

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

**on the financial statements prepared
as of December 31, 2016**

**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, 2016, 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 2016, 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 2016 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 17th, 2017

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 2016 prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union
(All amounts are in Euros unless stated otherwise)

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	Note	As at 31 December 2016	2015
ASSETS			
Non-current assets			
Property, plant and equipment	5	809 324 086	786 581 467
Intangible assets	6	11 043 439	10 041 854
Other investment	7	4 847 815	4 847 815
Receivables	10	662 589	0
		825 877 929	801 471 136
Current assets			
Inventories	9	1 167 675	1 156 797
Trade and other receivables	10	24 639 345	25 562 030
Cash and cash equivalents	11	45 014 938	74 091 016
Current income tax receivable		6 114 734	0
		76 936 692	100 809 843
Total assets		902 814 621	902 280 979
EQUITY			
Share capital and reserves			
Share capital	12	105 000 000	105 000 000
Legal reserve fund	12	21 000 000	16 366 275
Other reserves	12	160 150 795	145 150 795
Revaluation of financial investment		109 020	107 640
Actuarial gains/loss		(443 190)	(735 540)
Revaluation reserve	12	124 367 346	127 642 852
Retained earnings		210 882 238	206 131 635
Total equity		621 066 209	599 663 657
LIABILITIES			
Non-current liabilities			
Non-current bank loans and finance lease liabilities	14	55 786 111	67 530 556
Non-current portion of grants and other deferred revenues	15	81 389 177	86 784 698
Deferred tax liability	16	57 252 307	55 617 468
Non-current provisions for liabilities and charges	17	9 422 325	9 146 325
		203 849 920	219 079 047
Current liabilities			
Current bank loans and finance lease liabilities	14	13 569 444	7 469 444
Trade and other payables	13	50 366 463	58 335 043
Current portion of grants and other deferred revenue	15	13 897 742	16 071 620
Provisions for current liabilities and charges	17	64 843	66 532
Current income tax payable		0	1 595 636
		77 898 492	83 538 275
Total liabilities		281 748 412	302 617 322
Total equity and liabilities		902 814 621	902 280 979

The Financial Statements for the year ended 31 December 2016 prepared in accordance with International Financial Reporting Standards as adopted by the European Union were prepared and authorized for issue on 17 February 2017 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 Comprehension Income as at 31 December 2016 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	2016	2015
Revenues	18	360 829 972	394 231 705
Capitalized costs		601 046	794 027
Consumables and services	19	(201 760 578)	(211 873 818)
Personnel costs	20	(24 799 738)	(23 790 246)
Depreciation and amortization	5,6	(59 351 119)	(61 648 140)
Release of impairment from revaluation	5	166 092	0
Impairment of fixed assets	5	25 785	(32 963)
Other operating income	22	6 534 238	5 753 304
Other operating expense	21	(4 482 124)	(3 530 811)
Operating profit		77 763 574	99 903 058
Interest income	23	178 600	248 019
Interest expense	23	(939 887)	(812 498)
Other finance income/(expense)	23	19 161	18 284
Finance cost, net		(742 126)	(546 195)
Profit before tax		77 021 448	99 356 863
Income tax expense	24	(19 661 199)	(26 372 519)
Profit for the year		57 360 249	72 984 344
Other comprehensive income			
Items that will not be reclassified:			
Retirement benefit – actuarial gains/loss		292 350	(735 540)
Revaluation of financial investment		1 380	107 640
Revaluation of property, plant and equipment fund		20 709 785	0
Deferred tax from revaluation of property, plant and equipment		(3 610 593)	56 567
Total comprehensive income		74 753 171	72 413 011
Profit attributable to:			
Owners of the parent		57 360 249	72 984 344
Non-controlling interest		0	0
Profit for the year		57 360 249	72 984 344
Total comprehensive income attributable to:			
Owners of the parent		74 753 171	72 413 011
Non-controlling interest		0	0
Total comprehensive income for the period		74 753 171	72 413 011

Statement of Changes in Equity as at 31 December 2015 prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union
(All amounts are in Euros unless stated otherwise)

	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 2015	81 832 584	16 366 275	145 150 795	0	0	148 892 352	177 975 624	570 217 630
Net profit for the year 2015	0	0	0	0	0	0	72 984 344	72 984 344
Other comprehensive income	0	0	0	107 640	(735 540)	(21 249 500)	21 306 067	(571 333)
Total comprehensive income for the year 2015	0	0	0	107 640	(735 540)	(21 249 500)	94 290 411	72 413 011
Dividends paid (Note 12)	0	0	0	0	0	0	(66 134 400)	(66 134 400)
Decrease of share capital	(81 832 584)	0	0	0	0	0	0	(81 832 584)
Increase of share capital	105 000 000	0	0	0	0	0	0	105 000 000
Profit appropriation to Statutory Fund (Note 12)	0	0	0	0	0	0	0	0
Balance as at 31 December 2015	105 000 000	16 366 275	145 150 795	107 640	(735 540)	127 642 852	206 131 635	599 663 657
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 (Note 12)	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

The notes 6 to 59 form an integral part on these Financial Statements.

	Note	Year ended 31 December	
		2016	2015
Cash flows from operating activities			
Cash generated from operations	27	138 229 460	171 587 381
Income tax paid		(29 435 593)	(23 138 271)
Interest received		176 593	231 909
Net cash generated from operating activities		108 970 460	148 681 019
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(78 390 929)	(108 876 881)
Proceeds from the sale of property, plant and equipment and intangible assets	27	120 129	261 060
Net cash used in investing activities		(78 270 800)	(108 615 821)
Cash flows from financing activities			
Proceeds / (repayment) of loans		(5 644 445)	21 494 852
Interest paid		(808 265)	(800 670)
Income from subscribed shares and participations		0	23 167 416
Dividends received	23	27 591	84 123
Dividends paid	12	(53 350 619)	(66 134 400)
Net cash used in financing activities		(59 775 738)	(22 188 679)
Net increase / (decrease) in cash and cash equivalents		(29 076 078)	17 876 519
Cash and cash equivalents at the beginning of the year	11	74 091 016	56 214 497
Cash and cash equivalents at the end of the year	11	45 014 938	74 091 016

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 2016 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 2016 were as follows:

Body	Function	Name
Board of Directors	Chairman	Ing. Miroslav Stejskal till 31 December 2016
	Vice-Chairman	Ing. Michal Pokorný till 31 December 2016
	Member	Ing. Martin Malaník till 31 December 2016
	Member	Ing. Alexander Kšíňan till 31 December 2016
	Member	doc. Ing. Miroslav Rapšík, CSc. till 31 December 2016
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. Peter Matejíček
	Vice-Chairman	Ing. Pavol Fandl
	Vice-Chairman	Michal Sokoli from 3 March 2016
	Vice-Chairman	Ing. Ján Oráč till 19 February 2016
	Member	Michal Sokoli till 2 March 2016
	Member	Ing. Marián Mihalda
	Member	Ing. Vladimír Beňo from 20 February 2016
	Member	Ing. Dušan Chvíľa from 20 February 2016
	Member	Milan Duchoň till 19 February 2016
	Member	Ing. Roman Masár
	Member	Ing. Rastislav Januščák
	Member	Ing. Ján Horváth
	Member	Prof. Ing. František Janíček, PhD.
	Member	Ing. Július Laššán
	Member	Ing. Jaroslav Mikla
Executive management	General Director	Ing. Miroslav Stejskal till 9 January 2017
	Managing Director of Operating	Ing. Alexander Kšíňan 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
	General Director	Ing. Miroslav Obert from 10 January 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

The Company employed 509 personnel on average during 2016 (2015: 514), 5 of which were management (2015: 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 2016 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 2016 to 31 December 2016.

