

**INDEPENDENT AUDITOR'S REPORT
(unofficial translation)**

**on the financial statements prepared
as of December 31, 2017**

**in accordance with International Financial Reporting Standards
as adopted by the European Union**

of company

Slovenská elektrizačná prenosová sústava, a.s.

ID: 35 829 141

**Mlynské nivy 59/A
824 84 Bratislava**

Independent Auditor's report on the financial statements for the Shareholder, Board of Directors, Supervisory Board and Audit Committee of company Slovenská elektrizačná prenosová sústava, a.s.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Slovenská elektrizačná prenosová sústava, a.s. (the "Company"), which comprise the statement of financial position as of December 31, 2017, the income statement and statement of comprehensive income for the year then ended, the statement of Changes in Equity for the year then ended and the statement of Cash Flows for the year then ended, and the notes, comprising a summary of significant accounting policies.

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

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 Financial Statements section of our report. We are independent of the Company 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 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.

Management's Responsibility for the Financial Statements and persons charged with administration and management for the Financial Statements

Management is responsible for the preparation of the financial statements to give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by European Union as amended and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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 Company'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 Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We inform the persons charged with administration and management about – among other things – the planned scope and schedule of the audit and about any significant audit findings, including any significant deficiencies of internal controls identified during the audit.

We also provide the persons charged with administration and management with a declaration that we have met the relevant requirements relating to independence, and we inform them about any relationships and other facts that can be reasonably believed to affect our independence, as well as on any related protective measures.

Report on Other Legal and Regulatory Requirements

Report on Information disclosed in the Annual Report

The statutory body is responsible for information disclosed in the annual report prepared under the requirements of the Act on Accounting. Our opinion on the financial statements stated above does not apply to other information in the annual report.

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

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

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

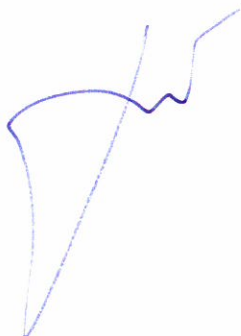
- Information disclosed in the annual report prepared for 2017 is consistent with the financial statements for the relevant year,
- The annual report includes information pursuant to the Act on Accounting.

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

Bratislava, on February 15th, 2018

MANDAT AUDIT, s.r.o.
Námestie SNP 15, 811 01 Bratislava
SKAU licence nr. 278

Ing. Martin Šiagi
Responsible auditor
SKAU licence nr. 871



Slovenská elektrizačná prenosová sústava, a.s.

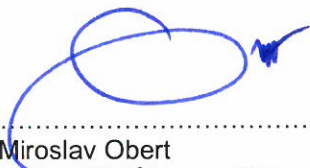
Individual Financial Statements as at 31 December 2017 prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union
(All amounts are in Euros unless stated otherwise)

Index to the Financial Statements

	Page
Independent Auditor's Report to the Shareholder, Supervisory Board and Board of Directors of Slovenská elektrizačná prenosová sústava, a. s.	
Statement of Financial Position	1
Income Statement and Statement of Comprehension Income	3
Statement of Changes in Equity	4
Statement of Cash Flows	5
Notes to the Financial Statements:	
1 General Information	6
2 Summary of significant accounting policy	8
3 Financial Risk Management	24
4 Critical accounting estimates and judgements	28
5 Property, plant and equipment	30
6 Intangible assets	35
7 Shares in subsidiaries and other investments	36
8 Financial instruments by category	37
9 Inventories	38
10 Trade and other receivables	38
11 Cash and cash equivalents	40
12 Shareholder's Equity	40
13 Trade and other payables	42
14 Bank loans and finance lease liabilities	43
15 Grants and deferred revenues	45
16 Deferred tax	47
17 Provisions for liabilities and charges	48
18 Revenues	51
19 Consumed materials and services	52
20 Personnel costs	53
21 Other operating expenses	53
22 Other operating income	53
23 Finance expense, net	53
24 Income tax expense	54
25 Contingencies	54
26 Commitments	55
27 Cash generated from operations	56
28 Related party transactions	56
29 Events after the reporting period	60

	Note	As at 31 December 2017	2016
ASSETS			
Non-current assets			
Property, plant and equipment	5	810 739 957	809 324 086
Intangible assets	6	8 061 641	11 043 439
Other investment	7	4 847 815	4 847 815
Receivables	10	0	662 589
		823 649 413	825 877 929
Current assets			
Inventories	9	840 693	1 167 675
Trade and other receivables	10	31 739 896	24 639 345
Cash and cash equivalents	11	80 849 065	45 014 938
Current income tax receivable		0	6 114 734
		113 429 654	76 936 692
Total assets		937 079 067	902 814 621
EQUITY			
Share capital and reserves			
Share capital	12	105 000 000	105 000 000
Legal reserve fund	12	21 000 000	21 000 000
Other reserves	12	160 150 795	160 150 795
Revaluation of financial investment		109 020	109 020
Actuarial gains/loss		(519 820)	(443 190)
Revaluation reserve	12	105 659 922	124 367 346
Retained earnings		247 039 712	210 882 238
Total equity		638 439 629	621 066 209
LIABILITIES			
Non-current liabilities			
Non-current bank loans and finance lease liabilities	14	44 041 667	55 786 111
Non-current portion of grants and other deferred revenues	15	86 021 554	81 389 177
Deferred tax liability	16	58 669 416	57 252 307
Non-current provisions for liabilities and charges	17	8 152 325	9 422 325
		196 884 962	203 849 920
Current liabilities			
Current bank loans and finance lease liabilities	14	13 569 444	13 569 444
Trade and other payables	13	73 186 285	50 366 463
Current portion of grants and other deferred revenue	15	11 751 262	13 897 742
Provisions for current liabilities and charges	17	68 243	64 843
Current income tax payable		3 179 242	0
		101 754 476	77 898 492
Total liabilities		298 639 438	281 748 412
Total equity and liabilities		937 079 067	902 814 621

The Financial Statements for the year ended 31 December 2017 prepared in accordance with International Financial Reporting Standards as adopted by the European Union were prepared and authorized for issue on 15 February 2018 by the Board of Directors.



.....
Ing. Miroslav Obert
Chairman of the Board of Directors



.....
Ing. Martin Malaník
Member of the Board of Directors

Income Statement and Statement of Comprehensive Income as at 31 December 2017 prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (All amounts are in Euros unless stated otherwise)

		Year ended 31 December	
	Note	2017	2016
Revenues	18	413 408 131	360 829 972
Capitalized costs		595 553	601 046
Consumables and services	19	(227 411 376)	(201 760 578)
Personnel costs	20	(26 239 489)	(24 799 738)
Depreciation and amortization	5,6	(57 467 593)	(59 351 119)
Release of impairment from revaluation	5	0	166 092
Impairment of fixed assets	5	2 779	25 785
Other operating income	22	5 803 901	6 534 238
Other operating expense	21	(3 104 110)	(4 482 124)
Operating profit		105 587 796	77 763 574
Interest income	23	96 270	178 600
Interest expense	23	(810 247)	(939 887)
Other finance income/(expense)	23	35 353	19 161
Finance cost, net		(678 624)	(742 126)
Profit before tax		104 909 172	77 021 448
Income tax expense	24	(30 654 542)	(19 661 199)
Profit for the year		74 254 630	57 360 249
Other comprehensive income			
Items that will not be reclassified:			
Retirement benefit – actuarial gains/loss		(76 630)	292 350
Revaluation of financial investment		0	1 380
Revaluation of property, plant and equipment fund		0	20 709 785
Deferred tax from revaluation of property, plant and equipment		195 420	(3 610 593)
Total comprehensive income		74 373 420	74 753 171
Profit attributable to:			
Owners of the parent		74 254 630	57 360 249
Non-controlling interest		0	0
Profit for the year		74 254 630	57 360 249
Total comprehensive income attributable to:			
Owners of the parent		74 373 420	74 753 171
Non-controlling interest		0	0
Total comprehensive income for the period		74 373 420	74 753 171

	Share capital	Legal reserve fund	Other funds	Revaluation of financial investment	Actuarial gains/loss	Revaluation of property, plant and equipment fund	Retained earnings	Equity in total
Balance as at 1 January 2016	105 000 000	16 366 275	145 150 795	107 640	-735 540	127 642 852	206 131 635	599 663 657
Net profit for the year 2016	0	0	0	0	0	0	57 360 249	57 360 249
Other comprehensive income	0	0	0	1 380	292 350	-3 275 506	20 374 698	17 392 922
Total comprehensive income for the year 2016	0	0	0	1 380	292 350	-3 275 506	77 734 947	74 753 171
Dividends paid (Note 12)	0	0	0	0	0	0	(53 350 619)	(53 350 619)
Profit appropriation to Legal Fund (Note 12)	0	4 633 725	0	0	0	0	(4 633 725)	0
Profit appropriation to Statutory Fund	0	0	15 000 000	0	0	0	(15 000 000)	0
Balance as at 31 December 2016	105 000 000	21 000 000	160 150 795	109 020	(443 190)	124 367 346	210 882 238	621 066 209
Balance as at 1 January 2017	105 000 000	21 000 000	160 150 795	109 020	(443 190)	124 367 346	210 882 238	621 066 209
Net profit for the year 2017	0	0	0	0	0	0	74 254 630	74 254 630
Other comprehensive income	0	0	0	0	(76 630)	(18 707 424)	18 902 844	118 790
Total comprehensive income for the year 2017	0	0	0	0	(76 630)	(18 707 424)	93 157 474	74 373 420
Dividends paid (Note 12)	0	0	0	0	0	0	(57 000 000)	(57 000 000)
Profit appropriation to Legal Fund (Note 12)	0	0	0	0	0	0	0	0
Profit appropriation to Statutory Fund (Note 12)	0	0	0	0	0	0	0	0
Balance as at 31 December 2017	105 000 000	21 000 000	160 150 795	109 020	(519 820)	105 659 922	247 039 712	638 439 629

The notes 6 to 60 form an integral part on these Financial Statements.

	Note	Year ended 31 December	
		2017	2016
Cash flows from operating activities			
Cash generated from operations	27	161 848 447	138 229 460
Income tax paid		(19 727 669)	(29 435 593)
Interest received		87 994	176 593
Net cash generated from operating activities		142 208 772	108 970 460
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(37 352 618)	(78 390 929)
Proceeds from the sale of property, plant and equipment and intangible assets	27	520 770	120 129
Net cash used in investing activities		(36 831 848)	(78 270 800)
Cash flows from financing activities			
Proceeds / (repayment) of loans		(11 744 444)	(5 644 445)
Interest paid		(844 068)	(808 265)
Income from subscribed shares and participations		0	0
Dividends received	23	45 715	27 591
Dividends paid	12	(57 000 000)	(53 350 619)
Net cash used in financing activities		-69 542 797	(59 775 738)
Net increase / (decrease) in cash and cash equivalents		35 834 127	(29 076 078)
Cash and cash equivalents at the beginning of the year	11	45 014 938	74 091 016
Cash and cash equivalents at the end of the year	11	80 849 065	45 014 938

1 General Information

Slovenská elektrizačná prenosová sústava, a.s. ("the Company", "SEPS") is one of the three joint stock companies established (pursuant to the Commercial Register) in the Slovak Republic on 21 January 2002 (date of establishment : 13 December 2001) from the process of the division of its predecessor Slovenské elektrárne, a.s.

The principal activities of the Company comprise the transmission of electricity in the country of the Slovak Republic through 220 kV, 400 kV and, in a small part, through 110 kV lines and electric stations of the transmission grid, including electricity import, export and transit. The company is also responsible for maintaining a balanced electricity grid in the Slovak Republic and balancing the production and usage of electricity during the time which is performed using the system services.

The Bohunice International Decommissioning Support Fund ("BIDSF") was established in relation to the shut-down of a power plant in Jaslovské Bohunice. The main purpose of this Fund is to finance or to co-finance the preparation and implementation of selected projects ("authorized projects") related to providing the technical assistance and/or goods, work and services with respect to support the shut-down of the power plant in Jaslovské Bohunice as a result of a decision of the Slovak Republic to do so. The Fund supports the reconstruction, improvement and modernization of the energy production, transmission and distribution sectors and increases their efficiency.

The Company's operations are governed by the terms of its licence granted under the Energy Law ("the Energy Licence") and other relevant legislation. The Regulatory Office of Network Industries of the Slovak republic (hereinafter the "URSO") regulates certain aspects of the Company's relationships with its customers, including the pricing of electricity and services.

By the end of 2010, the Company performed deviation settlement and organized short-term electricity market. Since 1 January 2011 these activities has been transferred to OKTE, a.s., which has been created for this purpose in accordance with law and is 100% subsidiary of SEPS.

The structure of the Company's shareholders as at 31 December 2017 was as follows:

	Absolute amount EUR	Ownership interest and voting rights %
Slovak Republic represented by Ministry of Finance	105 000 000	100%
Total	105 000 000	100%

According to the Decree of Slovak government Nr. 481 dated 19 September 2012, The National Property Fund of the Slovak Republic, based in Bratislava, Drieňová 27, transferred the shares of the Company without compensation to the Slovak Republic, on behalf of which acts the Ministry of finance of the Slovak Republic. As a result of this, effective 2 October 2012, the Slovak Republic, on behalf of which acts the Ministry of finance of the Slovak Republic, became the sole shareholder, who owns 100% of shares of the Company as well as 100% of voting rights.

The Company is not a shareholder with an unlimited liability in other entities.

The members of the Company's statutory bodies during the year ended 31 December 2017 were as follows:

Body	Function	Name
Board of Directors	Chairman	Ing. Miroslav Obert from 1 January 2017
	Vice-Chairman	Ing. Miroslav Stejskal from 1 January 2017
	Member	Ing. Martin Malaník from 1 January 2017
	Member	Ing. Michal Pokorný from 1 January 2017
	Member	Ing. Martin Golis from 1 January 2017
	Member	Ing. Emil Krondiak, PhD. from 1 January 2017
	Member	Ing. Vladimír Palko from 1 January 2017
Supervisory Board	Chairman	Ing. Vladimír Burdan from 3 April 2017
	Chairman	Ing. Peter Matejíček till 3 April 2017
	Vice-Chairman	JUDr. Peter Pandý from 3 April 2017
	Vice-Chairman	Ing. Jaroslav Mikla from 11 April 2017
	Vice-Chairman	Ing. Pavol Fandl till 3 April 2017
	Vice-Chairman	Michal Sokoli till 31 March 2017
	Member	Michal Sokoli from 31 March 2017
	Member	Ing. Marián Mihalda
	Member	Ing. Vladimír Beňo
	Member	Ing. Dušan Chvíľa
	Member	Ing. Peter Matejíček from 3 April 2017
	Member	Ing. Rastislav Januščák from 3 April 2017
	Member	JUDr. Ondrej Urban, MBA from 3 April 2017
	Member	Mgr. Ján Buocik from 3 April 2017
	Member	Ing. Mikuláš Koščo from 14 August 2017
	Member	Mgr. Katarína Haľková from 3 April 2017 till 17 May 2017
	Member	Ing. Roman Masár till 3 April 2017
	Member	Ing. Rastislav Januščák till 3 April 2017
	Member	Ing. Ján Horváth till 3 April 2017
	Member	Prof. Ing. František Janíček, PhD. till 3 April 2017
	Member	Ing. Július Laššan till 3 April 2017
	Member	Ing. Jaroslav Mikla till 3 April 2017
Executive management	General Director	Ing. Miroslav Obert from 10 January 2017
	Managing Director of Support for Operating	Mgr. Igor Gallo from 15 February 2017
	Managing Director of Operating	Ing. Emil Krondiak, PhD. from 10 January 2017
	Managing Director of SED and Commerce	Ing. Michal Pokorný from 10 January 2017
	Managing Director of Economics	Ing. Martin Malaník from 10 January 2017
	Managing Director of Development and Capital Investment	Ing. Miroslav Stejskal from 10 January 2017
	Managing Director of Information and Communication Technologies	Ing. Martin Golis from 15 February 2017
	Managing Director of Strategy and International Cooperation	Ing. Vladimír Palko from 15 February 2017
	General Director	Ing. Miroslav Stejskal till 9 January 2017
	Managing Director of Operating	Ing. Alexander Kšiňan till 9 January 2017
	Managing Director of SED and Commerce	Ing. Michal Pokorný till 9 January 2017
	Managing Director of Economics	Ing. Martin Malaník till 9 January 2017
	Managing Director of Development and Capital Investment	doc. Ing. Miroslav Rapšík, CSc. till 9 January 2017

The Company employed 521 personnel on average during 2017 (2016: 509), 8 of which were management (2016: 5).

