the acquisitions of shares in Slovnaft Benzinol, a.s. in April 1995 and November 1997, and on capital transactions in November 1998 (Notes 2 and 14).

	1998	1997
	in SKK millions	**in SKK millions**
Negative goodwill		
At cost	283	202
Accumulated amortisation	(94)	(53)
Net book value	**189**	**149**

12 Deferred income tax

	1998	1997
	in SKK millions	**in SKK millions**
Deferred tax assets	(66)	0
Deferred tax liabilities	111	8
	45	**8**

Deferred income tax is calculated on temporary differences under the liability method using a principal tax rate of 40%.

Deferred tax assets and liabilities and the deferred tax charge in the income statement (Note 22) are attributable to the following items:

	31 December 1997	Charged/ (credited) to income	31 December 1998
	in SKK millions	**in SKK millions**	**in SKK millions**
Deferred income tax liabilities			
Difference between tax and accounting depreciation	8	103	111
Deferred income tax assets			
Unrealised foreign exchange losses	0	(66)	(66)
Net deferred income tax liabilities	**8**	**37**	**45**

Deferred income tax assets and liabilities are offset when the income taxes relate to the same fiscal authority.

Potential deferred tax assets exist, which primarily arise in the Group from bad debt provisions of SKK 2,155 million (31 December 1997: SKK 1,681 million), stock provisions of SKK 112 million (31 December 1997: SKK 112 million) and unrealised foreign exchange losses of SKK 1,626 million (31 December 1997: SKK 760 million) which are not yet tax deductible.

These deferred tax assets have not been recognised as their realisation is not probable.

13 Trade and other payables

	1998	1997
	in SKK millions	**in SKK millions**
Trade payables	3,724	3,85
Amounts due to group undertakings accounted for on an equity basis	207	385
Social security and other taxes	410	927
Accrued expenses	506	214
Other payables	716	456
	5,563	**5,767**

14 Ordinary shares and treasury shares

	Number of shares	Ordinary shares	Treasury shares	Total
	(in 000 SKK)	**(in SKK millions)**	**(in SKK millions)**	**(in SKK millions)**
At 31 December 1996	15,506	16,469	(963)	15,506
At 31 December 1997	15,506	16,469	(963)	15,506
Capital Transac. with sharehol.	963	—	963	963
At 31 December 1998	**16,469**	**16,469**	**—**	**16,469**

The Company’s authorised share capital is 16,468,953 ordinary shares with a par value of SKK 1,000 each. All of these shares are issued and fully paid.

Purchase of shares by subsidiary and subsequent Capital Transactions with shareholders.

In the period from 22 March 1996 to 11 April 1996 Slovnaft Benzinol, a.s. („Benzinol“), a Group company, purchased 962,607 shares in Slovnaft, a.s. for a total cost of SKK 970 million. The effect of the purchase of these shares was to reduce share capital by SKK 963 million, reduce reserves by SKK 213 million and increase minority interests by SKK 206 million.

In July 1998 Benzinol sold its investment in Slovnaft to Slovbena, a.s. (Note 30) for SKK 437 million and re-purchased its own shares that were held by Slovbena for the same amount. The nominal value of Benzinol shares that were repurchased was SKK 866 million. These transactions are considered to be Capital Transactions.

The effect of these transactions was the acquisition of an increased stake in Benzinol from 63.8 % to 85.2 % in return for buying out a 2.2 % minority interest stake in the Slovnaft Group of SKK 1,479 million (Note 16). Group reserves have been increased by SKK 1,398 million and negative goodwill increased by SKK 81 million (Notes 2 and 11).

The effect of these transactions on Group retained earnings can further be analysed as follows:

	(in SKK millions)
Elimination of minority interest in Slovnaft reserves arising from purchase of shares in Slovnaft by Benzinol	213
Reduction of minority interest in Benzinol reserves	326
Loss made by Benzinol on above transactions (treated as a cost of repurchase of shares – Note 2)	(104)
	435

15 Reserves

The Legal Reserve Fund is set up in accordance with Slovak law and is not distributable. It is created from retained earnings to cover possible future losses.