The Accounting Act requires the Company to prepare Financial Statements for the year ended 31 December 2016 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 2016.

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 entities 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 29 April 2016.

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 59/A, 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 2016.

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

financial statements.

(a) Amendments to IFRS 11 – Accounting for acquisitions of interests in joint operations

Amendments add new guidance on the how to account for the acquisition of an interest in a joint operation that constitutes a business. Amendments issued on 6 May 2014 and effective for period beginning on or after 1 January 2016.

(b) Amendments to IAS 16 and IAS 38 – Clarification of acceptable methods of depreciation and amortisation

Amendments clarify that the use of revenue based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. Amendments issued on 12 May 2014 and effective for period beginning on or after 1 January 2016.

(c) Amendments to IAS 16 and IAS 41 – Agriculture: Bearer plants

Amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms, which should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, instead of IAS 41. Amendments issued on 30 June 2014 and effective for period beginning on 1 January 2016.

(d) Amendments to IAS 27 - Equity method in separate financial statements

These amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Amendments issued on 12 August 2014 and effective for period beginning on or after 1 January 2016.

(e) Improvements to IFRS 2014:

- IFRS 5 clarifies the change in methods of assets disposals. Reclassification from "held for sale" to "held for distribution", or vice versa, this does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such.
- IFRS 7 regulates whether servicing contract is continuing involvement in a transferred asset and the offsetting disclosures is required in interim financial statements if IAS 34 does not require otherwise
- IAS 19 clarifies that, when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important, and not the country where they arise. The assessment of whether there is a deep market in high-quality corporate bonds is based on corporate bonds in that currency, not corporate bonds in a particular country.
- IAS 34 requires a crossreference from interim financial reporting to information "elsewhere in the interim financial report"

Amendments issued on 25 September 2014 and effective for period beginning on or after 1 January 2016.

(f) Amendments to IFRS 10, IFRS 12 and IAS 28 - Investment entities

Amendments clarify the possibility of applying the consolidation exception. Amendments issued in December 2014 and effective for period beginning on or after 1 January 2016.

(g) Amendments to IAS 1 - Presentation of Financial Statements

Amendments clarify approaches to presentation financial statements. Amendments issued in December 2014 and effective for period beginning on or after 1 January 2016.

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 carries 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 (2015: between 25 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:

	2016	2015
Buildings, halls, networks and constructions	10 – 60 years	25 – 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 an 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 2016.

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 provisions 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, based on the number of years in service, to pay its employees on retirement or disability the following multiples of their average monthly salary:

Number of year in service

0 – 2	7
3 – 9	9
10 – 14	10
15 – 19	11
Over 20	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 (2015: 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.

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.

Throughout the year, the Company made contributions amounting to 35.2% (2015: 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% (2015: 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 to 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:

(a) IFRS 9 – Financial Instruments: Classification and measurement

Key features of standard are:

Financial assets are required to be classified into two categories for measurement purposes:

- assets that will be subsequently measured at fair value,
- assets that will be subsequently evaluated at amortised cost using the effective value of the interest rate.

The classification has to be made at the time of acquisition and initial recognition of financial asset and depends on the entity's business model for managing its financial instruments and on the contractual cash flow nature of the financial instrument.

Financial assets is measured at amortised cost using the effective interest rate value; in case of debt instrument and the entity's business model aims to hold the asset for collecting the contractual cash flows and these contractual cash flows from the assets represent only the principal and interest payments (i.e. financial instrument has only "basic loan features"). All other debt instruments should

be measured at their fair value, where the change can be recognized in profit and loss statement (P&L).

All shares and ownership interest will be measured at their fair value. Shares and ownership interest for trading will be measured at their fair value, where the change can be recognized in P&L. At the time of initial recognition for all other shares and ownership interests the entity can decide irrevocably that all realized and unrealized gains or losses from revaluation can be recognized in other comprehensive income (OCI) and not as a part of P&L. Fair value reclassification in P&L will not be possible. This decision will be done separately for each acquired investment within the meaning of shares and ownership interests. Dividends should be reported in profits or losses only in case of representing investment income

Most of the requirements of IAS 39 for the classification and recognition of financial liabilities were transferred to IFRS 9. The main change is the entity's obligation to recognize effects of changes in its own financial liabilities credit risk at its fair value, where the change can be recognized in profits and losses in other comprehensive income.

The requirements for hedge accounting method has been modified to provide a better link with risk management. The standard provides entities the choice between applying IFRS 9 and continuing in implementation of IAS 39 to all hedging relationships.

This standard was issued in July 2014 and will be effective for period beginning on or after 1 January 2018.

(b) IFRS 15 – Revenue from contracts with customers

The standard establishes a single comprehensive model of accounting for revenue from contracts with customers. From the effective date this standard replaces the following standards and interpretations for recognition of revenues:

- IAS 18 Revenue
- IAS 11 Construction contracts
- IFRIC 13 Customer Loyalty Programmes
- IFRIC 15 Agreements for the Construction of Real Estate
- IFRIC 18 Transfers of Assets from Customers
- SIC 31 Revenue - Barter Transactions Involving Advertising Services

Standard introduced principle that revenues should recognised at their transaction price at the time, when goods or services are transfer to customer. Any bounded goods or services, that are distinguished must be accounted separately and sale price discounts or rebates must be allocated to each items. If the price is for any reason variable the minimum value at which it is highly probable that will not be reversed must be accounted. The customer contract acquisition costs must be capitalized and amortized over the period when the economic benefits from the customer contract result directly to company.

This standard for recognition revenues establishes framework for recognition and measurement of revenue consisting of five steps:

- Step 1.: Identify the contract(s) with a customer
- Step 2.: Identify the performance obligations in the contract
- Step 3.: Determine the transaction price
- Step 4.: Allocate the transaction price to the performance obligations in the contract
- Step 5.: Recognise revenue when (or as) the entity satisfies a performance obligation.

The new standard for revenue recognition further defines:

- Whether the contract, or a combination of contracts includes more than one supply of goods or services. If so, when and how the goods and services should be separated.
- Whether the transaction value assigned to each liability to be fulfilled should be reported as income continuously or as one-time income. According to IFRS 15, the income is reported when the liability is fulfilled, which is the moment when the "control" of the goods or service is transferred to the customer.

- If the transaction price includes variable performance, how this variable performance affects the value and time of recognition of income. The transaction price is deemed to be variable if it contains discounts, rebates, refunds, credits, price reductions, performance bonuses, incentives, penalties or conditional agreements. Income from transaction with variable performance is recognized only to the extent in which it is highly probable that the reported cumulative income will not change significantly when the uncertainty associated with the variable performance is subsequently eliminated.
- Costs incurred in relation to obtaining the contract and its performance may be reported as assets.