Registered address and identification number

Mlynské nivy 59/A
824 84 Bratislava
Slovak Republic

Identification number (IČO) of the Company is: 358 291 41
Tax identification number (IČ DPH) of the Company is: SK 2020261342

2 Summary of significant accounting policy

The principal accounting policies applied in the preparation of these Financial Statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

2.1. Basis for preparation

Legal reasons for preparing the Financial Statements:

The Company's Financial Statements at 31 December 2017 have been prepared as ordinary Financial Statements under § 17 (6) of Slovak Act. No 431/2002 Coll. ("Accounting Act") for the accounting period from 1 January 2017 to 31 December 2017.

The Accounting Act requires the Company to prepare Financial Statements for the year ended 31 December 2017 in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

These financial statements have been prepared in accordance with IFRS as adopted by the European Union. The Company applies all IFRS and interpretations issued by International Accounting Standards Board (hereinafter "IASB"), as amended by the European Union, which were effective as of 31 December 2017.

These financial statements have been prepared in under the historical cost convention, except for the valuation of property, plant and equipment and derivate financial instruments which are valued at fair value as at the reporting date.

The financial statements were prepared on accrual basis and under the going concern principle.

The Board of Directors may propose to the Company's shareholders to amend the Financial Statements after their approval by the General Shareholders Meeting. According to § 16 (9 to 11) of the Accounting Act the reopening the entity's accounting records after the Financial Statements are prepared and approved is prohibited; if after the Financial Statements are approved, management identifies that comparative information would not be consistent with the current period information, the Accounting Act allows entitles to restate comparative information in the accounting period in which relevant facts are identified.

The preparation of the Financial Statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Statements are disclosed in Note 4.

The Financial Statements of the Company for the previous period were approved by the ordinary Annual General Meeting of the Company held on 3 Mai 2017.

These Financial Statements are prepared in Euros ("EUR").

The Company issues consolidated financial statements in accordance with Article 22 of Slovak Act No. 431/2002 Coll. on Accounting, as the Company has a subsidiary OKTE, a.s. based in Mlynské Nivy 48, 821 09 Bratislava.

2.2. Changes in the accounting policies

There have not been any changes in the accounting policies during the year ended 31 December 2017.

The Company has evaluated and examined the impact of the following amendments on the individual financial statements.

Changes in IFRS adopted for use in the EU mandatory for the year ended 31 December 2017:

Amendments to IAS 7 - Statement of Cash Flow

The objective of the amendments is to enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes.

Amendments issued in January 2016 and are effective for annual reporting periods beginning on or after 1 January 2017.

Changes shall be applied prospectively; upon their initial application, an entity is not obliged to publish comparative information for prior periods.

Amendments to IAS 12 - Income Taxes

The objective of this amendments is to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. Amendments issued in January 2016 and are effective for period beginning on or after 1 January 2017.

Changes shall be applied retrospectively.

2.3. Investments

Investments are carried at historical cost in these Financial Statements. The historical cost comprise the amount of cash or cash equivalents paid or fair value of the consideration given to acquire the investment at the time of their acquisition.

2.4. Foreign currency transactions and translation

(i) Functional and presentation currency

Items included in these Financial Statements are presented in Euros which is the currency of the primary economic environment in which the entity operates ("the financial currency"). The Financial Statements are presented in whole Euros.

(ii) Transactions and balances

Transactions in foreign currency are translated into the functional currency using the reference exchange rates determined and declared by the European Central Bank or National Bank of Slovakia as at the date preceding the date of accounting transaction or at any other day if required by special regulation. At the reporting date, the assets and liabilities are translated into the functional currency using the reference exchange rates determined and declared by the European Central Bank or National Bank of Slovakia as at the reporting date. The transaction in the foreign currency is retranslated into the functional currency using the exchange rate valid at the date of the accounting transaction. Foreign exchange gains and losses resulting from the settlement of such transaction at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognizes in the Income Statement.

2.5. Property, plant and equipment

The property, plant and equipment is carried at cost less accumulated depreciation out accumulated impairment losses, with exception to the revaluation model adopted for certain classes of property, plant and equipment.

(i) Cost

Cost includes expenditure that is directly attributable to the acquisition of the items. Borrowing costs related to the loans received, which are directly attributable to the acquisition or production of an asset, are included in the cost of the asset.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the Income Statement during the financial period in which they are incurred.

Property, plant and equipment as the date of establishment of the Company comprise assets that were acquired as a result of the separation of Slovenské elektrárne, a.s., into three legal entities. These assets were transferred at their original cost with related accumulated depreciation.

The most significant part of property, plant and equipment is represented by the network. The network mainly includes power lines, pylons and switching stations. Useful life of networks assets varies between 10 and 60 years (2016: between 10 and 60 years).

(ii) Revaluation of assets

Property, plant and equipment – initially, property, plant and equipment are evaluated at acquisition costs. Acquisition cost includes all costs directly incurred in putting the respective fixed asset to its intended use.

Subsequently, the land, buildings, halls, lines and structures, machinery and equipment and other revalued assets reported in the balance sheet at revalued amount, which represents the fair value at the date of revaluation after deducting any subsequent accumulated depreciation and subsequent accumulated impairment losses. Other classes of property, plant and equipment are subsequently evaluated at historical acquisition costs less accumulated depreciation and accumulated impairment losses.

Revaluation is carried out by an independent expert. Revaluations are performed regularly in sufficient intervals (at least every five years), so that the carrying amount does not differ materially from the value, which would have been reported as at the balance sheet date using fair values.

Any increase in value on the revaluation of such property, plant and equipment shall be credited to other comprehensive income and shall be accumulated in assets in equity revaluation surplus, taking into account the amount that will possibly cancel the impairment of the same asset item reported previously in the income statement. In such a case, the increase in value shall be credited to the income statement in the amount of the impairment previously reported in the income statement. Any impairment on the revaluation of such property, plant and equipment shall be debited to the income statement in the amount that exceeds the balance on the account of the surplus from the revaluation of assets in relation to the previous revaluation of that asset item. Depreciation of revalued property items are reported as an expense in the income statement. The revaluation surplus shall be gradually transferred to retained earnings over the period when the asset is used. In such a case, the amount of the transferred surplus equals to the difference between the depreciation calculated from the revalued carrying amount of the asset and the depreciation calculated from the asset's original acquisition cost. In the event of a sale or removal of the asset from accounting, the balance of the related revaluation surplus shall be transferred to retained earnings.

(iii) Depreciation

The depreciation of buildings, plant and equipment is depreciated using the straight-line method, starting in the month when the property, plant and equipment is available for use, during the estimated useful lives of non-current assets. The estimated useful lives of buildings, constructions, plant and equipment and Intangible assets according to individual groups are as follows:

	2017	2016
Buildings, halls, networks and constructions	10 – 60 years	10 – 60 years
Machines, equipment and vehicles	4 - 50 years	4 - 50 years
Other property, plant and equipment	4 years	4 years

Buildings, halls and constructions include mainly switching stations, administrative buildings, transmission lines, halls, transformers and control rooms, pylons, towers, tanks, communications, elevated power lines.

Machines, equipment and vehicles include mainly hardware machines, tools and equipment, vehicles, radio relay point and cables.

Gains and losses on disposals land, buildings and equipments are fully recognized in the income statement.

Land and assets under construction are not depreciated.

The residual value of an asset is the estimated amount that the Company would currently obtain from disposal of the asset less the estimated costs of disposal, if the assets were already of the age and in the conditions expected at the end of their useful life. The residual value of an asset is nil or its scrap value if the Company expects to use the assets until the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Expenditures to acquire the property, plant and equipment subsequent to initial recognition are recognized as an item of property, plant and equipment only if it is probable that they will enhance the future economic benefits beyond its original performance. All other expenses are recognized as repair and maintenance costs in the period to which it is incurred.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. The Company allocates the amount initially recognizes in respect of an item of property, plant and equipment proportionally to its significant parts and depreciates separately each such part.

An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Items that are retired or otherwise disposed of are eliminated from the Statement of Financial Position, along with the corresponding accumulated depreciation. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognized in operating profit.

In accordance with IAS 36, as at the date of preparation of financial statements, an assessment of impairment indicators is made that would indicate the recoverable amount of property, plant and equipment would be less than its carrying value. In case any indicator exists at the balance sheet date, the recoverable amount of property, plant and equipment is estimated which is a higher of the fair value less cost to sell and value in use (i.e. the present value of future cash flows). Any impairment loss on property, plant and equipment is recognized in the income statements in the period in which the impairment occurs. The discount rates used in calculating the present value of future cash flows comes from the position of the Company as well as from economic environment of the Slovak Republic as at the balance sheet date. In case the Company decides to stop the investment project or significantly delay its

scheduled termination, it considers any reduction of its value and, where appropriate, record the impairment loss.

2.6. Intangible assets

Intangible assets are initially measured at cost. Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the Company, and the cost of the asset can be measured reliably. After initial recognition, the intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Borrowing costs are capitalized and included in the cost of an asset. The Company does not have intangible assets with indefinite useful lives. Intangible assets are amortized on the straight-line basis over their useful lives.

The amortization of an intangible asset starts in the month when the intangible asset is put in use. Intangible assets are depreciated in line with the approved depreciation plan using the straight-line method. Monthly depreciation charge is determined as the difference between acquisition costs and residual value, divided by estimated useful life of the intangible assets.

Residual value of intangible assets is assumed to be zero unless (a) there is a commitment by a third party to purchase the asset at the end of its useful life, or (b) there is an active market for the asset and residual value can be determined by the reference to that market and it is probable that such a market will exist at the end of the asset's useful life.

Costs associated with maintaining computer software programs are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognized as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalized as part of the software product include the software development employee costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

Computer software development costs recognized as assets are amortized over their estimated useful lives, which does not exceed 4 years. Intangible assets are depreciated over 4 years, easement of access according to the conditions stated in the Contract on easement of access.

2.7. Impairment of non-financial assets

Assets that have an indefinite useful life and intangible assets not yet in use are not subject to amortization and are tested for impairment annually. Land, construction in progress and assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be higher as a recoverable amount. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are individually identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that were impaired are reviewed for possible reversal of the impairment at each reporting date.

2.8. Non-current assets held for sale and discontinued operations

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less cost to sell.

A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale, and

- a) represents either a separate major line of business or a geographical area of operations;
- b) is a part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- c) is a subsidiary acquired exclusively with a view to resale and the disposal involves loss of control.

2.9. Financial assets

The Company classifies its financial assets in the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, available-for sale financial assets and loans and receivables. The classification depends on the purpose for which the investments were acquired, whether they are quoted in an active market and on management intentions.

Financial assets are initially recognized at fair value plus transaction costs (in case of financial assets) and less transaction costs (in case of financial liabilities) except for the financial assets carried at fair value through profit and loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the Income Statement.

Regular purchases and sales of financial assets are recognized on trade-date – the date on which the Company commits to purchase or sell the asset.

The Company derecognizes financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Company has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Management determines the classification of its investments at initial recognition.

Financial assets at fair value through income statement

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through income statement. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term or to mitigate risks. This category includes derivative financial Instruments entered into by the Company that are not designated as hedging instruments in hedge relationships. Financial assets in this category are classified as current.

Realized and unrealized gains or losses arising from changes in the fair value of the „financial assets at fair value through profit or loss“ are recognized in income statement in which the fair value changed.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets.

Loans and receivables are disclosed as part of non-current and current financial assets, trade receivables and cash and cash equivalents on the Statement of Financial Position.

Loans and receivables represent trade receivables and cash and cash equivalents.

2.10. Leases

IAS 17 defines a lease as being an agreement whereby the lessor conveys to the lessee in return for a payment, or series of payments, the right to use the asset for an agreed period of time.

The Company is a lessee of certain property, plant and equipment. Leases of property, plant and equipment where the Company has substantially all the risks and rewards of the ownership of the asset are classified as finance leases. Finance leases are recognized as assets and liability in the Statement of Financial Position at amount equal to the lower of the fair value of the leased asset and the present value of the minimum lease payments, each determined at the commencement of the lease.

Each lease payment is split into the liability and finance charges in order to achieve a constant periodic rate of interest on the remaining balance of the liability. The corresponding rental obligations, net of future finance charges, are included in non-current and current bank loans and other borrowings. Finance charges are included in interest expense in the Income Statement. If there is reasonable certainty that the lessee will obtain ownership of the asset by the end of the lease term, the period of expected use is the useful life of the asset and the asset is depreciated accordingly; otherwise the asset is depreciated over the shorter of the lease term and its useful life.

Leases in which a significant portion of the risks and rewards of the ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Income Statement on a straight-line basis over the period of the lease.

The Company is a lessee under the term of operating lease. The rental related to the operative lease is expensed on a straight-line basis over the period of the lease in the Financial Statements.

2.11. Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using weighted average cost method. The acquisition costs include all costs associated with the acquisition of the inventories such as customs duties or transportation costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable selling costs.

2.12. Trade and other receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, net of provision for impairment. Revenue recognition policy is described in the Note 2.22.

The risk of customers' insolvency is managed by financial guarantees received from customers which can be used in case the customers' debts are not settled when became due.

A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all the amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy or

financial reorganization, default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flow discounted by the original effective interest rate.

Impairment of trade receivables is recognized through an allowance account. Impairment losses and their reversals, if any, are recognized in the Income Statement within Other operating expenses or income. Trade receivables that cannot be collected are written off. Trade receivables that were written off and are subsequently repaid by the debtors are recognized in the Income Statement within Other operating income.

2.13. Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortized cost using the effective interest method.

2.14. Share capital

Ordinary shares are classified as share capital.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.15. Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is provided, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements. However, the deferred income tax is not accounted for, if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (an laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Dividend income is not subject to income taxes in the Slovak Republic.

The Company offsets deferred tax assets and deferred tax liabilities where the Company has a legally enforceable right to set off tax assets against tax liabilities and these relate to income taxes levied by the same taxation authority.

According to act No. 235/2012 Z. z. the Company is payer the special levy from business activities in regulated sectors that is calculated from the profit realized according to the Slovak Act on Accounting. Total amount of this levy is included in the item „Income tax expense“.

2.16. Grants and contributions related to acquisition of property and equipment

Grants and contributions are recognized at their nominal value where there is a reasonable certainty that the grant or contribution would be received and the Company would comply with all attached conditions. Grants and contributions relating to acquisition of property and equipment were accounted for by setting up the grant as deferred income, which was recognized as other income over the life of related depreciable asset in connection with the grant approved by EBOR for the Reconstruction – Structure 2, Part 2 and Structure 3 in Križovany, with the grant approved by EBOR for Lemešany – Košice – Moldava- Structure 4. The Company also has a grant approved by EBOR in the amount of EUR 76 million for Reconstruction of switching station 400/110 kV in Bystričany and for transmission lines in Horná Ždaňa – Križovany. This grant has been drawn partially in 2017.

2.17. Borrowings

Borrowings are recognized initially at fair value, net of transaction cost incurred. Borrowings are subsequently stated at amortized cost. The difference between the proceeds (net of transaction cost) and the redemption value is recognized in the Income Statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 month after the reporting date.

2.18. Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are not recognized for future operating losses. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as an asset but only when the reimbursement is virtually certain.

If there is a onerous contract presented at the Company, the present obligation according to this contract is recognized and valued as a provision.

Where there are number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be in a low value.

The amount recognized as a provision represents the best estimate of the expenditure required to settle the present obligation at the reporting date, i.e. the amount that the Company would rationally pay to settle the obligation. The estimate is determined by the judgement of the management and the Company's lawyers. The provision represents the individual most likely outcome as the best estimate of the liability.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax-rate that reflects current market assessment of the time value of money and the risks specific to the obligation. The increase of the provision due to passage of time is recognizes as interest expense.

2.19. Contingent liabilities

Contingent liabilities are not recognized in the Financial Statements. They are disclosed in the notes, unless the possibility of an outflow of resources embodying the economic benefits is remote.