Other Funds are funded from retained profits. Funding and distribution of Other Funds must be ratified at the Annual General Meeting.

The translation reserve arises from the retranslation of net investments in foreign subsidiary and associated undertakings at closing rates, together with differences between income statements translated at average and closing rates.

16 Minority interest

	1998	1997
	in SKK millions<	**in SKK millions**
At 1 January	1,837	1,788
Disposals (Note 14)	(1,479)	(111)
Share of net profit of subsidiaries	186	160
Dividend paid (Note 24)	(50)	—
At 31 December	**494**	**1,837**

17 Segmental analysis of sales

By geographical area

	1998	1997
	in SKK millions	in SKK millions
Sales to customers in Slovak Republic	17,198	21,086
Exports sales to customers in Czech Republic:	7,885	8,570
Austria	2,872	3,227
Hungary	2,120	2,613
Germany	1,675	1,675
Poland	1,525	1,766
Other	3,069	3,267
	36,344	**42,204**

Certain of the export sales shown above are made indirectly through related party undertakings as shown in Note 30.

The Slovak Republic is the home country of the parent company Slovnaft, a.s., which is also the main operating company. Most of the Group assets are located in the Slovak Republic.

By product groups

The Group is organised as one business segment – the processing and distribution of products derived from crude oil – and operates in three main product groups: refined products, petrochemicals and plastics. All the Group's products are produced during an integrated production process through intermediate steps from the principal raw material, crude oil. The specific products of each group are as follows:

(a) The refined products group includes diesel fuel and gasoline, and a variety of transportation, industrial and household heating oils such as diesel oils, aviation fuel, heavy oils and liquified petroleum gases. The crude oil distillation facilities also produce vacuum and atmospheric gas oils used in the Slovnaft Group's other processing facilities.

(b) The petrochemicals group comprises primarily ethylene and propylene.

(c) The plastics group comprises primarily polyethylene and polypropylene for use in the construction, chemicals and printing industries.

An analysis of sales by product group is provided below:

	1998	1997
	in SKK millions	in SKK millions
Rafinery products	24,719	30,192
Petrochemicals	5,110	4,966
Plastics	5,387	5,928
Other	1,128	1,118
	36,344	**42,204**

18 Operating costs

	1998	1997
	in SKK millions	in SKK millions
Change in inventories of finished goods and work in progress	(86)	(58)
Raw materials and consumables used	24,410	30,654
Staff costs (Note 19)	1,557	1,474
Depreciation of property, plant and equipment (Note 5)	1,730	1,394
Amortisation of deferred income (Note 11)	(53)	(27)
Repair and maintenance costs	1,253	1,303
Distribution costs	793	785
Movement in bad debt provision	562	141
Other operating costs	2,340	1,516
Other operating income	(185)	(321)
Total operating expenses	**32,321**	**36,861**
Included in cost of sales:		
Change in inventories of finished goods and working progress	(86)	(58)
Raw materials and consumables used	23,829	29,773
Other operating costs	804	489
	24,547	**30,204**

Crude oil supplies

Slovnaft, a.s. purchases crude oil under supply agreements with its 67% subsidiary Apollo Oil Rohstoffhandels GmbH („Apollo Oil“) and with Apollo Interoil Ltd („Apollo Interoil“). Apollo Oil sources 100% of its supply of crude oil under a supply agreement with Apollo Interoil. Apollo Interoil is wholly owned by J & S Services and Investment Ltd, which holds the remaining 33% stake in Apollo Oil. Transactions between Slovnaft, a.s., and Apollo Oil, and between Apollo Oil and Apollo Interoil, are conducted on normal commercial terms. Apollo Interoil obtains bank finance dependent on confirmations from Slovnaft, a.s. that it has confirmed purchase orders with Apollo Oil and Apollo Interoil, and that amounts due against agreed invoices will be settled by Slovnaft, a.s. by irrevocable payment transfer to specified bank accounts.