The standard also requires extensive disclosures.

This standard was issued on 28 May 2014 and will be effective for period beginning on or after 1 January 2018.

As at the date of issuance of these financial statements, the following standards and interpretations were issued, but not effective; the Company assessed their impact on the financial statements

(a) IFRS 14 – Regulatory deferral accounts

Standard permits to entities which adopt IFRS standards for first-time to continue to recognised regulatory deferral account balances in accordance with its previous GAAP. To increase compatibility with entities that follow IFRS and did not report such balances the standard requires to present the impact of rate-regulation separately from other items. This standard can not be applied in an entity which financial statements has been already prepared according to IFRS. This standard was issued in January 2014 and will be effective for period beginning on or after 1 January 2016. On 30 October 2015, the European Commission decided not to seek approval of IFRS 14, since it would be applicable to very few European companies only. The Commission will consider the approval of the standard in the future.

(b) IFRS 16 – Leases

This standard replaces:

- IAS 17 Leases
- IFRIC 4 Determining whether an Arrangement contains a Lease
- SIC 15 Operating Leases - Incentives
- SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease

IFRS 16 will have an impact on accounting for leases mainly on the lessees. Earlier application is permitted if IFRS 15 Revenue from Contracts with Customers has also been applied.

According to IAS 17 lessee must be a distinction between finance leases and operating leases. IFRS 16 now requires the lessee to practice at all leasing contracts showed liability from the lease, which represents the future lease payments and asset representing the right to use. IASB to incorporate standard and optional exemption for certain short-term leases and leases the asset for a low value. This exception may be applied only lessees.

Accounting for lessors is unchanged. According to IFRS 16 a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Standard issued on 13 January 2016 and effective for period beginning on or after 1 January 2019.

(c) Amendments to IFRS 2 –Clarifications of classification and measurement of share based payment transactions

Amendments clarify that the estimate of the fair value of a cash-settled share-based payments should be carried out similarly to equity-settled share-based payments. Amendments are effective for annual periods beginning on or after 1 January 2018.

(d) Amendments to IFRS 4 – Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'

The amendments are intended to address concerns about the different effective dates of IFRS 9 and the forthcoming new insurance contracts standard IFRS 17. Modifications introduced two options for entities that issue insurance contracts:

- an option that permits entities to reclassify some of the income or expenses arising from designated financial assets
- an optional temporary exemption from applying IFRS 9 for entities that are issuing contracts within the scope of IFRS 4

The reclassification approach shall be applied upon the first application of IFRS 9. The second option is applicable for annual reporting periods beginning on 1 January 2018 or later.

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

Amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. Amendments issued on 11 September 2014 has not yet determined the effective date.

(f) Amendments to IFRS 15 – Clarifications to IFRS 15

It provides examples useful when considering whether certain goods or services are distinguishable. It provides guidance for assessing continuous or one-time recognition of revenue.

Amendments to IFRS 15 and its clarifications issued in April 2016 and are effective for annual reporting periods beginning on or after 1 January 2018.

(g) 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.

(h) Amendments to IAS 12 - Income Taxes

The objective of this project 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.

(i) Amendments to IAS 40 – Transfer of Investment Property

Amendments clarify whether a property under construction or development that was previously classified as inventory could be transferred to investment property when there was an evident change in use. Amendments are effective for annual reporting periods beginning on or after 1 January 2018.

(j) Improvements to IFRS – cycle 2014 – 2016:

- IFRS 1 deleted the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose

- IFRS 12 clarified the scope of the standard by specifying that the disclosure requirements apply to an entity's interests that are classified as held for sale in accordance with IFRS 5
- IAS 28 clarified that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition

Amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018, amendments to IFRS 12 for annual periods beginning on or after 1 January 2017.

(k) IFRIC 22 – Foreign Currency Transactions and Advance Consideration

The interpretation focuses on transactions in foreign currencies or on parts of the transactions, if:

- There is a consideration expressed in a foreign currency
- Advance payment as an asset or liability in the form of deferred income is recognized before the recognition of the related asset, cost or income
- Advance payment or liability in the form of deferred income is in non-cash form

The Interpretation is effective for annual periods beginning on or after 1 January 2018.

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 2016	31 December 2015	31 December 2016	31 December 2015
CZK/CHF and other	0	(32 826)	573	396

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 2016, a 10 % strengthening/weakening, in the EUR against CZK and CHF would result in an increase/decrease in the Company's profit by EUR 52. 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 2016 is the last year of regulatory period 2012 – 2016. During the whole 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 2016 to 31 December 2016 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 base 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 at the reporting date:

Counterparty	Internal Rating ²	Balance as at 31 December	
		2016	2015
Banks ¹			
Všeobecná úverová banka, a.s.	A3	9 414 068	10 462 687
Tatra banka, a.s.	A3	9 777 740	23 797 872
Československá obchodná banka, a.s.	Baa3	5 649 285	3 585
Slovenská sporiteľňa, a.s.	A	5 058 654	15 765 455
J & T Banka, a. s.	-	3 000 000	14 000 000
Poštová banka, a. s.	-	12 027 212	10 000 992
Sberbank, a. s.	BBB-	0	6 312
Other	n/a	87 979	54 113
Total		45 014 938	74 091 016

¹ The amount of cash and short-term deposits at banks as at 31 December 2016 amounts to EUR 45 014 938 (31 December 2015: EUR 74 091 016). Furthermore, the Company has agreed with those banks on credit lines on current accounts totalling EUR 15 000 000 (31 December 2015: EUR 18 550 000), which were not utilized. The Company has bank borrowings as at 31 December 2016 of EUR 69 355 555 (31 December 2015: EUR 75 000 000), 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 and 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 2016				
Bank loans (principal incl. future interest charges)	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
At 31 December 2015				
Bank loans (principal incl. future interest charges)	7 469 444	11 744 445	35 233 333	20 552 778
Finance lease	0	0	0	0
Trade and other payables excluding liabilities not falling under IFRS 7	53 699 102	0	0	0
Total	61 168 546	11 744 445	35 233 333	20 552 778

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 2016 in value EUR 621 066 209 (31 December 2015: EUR 599 663 657).

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 2016	31 December 2015
Total equity and liabilities	902 814 621	902 280 979
Equity (Note 12)	621 066 209	599 663 657
Equity to Total equity and liabilities ratio	69%	66%

The Company's strategy was not changed against 2015, i.e. to maintain equity to total liabilities and equity ratio above 35%, which is compliant with externally imposed capital requirements. During 2016 and 2015, 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 2016 is the last year of regulatory period 2012 – 2016. During the whole 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.