2.20. Trade payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using effective interest method. Trade payables include the financial guarantees (Note 2.12).

2.21. Employee benefits

The Company has both defined benefit and defined contribution plans.

Pension plans

A defined plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity or to the Government and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Unfunded defined benefit pension plan

The Company also has a long-term pension plan, which includes one-off payments at retirement in accordance with legal requirements and its Collective Agreement.

According to the Collective Agreement the Company is obliged since 2018, based on the number of years in service for the Company (including the legal predecessors of the Company), to pay its employees on retirement or disability the following multiples of their average monthly salary:

Number of year in service

0 – 5	7
6 – 10	9
11 – 15	10
16 – 20	11
Over 21	12

The minimum requirement of the Labour Code of one-month average salary payment on retirement and disability is included in the above multiples.

Other benefits

The Company also pays the following life and work jubilee benefits:

- compensation of electricity costs in amount of EUR 150 (2016: EUR 150) yearly for employees on retirement working for the Company for at least three years;
- Jubilee benefit from EUR 265.55 to EUR 531.10 depending on the number of years worked for the Company when the employee reaches the age of 50 and 60 ages. From 1 January 2018, the benefit is EUR 500 regardless of the years in service.

The employees of the Company expect that the Company will continue to provide such benefits and, based on opinion of management, it is not probable that the Company would cease to provide such benefits in the future.

The liability recognized in the Statement of Financial Position in respect of defined benefit pension plans is the present value of the defined obligation at the reporting date.

The defined obligation is calculated annually by independent actuaries using the Projected Unit Credit Method. The present value of the defined benefit obligation is determined (a) by discounting the estimated future cash outflows using interest rates of government bonds which have terms to maturity approximating

the terms of the related pension liability and (b) the attributing the calculated present values to the periods of service based on the plan's benefit formula.

Actuarial gains and losses are recognized in equity as incurred. Past-service costs are recognized immediately as an expense, unless the changes to the pension plan are conditional on the employees remaining in the service for a specified period of time (the vesting period). Otherwise, the past-service costs are amortized on a straight-line basis over the vesting period.

Defined contribution pension plans

The Company contributes to the government and private defined contribution pension plans.

The Company makes contributions to the government health, retirement benefit, accidental and guarantee insurance and unemployment schemes at the statutory rates in force during the year, based on gross salary payments.

During the year, the Company made contributions amounting to 35.2% (2016: 35.2%) of gross salaries up to a monthly salary ceiling, which is defined by the relevant law for such schemes together with contributions by employees of a further 13.4% (2016: 13.4%). The cost of these payments is charged to the Income Statement in the same period as the related salary cost.

In addition, with respect to employees who have chosen to participate in a supplementary pension scheme, the Company makes contributions to the supplementary scheme of 3% of the total of monthly wages, excluding severance payment and payments at retirement.

Profit sharing and bonus plans

Liabilities for any employees benefits in the form of profit sharing and bonus plans are recognized as other payables when there is no realistic alternative but no settle the liability and at least one of the following conditions is met:

- there is a formal plan and the amounts to be paid are determinable before the Financial Statements are authorized for issue; or
- the past practice created a valid expectation of employees that they will receive a profit sharing or other bonus
- bonuses or profit sharing may be determined before the financial statements are authorized for issue.

Liabilities for profit sharing and bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

2.22. Revenue recognition

The Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that the future economic benefits will flow to the Company and specific criteria will be met for each of the Company's activities as described below.

Revenue comprises the fair value of the consideration received or receivable for the sale of electricity transmission and transit and other services in the ordinary course of the Company's activities. Revenues is shown, net of value-added tax, estimated returns, rebates and discounts.

The revenue is recognized when the respective service is rendered.

Sales of services are recognized in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Dividend income is recognized when the right to receive the payment is established and inflow of economic benefits is probable.

Interest income is recognized in the period when it is earned on a time proportion basis using the effective interest method.

2.23. Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Company's Financial Statements in the period in which the dividends are approved by the Company's shareholders.

2.24. Standards issued but not yet effective

As at the date of issuance of these financial statements, the following standards and interpretations were issued, though they were not mandatory (earlier adoption was possible); the Group assessed their impact on the financial statements and did not apply them yet:

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued on 28 May 2014 and is effective for accounting periods beginning on or after 1 January 2018. This new standard introduces the principle that revenues are to be recorded at the transaction price at the time when the goods or services are transferred to the customer. Any promised goods or services that are distinct must be charged separately and discounts or returns from the sales price must be allocated to individual items. If the price is variable for any reason, a minimum value that is highly unlikely to be derecognized must be posted. Acquisition costs of a contract with customer must be activated and depreciated over the period of time, during which the company obtains economic benefits from the respective contract with the customer.

Amendments to IFRS 15 Revenue from Contracts with Customers have not yet been adopted by the European Union, but IFRS 15 Revenue from Contracts with Customers, including the effective date of IFRS 15, has already been adopted by the European Union.

During 2017, the Company has set up a project team to evaluate the impact of the new standard on the Company's financial statements. The project is still ongoing; before the end of the accounting period, the project team came to a preliminary conclusion concerning the impact of the new accounting standard, which is still being discussed and evaluated.

Based on the preliminary conclusion, the application of the standard should have an impact on the following accounting cases.

Reporting of costs of using the OT profile

The project team has reached a provisional conclusion that the cost of using the OT profile is directly related to the revenues from the sale of the OT profile, as the Company provides 50% of its net proceeds from the implicit auctions to the operator as part of the market coupling. At present, this fee is reported as the cost of using the OT profile (see note No. 19 – Consumption of material and services). The difference between the posted revenues and related costs is currently recognized as the revenue from the OT profile (see note No. 18 – Revenues). Under the new IFRS 15 standard, fees that reduce revenues paid to customers, when they do not constitute separate performances, should be reported as revenue reductions. The project team therefore recommends that the cost of using the OT profile be posted as a revenue reduction.

Posting of fees for an initial connection to the grid

The Company collects fees for an initial connection to the grid or for an extension of the connection to the grid to the required capacity from customers; these fees partially or fully compensate for the costs incurred by the Company in connection with building the connection of the required capacity. The Company guarantees the technical connection capacity during the connection. At present, these costs

are accrued over the period of depreciation. Dissolution of the accruals is recognized as part of other operating revenues.

The project team has reached a provisional conclusion that these connection fees do not constitute a separate performance obligation provided to the customer. The Company provides services to the customer in order to provide and maintain the agreed maximum transmission capacity. These services are provided throughout the customer's connection period, not at the moment of establishment of the connection under IFRS 15. Revenues from the posting of accruals represent the payments received from the customer and should form a part of the revenue for access to the grid under IFRS 15. At the same time, the project team recommends determining the period of time for the dissolution of these revenues with respect to the regulatory mechanism and the expected service life of the customer connection. Determination of this period is currently a subject of further analyses.

IFRS 9 Financial Instruments: Classification and measurement

IFRS 9 was issued in July 2014 and is effective for accounting periods beginning on or after 1 January 2018. The main characteristics of the new standard are:

Financial assets will be classified into three valuation categories: assets subsequently measured at amortized cost, assets subsequently measured at fair value through other comprehensive income (FVOCI) and assets subsequently measured at fair value through profit or loss (FVPL).

Classification of debt instruments depends on the business model used by the entity to manage its financial assets and on whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held for the purpose of collecting cash-flow, it may be measured at amortized cost only if it meets the SPPI condition. Debt instruments that meet the SPPI condition and that form a part of a portfolio held by the entity in order to collect cash flows, with the option of selling the financial assets from that portfolio, may be classified as FVOCI. Financial assets, for which the cash flows do not represent SPPI, must be valued as FVPL (e.g. financial derivatives). Nested derivatives are no longer separating from financial assets but are taken into account when performing the SPPI test.

Investments in mutual funds are always measured at fair value. However, an entity's management may irrevocably choose to report changes in their fair value in other parts of the entity's comprehensive income, provided that the respective financial instrument is not held for trading purposes. For financial instruments held for trading purposes, any changes in fair value shall be recognized in profit or loss.

Most of the requirements of IAS 39 related to the classification and measurement of financial liabilities were adopted by IFRS 9 without any changes. The most important change is that the entity has to recognize changes in the fair value of financial liabilities, which are classified at fair value through profit or loss, as part of their other comprehensive income.

IFRS 9 introduces a new model for accounting for impairment of financial instruments – the model of expected credit losses (the ECL model). This model introduces a three-step approach based on changes in the credit quality of financial assets from the date of their initial posting. According to the new rules, entities will be required to account for any immediate loss equal to the 12-month expected credit loss on initial posting of the financial asset that show no signs of impairment (or expected credit loss over the entire lifetime in case of trade receivables). If there is a significant increase in credit risk, impairment shall be estimated on the basis of expected credit losses over the entire lifetime of the financial asset and not only on the basis of the 12-month expected credit loss. This model includes simplifications for trade receivables and lease receivables.

Requirements related to hedging accounting have been changed in order to be better aligned with internal risk management. The Standard provides the accounting entities with a choice of accounting policy: they may apply the hedging accounting pursuant to IFRS 9 or to continue applying IAS 39 to all hedging relationships because the standard currently does not regulate the accounting for macro hedging.

The Company analyses the impact of the new standard on its statement of financial position and reached a provisional conclusion that, under the new standard, it would be necessary to post adjusting entries for all existing receivables. The most important financial instruments are trade receivables for which the Company is entitled to obtain compensation of contractual cash flows. The Company has reached a provisional conclusion that it will continue to report its financial assets under the business model intending to hold assets for the purpose of collecting contractual cash flows at amortized cost.

As of 31 December 2017, the value of both receivables and equity would be reduced by applying this standard. The financial impact is currently being assessed.

IFRS 16 Leases

IFRS 16 is effective for accounting periods beginning on or after 1 January 2019. If a company applies IFRS 15 as well, a delayed application is permitted.

IFRS 16 replaces the IAS 17 Leases and related interpretations. The standard removes the current dual accounting model for the lessee. Instead, it requires that companies report the majority of leases on their balance sheets according to a unified model, thus eliminating the distinction between operating and finance leases.

Under IFRS 16, a contract is a lease or contains leases if it transfers the right to control the use of an identified asset for a certain period for consideration. Under such contracts, the new model requires the lessee to recognize both the asset – the right to use and the liability from the lease. The right of use is amortized and the liability is subject to interest. This will result in higher costs for most leases right from the start, even if the lessee pays a flat-rate annual rent.

The new standard also introduces several exceptions for the lessee, which include:

- Leases with a lease term of 12 months or less, which do not include a purchase option
- Leases where the subject of the lease is of low value (the so-called small-ticket leases)

The introduction of the new standard has mostly no effect on the accounting of the lessor. The lessor will continue to distinguish between financial and operating leases.

The Company is currently assessing the impact of the new standard on its financial statements.

Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

Effective for accounting periods beginning on or after 1 January 2021.

These supplements are a response to concerns related to the implementation of IFRS 9 prior to the implementation of the standard being developed by IASB that should replace IFRS 4. The supplements introduce two optional solutions. One of them is a temporary exemption from IFRS 9, which essentially suspends its application by some insurers. The second option involves an approach to the presentation in manner mitigating the volatility that may occur if IFRS 9 is applied before the new standard for insurance contracts.

The Company does not expect that these supplements, when they are first applied, will have a significant impact on the presentation of its financial statements, because the Company is not an insurance provider.

Amendments to IFRS 10 and IAS 28: Sale or contribution of assets between an investor and its associate or joint venture

Their effective dates have not yet been determined by the IASB.

The amendments clarify that, in transactions with an affiliate or joint venture, any profit or loss is recognized to the extent and according to whether the sold or contributed asset represents an enterprise, as follows:

- Profit or loss is recognized in full if the transaction between the investor and its affiliate or a joint venture involves the transfer of asset or assets that represent an enterprise (regardless of whether it is placed in a subsidiary or not), while
- Profit or loss is recognized in part if the transaction between the investor and its affiliate or a joint venture includes assets that do not form an enterprise, even if the asset is placed in a subsidiary.

The Company does not expect that these supplements, when they are first applied, will have a significant impact on the presentation of its financial statements, because the Company does not have any subsidiaries, affiliates or joint ventures that would represent net investments of the Company. According to a preliminary conclusion, the Company will continue to be able to account for its subsidiary as well as for its joint venture at cost.

Standards and interpretations not yet adopted by the European Union

Amendments to IFRS 2: Classification and measurement of share-based payment transactions

Effective for accounting periods beginning on or after 1 January 2018.

These documents explain the accounting of shared based payments in the following areas:

- Impact of the terms related to the entitlement and without the entitlement to the valuation of transactions on the basis of shares paid by cash
- Share-based transactions paid after the application of withholding tax
- Modification of share-based payment terms that alter the transaction classification from the category paid by cash to the category paid by equity instruments.

The Company does not expect that these supplements, when they are first applied, will have a significant impact on the presentation of its financial statements, because the Company does not perform share-based payment transactions.

Amendments to IAS 40 – Transfer of Investment Property

Effective for accounting periods beginning on or after 1 January 2018.

These amendments reinforce the principles for transferring to or from investment in real estate in IAS 40 Investments in Real Estate and specify that such a transfer may be made only in the case of a change in the use of the real estate. On the basis of these amendments, a transfer is possible only when there has been a real change in the use of the real estate, i.e. the asset meets or ceases to meet the definition of investment in real estate, and there is evidence of such a change in the use of the real estate. A change in the intention of the management alone is not sufficient for such a transfer. The Company does not expect that these supplements, when they are first applied, will have a significant impact on the presentation of its financial statements, because the Company has no investments in real estate.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

Effective for accounting periods beginning on or after 1 January 2018.

This interpretation explains how to determine the date of a transaction for the purposes of determining the exchange rate to be used for the initial recognition of related asset, cost or revenue (or a part thereof) and the de-recognition of non-monetary asset or a non-monetary liability incurred in providing or receiving consideration in the form of an advance payment in foreign currency. Under these circumstances, the date of the transaction is the date on which the company initially recognizes the non-monetary asset or the non-monetary liability arising from the provision or receipt of consideration in the form of an advance payment.

The Company does not expect that this interpretation can have a significant effect on its financial statements when it is first applied because the Company uses exchange rates prevailing at the date

of the transaction when initially recognizing non-monetary assets and non-monetary liabilities incurred in providing or receiving consideration in the form of an advance payment.

Amendments to IAS 28 – Investments in Associates and Joint Ventures

Effective for accounting periods beginning on or after 1 January 2019; they should be applied prospectively. Delayed application is permitted.

These amendments clarify that the Company applies IFRS 9 Financial Instruments for Long-term Investments in Affiliates and Joint Ventures which, in essence, form a part of net investments in affiliates or joint ventures to which the equity method does not apply. The Company applies IFRS 9 in relation to these long-term investments before the application of IAS 28. When the Company applies IFRS 9, it does not take into account any adjustments to the carrying amount of the long-term investment that arise from the application of IAS 28.

The Company does not expect that these supplements, when they are first applied, will have a significant impact on the presentation of its financial statements, because the Company does not have any subsidiaries, affiliates or joint ventures that would represent net investments of the Company. According to a preliminary conclusion, the Company will continue to be able to account for its subsidiary as well as for its joint venture at cost.

Amendments to IFRS 9: Financial Instruments Prepayment Features with Negative Compensation

Effective for accounting periods beginning on or after 1 January 2019; they should be applied retrospectively. Delayed application is permitted. If a company applies additions in an earlier period, the respective information must be disclosed.

These amendments allow companies to measure certain financial assets that allow for early repayment with negative compensation at amortized cost. These assets, which represent some loans and debt securities, would otherwise be measured at fair value through profit or loss.

The negative compensation arises, when the contractual terms allow a repayment of the instrument by the borrower before the contractual maturity date, where such early payment might be lower than the unpaid value of the principal and interest. In order for the company to use the valuation at amortized cost, negative compensation must be a "reasonable compensation for the early contract termination".

The Company has not yet prepared an analysis of the impact of this amendment on its financial statements.

IFRS 17 Insurance Contracts

Effective for accounting periods beginning on or after 1 January 2021; it should be applied prospectively. Earlier application is permitted for companies that apply IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers during or prior to first application of IFRS 17.