19 Staff costs

	1998	1997
	in SKK millions	**in SKK millions**
Vages, salaries and bonuses	1,183	1,061
Social security costs (Note 27)	374	413
Total staff costs (Note 18)	**1,557**	**1,474**

20 Income / (loss) from investments

	1998	1997
	in SKK millions	**in SKK millions**
Dividends received	16	14
Release/(creation) of provisions	131	(37)
Loss on disposal of investments (Note 4)	(9)	(129)
Group share of net profit of equity accounted subsidiaries and associates (Note 3)	53	(21)
Other income from investments	14	24
	205	**(149)**

21 Borrowing costs

	1998	1997
	in SKK millions	**in SKK millions**
Interest costs (Note 9)	2,574	989
Other borrowing costs	32	193
Interest costs capitalised	(514)	(378)
Total borrowing costs	**2,092**	**804**
Interest income	(241)	(447)
Net borrowing costs	**1,851**	**357**

22 Taxation

The income tax charge comprises the following:

	1998	1997
	in SKK millions	**in SKK millions**
Current tax charge	840	1,720
Deffered tax charge Note 12)	37	8
	877	**1,728**

The reconciliation between the reported income tax expense and the theoretical amount that would arise using the standard tax rates is as follows:

	1998	1997
	in SKK millions	**in SKK millions**
Profit before taxation	**1,139**	**3,704**
Income tax at 40% (1997: 40%)	456	1,482
Effect of temporary differ. not recog. in the balance sheet	632	141
Effect of other differences:		
– income not assessable to tax	(308)	(104)
– expenses not deductible for tax purposes	131	123
– other differences *	(59)	40
Underprovisions in respect of prior years	25	46
Income tax charge for the year	**877**	**1,728**

* Other differences arise from consolidation adjustments and differences between IAS and statutory accounting

The financial years 1995 to 1998 are still open to inspection by the Tax Authorities.

23 Earnings per share

	1998	1997
Profit attributable to ordinary shareholders	SKK 76 million	SKK 1,816 million
Weighted average number of ordinary shares (‘000)	15,596	15,506
Earnings per share	**SKK 4.9**	**SKK 117.1**

Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares.

There are no potential ordinary shares and therefore the diluted earnings per share is the same as the basic earnings per share.

24 Dividends

Dividends payable are not recorded until they have been ratified at the Annual General Meeting.

No dividends have been proposed by the Directors of Slovnaft, a.s. in respect of the year ended 31 December 1998.

Dividends were declared by Slovnaft, a.s. and Slovnaft Benzinol, a.s. in respect of the year ended 31 December 1997 as follows:

	Dividend per share	Gross dividend	Net dividend
		in SKK millions	**in SKK millions**
Slovnaft	SKK 30	494	466
Slovnaft Benzinol	SKK 40	138	50
		632	**516**

Subsequent to the year end certain restrictions have been imposed in respect of dividend payments for the years 1999, 2000 and 2001, as more fully explained in Note 9.

25 Cash generated from operations

	1998	1997
	in SKK millions	**in SKK millions**
Operating profit	4,023	5,343
Adjustments for:		
Depreciation of property, plant and equipment (Note 5)	1,730	1,394
Amortisation of deferred income (Note 11)	(53)	(27)
Loss on disposal of property, plant and equipment	49	31
Loss on disposal of investment	9	—
(Decrease)/ increase in provisions (Note 10)	(182)	74
Decrease /(increase) in receivables and prepayments	1,046	(135)
Decrease /(increase) in inventories	941	(241)
Increase/(decrease) in trade and other payables	459	(1,345)
Cash generated from operations	**8,022**	**5,094**

26 Cash and cash equivalents

	1998	1997
	in SKK millions	in SKK millions
Cash at bank and in hand	1,669	4,497

27 Government social security and pension schemes

The Group is required to make contributions, amounting to 38% of monthly gross salaries, up to a maximum salary of SKK 24,000 per employee, to obligatory Government health, retirement benefit and unemployment schemes together with contributions by employees of a further 12% up to the above salary ceiling. The Group has no obligation to contribute to these schemes beyond the statutory rates in force.

28 Commitments and contingencies

Operating leases

The Group has no significant operating lease commitments.