	2016	2015
Buildings, halls, networks, constructions	10 – 60 years	25 – 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 2016, 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 2015						
Cost	14 004 554	577 129 582	294 406 602	14 143 885	59 349 787	959 034 410
Accumulated depreciation and impairment charges	0	(134 996 585)	(64 180 624)	(7 632 220)	0	(206 809 429)
Net book value	14 004 554	442 132 997	230 225 978	6 511 665	59 349 787	752 224 981
Year ended						
31 December 2015						
Opening net book value	14 004 554	442 132 997	230 225 978	6 511 665	59 349 787	752 224 981
Additions	0	0	0	0	93 750 388	93 750 388
Transfers	1 214 157	16 880 006	29 411 962	4 641 960	(52 148 085)	0
Disposals	(7 157)	(286 338)	(216 503)	(281 179)	0	(791 177)
Depreciation charge	0	(36 964 653)	(18 774 930)	(2 830 179)	0	(58 569 762)
Impairment charge	0	0	0	(32 963)	0	(32 963)
Closing net book value	15 211 554	421 762 012	240 646 507	8 009 304	100 952 090	786 581 467
At 31 December 2015 after revaluation						
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
At 31 December 2015 in historical costs						
Costs	7 802 414	481 170 848	448 847 592	27 130 352	100 780 374	1 065 731 580
Accumulated depreciation and impairment charges	0	(184 671 378)	(233 142 353)	(19 121 970)	0	(436 935 701)
Net book value	7 802 414	296 499 470	215 705 239	8 008 382	100 780 374	628 795 879
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
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**

Costs	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

** 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. 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 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).

This valuation is in accordance with International Valuation Standards. The Company recorded the updated revaluation on 1 January 2016.

As at 31 December 2016, the Company reassessed the impairment of property, plant and equipment in accordance with IAS 36 based on the assessment of their future use, disposal or sale. The Company concludes that all assets used within regulation activities associated with the transmission of electricity as a whole constitute one cash generating unit. Due to the increase in asset value resulting from the revaluation, the Company estimated discounted future cash flows based on currently effective regulation by URSO. Based on the impairment assessment, the Company concluded, that the property, plant and equipment used for electricity transmission activities is not impaired.

As at 31 December 2016, the most significant items within property, plant and equipment represent: substations and administrative buildings in revalued net book value of EUR 363 805 753, in historical net book value of EUR 321 701 037 (31 December 2015: revalued net book value of EUR 350 507 619, historical net book value of EUR 307 502 802); transmission lines at revalued net book value of EUR 280 326 441, in historical net book value of EUR 175 916 514 (31 December 2015: revalued net book value of EUR 289 730 572, in historical net book value of EUR 181 851 805).

Non-current assets under construction consists mainly of EUR 106 309 015 for substation and transmission lines in Gabčíkovo (31 December 2015: EUR 90 390 812), EUR 1 481 920 for remote

management of substation in ES Podunajské Biskupice (31 December 2015: EUR 1 103 191), EUR 3 787 589 for transformation 2x400 kV in Bystričany - Križovany (31 December 2015: EUR 3 221 587), EUR 987 978 for remote management of substation in ES Spišská Nová Ves (31 December 2015: EUR 1 012 169), EUR 1 188 086 for transformation 2x400 kV Bystričany – Horná Ždaňa (31 December 2015: EUR 760 273), EUR 427 426 for substation 400 kV Horná Ždaňa – extension (31 December 2015: EUR 410 009), EUR 698 518 for substation 400 kV Bystričany (31 December 2015: EUR 308 492), EUR 635 403 for TR 400/110 kV Bystričany – T401 (31 December 2015: EUR 13 622), EUR 479 345 for innovation system ASZD (31 December 2015: EUR 0), EUR 0 for operating building PS Východ (31 December 2015: EUR 1 532 700), EUR 0 for restoration TR 400/110 kV in Medzibrod (31 December 2015: EUR 2 819). These assets are not available for use at the reporting date.

In 2016, borrowing costs are capitalized in accordance with accounting policies of the Company, borrowing costs are capitalized and therefore the Company capitalized interest amounting EUR 0 (31 December 2015: EUR 27 585) as a part of the acquisition cost of non-current assets. The effective interest rate related to capitalization as at 31 December 2016 amounted 1.28% p.a. (31 December 2015: 1.306% 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 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	<u>21 968 843</u>	<u>2 071</u>	<u>21 970 914</u>
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	<u>21 100 045</u>	<u>1 082</u>	<u>21 101 127</u>
As at 31 December 2015			
Cost	26 808 580	15 502	26 824 082
Accumulated depreciation	(4 028 054)	(13 293)	(4 041 347)
Net book value as at 31 December 2015	<u>22 780 526</u>	<u>2 209</u>	<u>22 782 735</u>
As at 31 December 2015			
Historical acquisition cost	26 376 698	23 544	26 400 242
Accumulated depreciation historical	(4 582 247)	(22 389)	(4 604 636)
Historical net book value as at 31 December 2015	<u>21 794 451</u>	<u>1 155</u>	<u>21 795 606</u>

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 2016 and 2015	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 2016 and 2015	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 Poisťovňa, 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 Poisťovňa, 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 Poisťovňa, 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 Poisťovňa, 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 Poisťovňa, 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 Poisťovňa, 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 Poisťovňa, 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 Poisťovňa, a. s.)

6 Intangible assets

	Software and other intangible assets	Intangible assets not yet in use	Total
At 1 January 2015			
Cost	45 832 827	2 401 064	48 233 891
Accumulated amortisation and impairment charges	(38 537 471)	0	(38 537 471)
Net book value	7 295 356	2 401 064	9 696 420
Year ended 31 December 2015			
Opening net book amount	7 295 356	2 401 064	9 696 420
Additions	0	3 423 812	3 423 812
Transfers	3 242 821	(3 242 821)	0
Disposals	0	0	0
Amortisation charge	(3 078 378)	0	(3 078 378)
Closing net book value	7 459 799	2 582 055	10 041 854
At 31 December 2015			
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
Accumulated amortisation and impairment charges	(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

The computer software consists mainly of software SAP, SED MES2, Damas Energy and ISOM. Net book value of SAP is EUR 168 296 (31 December 2015: EUR 380 096), remaining amortization period is between 1 and 2 years. Net book value of Damas Energy is EUR 1 040 442 (31 December 2015: EUR 1 419 367), remaining amortization period is 1 to 3 years.

Intangible assets not yet in use include EUR 1 070 760 for upgrade and innovation RIS SED Žilina (31 December 2015: EUR 184 274), EUR 3 730 042 for innovation system ASZD (31 December 2015: EUR 2 315 131), EUR 0 for the tool for the simulation of dispatching management (31 December 2015: EUR 82 650).

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

	2016	2015
At the beginning of the year	4 847 815	4 709 815
Additions	0	138 000
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 2015 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 59/A, 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 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

As at 31 December 2015	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	21 034 799	21 034 799
Other receivables	0	235 852	235 852
Cash on bank accounts and cash in hand	0	74 091 016	74 091 016
Total	0	95 361 667	95 361 667

As at 31 December 2015	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	44 919 530	44 919 530
Received guarantees	0	7 950 991	7 950 991
Payables due to employees	0	873 052	873 052
Social security	0	531 621	531 621
Other payables	0	828 581	828 581
Bank loans	0	75 000 000	75 000 000
Total	0	130 103 775	130 103 775

9 Inventories

	As at 31 December	
	2016	2015
Materials and spare parts	1 167 675	1 156 797
	<u>1 167 675</u>	<u>1 156 797</u>

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

10 Trade and other receivables

	As at 31 December	
	2016	2015
Current receivables and prepayments:		
Neither past due nor impaired trade receivables	19 620 333	20 255 278
Past due but not impaired trade receivables	164	756 208
Individually impaired receivables	23 313	23 313
Trade receivables (before provision for impairment)	<u>19 643 810</u>	<u>21 034 799</u>
Less: Provision for impairment of receivables	(23 313)	(23 313)
Trade receivables – net	<u>19 620 497</u>	<u>21 011 486</u>
VAT – receivable	450 396	0
Grant claims	2 338 779	2 338 779
Prepayments	1 005 003	1 206 473
Other receivables	478 799	235 852
Prepaid expenses and accrued income	745 871	769 440
Other receivables – net	<u>5 018 848</u>	<u>4 550 544</u>
Total trade and other receivables	<u>24 639 345</u>	<u>25 562 030</u>

The claim for grant represents the TEN project for the realization of 2x400 kV transformation Veľký Ďur – Gabčíkovo.