The new standard introduces the following changes:

- Separate presentation of insurance risk and financial results
- Received premiums shall not be considered as the most important investment component and the received cash will not be considered as revenue
- Accounting for options and guarantees shall be more consistent and transparent

The Company does not expect that these supplements, when they are first applied, will have a significant impact on the presentation of its financial statements, because the Company is not an insurance provider.

IFRIC 23 Uncertainty over Income Tax Treatments

Effective for accounting periods beginning on or after 1 January 2019.

This interpretation should be applied when determining a taxable profit (tax loss), tax base, unused tax losses, unused tax credits and tax rates in cases where there is an uncertainty about the approach to taxation under IAS 12. When determining whether each tax approach should be considered

independently or whether certain tax approaches should be considered together, a company should use its judgement.

A company must assess whether it is likely that the relevant authorities will accept any tax approach or a set of tax approaches that have been applied or are planned to be applied in the company's tax returns.

The Company does not expect that these supplements, when they are first applied, will have a significant impact on the presentation of its financial statements.

Improvements to IFRS – cycle 2014 – 2016

The improvements introduce two additions to two standards and resulting amendments to other standards and interpretations that result in accounting changes accounting related to presentation, recognition, or measurement. Most of these improvements should be applied to accounting periods beginning on or after 1 January 2018; they should be applied retrospectively.

The Company does not expect these amendments to have a material impact on its financial statements.

Improvements to IFRS – cycle 2015 – 2017

The improvements introduce additions to four standards and resulting amendments to other standards and interpretations that result in accounting changes accounting related to presentation, recognition, or measurement. Most of these improvements should be applied to accounting periods beginning on or after 1 January 2019; they should be applied retrospectively.

The Company does not expect these amendments to have a material impact on its financial statements.

The Company does not plan to apply the above-mentioned new standards, additions to standards and interpretations before their effective date. All new standards, amendments to standards and interpretations that are relevant to the Company will be applied by the Company when they become effective.

3 Financial Risk Management

3.1. Financial risk factors

The Company's activities are exposing it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk, price risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's performance. The Company uses derivative financial instruments to mitigate certain risk exposures, if necessary.

Risk management is carried out by the Company under policies approved by the Board of Directors. The Company identifies, evaluates and hedges financial risks in cooperation with the Company's operating units. The Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments.

(i) Market risk

(a) Foreign exchange risk

The Company provides electricity transit services and auctions in which payments are denominated in EUR. Similarly, the Company recognizes part of purchases and credit financing with payments denominated in EUR.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
USD/CZK and other	(25 848)	0	1 817	573

The impact of other currencies on the Company's operations is immaterial.

Based upon the sensitivity analysis of financial assets and liabilities recognized as at 31 December 2017, a 10 % strengthening/weakening, in the EUR against CZK and USD would result in an increase/decrease in the Company's profit by EUR 2 185. Management considers the risk is not significant as at reporting date.

(b) Price risk

The Company is not exposed to significant price risk, as it does not invest in equities.

(c) Operating risks – prices of services

The Company's operations, which is a natural monopoly, is regulated by by The Regulatory Office of Network Industries of Slovakia (hereinafter the „URSO“), which in its decisions determines tariffs, prices and costs allowed the Company. URSO applies in its determinations procedures and formulas describe in the URSO ordinance based on the principles established by the Regulation Committee for the regulatory period.

The year 2017 is the first year of regulatory period 2017 – 2021. During this regulatory period is used the determination of prices for access to the transmission system and electricity transmission based on the price cap and tariffs for losses and system services are determined on the basis of maximum permitted costs. The main part of cost for the providing system services are costs for support services, and at the different types of the support services sets maximum prices of purchased services or the maximum allowable cost. Part of the cost for the providing of system services is assured by payment of fixed prices for regulated electricity procured within the framework of the GCC, which the Company together with operators in Czech and Hungarian transmission system use to prevent the supply of regulation electricity in opposite directions through the cross-border connections.

Within Czech, Slovak, Hungarian and Romanian electricity market interconnection the Company acts as shipping agent. Relevant revenues and costs of Company are form payments for electricity transmitted through the cross-border links within the interconnection of electricity markets.

The main part of the Company's revenues consist of revenues from URSO's tariffs that have been approved and issued in its ordinances (electricity transmission and reserved capacity revenues, revenues from tariffs for electricity losses in transmission, system services revenues and revenues from regulated electricity acquired under the GCC system) and revenues related to cross border electricity transmission where URSO does not set prices for provided services (clearing of international transfers revenues - ITC mechanism, from auctions and revenues from electricity transmitted through cross border connections within the links to electricity markets - Market Coupling).

The Company's costs consist mainly costs for purchase of support services needed to provide system services, purchase costs for the electricity to cover losses and own consumption, costs for electricity regulation acquired under GCC system, the costs associated with cross-border electricity transmission and other costs needed for transmission system operation and operation of the Company.

(d) Cash flow interest rate risk

The Company repaid the last loan with a variable rate on 3 December 2015. In the period from 1 January 2017 to 31 December 2017 it has two outstanding long-term investment loans with fixed interest rates. For this reason the Company is not exposed to interest rate risk in consequence of long-term loans.

The Company analyses its interest rate exposure on a dynamic basis. Financial situation of the Company is stable and is not expected to refinance existing debt or alternative financing. Operating revenues and operating cash flows of the Company are largely independent of changes in market interest rates. The Company has no significant interest – bearing assets other than cash and cash equivalents.

(ii) Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institution, as well as credit exposures to customers, including outstanding receivables. If wholesale customers are independently rated, these ratings are used. If there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

The Company has implemented individual assessment of major customers credit risk. The input information for the assessment is payment discipline of customer, indicators from Financial Statements, available information on customer's indebtedness. Major customers include those with highest purchases of services. Payment conditions are set-up according to the results of the assessment. Average maturity of receivables upon sale of products and services is based on dates agreed in the contracts, i.e. 3 to 30 days.

The Company is managing risk of non-payment of customers through advance payment and guarantees.

As for the trade receivables, the Company carries out its activities with a few significant counterparties. Although the receivables of the Company are generated from a few customers only, the credit risk is limited due to character of the counterparties. All the customers are strategic Slovak companies engaged in the electricity business, most of them with an influence by the state.

Maximum exposure related to trade and other receivables is the nominal value of trade receivables adjusted by individual impairment of EUR 23 313 (Note 10).

The table below shows the balances of receivables due from bank and other cash at the reporting date:

Counterparty	Internal Rating ²	Balance as at 31 December	
		2017	2016
Banks ¹			
Všeobecná úverová banka, a.s.	A2	26 295 361	9 414 068
Tatra banka, a.s.	A3	23 836 635	9 777 740
Československá obchodná banka, a.s.	Baa1	5 020 995	5 649 285
Slovenská sporiteľňa, a.s.	A-	5 602 548	5 058 654
J & T Banka, a. s.	-	10 000 000	3 000 000
Poštová banka, a. s.	-	10 006 983	12 027 212
Other	n/a	86 543	87 979
Total		80 849 065	45 014 938

¹ The amount of cash and short-term deposits at banks as at 31 December 2017 amounts to EUR 80 849 065 (31 December 2016: EUR 45 014 938). Furthermore, the Company has agreed with those

banks on credit lines on current accounts totalling EUR 18 550 000 (31 December 2016: EUR 15 000 000), which were not utilized. The Company has bank borrowings as at 31 December 2017 of EUR 57 611 111 (31 December 2016: EUR 69 355 555), and these credit lines were utilized.

² The Company uses the independent rating of Moody's, Fitch Ratings and Standard & Poor's.

(iii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying business the Company aims to maintain flexibility in funding by keeping committed credit lines available.

The Company manages liquidity risk by having an option to utilize bank overdrafts which should cover an immediate shortage of cash. The Company regularly monitors its liquidity position and uses overdrafts only in exceptional cases. The Company also uses the advantages of commercial terms between the Company and its suppliers to secure sufficient financing funds to cover its needs. The maturity of supplier's invoices is between 3 to 60 days.

The Company monitors movements of financial resources on its bank accounts on a regular basis.

Expected cash flow is prepared as follows:

- expected future cash inflows from main operations of the Company,
- expected future cash outflows securing operations of the Company and leading to settlement of all liabilities of the Company, including tax payables.

A cash flow forecast is prepared monthly. It identifies the immediate need for cash and, if funds are available, it enables the Company to make term deposits and other investments.

Management monitors rolling forecasts of the Company's liquidity reserve comprises un-drawn borrowing facility and cash and cash equivalents on the basis of expected cash flow.

The table below analyses the Company's financial liabilities by relevant remaining maturity. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31 December 2017				
Bank loans	13 569 444	11 744 445	32 297 222	0
Finance lease	0	0	0	0
Trade and other payables excluding liabilities not falling under IFRS 7	67 315 820	0	0	0
Total	80 885 264	11 744 445	32 297 222	0
At 31 December 2016				
Bank loans	13 569 444	11 744 445	35 233 333	8 808 333
Finance lease	0	0	0	0
Trade and other payables excluding liabilities not falling under IFRS 7	45 056 601	0	0	0
Total	58 626 045	11 744 445	35 233 333	8 808 333

The Company has not financial derivatives.

3.2. Capital risk management

The Company's objectives of managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Company's management manages shareholders' capital reported under IFRS adopted by the European Union at 31 December 2017 in value EUR 638 439 629 (31 December 2016: EUR 621 066 209).

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio.

This ratio is calculated as follows:

	31 December 2017	31 December 2016
Total equity and liabilities	937 079 067	902 814 621
Equity (Note 12)	638 439 629	621 066 209
Equity to Total equity and liabilities ratio	68%	69%

The Company's strategy was not changed against 2016, i.e. to maintain equity to total liabilities and equity ratio above 35%, which is compliant with externally imposed capital requirements. During 2017 and 2016, the Company complied with the externally imposed capital requirements (Note 14).

3.3. Fair value estimation

The fair value of financial instruments is based on inputs other than quoted market prices as at the reporting date.

The carrying value less impairment provision of trade financial assets and liabilities are assumed to approximate their fair values.

4 Critical accounting estimates and judgements

The Company makes estimates and assumptions concerning the future periods. The accounting estimates due to its nature, would differ from actual results realized in future period. Critical estimates and assumptions that bear a risk that their change will cause a material adjustment to the carrying amounts of assets and liabilities within the future, are described below.

(i) Regulated revenues

The Company's activity, which is a natural monopoly, is regulated by The Regulatory Office of Network Industries of Slovakia (hereinafter the „URSO), which in its decisions determines tariffs, prices and costs allowed to the Company. URSO applies in its determinations procedures and formulas described in the URSO ordinance based on the principles established by the Regulation Committee for the regulatory period.

The year 2017 is the first year of regulatory period 2017 – 2021. During this regulatory period is used the determination of prices for access to the transmission system and electricity transmission based on the price cap and tariffs for losses and system services are determined on the basis of maximum permitted costs. The main part of cost for the providing system services are costs for support services, and at the different types of the support services sets maximum prices of purchased services or the maximum allowable cost. Part of the cost for the providing of system services is assured by payment of fixed prices for regulated electricity procured within the framework of the GCC, which the Company together with operators in Czech and Hungarian transmission system use to prevent the supply of regulation electricity in opposite directions through the cross-border connections.

For more details on description related to revenues see Note 3.1 (i) (c).

(ii) Pension benefits

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. By determining the appropriate discount rate, the Company considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions (Note 17).

(iii) Revaluation of property, plant and equipment

The main operating assets of the Company are assets used for electricity transmission. In the past, the Company valued assets at the historical acquisition costs. As at 31 December 2011 and 2016 the Company applied the revaluation model to fair value according to IAS 16 for property, plant and equipment, except for the classes of property containing vehicles, inventory and artwork. Revaluation of property was made by an independent expert who used a net realizable value. In case of increase of the assets book value during revaluation, the analysis of the possible impairment was performed based on the determining value in use (present value of the current cash flows expecting from the use of property). The result of the revaluation was an increase of the assets and related increase in other comprehensive income accumulated in equity. Assumptions used in the revaluation model are based on the independent expert. The method used for revaluation is further described in Note 5. The final reported book values of these assets and related revaluation differences are not necessarily the values at which these assets may have been or will be sold.

The Company also evaluated the expected remaining useful life of the property, plant and equipments based on the expert opinion as stated above.

	2017	2016
Buildings, halls, networks, constructions	10 – 60 years	10 – 60 years
Machinery, equipment and vehicles	4 - 50 years	4 - 50 years
Other non-current tangible assets	4 years	4 years

There are uncertainties regarding future economic conditions, technology changes and business environment in the sector or regulations by URSO, which may result to future possible adjustments to the estimated revaluations and useful life of property, plant and equipment. This may significantly change the reported amount of assets, equity and profit of the Company in the future.

(iv) Impairment test

As at 31 December 2017, the Company performed a revaluation of the impairment losses for property, plant and equipment in accordance with IAS 36 on the basis of assessment of their future use, disposal or sale. The Company concluded that all assets used in the regulated activities relating to the transmission of electricity represent as a whole one cash generating unit. Due to the increase in the value of assets on its revaluation, an estimate of discounted future cash flows was also carried out based on currently valid regulation by URSO. Based on the analysis, the Company concluded that the assets used for regulated activities related to electricity transmission are not impaired.

5 Property, plant and equipment

	Land (revaluated)	Buildings, halls and construction (revaluated)	Machinery and equipment** (revaluated)	Vehicles and other assets *** (cost)	Capital work in progress including advances (CIP) (cost)	Total
At 1 January 2016						
Cost	15 211 554	593 343 152	323 335 772	15 925 750	100 952 090	1 048 768 318
Accumulated depreciation and impairment charges	0	(171 581 140)	-82 689 265	(7 916 446)	0	(262 186 851)
Net book value	15 211 554	421 762 012	240 646 507	8 009 304	100 952 090	786 581 467
Year ended						
31 December 2016						
Opening net book value	15 211 554	421 762 012	240 646 507	8 009 304	100 952 090	786 581 467
Revaluation	0	13 494 104	7 381 772	0	0	20 875 876
Additions	0	7 936	1 792	0	59 318 557	59 328 285
Transfers	789 726	16 503 728	1 516 039	22 226 424	(41 035 917)	0
Disposals	0	(28 668)	(387 100)	(36 626)	0	(452 394)
Depreciation charge	0	(28 404 728)	(25 715 793)	(2 914 412)	0	(57 034 933)
Impairment charge	0	0	0	25 785	0	25 785
Closing net book value	16 001 280	423 334 384	223 443 217	27 310 475	119 234 730	809 324 086
At 31 December 2016 after revaluation						
Cost	16 001 280	451 498 364	248 892 454	37 773 505	119 234 730	873 400 333
Accumulated depreciation and impairment charges	0	(28 163 980)	(25 449 237)	(10 463 030)	0	(64 076 247)
Net book value	16 001 280	423 334 384	223 443 217	27 310 475	119 234 730	809 324 086
At 31 December 2016 in historical costs						
Costs	8 589 220	497 009 153	447 877 528	48 561 068	119 137 513	1 121 174 482
Accumulated depreciation and impairment charges	0	(195 669 131)	(247 778 137)	(21 111 074)	0	(464 558 342)
Net book value	8 589 220	301 340 022	200 099 391	27 449 994	119 137 513	656 616 140
Year ended						
31 December 2017						
Opening net book value	16 001 280	423 334 384	223 443 217	27 310 475	119 234 730	809 324 086
Additions	0	17 917	0	0	57 351 161	57 369 078
Transfers	59 251	117 120 257	1 130 811	8 367 973	(126 678 292)	0
Disposals	(46 735)	(429 895)	(251 187)	(12 280)	0	(740 097)
Depreciation charge	0	(31 745 798)	(19 450 455)	(4 019 636)	0	(55 215 889)
Impairment charge	0	0	0	2 779	0	2 779
Net book value	16 013 796	508 296 865	204 872 386	31 649 311	49 907 599	810 739 957

**At 31 December 2017
after revaluation**

Costs	16 013 796	567 868 845	248 577 583	45 139 194	49 907 599	927 507 017
Accumulated depreciation and impairment charges	0	(59 571 980)	(43 705 197)	(13 489 883)	0	(116 767 060)
Net book value	16 013 796	508 296 865	204 872 386	31 649 311	49 907 599	810 739 957

**At 31 December
2017 in historical
costs**

Costs	8 645 015	612 693 309	443 945 516	49 896 483	49 549 980	1 164 730 303
Accumulated depreciation and impairment charges	0	(208 600 536)	(257 105 638)	(18 117 823)	0	(483 823 997)
Net book value	8 645 015	404 092 773	186 839 878	31 778 660	49 549 980	680 906 306

** Includes IT equipment belonging to switchyards that was revalued.

*** Includes inventory, other fixed tangible assets, works of art and collections and IT not belonging to switchyards.

The first revaluation of property, buildings, halls, lines and structures took place on 1 January 2011.

