Slovenská elektrizačná prenosová sústava, a.s.

Independent Auditor's Report and
Financial Statements
for the year ended 31 December 2010

Prepared in accordance with
International Financial Reporting Standards
(IFRS) as adopted by the European Union

Index to the Financial Statements

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Translation of the statutory Auditor's Report originally prepared in Slovak language

Independent Auditor's Report

To the Shareholder, Supervisory Board and Board of Directors of Slovenská elektrizačná prenosová sústava, a.s.:

We have audited the accompanying financial statements of Slovenská elektrizačná prenosová sústava, a.s. ("the Company"), which comprise the statement of financial position as at 31 December 2010, income statement and statements of comprehensive income, statements of changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management as represented by the statutory body is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of the financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

KPMG Slovensko spol. s r.o., a Slovak limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Obchodný register Okresného súdu Bratislava I, oddiel Sro, vložka č. 4864/B

Commercial register of District court Bratislava I, section Sro, file No. 4864/B

IČO/Registration number: 31 348 238

Evidenčné číslo licencie audítora: 96

Licence number of statutory auditor: 96

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

28 March 2011
Bratislava, Slovak Republic

Auditing company:
KPMG Slovensko spol. s r.o.
License SKAU No. 96

Slovenská komora auditorov
SKAU
Č. licencie 96
KPMG
Slovensko spol. s r.o.

Responsible auditor:
Ing. Richard Farkaš, CSc.
License SKAU No. 406

	Note	As of 31 December 2010	2009
ASSETS			
Non-current assets			
Property, plant and equipment	5	331,714,423	324,038,732
Intangible assets	6	16,802,644	21,573,322
Non-current financial assets	9	30,000	45,000
Other investments	8	37,500	12,500
Receivables		1,239	1,812
Deferred tax asset	18	2,081,188	79,791
		350,666,994	**345,751,157**
Current assets			
Inventories	11	719,554	579,325
Trade and other receivables	12	45,712,351	30,439,098
Current financial assets	9	30,000	15,000
Cash and cash equivalents	13	66,692,841	38,475,775
Current income tax receivable		-	2,857,721
		113,154,746	**72,366,919**
Non-current assets held for sale	7	7,008,856	2,735,854
		120,163,602	**75,102,773**
Total assets		**470,830,596**	**420,853,930**
EQUITY			
Share capital and reserves attributable to equity holders of the Company			
Share capital	14	81,832,584	81,832,584
Legal reserve fund	14	16,366,275	16,366,275
Other reserves	14	104,890,029	97,193,946
Retained earnings	14	39,088,618	18,883,143
Total equity		**242,177,506**	**214,275,948**
LIABILITIES			
Non-current liabilities			
Non-current bank loans and finance lease liabilities	16	43,100,000,	53,100,000
Non-current deferred revenue and grants	17	38,263,250	32,026,591
Liabilities related to derivatives transactions	15	2,270,140	-
Non-current provisions for liabilities and charges	19	11,436,540	2,046,325
		95,069,930	**87,172,916**
Current liabilities			
Current bank loans and finance lease liabilities	16	10,000,000	11,460,532
Trade and other payables	15	105,131,328	97,386,819
Current deferred revenue and grants	17	5,167,675	4,648,406
Provisions for current liabilities and charges	19	6,616,732	5,909,309
Current income tax payable		6,667,425	-
		133,583,160	**119,405,066**
Total liabilities		**228,653,090**	**206,577,982**
Total equity and liabilities		**470,830,596**	**420,853,930**

The financial Statements for the year ended 31 December 2010 prepared in accordance with International Financial Reporting Standards as adopted by the European Union were approved and authorized for issue on 25 March 2011 by the Board of Directors.

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Ing. Ján Horkovič
Chairman of the Board of Directors

....