Long term receivables include the long-term grant for the project V480/V481 Veľký Meder – State Border of SR and V446/V447 Rimavská Sobota – State Border of SR in the amount of EUR 662 589 thousand.

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

	As at 31 December	
	2016	2015
Receivables within due date	19 620 333	20 255 278
Overdue receivables	23 477	779 521
Total	<u>19 643 810</u>	<u>21 034 799</u>

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

	As at 31 December	
	2016	2015
OKTE	6 332 600	7 976 882
Slovenské elektrárne, a.s.	53 471	238 632
Západoslovenská energetika, a. s.	0	0
Západoslovenská distribučná, a. s.	2 880 859	2 973 376
Stredoslovenská energetika, a. s.	0	4 792
Stredoslovenská energetika Distribúcia, a. s.	1 628 531	1 828 893
Východoslovenská energetika Holding, a. s.	259	259
Východoslovenská distribučná, a. s.	1 420 789	1 426 204
ČEPS, a. s.	1 702 860	400 587
MAVIR	2 869 837	2 553 282
Others	2 731 127	2 852 371
Neither past due nor impaired trade receivables	19 620 333	20 255 278

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 2016 trade receivables of EUR 164 (31 December 2015: EUR 756 208) were past due but not impaired. Their ageing analysis is as follows:

	As at 31 December	
	2016	2015
1 to 90 days	164	756 208
91 to 180 days	0	0
Total past due but not impaired trade receivables	164	756 208

The closing balance of the Company's trade receivables includes receivables in the carrying amount of up to EUR 164 (2015: EUR 756 208), 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 2016, trade receivables of EUR 23 313 (2015: EUR 23 313) were individually impaired. As at 31 December 2016, the Company recorded an impairment provision of EUR 23 313 (2015: EUR 23 313).

The ageing of these receivables is as follows:

	As at 31 December	
	2016	2015
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:

	2016	2015
At the beginning of the year	23 313	12 770
Additional provision for receivables impairment	0	10 543
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	
	2016	2015
Cash at bank and in hand	15 590 622	30 501 547
Short-term bank deposits	29 424 316	43 589 469
	45 014 938	74 091 016

At 31 December 2016 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	
	2016	2015
Cash and bank balances and deposits with original maturities of less than three months:	45 014 938	74 091 016
	45 014 938	74 091 016

The carrying amounts of cash and cash equivalents as at 31 December 2016 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 2016, 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 2016.

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 2016 (as at 31 December 2015: EUR 16 366 275).

Other capital reserves comprise statutory fund of EUR 160 150 795 to finance capital expenditure activities (2015: EUR 145 150 795) and differences from revaluation of assets amounted to EUR 124 367 346 (2015: EUR 127 642 852).

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 2016, the Company contributed to this fund the amount of EUR 15 000 000 (31 December 2015: 0). 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:

	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	124 367 346
	2015
Opening amount	148 892 352
Revaluation surplus reclassified to retained earnings as at 31 December 2015	(27 315 471)
Deferred tax on revaluation surplus as at 31 December 2015	6 009 404
Deferred tax related to special levy from business activities in regulated sectors	56 567
At the end of the period	127 642 852

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 29 April 2016 approved the Financial Statements for 2015. In 2016 were approved dividend for 2015 in the amount of EUR 508 101.13 (rounded) per share at the nominal value of EUR 1 000 000 (in 2015: 26 826.30 per share at the nominal value of EUR 33 194 and EUR 27.48 per share at the nominal value of EUR 34, as at 31 December 2014, the registered capital consisted of 2 382 bearer shares at a nominal value of EUR 33 194, 793 bearer shares at a nominal value of EUR 34, 82 registered shares at a nominal value of EUR 33 194 and 459 registered shares at a nominal value of EUR 34).

The profit for the year 2015 of EUR 72 984 344 was distributed as follows:

	2015 profit distribution	2014 profit distribution
Dividends	53 350 619	66 134 400
Appropriation to the Legal Fund	4 633 725	0
Appropriation to the Statutory Fund	15 000 000	0
Transfer to retained earnings	0	1 329 727
Total	72 984 344	67 464 127

As at 31 December 2016 retained earnings of the Company (including profit of the current accounting period and revaluation surplus reclassified to retained earnings) amounted to EUR 210 882 238 (31 December 2015: EUR 206 131 635).

As at the date of authorization of these Financial Statements for issue, the statutory body has not yet proposed the distribution of profit for 2016.

13 Trade and other payables

	As at 31 December 2016	2015
Trade payables	35 416 762	44 919 530
Received guarantees	8 760 322	7 950 991
Payables due to employees	1 087 305	873 052
Social security	640 377	531 621
Accrued personnel expenses	3 430 555	3 011 124
Social fund	151 625	220 144
Other payables	879 517	828 581
Total	50 366 463	58 335 043

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

Payables include the sum of EUR 4 504 003 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 2016	2015
Payables not yet due	50 217 679	57 238 856
Overdue payables	148 784	1 096 187
Total	50 366 463	58 335 043

Social fund

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

	2016	2015
Opening balance at 1 January	220 144	240 002
Appropriations expensed	693 626	672 927
Usage	(762 145)	(692 785)
Closing balance at 31 December	151 625	220 144

14 Bank loans and finance lease liabilities

	As at 31 December	
	2016	2015
Non-current		
Long term portion of bank loans (a)	55 786 111	67 530 556
Long term portion of finance lease	0	0
	<u>55 786 111</u>	<u>67 530 556</u>
Current		
Short term portion of bank loans (a)	13 569 444	7 469 444
Short term portion of finance lease	0	0
	<u>13 569 444</u>	<u>7 469 444</u>

(a) Bank loans

The maturity of bank loans is as follows:

	As at 31 December	
Maturity	2016	2015
Short term portion of bank loans	13 569 444	7 469 444
Long term portion of bank loans		
1 - 5 years	46 977 778	46 977 778
over 5 years	8 808 333	20 552 778
Total	<u>69 355 555</u>	<u>75 000 000</u>

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	
	2016	2015
Floating rate:	0	3 550 000
- Expiring within one year	0	0
- Expiring beyond one year		
Fixed rate		
- Expiring within one year	15 000 000	0
- Expiring beyond one year	0	15 000 000
Total	<u>15 000 000</u>	<u>18 550 000</u>