As at 1 January 2016, an independent expert who is in no way related to the Company performed update of the revaluation of land, buildings, halls, lines and structures, machinery and equipment and other revalued assets on the basis of observed state and determination of replacement costs of assets, with reference to records of current market transactions for similar property items and methodology for estimating net realizable value. Net realizable values are based on current purchase prices at which assets could be acquired as new and the estimated residual values, which are based on current acquisition costs of the assets, useful life and age of existing assets (net realizable value less depreciation methodology).

The Company updated the revaluation as at 1 January 2016. The revaluation resulted in increase in the accounting value of property, plant and equipment by EUR 20 875 876, increase of deferred tax liability by EUR 4 592 693, increase of profit by EUR 129 552 and increase of revaluation gains in other comprehensive income accumulated as a revaluation surplus within equity in the amount of EUR 16 153 632 after taking the effect of deferred taxes into account.

Revaluation of assets to fair value was performed by an independent expert using a net realizable value; he also assessed the useful life of each asset item. The revaluation resulted in a reduction of annual depreciation by EUR 2 297 021 in 2016 compared to the previous accounting period.

As at 31 December 2017, the most significant items within property, plant and equipment represent: substations and administrative buildings in revalued net book value of EUR 346 009 315, in historical net book value of EUR 310 487 694 (31 December 2016: revalued net book value of EUR 363 805 753, historical net book value of EUR 321 701 037); transmission lines at revalued net book value of EUR 369 330 772, in historical net book value of EUR 281 539 005 (31 December 2016: revalued net book value of EUR 280 326 441, in historical net book value of EUR 175 916 514).

As at 31 December 2017, the Company assessed all internal and external indicators. The Company did not find any indicators that would require that the impairment test be carried out on a group of assets as at 31 December 2017.

Non-current assets under construction consists mainly of EUR 1 770 954 for upgrade and innovation RIS SED Žilina (31 December 2016: EUR 19 831), EUR 8 333 045 for transformer replacement T401 in ESt Moldava (31 December 2016: EUR 394 026), EUR 1 019 741 for 2x400kV transmission line ESt Rimavská Sobota – state border (31 December 2016: EUR 154 727), EUR 938 530 for replacement of conductor and replacement of insulation (31 December 2016: EUR 0), EUR 3 707 446 for the renewal of the telecommunication network (31 December 2016: EUR 0), 959 027 EUR for upgrade IT systems (31 December 2016: EUR 0), EUR 1 956 841 for the Bystričany 400 kV

substation from the grants (31 December 2016: EUR 86 033), EUR 1 765 726 for extension of Horná Ždaňa 400 kV substation from grants (31 December 2016: EUR 59 523), EUR 5 775 697 for remote management of substation in ES Podunajské Biskupice (31 December 2016: EUR 1 481 920), EUR 6 654 234 for transformation 2x400 kV in Bystričany - Križovany (31 December 2016: EUR 3 787 589), EUR 7 140 342 for remote management of substation in ES Spišská Nová Ves (31 December 2016: EUR 987 978), EUR 1 899 033 for transformation 2x400 kV Bystričany – Horná Ždaňa (31 December 2016: EUR 1 188 086), EUR 436 683 for Horná Ždaňa 400 kV substation– extension (31 December 2016: EUR 427 426), EUR 871 784 for Bystričany 400 kV substation (31 December 2016: EUR 698 518), EUR 641 566 for TR 400/110 kV Bystričany – T401 (31 December 2016: EUR 635 403), EUR 0 for substation and transmission lines in Gabčíkovo (31 December 2016: EUR 106 309 015), EUR 0 for innovation system ASZD (31 December 2016: EUR 479 345). These assets are not available for use at the reporting date.

In 2017, borrowing costs are capitalized in accordance with accounting policies of the Company, borrowing costs EUR 0 (2016: EUR 0) as a part of the acquisition cost of non-current assets. The effective interest rate related to capitalization as at 31 December 2017 amounted 1.28% p.a. (31 December 2016: 1.28% p.a.).

The following table includes property leased by the Company as lessor under operating lease agreements:

	Land, buildings and structures	Plant, machinery and equipment	Total
As at 31 December 2017			
Cost	22 123 761	9 562	22 133 323
Accumulated depreciation	(1 658 103)	(7 631)	(1 665 734)
Net book value as at 31 December 2017	20 465 658	1 931	20 467 589
As at 31 December 2017			
Historical acquisition cost	25 313 440	20 064	25 333 504
Accumulated depreciation historical	(5 595 585)	(19 055)	(5 614 640)
Historical net book value as at 31 December 2017	19 717 855	1 009	19 718 864
As at 31 December 2016			
Cost	22 817 229	9 562	22 826 791
Accumulated depreciation	(848 386)	(7 491)	(855 877)
Net book value as at 31 December 2016	21 968 843	2 071	21 970 914
As at 31 December 2016			
Historical acquisition cost	26 420 487	20 064	26 440 551
Accumulated depreciation historical	(5 320 442)	(18 982)	(5 339 424)
Historical net book value as at 31 December 2016	21 100 045	1 082	21 101 127

The Company also leases optic fibres and circuits. The value of such fibres and circuits is difficult to determine, as they are part of other assets that are used by the Company.

There are no restrictions of ownership relating to property, plant and equipment other than those disclosed in these Notes to the Financial Statements. No property, plant and equipment has been pledged.

Type and amount of insurance of non-current intangible and tangible assets

The Company has insured its assets against the following risks:

Insured object	Type of insurance	Amount insured as at 31 Dec 2017 and 2016	Name of the insurance company
Buildings, halls and constructions	Damage or total loss (natural disaster)	217 369 609	Lead insurer: Allianz - Slovenská poisťovňa, a.s. (co-insurance: Kooperativa insurance a. s. Vienna Insurance, QBE Insurance (Europe) Limited, Generali Poisťovňa, a. s.)
Machines, tools and equipment, vehicles without car licence plates, transformers, RRB – radio relay point, cables	Damage or total loss (natural disaster)	613 423 693	Lead insurer: Allianz - Slovenská poisťovňa, a.s. (co-insurance: Kooperativa insurance a. s. Vienna Insurance, QBE Insurance (Europe) Limited, Generali Poisťovňa, a. s.)
Elevated line	Damage or total loss (natural disaster)	731 367 633	Lead insurer: Allianz - Slovenská poisťovňa, a.s. (co-insurance: Kooperativa insurance a. s. Vienna Insurance, QBE Insurance (Europe) Limited, Generali Poisťovňa, a. s.)
Office equipment	Damage or total loss (natural disaster)	1 774 773	Lead insurer: Allianz - Slovenská poisťovňa, a.s. (co-insurance: Kooperativa insurance a. s. Vienna Insurance, QBE Insurance (Europe) Limited, Generali Poisťovňa, a. s.)
Inventory and other tangible assets	Damage or total loss (natural disaster)	1 331 080	Lead insurer: Allianz - Slovenská poisťovňa, a.s. (co-insurance: Kooperativa insurance a. s. Vienna Insurance, QBE Insurance (Europe) Limited, Generali Poisťovňa, a. s.)
Scheduled capital expenditures, automatic coverage of new assets	Damage or total loss (natural disaster)	93 745 591	Lead insurer: Allianz - Slovenská poisťovňa, a.s. (co-insurance: Kooperativa insurance a. s. Vienna Insurance, QBE Insurance (Europe) Limited, Generali Poisťovňa, a. s.)
Inventories	Damage or total loss (natural disaster)	1 500 000	Lead insurer: Allianz - Slovenská poisťovňa, a.s. (co-insurance: Kooperativa insurance a. s. Vienna Insurance, QBE Insurance (Europe) Limited, Generali Poisťovňa, a. s.)

Insured object	Type of insurance	Amount insured as at 31 Dec 2017 and 2016	Name of the insurance company
Cash, valuables, stamps and vouchers, documentary securities deposited in the vaults and mailboxes	Insurance against theft, burglary and robbery, and robbery during transport and vandalism	16 597	Lead insurer: Allianz - Slovenská poisťovňa, a.s. (co-insurance: Kooperativa insurance a. s. Vienna Insurance, QBE Insurance (Europe) Limited, Generali Poist'ovňa, a. s.)
Set of movable tangible fixed assets, cables, elevated power line	Insurance against theft, burglary and robbery, and robbery during transport and vandalism	331 939	Lead insurer: Allianz - Slovenská poisťovňa, a.s. (co-insurance: Kooperativa insurance a. s. Vienna Insurance, QBE Insurance (Europe) Limited, Generali Poist'ovňa, a. s.)
Inventory and other TFA	Insurance against theft, burglary and robbery, and robbery during transport and vandalism	290 966	Lead insurer: Allianz - Slovenská poisťovňa, a.s. (co-insurance: Kooperativa insurance a. s. Vienna Insurance, QBE Insurance (Europe) Limited, Generali Poist'ovňa, a. s.)
Inventories, construction components	Insurance against theft, burglary and robbery, and robbery during transport and vandalism	165 970	Lead insurer: Allianz - Slovenská poisťovňa, a.s. (co-insurance: Kooperativa insurance a. s. Vienna Insurance, QBE Insurance (Europe) Limited, Generali Poist'ovňa, a. s.)
Measuring devices, cables, and laptops in motor vehicles	Insurance against theft, burglary and robbery, and robbery during transport and vandalism	66 388	Lead insurer: Allianz - Slovenská poisťovňa, a.s. (co-insurance: Kooperativa insurance a. s. Vienna Insurance, QBE Insurance (Europe) Limited, Generali Poist'ovňa, a. s.)
Machinery, equipment and cables	Insurance of machinery and equipments (damage or destruction of machinery)	591 145 794	Lead insurer: Allianz - Slovenská poisťovňa, a.s. (co-insurance: Kooperativa insurance a. s. Vienna Insurance, QBE Insurance (Europe) Limited, Generali Poist'ovňa, a. s.)
Scheduled capital expenditures	Insurance of machinery and equipments (damage or destruction of machinery)	65 000 000	Lead insurer: Allianz - Slovenská poisťovňa, a.s. (co-insurance: Kooperativa insurance a. s. Vienna Insurance, QBE Insurance (Europe) Limited, Generali Poist'ovňa, a. s.)
Insurance of cybernetic risks		500 000	Lead insurer: Allianz - Slovenská poisťovňa, a.s. (co-insurance: Kooperativa insurance a. s. Vienna Insurance, QBE Insurance (Europe) Limited, Generali Poist'ovňa, a. s.)

6 Intangible assets

	Software and other intangible assets	Intangible assets not yet in use	Total
At 1 January 2016			
Cost	48 398 874	2 582 055	50 980 929
Accumulated amortisation and impairment charges	(40 939 075)	0	(40 939 075)
Net book value	7 459 799	2 582 055	10 041 854
Year ended 31 December 2016			
Opening net book amount	7 459 799	2 582 055	10 041 854
Additions	0	3 317 771	3 317 771
Transfers	849 953	(849 953)	0
Disposals	0	0	0
Amortisation charge	(2 316 186)	0	(2 316 186)
Closing net book value	5 993 566	5 049 873	11 043 439
At 31 December 2016			
Cost	48 199 224	5 049 873	53 249 097
Accumulated amortisation and impairment charges	(42 205 658)	0	(42 205 658)
Net book value	5 993 566	5 049 873	11 043 439
Year ended 31 December 2016			
Year ended 31 December 2017			
Opening net book amount	5 993 566	5 049 873	11 043 439
Additions	0	0	0
Transfers	1 990 439	(1 990 439)	0
Disposals	0	(730 094)	(730 094)
Accumulated amortisation and impairment charges	(2 251 704)	0	(2 251 704)
Closing net book value	5 732 301	2 329 340	8 061 641
At 31 December 2017			
Cost	49 037 543	2 329 340	51 366 883
Accumulated amortisation and impairment charges	(43 305 242)	0	(43 305 242)
Net book value	5 732 301	2 329 340	8 061 641

The computer software consists mainly of software SAP, SED MES2 and Damas Energy. Net book value of SAP is EUR 32 266 (31 December 2016: EUR 168 296), remaining amortization period is 1 year. Net book value of Damas Energy is EUR 599 679 (31 December 2016: EUR 1 040 442), remaining amortization period is 2 years.

Intangible assets not yet in use include EUR 1 070 760 for upgrade and innovation RIS SED Žilina (31 December 2016: EUR 1 070 760), EUR 381 469 for update SAP environment (31 December 2016: EUR 0), EUR 0 for innovation system ASZD (31 December 2016: EUR 3 730 042).

Internally generated intangible assets are immaterial.

There are no restrictions of ownership relating to intangible assets and no intangible assets are pledged.

7 Shares in subsidiaries and other investments

	2017	2016
At the beginning of the year	4 847 815	4 847 815
Additions	0	0
Disposals	0	0
At the end of the year	4 847 815	4 847 815

Eight providers of transmission systems: Verbund - Austrian Power Grid AG, ČEPS, a.s., Electro-Slovenija d.o.o., E.ON Netz GmbH, MAVIR Hungarian TSO Company Ltd., PSE-Operator S.A., SEPS and Vattenfall Europe Transmission GmbH established in 2008, was founded by the auction office (CAO) based, Gute Anger 15, Freising, Germany in order to Central Auction Office (CAO) based in Gute Anger 15, Freising, Germany for the purpose of introducing regional coordinated management of network overloading. In 2013 Company's share on the capital was 12.5 %. On 23 May 2014 was entered in the German Register a new partner - Croatian provider HOPS d. o. o. and Company's share on the capital was reduced to 11.11%.

The General Assembly of the Central Allocation Office GmbH (CAO) and the Capacity Allocation Service Company.EU S.A. (CASC.EU), two regional offices for allocating cross-border capacity for electricity transmission, on 24 June 2015 approved the merger agreement and the creation of a Joint Allocation Office (JAO).

JAO is a service company founded by twenty-transmission system operators of the seventeen countries - 50Hertz (Germany), Admie (Greece), Amprion (Germany), APG (Austria), ČEPS (Czech Republic), CREOS (Luxembourg), ELES (Slovenia), ELIA (Belgium), EnerginetDK (Denmark), HOPS (Croatia) MAVIR (Hungary), PSE (Poland), RTE (France), Slovenská elektrizačná prenosová sústava, a.s./ SEPS, Statnett (Norway), Swissgrid (Switzerland) TenneT (Germany), TenneT (Netherlands), Terna (Italy), TransnetBW (Germany). Its main task is to conduct an annual, monthly and daily auctions of rights to transmit electricity across 27 borders in Europe and act as backup for the European Market Coupling.

New allocative platform was established on 1 September 2015. Following the merger until the end of 2015, both agencies operated in parallel to ensure the uninterrupted implementation of monthly and daily auctions on all relevant borders. All acts and activities are fully moved to Luxembourg in the first quarter of 2016. For the year 2016 are not available data about equity and profit/loss yet. The Company does not expect that the investment is impaired.

On 11 August 2010 the Company OKTE, a.s.. based in (Mlynské nivy 48, 824 84 Bratislava) has been incorporated in the Business Register. The sole shareholder of the company is Slovenská elektrizačná prenosová sústava, a.s. The share is being made up of 4 644 registered share at a nominal value of EUR 1 000 and legal reserve fund in amount EUR 3 315.