Capital commitments

At 31 December 1998, capital expenditure of SKK 1.9 billion (31 December1997: SKK 7.9 billion) had been committed under contractual arrangements of which SKK 1.5 billion (31 December 1997: SKK 6.9 billion) relates to a heavy residuals technology project with payments due by the year 2000.

Contingent liabilities

Guarantees have been provided as follows:

	1998	1997
	in SKK millions	in SKK millions
Guarantees provided to unconsolidated Group undertakings	56	0
Guarantees provided to third parties	55	56
	111	**56**

Litigation

Mende-Rossi

Slovnaft a.s., is the respondent to a decision made in the International Commercial Arbitration Tribunal at the Chamber of Commerce and Industry of the Russian Federation. Mende-Rossi, a Soviet-Czechoslovak company, made a claim for payment of crude oil that was allegedly supplied by them to Slovnaft. The tribunal originally found in favour of Mende-Rossi and the amount of the award was approximately US$25 million. Slovnaft is presently disputing a decision of the Regional Court in Bratislava which also ruled in favour of Mende-Rossi, in February 1999, in the Supreme Court of the Slovak Republic on the basis that a fraudulent purchase contract was produced by Mende-Rossi. Slovnaft has paid tžhe suppliers for this crude oil supply. The Supreme Court is expected to issue its decision by the end of 1999. The Directors of Slovnaft are confident that the Supreme Court will rule in their favour and that the Group will not incur a loss in this respect. No provision has been recorded in these consolidated financial statements.

Raytheon Engineers & Constructors BV (Raytheon)

Raytheon is one of the contractors engaged in the delivery of part of a complex capital project HPRU (EFPA). Raytheon has made a claim against Slovnaft in the International Court of Arbitration, alleging they have suffered losses and increased costs resulting from the delayed handover of the site, of US $ 9.37 million. Slovnaft has made counter claims against Raytheon in the International Court of Arbitration stating that the alleged losses and increased costs have been incurred by Raytheon as a result of the inadequate fulfillment of contractual obligations by Raytheon. Slovnaft, based on the contract, have also submitted claims of US $ 9.675 million against Raytheon for the late delivery of the project. The Arbitrators are expected to deliver their decision by July 2000. The Directors are confident that there is no material liability in connection with these claims.

29 Derivative financial instruments

The Group has exposure to interest rate, foreign exchange and commodity price risks, arising principally from foreign currency borrowings (Note 9) and from normal trading transactions.

Management seeks actively to manage part of these risks, through the use of derivative financial instruments (derivatives) to hedge against some of the effects of changing prices. The types of derivatives most commonly used are forwards, futures, commodity swaps and options.

At 31 December 1998 the Group had no outstanding contractual commitments in respect of derivatives.

A summary of the Group's contractual position with regard to derivatives at 31 December 1997 is given below:

	Principal amount 1997	Unrecognised (loss)/gain 1997
	in SKK millions	**in SKK millions**
Forward foreign exchange contracts	35	—
Crude oil swap contracts		
– purchases	618	(41)
– sales	64	7
		34

30 Related party transactions

The major shareholders of Slovnaft, a.s. are:

	1998	1997
	%	%
Slovintegra, a.s. (Note 31)	51.0	53.7
Slovbena, a.s.	5.8	—
Slovnaft Benzinol, a.s.	—	5.8
Bank of New York	10.5	10.6
Others	32.7	29.9
	100.0	**100.0**

Slovintegra, a.s. is a company controlled by Slovnaft management and employees.

The privatisation agreement dated 23 August 1995 which transferred the ownership of 39% of the shares of Slovnaft, a.s. to Slovintegra, a.s. includes commitments to have Slovnaft, a.s. invest SKK 20.3 billion and to make accumulated profits before tax of SKK 14.9 billion by the year 2001. The accumulated investment and profit before tax at 31 December 1998 were SKK 20.5 billion (31 December 1997: SKK 18.6 billion) and SKK 9.6 billion (31 December 1997: SKK 8.5 billion) respectively. No liability will accrue to the Group in the event that these commitments are not fulfilled.