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:

	2016	2015
Bank borrowings	1.28%	1.306%

Notes to the Financial Statements for the year ended 31 December 2016 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 2016 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 2016	31 December 2015					
Slovenská sporiteľňa, a. s.	Investment	EUR	25 555 555	30 000 000	1.30%	31. 7. 2022	0	4 444 444	21 111 111
Všeobecná úverová banka, a. s.	Investment	EUR	43 800 000	45 000 000	1.20% a 1.30% depending on the tranche	18. 9. 2022	0	9 125 000	34 675 000
Total		X	69 355 555	75 000 000	X	X	X	13 569 444	55 786 111

Notes to the Financial Statements for the year ended 31 December 2016 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	
	2016	2015
Deferred revenues		
EBOR grant Križovany – long-term portion (a)	11 724 084	13 566 389
– current portion (a)	1 318 645	801 614
EBOR grant Lemešany – long-term portion (b)	36 270 744	38 086 735
– current portion (b)	1 626 919	1 486 242
EBOR grant Bystričany – long-term portion (c)	194 980	63 529
– current portion (c)	0	0
US Steel – long-term portion (d)	3 820 546	4 146 764
– current portion (d)	270 170	225 636
EU TEN-E – long-term portion (e)	773 994	802 053
– current portion (e)	28 569	29 396
E.On – long-term portion (f)	2 538 719	2 895 294
– current portion (f)	212 971	157 701
Slovenské elektrárne, a. s. – long-term portion (g)	3 292 456	3 494 270
– current portion (g)	192 119	161 760
EU TEN-E – long-term portion (h)	829 683	857 118
– current portion (h)	28 005	28 576
EU TEN-E – long-term portion (i)	2 030 853	2 099 203
– current portion (i)	67 149	65 935
EU TEN-E – long-term portion (j)	2 338 779	2 338 779
– current portion (j)	0	0
Západoslovenská distribučná – long-term portion (k)	3 183 134	3 398 019
– current portion (k)	190 707	141 300
Východoslovenská distribučná – long-term portion (l)	4 477 185	4 682 874
– current portion (l)	183 123	213 947
INEA Veľký Meder – long-term portion (m)	460 565	0
– current portion (m)	0	0
INEA Rimavská Sobota – long-term portion (n)	643 750	0
– current portion (n)	0	0
Others – long-term portion (o)	8 809 705	10 353 671
– current portion (o)	<u>9 779 365</u>	<u>12 759 513</u>
Total	<u>95 286 919</u>	<u>102 856 318</u>

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 13 042 729 (31 December 2015: EUR 14 368 003) 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 2016 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 37 897 663 (31 December 2015: EUR 39 572 977) 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 194 980 (31 December 2015: EUR 63 529) 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 EUR 4 090 716 (31 December 2015: EUR 4 372 400), 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 802 563 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 2015: EUR 831 449).

f)

Deferred revenue of EUR 2 751 690 included in deferred revenues is related to construction field 13 in ES Križovany that was 100 % financed by company E.On Trakovice (31 December 2015: EUR 3 052 995).

g)

Amount of EUR 3 484 575 relates to refinancing of cost of Slovenské elektrárne, a.s. for connecting to transmission systems EMO 3 and 4 in Veľký Ďur (31 December 2015: EUR 3 656 030).

h)

Amount of EUR 857 688 represents co-finance provided to Company from European Commission for the transmission line SS Košice – Lemešany (31 December 2015: EUR 885 694).

i)

Amount of EUR 2 098 002 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 2015: EUR 2 165 138).

Notes to the Financial Statements for the year ended 31 December 2016 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 2 338 779 represents co-finance provided to Company from European Commission for the transmission line 400 kV Gabčíkovo – Veľký Ďur (31 December 2015: EUR 2 338 779).

k)

Amount EUR 3 373 841 is related to the refinancing of Západoslovenská distribučná a.s. costs for enlargement the electric station in Stupava by second transformer (31 December 2015: EUR 3 539 319).

l)

Amount EUR 4 660 308 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 2015: EUR 4 896 821).

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 2015: EUR 0).

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 2015: 0 EUR).

o)

Within other long-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.

Within other short-term deferred income the Company recorded an income in amount of EUR 9 736 815 representing the proceeds of regulated tariffs, which does not belong to the Company in 2015 according to regulatory accounting rules and procedures, but in 2017, when they will be realised.

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 2015: 22%). As at 31 December 2016 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 2015: 4.3%). This levy increased the tax rate for temporary differences, which will offset by the end of 2017 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 2016 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 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)

	At 1 January 2015	(Change) (-) costs/ (+) benefits	Accounted to other parts of comprehensive results	At 31 December 2015
Positive revaluation of fixed assets	(43 580 059)	6 009 404	56 567	(37 514 088)
Negative revaluation of fixed assets	1 242 509	(224 857)	0	1 017 652
Receivables	0	0	0	0
Tangible and intangible assets	(18 438 027)	(5 665 281)	0	(24 103 308)
Financial investment	0	0	(30 360)	(30 360)
Retirement benefit	1 770 852	33 880	207 460	2 012 192
Provisions	418 908	90 192	0	509 100
Other	1 194 241	1 297 103	0	2 491 344
Total	(57 391 576)	1 540 441	233 667	(55 617 468)

17 Provisions for liabilities and charges

	Pensions and other long- term benefits (a)	Legal claims (b)	Others (c)	Total
At 1 January 2016	9 146 325	66 532	0	9 212 857
Additional provisions	402 000	3 273	0	405 273
Provisions used	(126 000)	0	0	(126 000)
Reversals of unused provision	0	(4 962)	0	(4 962)
At 31 December 2016	9 422 325	64 843	0	9 487 168

Notes to the Financial Statements for the year ended 31 December 2016 prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union
(All amount are in Euros unless stated otherwise)

	As at 31 December 2016	2015
Analysis of total provisions		
Non - current	9 422 325	9 146 325
Current	64 843	66 532
Total	9 487 168	9 212 857

(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 2016	2015
Present value of unfunded retirement obligations	9 243 362	8 960 362
Unrecognized actuarial gains/(losses) and portion of past service costs	0	0
Obligation in the Statement of Financial Position	9 243 362	8 960 362

The amount recognized in the Income Statement are as follows:

	2016	2015
Current service cost	610 000	608 000
Past service cost	0	0
Unrecognized actuarial gains/(losses)	0	0
Interest cost	157 000	161 000
Pension (credit) / cost, included in personnel costs	767 000	769 000

Value recognized in Equity are as follows:

	2016	2015
Recognized actuarial gains/(losses)	(378 000)	927 000
Total change recognized in equity	(378 000)	927 000

Movements in the present value of defined benefit obligation are:

	2016	2015
Present value of unfunded retirement obligations at beginning of the year	8 960 362	7 877 362
Current service cost	610 000	608 000
Interest cost	157 000	161 000
Benefits paid	(106 000)	(613 000)
Past service cost	0	0
Cancelled	0	0
Actuarial gains/(losses)	(378 000)	927 000
Present value of unfunded retirement obligations at the end of the year	9 243 362	8 960 362

Notes to the Financial Statements for the year ended 31 December 2016 prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union
(All amount are in Euros unless stated otherwise)

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

	As at 31 December 2016	2015
Present value of unfunded obligations	178 963	185 963
Obligation in the Statement of Financial Position	178 963	185 963

The amounts recognized in the Income Statement are as follows:

	2016	2015
Current service cost	14 000	14 000
Recognized actuarial gains/loss	0	0
Interest expense	3 000	4 000
Pension (credit)/cost, included in personnel costs	17 000	18 000

Value recognized in Equity are as follows:

	2016	2015
Recognized actuarial gains/(losses)	(4 000)	16 000
Total change recognized in equity	(4 000)	16 000

Movements in the present value of defined benefit obligation are:

	2016	2015
Present value of unfunded retirement obligations at beginning of the year	185 963	171 963
Current service cost	14 000	14 000
Past service cost	0	0
Interest cost	3 000	4 000
Benefits paid	(20 000)	(20 000)
Actuarial gains/losses	(4 000)	16 000
Present value of unfunded retirement obligations at the end of the year	178 963	185 963

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

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 and sex
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..