8 Financial instruments by category

The reconciliation of classes of financial instruments with measurement categories under IAS 39 is as follows:

As at 31 December 2017	Financial assets at fair value through profit and loss	Loans and receivables	Total
Assets as per Statement of Financial Position			
Trade receivables (before impairment provision)	0	28 663 272	28 663 272
Other receivables	0	429 649	429 649
Cash on bank accounts and cash in hand	0	80 849 065	80 849 065
Total	0	109 941 986	109 941 986

As at 31 December 2017	Financial liabilities at fair value through profit and loss	Other financial liabilities – carried at amortized cost	Total
Liabilities as per Statement of Financial Position			
Trade and other payables	0	55 782 118	55 782 118
Received guarantees	0	9 848 711	9 848 711
Payables due to employees	0	1 166 291	1 166 291
Social security	0	735 191	735 191
Other payables	0	1 684 991	1 684 991
Bank loans	0	57 611 111	57 611 111
Total	0	126 828 413	126 828 413

As at 31 December 2016	Financial assets at fair value through profit and loss	Loans and receivables	Total
Assets as per Statement of Financial Position			
Trade receivables (before impairment provision)	0	19 643 810	19 643 810
Other receivables	0	478 799	478 799
Cash on bank accounts and cash in hand	0	45 014 938	45 014 938
Total	0	65 137 547	65 137 547

As at 31 December 2016	Financial liabilities at fair value through profit and loss	Other financial liabilities – carried at amortized cost	Total
Liabilities as per Statement of Financial Position			
Trade and other payables	0	35 416 762	35 416 762
Received guarantees	0	8 760 322	8 760 322
Payables due to employees	0	1 087 305	1 087 305
Social security	0	640 377	640 377
Other payables	0	879 517	879 517
Bank loans	0	69 355 555	69 355 555
Total	0	116 139 838	116 139 838

9 Inventories

	As at 31 December	
	2017	2016
Materials and spare parts	840 693	1 167 675
	840 693	1 167 675

There are no restrictions of ownership relating to inventories. No inventories are pledge.

10 Trade and other receivables

	As at 31 December	
	2017	2016
Current receivables and prepayments:		
Neither past due nor impaired trade receivables	28 637 910	19 620 333
Past due but not impaired trade receivables	2 049	164
Individually impaired receivables	23 313	23 313
Trade receivables (before provision for impairment)	28 663 272	19 643 810
Less: Provision for impairment of receivables	(23 313)	(23 313)
Trade receivables – net	28 639 959	19 620 497
VAT – receivable	0	450 396
Grant claims	926 937	2 338 779
Prepayments	1 003 689	1 005 003
Other receivables	429 649	478 799
Prepaid expenses and accrued income	739 662	745 871
Other receivables – net	3 099 937	5 018 848
Total trade and other receivables	31 739 896	24 639 345

The claim for grant represents the grant for project V480 / V481 Veľký Meder - SR border and V446 / V447 Rimavská Sobota - SR border in the amount of EUR 662 589 and in the amount of EUR 264 348 related to the joint procedure agreement for connection of company's En-Invest, a. s. facilities to the transmission system SR at the Moldava power station.

The analysis of trade receivables by the remaining period to maturity is shown in the following table:

	As at 31 December	
	2017	2016
Receivables within due date	28 637 910	19 620 333
Overdue receivables	25 362	23 477
Total	28 663 272	19 643 810

The analysis of trade receivables that are neither past due nor impaired by their credit quality is as follows:

	As at 31 December	
	2017	2016
OKTE	13 774 258	6 332 600
Slovenské elektrárne, a.s.	385 134	53 471
Západoslovenská distribučná, a. s.	2 830 799	2 880 859
Stredoslovenská energetika Distribúcia, a. s.	1 892 182	1 628 531
Východoslovenská energetika Holding, a. s.	0	259
Východoslovenská distribučná, a. s.	1 251 513	1 420 789
ČEPS, a. s.	1 652 737	1 702 860
MAVIR	2 384 017	2 869 837
Others	4 467 270	2 731 127
Neither past due nor impaired trade receivables	28 637 910	19 620 333

All receivables that are neither past due nor impaired are classified as trade receivables. The credit quality of receivables that are neither past due nor impaired is monitored regularly by the management of the Company. Although the receivables of the Company are generated from a few customers only, the credit risk is limited due to character of the counterparties. All the customers are strategic Slovak companies, most of them engaged in electricity business, with an influence by the state.

As at 31 December 2017 trade receivables of EUR 2 049 (31 December 2016: EUR 164) were past due but not impaired. Their ageing analysis is as follows:

	As at 31 December	
	2017	2016
1 to 90 days	567	164
91 to 180 days	1 482	0
Total past due but not impaired trade receivables	2 049	164

The closing balance of the Company's trade receivables includes receivables in the carrying amount of up to EUR 2 049 (2016: EUR 164), overdue at the reporting date, for which no provisions were recorded by the Company as there were no significant changes in creditworthiness of the debtors and the amounts are still considered recoverable. The Company recorded no collateralized receivables.

As at 31 December 2017, trade receivables of EUR 23 313 (2016: EUR 23 313) were individually impaired. As at 31 December 2017, the Company recorded an impairment provision of EUR 23 313 (2016: EUR 23 313).

The ageing of these receivables is as follows:

	As at 31 December	
	2017	2016
181 to 360 days	0	0
Over 361 days	23 313	23 313
Total individually impaired receivables	23 313	23 313

The movements in the provision for impairment of trade receivables are recognized in the Income Statement. Movements are presented below:

	2017	2016
At the beginning of the year	23 313	23 313
Additional provision for receivables impairment	0	0
Release of unused provision	0	0
Receivables written –off during the year as uncollectible	0	0
At the end of the year	23 313	23 313

No receivables have been pledged as collateral. The Company does not have any restrictions to deal with receivables.

11 Cash and cash equivalents

	As at 31 December 2017	2016
Cash at bank and in hand	45 849 065	15 590 622
Short-term bank deposits	35 000 000	29 424 316
	80 849 065	45 014 938

At 31 December 2017 cash and cash equivalents were fully available for the Company's use.

For the purposes of the Statement of Cash Flow, the cash and cash equivalents comprise the following:

	As at 31 December 2017	2016
Cash and bank balances and deposits with original maturities of less than three months:	80 849 065	45 014 938
	80 849 065	45 014 938

The carrying amounts of cash and cash equivalents as at 31 December 2017 are not substantially different from their fair value. The maximum exposure to credit risk is limited by the carrying value of cash and cash equivalents.

The analysis by credit quality is reported in Note 3.1 (ii).

12 Shareholder's Equity

As at 31 December 2017, the registered capital consisted of: 105 bearer shares at a nominal value of EUR 1 000 000. The Company has no subscribed capital that has not been entered in the Commercial Register. Shares are associated with equal rights. Legal reserve fund has attained the minimum amount of mandatory contribution under Commercial Code as at 31 December 2017.

Legal reserve fund is obligatorily created from profit of the Company in accordance with the Slovak. According to the Commercial Code, the Company is obliged to create a legal reserve fund in the amount of 10% of the share capital at the time of the incorporation of the Company. This amount must be increased annually by at least 10 % from net profit, until the legal reserve fund achieves 20% of the share capital. Use of this fund is restricted under the Commercial Code only to cover losses of the Company and it is not a distributable reserve. Legal reserve fund amounted to EUR 21 000 000 as at 31 December 2017 (as at 31 December 2016: EUR 21 000 000).

Other capital reserves comprise statutory fund of EUR 160 150 795 to finance capital expenditure activities (2016: EUR 160 150 795) and differences from revaluation of assets amounted to EUR 105 659 922 (2016: EUR 124 367 346).

The statutory fund to finance future capital expenditures is used to accumulate internal funds of the Company allocated from profit dedicated to cover future capital expenditures. In 2017, the Company contributed to this fund the amount of EUR 0 (31 December 2016: 15 000 000). The rules for the use of funds allocated to the statutory fund for capital expenditures are governed by the general financing principles of the Company in relation to capital expenditures, and by the acquisition guidelines. Funds on the statutory fund to finance capital expenditures are accumulated from amounts allocated to the statutory fund based on the decision of General Meeting.

The movements in revaluation surplus are presented in the table below:

	2017
Opening amount	124 367 346
Revaluation surplus reclassified to retained earnings as at 31 December 2017	(23 927 650)
Deferred tax on revaluation surplus as at 31 December 2017	5 024 806
Deferred tax related to special levy from business activities in regulated sectors	195 420
At the end of the period	<u>105 659 922</u>
	2016
Opening amount as at 1 January 2016	127 642 852
Revaluation as at 1 January 2016	20 709 785
Deferred tax as at 1 January 2016	(4 556 152)
Revaluation surplus reclassified to retained earnings as at 31 December 2016	(26 121 408)
Deferred tax related to revaluation surplus as at 31 December 2016	5 746 710
Deferred tax related to changes in tax rates	1 597 453
Deferred tax related to special levy from business activities in regulated sectors	(651 894)
At the end of the period	<u>124 367 346</u>

The Company believes that the property revaluation surplus is not immediately available for distribution to the shareholders. Parts of the revaluation surplus are reclassified to retained earnings by the difference between depreciation of the revaluated values and original acquisition costs of the property. The rest of the revaluation is reclassified into retained earnings at the sale and disposal of the assets.

The General Meeting held on 3 Mai 2017 approved the Financial Statements for 2016. In 2017 were approved dividend for 2016 in the amount of EUR 542 857.14 (rounded) per share at the nominal value of EUR 1 000 000 (in 2016: EUR 508 101.13 rounded amount).

The profit for the year 2016 of EUR 57 360 249 was distributed as follows:

	2016 profit distribution	2015 profit distribution
Dividends	0	53 350 619
Appropriation to the Legal Fund	0	4 633 725
Appropriation to the Statutory Fund	0	15 000 000
Transfer to retained earnings	<u>57 360 249</u>	<u>0</u>
Total	<u>57 360 249</u>	<u>72 984 344</u>

In 2017, the Company paid dividends for 2016 in the amount of EUR 57 000 000 from retained earnings. As at 31 December 2017 retained earnings of the Company (including profit of the current accounting

period and revaluation surplus reclassified to retained earnings) amounted to EUR 247 039 712 (31 December 2016: EUR 210 882 238).

As at the date of authorization of these Financial Statements for issue, the statutory body has not yet proposed the distribution of profit for 2017.

13 Trade and other payables

	As at 31 December 2017	2016
Trade payables	55 782 118	35 416 762
Received guarantees	9 848 711	8 760 322
Payables due to employees	1 166 291	1 087 305
Social security	735 191	640 377
Accrued personnel expenses	3 837 275	3 430 555
Social fund	131 708	151 625
Other payables	1 684 991	879 517
Total	73 186 285	50 366 463

The fair value of trade and other payables is not significantly different from their carrying amount.

Payables include the sum of EUR 75 775 (2016: 4 504 0003 EUR) resulting from easements that will form part of the investment acquisition costs. The liability was recognized after making a record in the land registry and was established based on an expert opinion; it will be reduced by a payment for easements based on submitted applications.

No payables are secured by a lien or other collateral.

The analysis of payables by the remaining maturity period is as follows:

	As at 31 December 2017	2016
Payables not yet due	72 812 335	50 217 679
Overdue payables	373 950	148 784
Total	73 186 285	50 366 463

Social fund

Appropriations to and withdrawals from the social fund during the accounting period are shown in the following table:

	2017	2016
Opening balance at 1 January	151 625	220 144
Appropriations expensed	787 628	693 626
Usage	(807 545)	(762 145)
Closing balance at 31 December	131 708	151 625

14 Bank loans and finance lease liabilities

	As at 31 December	
	2017	2016
Non-current		
Long term portion of bank loans (a)	44 041 667	55 786 111
Long term portion of finance lease	0	0
	44 041 667	55 786 111
Current		
Short term portion of bank loans (a)	13 569 444	13 569 444
Short term portion of finance lease	0	0
	13 569 444	13 569 444

(a) Bank loans

The maturity of bank loans is as follows:

	As at 31 December	
Maturity	2017	2016
Short term portion of bank loans	13 569 444	13 569 444
Long term portion of bank loans		
1 - 5 years	44 041 667	46 977 778
over 5 years	0	8 808 333
Total	57 611 111	69 355 555

The fair value of current borrowing approximates their carrying amount, as the impact of discounting is not significant.

The Company has the following borrowing facilities which are not utilized:

	As at 31 December	
	2017	2016
Floating rate:	0	0
- Expiring within one year	3 550 000	0
- Expiring beyond one year		
Fixed rate		
- Expiring within one year	15 000 000	15 000 000
- Expiring beyond one year	0	0
Total	18 550 000	15 000 000

Loans from VÚB, a. s. and from Slovenská sporiteľňa, a. s. include certain financial covenants related to limits on debt ratios, interest coverage and debt to operating profit ratio calculated on the basis of the Financial Statements of the Company. The Company complied with these covenants at the reporting date of these Financial Statements.

The effective interest rates at the reporting date were as follows:

	2017	2016
Bank borrowings	1.28%	1.28%

Notes to the Financial Statements for the year ended 31 December 2017 prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union

(All amount are in Euros unless stated otherwise)

Structure of bank loans as at 31 December 2017 is as follows:

Bank/Creditor	Type	Currency	Amount in EUR		Interest rate p. a.	Maturity	Collateral	Part due in next 12 months	Part due after 12 months
			31 December 2017	31 December 2016					
Slovenská sporiteľňa, a. s.	Investment	EUR	21 111 111	25 555 555	1.30%	31. 7. 2022	0	4 444 444	16 666 667
Všeobecná úverová banka, a. s.	Investment	EUR	36 500 000	43 800 000	1.20% and 1.30% depending on the tranche	18. 9. 2022	0	9 125 000	27 375 000
Total	X	X	57 611 111	69 355 555	X	X	X	13 569 444	44 041 667

Notes to the Financial Statements for the year ended 31 December 2017 prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union
(All amount are in Euros unless stated otherwise)

15 Grants and deferred revenues

Deferred revenues include the following items:

	As at 31 December	
	2017	2016
Deferred revenues		
EBOR grant Križovany – long-term portion (a)	11 345 158	11 724 084
– current portion (a)	848 782	1 318 645
EBOR grant Lemešany – long-term portion (b)	34 639 292	36 270 744
– current portion (b)	1 629 190	1 626 919
EBOR grant Bystričany – long-term portion (c)	2 909 170	194 980
– current portion (c)	0	0
US Steel – long-term portion (d)	3 686 155	3 820 546
– current portion (d)	200 896	270 170
EU TEN-E – long-term portion (e)	745 465	773 994
– current portion (e)	28 551	28 569
E.On – long-term portion (f)	2 489 005	2 538 719
– current portion (f)	130 427	212 971
Slovenské elektrárne, a. s. – long-term portion (g)	3 100 332	3 292 456
– current portion (g)	192 121	192 119
EU TEN-E – long-term portion (h)	801 678	829 683
– current portion (h)	28 005	28 005
EU TEN-E – long-term portion (i)	1 963 701	2 030 853
– current portion (i)	67 148	67 149
EU TEN-E – long-term portion (j)	2 203 837	2 338 779
– current portion (j)	66 594	0
Západoslovenská distribučná – long-term portion (k)	3 039 969	3 183 134
– current portion (k)	166 936	190 707
Východoslovenská distribučná – long-term portion (l)	4 297 163	4 477 185
– current portion (l)	180 019	183 123
INEA Veľký Meder – long-term portion (m)	460 565	460 565
– current portion (m)	0	0
INEA Rimavská Sobota – long-term portion (n)	643 750	643 750
– current portion (n)	0	0
Others – long-term portion (o)	13 696 314	8 809 705
– current portion (o)	8 212 593	9 779 365
Total	97 772 816	95 286 919

a)

On 10 December 2003, the Company concluded a grant contract with the European Bank for Reconstruction and Development (EBOR), under which the EBOR undertook to provide a grant of EUR 24 million for IPR "Križovany 400 kV, Reconstruction– Structure 2, Part 2 and Structure 3". The contract became effective on 4 August 2004. The subsidy proceeds were drawn over the period of 2004 – 2010.

The amount of EUR 12 193 940 (31 December 2016: EUR 13 042 729) was recognized in deferred revenue related to the grant.

At the reporting date, the Company has no executor warranties or other contingent liabilities related to grant other than expenses connected to the project in accordance with an approved budget and its structure.

Notes to the Financial Statements for the year ended 31 December 2017 prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union
(All amount are in Euros unless stated otherwise)

b)

On 18 December 2007 the Company concluded a grant contract with the European Bank for Reconstruction and Development (EBOR), under which the EBOR undertook to provide a grant of EUR 43.9 million for extension IPR Bošáca 400 kV, transformer station 400/110kV Medzibrod – 2. construction, transformer station 400/110kV Medzibrod – 3. construction, power lines 2 x 400kV Lemešany - Košice - Moldava - 4. construction. The contract became effective on 4 July 2008.