During 1997, Slovintegra, a.s. increased its shareholding in Slovnaft, a.s. by purchasing shares from the National Property Fund and became the controlling shareholder of the Group.

The shares held by Slovnaft Benzinol, a.s. in Slovnaft, a.s. in 1997 were treated as treasury shares. In 1998 the Group entered into capital transactions as described in Note 14, as part of which Slovnaft Benzinol, a.s. sold its shareholding in Slovnaft, a.s. to Slovbena, a.s., a company controlled by Slovnaft and Slovnaft Benzinol management.

Transactions during the year and balances outstanding at the end of the year with related parties comprise:

	1998	1997
	in SKK millions	**in SKK millions**
Sales		
Wigrochem, a. s.	1,695	1,994
Wigro Handels GmbH	44	34
Cointegra, a. s.	848	37
Integrin, a. s.	455	—
Slovnaft Trade, a.| s.	2,159	1,154
Godts International Trading BV	700	—
Petrimex, a. s.	—	1,565
	5,901	**4,784**
Receivables at 31 December		
Wigrochem, a. s.	115	73
Wigro Handels GmbH	25	—
Cointegra, a. s.	81	9
Integrin, a. s.	40	—
Slovnaft Trade, a. s.	146	921
Petrimex, a. s.	—	122
Godts International Trading BV	92	—
Directors		
Remuneration for services as Directors	17	14

Receivables at 31 December 1998 include a provision of SKK 77 million (31 December 1997: nil) against amounts due from Petrimex, a.s.

Wigrochem, a.s., SlovChem, a.s. and Cointegra, a.s. were wholesale and distribution companies controlled by Slovintegra, a.s. Slovnaft, a.s. management believe that the trading terms with these companies were not substantially different from normal commercial terms provided to other distribution companies, except that extended credit terms were made available to SlovChem a.s. For details of a post balance sheet event concerning these companies see Note 31.

During 1998 SlovPetrimex, a.s. changed its name to SlovChem, a.s. and then to Slovnaft Trade, a.s.

31 Post balance sheet events

Slovnaft, a.s. has announced its intention to find a new strategic investor. The Company has appointed Salomon Smith Barney to advise in this process.

Subsequent to the year end the Group has obtained covenant waivers from a number of banks. The Group has also agreed to revised covenants for 1999, an increase in annual interest rates of 1% on certain loans and certain restrictions on the payment of dividends in the years 1999, 2000 and 2001, as more fully explained in Note 9.

In April 1999 Slovnaft, a.s. purchased crude oil 'put' options for SKK 843 million expiring in May 2000 as a hedge against the interest rate risk related to crude oil market prices on loans of USD 100 million (Note 9).

With effect from 1 January 1999, Slovnaft Moravia s.r.o. assimilated the operations, assets and liabilities of Benol s.r.o. in order to rationalise the Group's wholesale activities in the Czech Republic. Both companies are located in the Czech Republic.

From 1 January 1999, the related party companies Wigrochem,a.s., Cointegra, a.s. and Integrin, a.s. ceased trading, and their business was transferred to Slovnaft Trade, a.s.. These three companies were subsequently wound up on 31 March 1999.

On 26 May 1999 Slovnaft, a.s. acquired a 51% controlling stake in Slovnaft Trade from Slovintegra, by purchasing 638 shares at nominal value of SKK 1,000 each. As a result of this acquisition, Slovnaft Trade's subsidiary company Godts International Trading BV („GIT") has become an associated undertaking of the Group. Final acquisition balance sheets of Slovnaft Trade and GIT are not yet available, but management estimate that the impact of the acquisition on the Group's consolidated financial statements will not be significant.

The Group's intention is that all exports outside the Slovak and Czech Republics will in future be conducted through Slovnaft Trade, a.s.

Slovintegra, a.s. is currently in discussion with the National Property Fund for the possible return of a 10% share in Slovnaft, a.s. which was acquired in 1995 and 1997.

32 Comparatives

Certain comparatives have been reclassified to conform with changes in presentation in the current year.

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