As at 31 December 2015

Percentage of employees, who will terminate their employment with SEPS prior to retirement (fluctuation rate)	1.3 – 2.4 % p.a., depending on the age and sex
Expected salary increases – long - term	5.2 % p. a.
- short - term	2.5 % p. a.
Discount rate	1.75 % p. a.

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(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.

18 Revenues

Revenues include the following:

Revenues from electricity transmission and electricity transit:

	2016	2015
Access to transmission grid	136 620 333	138 973 009
Covering losses	12 992 114	14 305 503
System operation	88 455	3 471 398
System services	159 465 649	164 064 021
Auctions	19 995 755	21 662 775
Deviations and regulation energy	11 194 926	15 096 321
CBT mechanism	6 292 288	7 604 664
Profil OT	6 848 452	13 296 427
Other regulated revenues (mainly shipping and daily market)	6 173 757	14 535 842
Total revenue from electricity transmission and transit	359 671 729	393 009 960
Rental	268 069	879 017
Telecommunications services	870 192	318 362
Other revenues	19 982	24 366
Other revenues	1 158 243	1 221 745
Total revenue	360 829 972	394 231 705

The revenue from the Company's core activities mainly results from the regulatory framework and theURSO 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 2016 the Company realized transactions in total amount of EUR 203 068 697 and related costs were EUR 198 298 869 (31 December 2015: transactions in amount of EUR 241 659 699 and related costs were in the amount of EUR 228 988 239).

Notes to the Financial Statements for the year ended 31 December 2016 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:

	2016	2015
Material and energy consumption	12 308 938	13 322 246
Repair and maintenance	10 225 370	12 867 323
Travel expenses	385 753	400 277
Representation expenses	444 819	430 013
Rental	277 484	130 032
Communication services	236 653	417 386
Substations service	2 631 590	3 074 174
Protection and maintenance of area	2 677 816	1 357 195
Revisions, controls, security services	1 164 779	1 239 778
Technical advisory, technical support	56 666	66 317
Cleaning	238 387	258 584
Biological recultivation	144 543	175 674
Geodetic services	54 291	31 115
Experts examinations, analysis, experts opinion, certifications	2 319 093	1 971 188
Information technology services, advertisement	7 636 856	7 217 307
Expenses for ancillary services	147 731 685	146 210 122
Expenses for system operation	(374)	16 497
Expenses for deviations	6 350 743	8 394 186
Expenses for cross-border assistance	71 290	0
Expenses for auctions	2 526 003	6 419 870
Using profile OT	2 386 681	6 333 962
Expenses of CBT/ITC	2 066	(50 000)
Audit of Financial Statements provided by auditor	49 000	34 000
Advisory services	625 332	534 550
Tax advisory	32 924	39 505
Other services provided by auditor	0	0
Demolition	471 237	158 845
Other	710 953	823 672
Total	201 760 578	211 873 818

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 2016 the Company realized income in total amount of EUR 1 826 321 and related costs were EUR 2 028 230 (31 December 2015: transactions in amount of EUR 1 850 822 and related costs in EUR 2 035 748).

20 Personnel costs

Notes to the Financial Statements for the year ended 31 December 2016 prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union
(All amount are in Euros unless stated otherwise)

	2016	2015
Wages and salaries	16 625 316	16 043 714
Other personnel costs	1 854 260	1 600 264
Pension costs – defined contribution plans	5 536 162	5 359 268
Current service costs	624 000	622 000
Interest costs on pension and similar employee's benefits	160 000	165 000
Total	24 799 738	23 790 246

21 Other operating expenses

	2016	2015
Insurance costs	2 130 173	2 124 145
Loss from sale of fixed assets	159 863	287 997
Taxes and other fees	179 507	182 486
Gifts	1 547 525	532 297
Other operating expense	465 056	403 886
Total	4 482 124	3 530 811

22 Other operating income

	2016	2015
Gain from sale of material	20 084	35 643
Release of deferred revenues from a grant from EBOR	3 000 587	2 278 472
Contractual penalties	1 940 650	2 090 035
Insurance	64 961	120 159
Release of deferred revenues - Košice	281 685	227 682
Release of deferred revenues E.ON	301 305	156 090
Income from connection to provider	0	0
Other operating income	924 966	845 223
Total	6 534 238	5 753 304

23 Finance expense, net

	2016	2015
Interest income	178 600	248 019
Interest expense from borrowings	(939 887)	(812 498)
Foreign Exchange gains	7 042	360
Foreign Exchange losses	(1 229)	(18 096)
Finance income on derivative instruments	0	0
Finance expense on derivative instruments	0	0
Dividends	27 591	84 123
Other financial expense	(14 243)	(48 103)
Net finance expense	(742 126)	(546 195)

24 Income tax expense

Notes to the Financial Statements for the year ended 31 December 2016 prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union
(All amount are in Euros unless stated otherwise)

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

	Year ended 31 December	
	2016	2015
Profit before tax	77 021 448	99 356 863
Theoretical income tax related to current period at 22%	16 944 719	21 858 510
- Other income not subject to tax (permanent)	(970 954)	(1 079 627)
- Non-deductible expenses (permanent)	489 562	311 769
- Increase of tax due to charges for regulated subjects	4 246 154	5 268 584
- Deferred tax from temporary differences to which no deferred tax has been accounted historically	0	0
- Additional income tax	0	13 283
Changes in deferred taxes to 1 January due to change in tax rate	(1 048 282)	0
	19 661 199	26 372 519
Income tax expense for the period		
The tax charge for the period comprises:		
- Deferred tax charge – expense/(income) (Note 16)	(2 064 024)	(1 540 441)
Deferred tax total	(2 064 024)	(1 540 441)
- Special levy for regulated subjects	4 246 154	5 268 584
- Additional income tax	0	13 283
- Current income tax expense	17 479 069	22 631 093
Income tax total	21 725 223	27 912 960
Total income tax expense for the period	19 661 199	26 372 519
Effective tax rate	25,53%	26,54%

Deferred tax is provided, using the balance sheet liability method, on temporary differences using the basic tax rate of 21% (31 December 2015: 22%). This tax rate has been increased as at 31 December 2016 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 2015: 4.3%). This levy increased the tax rate for temporary differences, which will offset by the end of 2016 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.