The amount of EUR 36 268 482 (31 December 2016: EUR 37 897 663) was recognized in deferred revenue related to the subsidy.

At the reporting date, the Company has no executor warranties or other contingent liabilities related to grant other than expenses connected to the project in accordance with an approved budget and its structure.

c)

On 14 December 2010 was concluded a grant agreement between Slovenská elektrizačná a prenosová sústava, a. s. and the European Bank for Reconstruction and Development (EBOR), in which the EBOR agreed to provide a grant of EUR 76 000 thousand. This agreement effected on 17 December 2014. The grant funds will be used to set of buildings Bystričany – transformation 400/110 kV, for expansion substation in Horná Ždaňa and Križovany crossing the 400 kV Križovany - Bystričany and 400 kV Oslany - Horná Ždaňa. Grant funds will be drawn till 2020.

The amount of EUR 2 909 170 (31 December 2016: EUR 194 980) was recognized in deferred revenue related to the subsidy.

At the reporting date, the Company has no executor warranties or other contingent liabilities related to grant other than expenses connected to the project in accordance with an approved budget and its structure.

d)

Deferred revenues include an amount 3 887 051 (31 December 2016: EUR 4 090 716), related to investment in the substation in Košice, which remains in property of the Company, however, the company US Steel however, the company US Steel paid the half of the substation's acquisition costs.

e)

Amount of EUR 774 016 represents a co-finance provided to the Company from an European Commission's program EU TEN-E (Trans – European Network) in the amount of 10% of the value of transmission lines EK-Moldava – SS Košice (31 December 2016: EUR 802 563).

f)

Deferred revenue of EUR 2 619 432 included in deferred revenues is related to construction field 13 in ES Križovany that was 100 % financed by company E.On Trakovice (31 December 2016: EUR 2 751 690).

g)

Amount of EUR 3 292 453 relates to refinancing of cost of Slovenské elektrárne, a.s. for connecting to transmission systems EMO 3 and 4 in Veľký Ďur (31 December 2016: EUR 3 484 575).

h)

Amount of EUR 829 683 represents co-finance provided to Company from European Commission for the transmission line SS Košice – Lemešany (31 December 2016: EUR 857 688).

i)

Amount of EUR 2 030 849 represents co-finance provided from European Commission for the meshing V 409 line to the new transformer station 400 / 110kV in electric station Voľa (31 December 2016: EUR 2 098 002).

Notes to the Financial Statements for the year ended 31 December 2017 prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union
(All amount are in Euros unless stated otherwise)

j)

Amount of EUR 2 270 431 represents co-finance provided to Company from European Commission for the transmission line 400 kV Gabčíkovo – Veľký Ďur (31 December 2016: EUR 2 338 779).

k)

Amount EUR 3 206 905 is related to the refinancing of Západoslovenská distribučná a.s. costs for enlargement the electric station in Stupava by second transformer (31 December 2016: EUR 3 373 841).

l)

Amount EUR 4 477 182 is related to the refinancing of Východoslovenská distribučná a.s. costs for the construction of devices necessary to connect R 400/110 kV Voľa into electric transmission system (31 December 2016: EUR 4 660 308).

m)

Amount of EUR 460 565 represents the financial contribution from INEA agency intended for design and engineering work for the project of 2x400 kV line Veľký Meder – State Border of the Slovak Republic – Hungary (31 December 2016: EUR 460 565).

n)

Amount of EUR 643 750 represents the financial contribution from INEA agency intended for design and engineering work for the project of 2x400 kV line Rimavská Sobota – State Border of the Slovak Republic – Hungary (31 December 2016: EUR 643 750).

o)

In other deferred income is recognized then amount of EUR 264 348 (31 December 2016: EUR 0), which relates to the joint procedure agreement for connection of company's En-Invest, a. s. facilities to the transmission system SR at the Moldava power station. The device will be connected at the beginning of 2018.

Within other long-term deferred income the Company recorded an income in amount of EUR 12 645 498 representing the proceeds of regulated tariffs, which does not belong to the Company in 2016 according to regulatory accounting rules and procedures, but in 2018, when they will be realised (31 December 2016: EUR 8 151 998).

Within other short-term deferred income the Company recorded an income in amount of EUR 8 151 998 representing the proceeds of regulated tariffs, which does not belong to the Company in 2016 according to regulatory accounting rules and procedures, but in 2018, when they will be realised (31 December 2016: EUR 9 736 815).

16 Deferred tax

Deferred taxes are calculated on temporary differences under the balance sheet liability method using a principal tax rate of 21% (31 December 2016: 21%). As at 31 December 2017 tax rate will increase by additional 8.7% for temporary differences in fixed assets due to charges for regulated subjects based on act No. 235/2012 Z.z. (31 December 2016: 4,3%). This levy increased the tax rate for temporary differences, which will offset by the end of 2018 related to fixed assets, as the value of the levy is calculated from profit before tax calculated according to the Slovak Act on Accounting, no taking into consideration temporary differences.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current asset against current liabilities and when the deferred income taxes relate to the same fiscal authority.

Notes to the Financial Statements for the year ended 31 December 2017 prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union
(All amount are in Euros unless stated otherwise)

The movements in the deferred tax assets and liabilities were as follows:

	At 1 January 2017	(Change) (-) costs/ (+) benefits	Accounted to other parts of comprehensive results	At 31 December 2017
Positive revaluation of fixed assets	(35 414 511)	5 024 806	195 420	(30 194 285)
Negative revaluation of fixed assets	834 662	(106 463)	0	728 199
Receivables	0	0	0	0
Tangible and intangible assets	(29 067 774)	(7 262 841)	0	(36 330 615)
Financial investment	(28 980)	0	0	(28 980)
Retirement benefit	1 978 689	(287 070)	20 370	1 711 989
Provisions	609 252	(88 318)	0	520 934
Other	3 836 355	1 086 987	0	4 923 342
Total	(57 252 307)	(1 632 899)	215 790	(58 669 416)

	At 1 January 2016	(Change) (-) costs/ (+) benefits	Accounted to other parts of comprehensive results	At 31 December 2016
Positive revaluation of fixed assets	(37 514 088)	5 710 170	(3 610 593)	(35 414 511)
Negative revaluation of fixed assets	1 017 652	(182 990)	0	834 662
Receivables	0	0	0	0
Tangible and intangible assets	(24 103 308)	(4 964 466)	0	(29 067 774)
Financial investment	(30 360)	0	1 380	(28 980)
Retirement benefit	2 012 192	56 147	(89 650)	1 978 689
Provisions	509 100	100 152	0	609 252
Other	2 491 344	1 345 011	0	3 836 355
Total	(55 617 468)	2 064 024	(3 698 863)	(57 252 307)

17 Provisions for liabilities and charges

	Pensions and other long- term benefits (a)	Legal claims (b)	Others (c)	Total
At 1 January 2017	9 422 325	64 843	0	9 487 168
Additional provisions	(831 000)	3 400	0	(827 600)
Provisions used	(439 000)	0	0	(439 000)
Reversals of unused provision	0	0	0	0
At 31 December 2017	8 152 325	68 243	0	8 220 568

	As at 31 December 2017	2016
Analysis of total provisions		
Non - current	8 152 325	9 422 325
Current	68 243	64 843
Total	8 220 568	9 487 168

Notes to the Financial Statements for the year ended 31 December 2017 prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union
(All amount are in Euros unless stated otherwise)

(a) Pension benefits and other long-term benefits

The following amount have been recognized with respect of the defined benefit pension plan and other long-term benefits:

(i) Post employment benefits

	As at 31 December	
	2017	2016
Present value of unfunded retirement obligations	7 997 362	9 243 362
Unrecognized actuarial gains/(losses) and portion of past service costs	0	0
Obligation in the Statement of Financial Position	<u>7 997 362</u>	<u>9 243 362</u>

The amount recognized in the Income Statement are as follows:

	2017	2016
Current service cost	527 000	610 000
Past service cost	(1 603 000)	0
Interest cost	140 000	157 000
Pension (credit) / cost, included in personnel costs	<u>(936 000)</u>	<u>767 000</u>

Value recognized in Equity are as follows:

	2017	2016
Recognized actuarial gains/(losses)	110 000	(378 000)
Total change recognized in equity	<u>110 000</u>	<u>(378 000)</u>

Movements in the present value of defined benefit obligation are:

	2017	2016
Present value of unfunded retirement obligations at beginning of the year	9 243 362	8 960 362
Current service cost	527 000	610 000
Interest cost	140 000	157 000
Benefits paid	(420 000)	(106 000)
Past service cost	(1 603 000)	0
Cancelled	0	0
Actuarial gains/(losses)	110 000	(378 000)
Present value of unfunded retirement obligations at the end of the year	<u>7 997 362</u>	<u>9 243 362</u>

(ii) Other long-term benefits (jubilees and loyalties)

	As at 31 December	
	2017	2016
Present value of unfunded obligations	154 963	178 963
Obligation in the Statement of Financial Position	<u>154 963</u>	<u>178 963</u>

Notes to the Financial Statements for the year ended 31 December 2017 prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union
(All amount are in Euros unless stated otherwise)

The amounts recognized in the Income Statement are as follows:

	2017	2016
Current service cost	5 000	14 000
Recognized actuarial gains/loss	1 000	0
Interest expense	2 000	3 000
Pension (credit)/cost, included in personnel costs	8 000	17 000

Value recognized in Equity are as follows:

	2017	2016
Recognized actuarial gains/(losses)	(13 000)	(4 000)
Total change recognized in equity	(13 000)	(4 000)

Movements in the present value of defined benefit obligation are:

	2017	2016
Present value of unfunded retirement obligations at beginning of the year	178 963	185 963
Current service cost	5 000	14 000
Past service cost	1 000	0
Interest cost	2 000	3 000
Benefits paid	(19 000)	(20 000)
Actuarial gains/losses	(13 000)	(4 000)
Present value of unfunded retirement obligations at the end of the year	154 963	178 963

The principal actuarial assumption to determine the pension liability were as follows:

As at 31 December 2017

Percentage of employees, who will terminate their employment with SEPS prior to retirement (fluctuation rate)	2.3 – 3.5 % p.a., depending on the age
Expected salary increases	5.0 % p. a.
Discount rate	1.61% p. a.; 1.01% p.a.

As at 31 December 2016

Percentage of employees, who will terminate their employment with SEPS prior to retirement (fluctuation rate)	1.6 – 2.4 % p.a., depending on the age
Expected salary increases – long - term	5.8 % p. a.
- short - term	2.5 % p. a.
Discount rate	1.43% p. a.; 1.18%p.a.

(b) Provision for legal claims

A provision is created for those legal claims where it is probable, at the reporting date, that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The Company is involved in a legal cases regarding the cost reimbursement for bush cutting in the protection electricity lines zone and compensation for easements. In the opinion of the Company's management, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the amounts provided.

Notes to the Financial Statements for the year ended 31 December 2017 prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union
(All amount are in Euros unless stated otherwise)

18 Revenues

Revenues include the following:

Revenues from electricity transmission and electricity transit:

	2017	2016
Access to transmission grid	139 177 050	136 620 333
Covering losses	11 436 071	12 992 114
System operation	26 550	88 455
System services	158 725 526	159 465 649
Auctions	22 755 102	19 995 755
Deviations and regulation energy	11 549 290	11 194 926
CBT mechanism	6 935 175	6 292 288
Profil OT	21 269 305	6 848 452
Spipping	39 582 932	4 769 828
Other regulated revenues (mainly shipping and daily market)	856 665	1 403 929
Total revenue from electricity transmission and transit	412 313 666	359 671 729
Rental	791 209	870 192
Telecommunications services	260 568	268 069
Other revenues	42 688	19 982
Other revenues	1 094 465	1 158 243
Total revenue	413 408 131	360 829 972

The revenue from the Company's core activities mainly results from the regulatory framework and the URSO decisions that issued by this institution for the relevant year.

Revenues from rental comprise income from the rental of non-residential premises, rental of electric masts for various types of transmitters and antennas and rental of power lines. Revenues for telecommunications services include the rental of fiber optic and services of the management information system.

Since 11 September 2012 the Company is acting as a shipping agent in connecting Czech, Slovak and Hungarian electricity market. On 19 November 2014 was operated trilateral Market Coupling between the Czech Republic, the Slovak Republic and Hungary extended by Romania to the quadrilateral Market Coupling (ie. 4MMC), which integrates related daily electricity markets through an implicit allocation of cross-border capacity between the Czech, Slovak, Hungarian and Romanian markets. The Company recognizes the revenues from these activities under line Sales from merchandise respectively Costs for merchandise sold. The net result is presented within line „Other regulated revenues“. In 2017 the Company realized transactions in total amount of EUR 342 319 763 and related costs were EUR 302 736 831 (31 December 2016: transactions in amount of EUR 203 068 697 and related costs were in the amount of EUR 198 298 869).

Notes to the Financial Statements for the year ended 31 December 2017 prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union
(All amount are in Euros unless stated otherwise)

19 Consumed materials and services

Consumed materials and services included the following:

	2017	2016
Material and energy consumption	14 608 582	12 308 938
Repair and maintenance	8 158 637	10 225 370
Travel expenses	528 772	385 753
Representation expenses	461 900	444 819
Rental	359 811	277 484
Communication services	227 365	236 653
Substations service	2 020 052	2 631 590
Protection and maintenance of area	3 087 945	2 677 816
Revisions, controls, security services	1 249 322	1 164 779
Technical advisory, technical support	23 395	56 666
Cleaning	260 807	238 387
Biological recultivation	153 806	144 543
Geodetic services	51 057	54 291
Experts examinations, analysis, experts opinion, certifications	2 493 137	2 319 093
Information technology services, advertisement	8 052 692	7 636 856
Expenses for ancillary services	147 846 144	147 731 685
Expenses for system operation	0	(374)
Expenses for deviations	5 876 675	6 350 743
Expenses for cross-border assistance	315 409	71 290
Expenses for auctions	8 357 131	2 526 003
Using profile OT	19 797 451	2 386 681
Expenses of CBT/ITC	0	2 066
Audit of Financial Statements provided by auditor	34 000	49 000
Advisory services	513 747	625 332
Tax advisory	40 425	32 924
Other services provided by auditor	0	0
Demolition	2 229 938	471 237
Other	663 176	710 953
Total	227 411 376	201 760 578

The Company's costs are created mainly from regulated costs for purchase of ancillary needed to provide system services, system operation costs, purchase of electricity for loss coverage and own consumption, costs for international transmission and auctions and other costs needed for transmission system operation and operation of the Company.

Together with the transmission operator in Czech Republic introduced the Company effective from 19 January 2012 a system against delivery of regulated energy in opposing directions through cross-border connections (further system GCC). Since 2013, the system operator involved the Hungarian transmission system, too. Relevant revenues and costs stem from volumes of electricity acquired within GCC system and fix tariffs for these regulated energy, which were set for the Company by URSO decision. The Company recognizes the revenues from these services under line Sales from merchandise and respective costs for merchandise sold. The net results are presented within line „Material and energy consumption“. In 2017 the Company realized income in total amount of EUR 1 713 300 and related costs were EUR 2 613 007 (31 December 2016: transactions in amount of EUR 1 826 321 and related costs in EUR 2 028 230).

Notes to the Financial Statements for the year ended 31 December 2017 prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union
(All amount are in Euros unless stated otherwise)

20 Personnel costs

	2017	2016
Wages and salaries	18 430 581	16 625 316
Other personnel costs	2 008 077	1 854 260
Pension costs – defined contribution plans	6 728 831	5 536 162
Current service costs	532 000	624 000
Past service cost	(1 602 000)	0
Interest costs on pension and similar employee's benefits	142 000	160 000
Total	26 239 489	24 799 738

21 Other operating expenses

	2017	2016
Insurance costs	2 124 884	2 130 173
Loss from sale of fixed assets	0	159 863
Taxes and other fees	185 876	179 507
Gifts	419 085	1 547 525
Other operating expense	374 265	465 056
Total	3 104 110	4 482 124

22 Other operating income

	2017	2016
Gain from sale of material	8 192	20 084
Profit from sold fixed assets	218 337	
Release of deferred revenues from a grant from EBOR	2 477 970	3 000 587
Contractual penalties	1 832 465	1 940 650
Insurance	97 854	64 961
Release of deferred revenues - Košice	203 664	281 685
Release of deferred revenues E.ON	132 259	301 305
Other operating income	833 160	924 966
Total	5 803 901	6 534 238

23 Finance expense, net

	2017	2016
Interest income	96 270	178 600
Interest expense from borrowings	(810 247)	(939 887)
Foreign Exchange gains	4 470	7 042
Foreign Exchange losses	(2 099)	(1 229)
Dividends	45 715	27 591
Other financial expense	(12 733)	(14 243)
Net finance expense	(678 624)	(742 126)

Notes to the Financial Statements for the year ended 31 December 2017 prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union
(All amount are in Euros unless stated otherwise)

24 Income tax expense

Reconciliation from the theoretical to the reported income tax charge is presented in the following table:

	Year ended 31 December	
	2017	2016
Profit before tax	104 909 172	77 021 448
Theoretical income tax related to current period at 21% (2016: 22%)	22 030 926	16 944 719
- Other income not subject to tax (permanent)	(2 079 685)	(970 954)
- Non-deductible expenses (permanent)	591 037	489 562
- Increase of tax due to charges for regulated subjects	10 111 690	4 246 154
- Deferred tax from temporary differences to which no deferred tax has been accounted historically	0	0
- Additional income tax	574	0
Changes in deferred taxes to 1 January due to change in tax rate	0	(1 048 282)
	30 654 542	19 661 199
Income tax expense for the period		
The tax charge for the period comprises:		
- Deferred tax charge – expense/(income) (Note 16)	1 632 899	(2 064 024)
Deferred tax total	1 632 899	(2 064 024)
- Special levy for regulated subjects	10 111 690	4 246 154
- Additional income tax	574	0
- Current income tax expense	18 909 379	17 479 069
Income tax total	29 021 643	21 725 223
Total income tax expense for the period	30 654 542	19 661 199
Effective tax rate	29.22%	25.53%

Deferred tax is provided, using the balance sheet liability method, on temporary differences using the basic tax rate of 21 % (31 December 2016: 21 %). This tax rate has been increased as at 31 December 2017 for additional 8.7 % for temporary differences in fixed assets because of special levy for regulated industry paid according to Act Nr. 235/2012 Coll. (31 December 2016: 8.7 %). This levy increased the tax rate for temporary differences, which will offset by the end of 2018 related to fixed assets only, as the value of the levy is calculated from profit before tax calculated according to the Slovak Act on Accounting, not taking into consideration temporary differences.

25 Contingencies

(a) Taxation

Many areas of Slovak tax law (such as transfer-pricing regulations) have not been sufficiently tested in practice, so there is some uncertainty as how the tax authorities would apply them. The extent of this uncertainty cannot be quantified. It will be reduced only if legal precedents or official interpretations are

Notes to the Financial Statements for the year ended 31 December 2017 prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union
(All amount are in Euros unless stated otherwise)

available. The Company's management is not aware of any circumstances that may give rise to future material expense in this respect.

(b) Regulation and liberalization in energy industry

Regulatory framework for the electricity market in the Slovak Republic

Based on the current legislation, the electricity market in the Slovak Republic is liberalized and allows free selection of electricity supplier for all customers.

Activities of the Company are subject to regulation by URSO.

26 Commitments

(a) Future investment commitments

The Company has contractual obligations under the contracts for the purchase of non-current assets entered into before 31 December 2017, the performance of which is scheduled only after 31 December 2017. The total obligation under the contracts amount to EUR 82 492 545 (2016: EUR 28 872 882). Capital commitments represent mainly the construction of transformation RIS SED, performance of the relocation of distribution equipment and engineering and project activities related to lines.

The Company approved its capital expenditure budget for 2018 in the amount of EUR 127 009 612 (the 2017 capital expenditure budget: EUR 92 256 628). Capital expenditures are mainly related to Križovany - Bystričany 2x400 kV transmission line, to Horná Ždaňa 2x400 kV transmission line– locality Oslany, to Bystričany 400 kV substation, to remote control in substations, business systems and ICT systems.

It is expected that both internal and external funds will be used to finance these capital expenditures.

(b) Future operating lease commitments – Company as lessee

The Company has the following future minimum lease instalments in relation to the above operating lease contracts:

	31 December 2017	31 December 2016
Due within 1 year	260 373	1 134
Due in 2 to 5 years(inclusive)	695 657	4 536
Due after 5 years	5 923	7 057
Total	961 953	12 727

The Company has also entered into an operating lease for an unlimited period of time with a possibility of termination with a 3-month termination period. The annual lease payments amount to EUR 263 816 (31 December 2016: EUR 299 392). The main items include the lease of telecommunications routes.

c) Future operating lease commitments – Company as lessee

The Company leases out mainly transformation and optic fibre cables.

The following minimum lease instalments relate to the operating lease contracts:

	31 December 2017	31 December 2016
Due within 1 year	277 038	280 319
Due in 2 to 5 years (inclusive)	1 036 355	1 064 959
Due after 5 years	2 316 258	2 573 620
Total	3 629 651	3 918 898

Notes to the Financial Statements for the year ended 31 December 2017 prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union
(All amount are in Euros unless stated otherwise)

The Company has also entered into an operating lease for an unlimited period of time for which the annual lease payments amount to EUR 436 871 (31 December 2016: EUR 632 488).

The Company leases 2x110kV power lines ESt Lemešany - ES SS Košice from supporting point in Bukovec to supporting point in Lemešany in length of 18,678 km. Lease expires in 50 years, rent is calculated every year according to capital, investment and operating costs. Annual rent for 2017 as at 31 December 2017 amounts to EUR 288 516 (31 December 2016, for year 2017: EUR 289 825). The basic component of the rent will be paid to lessor for the time of 20 years and operating component of the rent will be paid to lessor for the time of 50 years. The minimal lease instalments include the basic component of the rent in amount of EUR 255 404 annually (31 December 2016: EUR 257 362).

27 Cash generated from operations

	Note	2017	2016
Profit before income tax		104 909 172	77 021 448
Adjustments for:			
Depreciation	5	55 215 889	57 034 933
Amortization	6	2 251 704	2 316 186
Impairment charge for non-current assets	5	(2 779)	(191 877)
Changes in provisions for receivables	10	0	0
(Gain) / loss on disposal of assets	21, 22	(218 337)	159 863
Dividend income		(45 715)	(27 591)
Interest income/expense, net	23	713 977	761 287
Net movements in provisions	17	(1 266 600)	274 311
Changes in working capital:			
Inventories (gross)		326 982	(10 878)
Trade and other receivables		(6 429 686)	262 103
Trade and other payables, deferred revenues		6 393 840	629 675
Cash generated from operations		161 848 447	138 229 460

In the cash flow statement, proceeds from sale of assets are as follows:

	Note	Year ended 2017	31 December 2016
Net book value		302 434	279 993
Profit/(loss) from sale of tangible fixed assets	21,22	218 337	(159 863)
Proceeds from disposal of tangible fixed assets		520 771	120 130

28 Related party transactions

Parties related to the Company include its sole shareholder, the subsidiary OKTE, a.s., the company Joint Allocation Office, S. A. and key management personnel of the Company or the shareholder.

The National Property Fund (FNM), an entity fully owned by the Slovak Republic as the sole shareholder of the Company till 1 October 2012. Since 2 October 2012 the sole shareholder is the Ministry of Finance of Slovak Republic.

Transactions with entities that are owned or controlled directly or indirectly by the State are realized in accordance with the prevailing regulatory principles.

Ministry of Economy of Slovak Republic, is the 51 % shareholder of Západoslovenská energetika, a. s., Východoslovenská energetika Holding, a. s. and Stredoslovenská energetika, a. s..

Notes to the Financial Statements for the year ended 31 December 2017 prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union
(All amount are in Euros unless stated otherwise)

Západoslovenská distribučná, a.s., Západoslovenská energetika – Energia, a. s., Východoslovenská energetika, a. s., Východoslovenská energetika – Distribúcia, a. s. and Stredoslovenská energetika – Distribúcia, a. s. are 100% subsidiaries of these companies.

As at 31 December 2017, the outstanding balances with the subsidiary were as follows:

	Gross amount of trade receivables	Other receivables	Value adjustment to trade receivables	Trade and other payables
OKTE, a. s.	14 774 258	0	0	(3 311 440)

As at 31 December 2017, the outstanding balances with joint venture were as follows:

	Gross amount of trade receivables	Other receivables	Value adjustment to trade receivables	Trade and other payables
Joint Allocation Office, S. A. Luxemburg	122 431	0	0	(1 499 045)

As at 31 December 2017, the outstanding balances with the state-controlled entities and government bodies (other related parties) for the year ended 31 December 2017 were as follows:

	Gross amount of trade receivables	Other receivable s	Value adjustment to trade receivables	Trade and other payables
Slovenské elektrárne, a.s.	385 134	1 747	0	(5 054 770)
Západoslovenská energetika, a.s.	0	0	0	0
Západoslovenská distribučná, a. s.	2 830 799	0	0	(195 603)
Západoslovenská energetika – Energia, a.s.	0	0	0	0
Východoslovenská energetika Holding, a.s.	0	0	0	0
Východoslovenská distribučná, a. s.	1 251 513	0	0	(24 231)
Východoslovenská energetika, a. s.	75	0	0	0
Stredoslovenská energetika, a.s.	0	0	0	(5 423 575)
Stredoslovenská energetika – Distribúcia, a.s.	1 892 182	0	0	(57 146)
Tepláreň Košice, a. s.	1 197	0	0	(637 112)
Žilinská teplárenská, a. s.	0	0	0	(108 555)
Martinská teplárenská, a. s.	1 055	0	0	(197 645)
Zvolenská teplárenská, a. s.	1	0	0	(300 267)
Slovenské elektrárne Predaj, s. r. o.	0	0	0	0
Vodohospodárska výstavba, a. s.	77 831	0	0	(593 083)
Bratislavská teplárenská, a. s.	153	0	0	(35 238)
Slovenský plynárenský priemysel, a. s.	0	0	0	(2 931)

Notes to the Financial Statements for the year ended 31 December 2017 prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union
(All amount are in Euros unless stated otherwise)

The income and expense items with the subsidiary, joint venture, state-controlled entities and government bodies for the year ended 31 December 2017 were as follows:

	Sale of services	Purchase of services
OKTE, a. s.	199 748 187	(12 542 157)
Joint Allocation Office, S. A.	22 463 503	(8 303 162)
Slovenské elektrárne, a.s.	7 132 637	(76 493 907)
Západoslovenská energetika, a.s.	0	0
Západoslovenská distribučná, a.s.	57 419 805	(349 753)
Západoslovenská energetika – Energia, a. s.	0	0
Východoslovenská energetika Holding, a. s.	1 510	(25 557)
Východoslovenská distribučná, a. s.	26 322 377	(217 040)
Stredoslovenská energetika, a. s.	0	(5 807 036)
Stredoslovenská energetika – Distribúcia, a. s.	37 767 994	(434 865)
Tepláreň Košice, a. s.	0	(3 690 774)
Žilinská teplárenská, a. s.	0	(540 395)
Martinská teplárenská, a. s.	0	(1 043 305)
Zvolenská teplárenská, a. s.	0	(1 607 912)
Východoslovenská energetika, a. s.	0	(697)
Slovenské elektrárne Predaj, s. r. o.	0	0
Vodohospodárska výstavba, a. s.	1 553 925	(5 912 496)
Bratislavská teplárenská, a. s.	0	(120 597)
Slovenský plynárenský priemysel, a. s.	0	(27 102)

As at 31 December 2016, the outstanding balances with the subsidiary were as follows:

	Gross amount of trade receivables	Other receivables	Value adjustment to trade receivables	Trade and other payables
OKTE, a. s.	7 332 600	0	0	(5 031 779)

As at 31 December 2016, the outstanding balances with the subsidiary were as follows:

	Gross amount of trade receivables	Other receivables	Value adjustment to trade receivables	Trade and other payables
Joint Allocation Office, S. A. Luxemburg	42 264	0	0	(952 680)

As at 31 December 2016, the outstanding balances with state-controlled entities and government bodies (other related parties) were as follows:

	Gross amount of trade receivables	Other receivables	Value adjustment to trade receivables	Trade and other payables
Slovenské elektrárne, a. s.	53 471	584	0	(3 457 416)
Západoslovenská energetika, a. s.	0	0	0	0
Západoslovenská distribučná, a.s.	2 880 859	0	0	(158 003)
Západoslovenská energetika – Energia, a.s.	0	0	0	0
Východoslovenská energetika Holding, a.s.	259	0	0	(4 381)
Východoslovenská distribučná, a. s.	1 420 789	0	0	(64 736)
Východoslovenská energetika, a. s.	0	0	0	(154)

Notes to the Financial Statements for the year ended 31 December 2017 prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union
(All amount are in Euros unless stated otherwise)

	Gross amount of trade receivables	Other receivable s	Value adjustment to trade receivables	Trade and other payables
Stredoslovenská energetika, a. s.	0	0	0	(3 350 632)
Stredoslovenská energetika – Distribúcia, a. s.	1 628 531	0	0	(81 177)
Tepláreň Košice, a. s.	3 020	0	0	(602 519)
Žilinská teplárenská, a. s.	872	0	0	(81 703)
Martinská teplárenská, a. s.	343	0	0	(181 754)
Zvolenská teplárenská, a. s.	0	0	0	(285 755)
Slovenské elektrárne Predaj, s. r. o.	0	0	0	0
Vodohospodárska výstavba, a. s.	532	0	0	(677 251)
Bratislavská teplárenská, a. s.	1 264	0	0	(32 988)
Slovenský plynárenský priemysel, a. s.	0	0	0	(1 439)

The income and expense items with the subsidiary, joint venture, state-controlled entities and government bodies for the year ended 31 December 2016 were as follows:

	Sale of services	Purchase of services
OKTE, a. s.	171 864 971	(7 126 287)
Joint Allocation Office, S. A.	19 840 098	(2 432 859)
Slovenské elektrárne, a. s.	6 975 460	(72 596 809)
Západoslovenská energetika, a. s.	0	0
Západoslovenská distribučná, a. s.	58 155 755	(337 657)
Západoslovenská energetika – Energia, a. s.	0	0
Východoslovenská energetika Holding, a. s.	2 589	(43 812)
Východoslovenská distribučná, a. s.	27 229 158	(279 321)
Stredoslovenská energetika, a. s.	0	(1 043 657)
Stredoslovenská energetika – Distribúcia, a. s.	34 702 444	(314 503)
Tepláreň Košice, a. s.	0	(3 906 327)
Žilinská teplárenská, a. s.	0	(484 071)
Martinská teplárenská, a. s.	0	(1 127 677)
Zvolenská teplárenská, a. s.	1 500	(1 870 176)
Východoslovenská energetika, a. s.	0	(785)
Slovenské elektrárne Predaj, s. r. o.	0	0
Vodohospodárska výstavba, a. s.	1 570 991	(6 847 781)
Bratislavská teplárenská, a. s.	0	(133 501)
Slovenský plynárenský priemysel, a. s.	0	(26 016)

Key management personnel compensation

Salaries and bonuses paid to the Company's management, directors and other members of top management for the year ended 31 December 2017 and 31 December 2016, are as follows:


	Year ended 31 December 2017	Year ended 31 December 2016
Salaries and short term employee benefits	2 430 501	1 420 174
Total	2 430 501	1 420 174

Notes to the Financial Statements for the year ended 31 December 2017 prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union
(All amount are in Euros unless stated otherwise)

29 Events after the reporting period

No events with a material impact on the true and fair presentation of facts subject to the accounting occurred after 31 December 2017.


The Financial Statements for the year ended 31 December 2017 prepared in accordance with International Financial Reporting Standards as adopted by the European Union were prepared and authorized for issue on 15 February 2018.



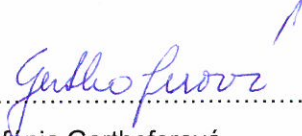
.....
Ing. Miroslav Obert
Chairman of the Board of Directors



.....
Ing. Martin Malaník
Member of the Board of Directors



.....
Ing. Ján Oráč
Person responsible for preparation of the Financial
Statements



.....
Štefania Gerthoferová
Person responsible for bookkeeping