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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 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 2016, the performance of which is scheduled only after 31 December 2016. The total obligation under the contracts amount to EUR 28 872 882 (EUR 2015: 46 846 565). 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 2017 in the amount of EUR 92 256 628 (the 2016 capital expenditure budget: EUR 86 772 801). Capital expenditures are mainly related to the renovation of Rz 220kV Sučany, modification of 400k V poles of the V426 line Levice – Rimavská Sobota, with the set of works Gabčíkovo – Veľký Ďur – Rimavská Sobota - Hungarian Border, with 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 2016	31 December 2015
Due within 1 year	1 134	1 134
Due in 2 to 5 years(inclusive)	4 536	4 536
Due after 5 years	7 057	8 191
Total	12 727	13 861

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 299 392 (31 December 2015: EUR 291 566). 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:

Notes to the Financial Statements for the year ended 31 December 2016 prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union
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	31 December 2016	31 December 2015
Due within 1 year	280 319	280 131
Due in 2 to 5 years (inclusive)	1 064 959	1 084 377
Due after 5 years	2 573 620	2 862 574
Total	3 918 898	4 227 082

The Company has also entered into an operating lease for an unlimited period of time for which the annual lease payments amount to EUR 632 488 (31 December 2015: EUR 688 823).

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 amounts to EUR 289 825 (31 December 2015, year 2016: EUR 300 172). 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 257 362 annually (31 December 2015: EUR 260 234).

27 Cash generated from operations

	Note	2016	2015
Profit before income tax		77 021 448	99 356 863
Adjustments for:			
Depreciation	5	57 034 933	58 569 762
Amortization	6	2 316 186	3 078 378
Impairment charge for non-current assets	5	(191 877)	32 963
Changes in provisions for receivables	10	0	10 543
(Gain) / loss on disposal of assets	21, 22	159 863	287 997
Dividend income		(27 591)	(84 123)
Interest income/expense, net	23	761 287	564 479
Net movements in provisions	17	274 311	1 098 000
Changes in working capital:			
Inventories (gross)		(10 878)	51 821
Trade and other receivables		262 103	19 515 354
Trade and other payables, deferred revenues		629 675	(10 894 656)
Cash generated from operations		138 229 460	171 587 381

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

	Note	Year ended 2016	31 December 2015
Net book value		279 993	549 057
Profit/(loss) from sale of tangible fixed assets	21,22	(159 863)	(287 997)
Proceeds from disposal of tangible fixed assets		120 130	261 060

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.

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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..

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 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 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. Luxembursko	42 264	0	0	(952 680)

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

	Gross amount of trade receivables	Other receivable s	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)
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)

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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. Germany	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)

As at 31 December 2015, 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.	9 176 882	0	0	(2 142 320)

As at 31 December 2015, 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
CAO	0	0	0	0
Joint Allocation Office, S. A. Luxembourg	0	0	0	(992 493)
Joint Allocation Office, S. A. Germany	18 399	0	0	(861 133)

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(All amount are in Euros unless stated otherwise)

As at 31 December 2015, 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.	238 108	524	0	(3 463 065)
Západoslovenská energetika, a. s.	0	0	0	0
Západoslovenská distribučná, a. s.	2 973 376	0	0	(146 034)
Západoslovenská energetika – Energia, a. s.	0	0	0	(469 125)
Východoslovenská energetika Holding, a. s.	259	0	0	(4 381)
Východoslovenská distribučná, a. s.	1 426 204	0	0	(20 630)
Východoslovenská energetika, a. s.	0	0	0	(59)
Stredoslovenská energetika, a.s.	4 792	0	0	(2 909 794)
Stredoslovenská energetika – Distribúcia, a.s.	1 828 893	0	0	(104 036)
Tepláreň Košice, a. s.	1 881	0	0	(553 851)
Žilinská teplárenská, a. s.	34	0	0	(77 726)
Martinská teplárenská, a. s.	2 778	0	0	(179 027)
Zvolenská teplárenská, a. s.	3 465	0	0	(227 284)
Slovenské elektrárne Predaj, s. r. o.	0	0	0	(15 276)
Vodohospodárska výstavba, a. s.	49 976	0	0	(878 032)
Bratislavská teplárenská, a. s.	305	0	0	(34 660)
Slovenský plynárenský priemysel, a. s.	0	0	0	(687)

The income and expense items with the subsidiary, joint venture, state-controlled entities and government bodies for the year ended 31 December 2015 were as follows:

	Sale of services	Purchase of services
OKTE, a. s.	168 711 707	(10 385 427)
Joint Allocation Office, S. A. Germany	6 489 693	(2 573 318)
CAO, GmbH	15 081 294	(3 834 407)
Slovenské elektrárne, a. s.	7 415 864	(74 726 250)
Západoslovenská energetika, a. s.	0	0
Západoslovenská distribučná, a. s.	57 046 264	(221 625)
Západoslovenská energetika – Energia, a. s.	0	(1 098 000)
Východoslovenská energetika Holding, a. s.	2 589	(43 812)
Východoslovenská distribučná, a. s.	28 908 712	(200 564)
Východoslovenská energetika, a. s.	47 921	(8 359 141)
Stredoslovenská energetika – Distribúcia, a. s.	37 489 653	(341 223)
Tepláreň Košice, a. s.	0	(3 598 301)
Žilinská teplárenská, a. s.	0	(361 704)
Martinská teplárenská, a. s.	0	(973 590)
Zvolenská teplárenská, a. s.	192	(1 737 176)
Východoslovenská energetika, a. s.	0	(1 754)
Slovenské elektrárne Predaj, s. r. o.	0	(320 503)
Vodohospodárska výstavba, a. s.	1 308 583	(3 621 507)
Bratislavská teplárenská, a. s.	0	(122 377)
Slovenský plynárenský priemysel, a. s.	0	(28 349)

Notes to the Financial Statements for the year ended 31 December 2016 prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union
(All amount are in Euros unless stated otherwise)

Key management personnel compensation

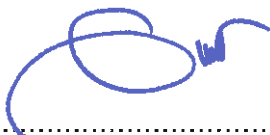
Salaries and bonuses paid to the Company's management, directors and other members of top management for the year ended 31 December 2016 and 31 December 2015, are as follows:


	Year ended 31 December 2016	Year ended 31 December 2015
Salaries and short term employee benefits	1 420 174	1 319 168
Total	1 420 174	1 319 168

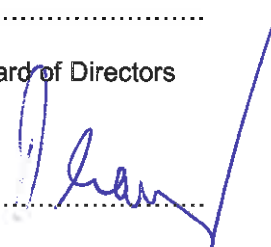
29 Events after the reporting period


No events with a material impact on the true and fair presentation of facts subject to the accounting occurred after 31 December 2016 except of the change in members of the Company's statutory bodies since 1 January 2017 that we mentioned on page 7.

The Financial Statements for the year ended 31 December 2016 prepared in accordance with International Financial Reporting Standards as adopted by the European Union were prepared and authorized for issue on 17 February 2017.


.....
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


.....
Štefánia Gerthoferová
Person responsible for bookkeeping