Ing. Igor Grošaft
Member of the Board of Directors

	Note	Year ended 31 December 2010	2009
Continuing operations:			
Revenues	20	356,399,070	330,838,571
Capitalized costs		72,083	-
Consumables and services	21	-250,961,197	-250,265,869
Staff costs	22	-19,195,530	-17,861,259
Depreciation and amortisation	5 and 6	-42,549,458	-42,105,034
Impairment of fixed assets	5	-4,478,370	-
Other operating income	24	7,914,604	5,846,311
Other operating expense	23	-3,892,615	-9,377,793
Operating profit		**43,308,587**	**17,074,927**
Interest income	25	69,149	115,441
Interest expense	25	-493,833	-965,210
Other finance income/(expense)	25	-3,032,933	-1,410,078
Finance cost, net		**-3,457,617**	**-2,259,847**
Profit before tax		**39,850,970**	**14,815,080**
Income tax expense	26	-8,939,520	-3,528,288
Profit for the year from continuing operations		**30,911,450**	**11,286,792**
Discontinued operations:			
Profit for the year from discontinued operations (net of income tax)	30	**304,104**	**265,023**
Net profit for the year		**31,215,554**	**11,551,815**
Other comprehensive income		**-**	**-**
Total comprehensive income		**31,215,554**	**11,551,815**

Profit attributable to:		
Owners of the parent	31,215,554	11,551,815
Non-controlling interest	-	-
Profit for the year	**31,215,554**	**11,551,815**

Total comprehensive income attributable to:		
Owners of the parent	31,215,554	11,551,815
Non-controlling interest	-	-
Total comprehensive income for the period	**31,215,554**	**11,551,815**

	Share capital	Legal reserve fund	Other reserves	Retained earnings	Total equity
Balance at 1 January 2009	**81,831,375**	**16,366,275**	**75,425,332**	**34,777,311**	**208,400,293**
Net profit for the year 2009	-	-	-	11,551,815	11,551,815
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year 2009	-	-	-	**11,551,815**	**11,551,815**
Dividends paid (Note 14)				-5,676,160	-5,676,160
Profit appropriation to Statutory Fund (Note 14)	-	-	21,768,614	-21,768,614	-
Other	1,209	-	-	-1,209	-
Balance at 31 December 2009	**81,832,584**	**16,366,275**	**97,193,946**	**18,883,143**	**214,275,948**
Balance at 1 January 2010	**81,832,584**	**16,366,275**	**97,193,946**	**18,883,143**	**214,275,948**
Net profit for the year 2010	-	-	-	31,215,554	31,215,554
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year 2010	-	-	-	**31,215,554**	**31,215,554**
Dividends paid (Note 14)	-	-	-	-3,313,996	-3,313,996
Profit appropriation to Statutory Fund (Note 14)			7,696,083	-7,696,083	-
Balance at 31 December 2010	**81,832,584**	**16,366,275**	**104,890,029**	**39,088,618**	**242,177,506**

	Note	Year ended 31 December 2010	2009
Cash flows from operating activities			
Cash generated from operations	29	80,602,649	32,060,020
Income tax paid		-1,283,684	-3,364,697
Interest received		69,149	-
Net cash generated from operating activities		**79,388,114**	**28,695,323**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		-35,898,928	-52,012,708
Proceeds from sale of property, plant and equipment	29	56,398	1,896,132
Interest received		-	115,441
Acquisition of financial investment	8	-25,000	-
Loan provided to the company OKTE, a.s.		-20,000	-
Repayment of loan granted to the company CAO	9	-	15,000
Net cash used in investing activities		**-35,887,530**	**-49,986,135**
Cash flows from financing activities			
Proceeds / (repayment) of loans		-11,460,532	6,734,449
Interest paid		-508,990	-965,210
Dividends paid	14	-3,313,996	-5,676,160
Net cash used in financing activities		**-15,283,518**	**93,079**
Net increase / (decrease) in cash and cash equivalents		**28,217,066**	**-21,197,733**
Cash and cash equivalents at the beginning of the year	13	**38,475,775**	**59,673,508**
Cash and cash equivalents at the end of the year	13	**66,692,841**	**38,475,775**

1 General Information

Slovenská elektrizačná prenosová sústava, a.s., ("the Company", "SEPS, a.s.") is one of 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. ("SE", "SE, 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. In 2010, to the Company's activities belonged providing of activities related to deviations and to a daily market operator for electricity traded – these activities has started to be provided by OKTE, a.s, a 100% subsidiary of SEPS, a.s., effective from 1 January 2011.

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. Three Company's projects (note 17) are considered to be qualified by Contributors body as Qualified projects, thereof one has not been drawn until 31 December 2010 yet.

The Company's operations are governed by the terms of its license granted under the Energy Law ("the Energy License") 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 provided to certain of the Company's customers.

The structure of the Company's shareholders at 31 December 2010 was as follows:

	Absolute amount EUR	**Ownership interest and voting rights %**
National Property Fund (NPF)	81,832,584	100%
Total	**81,832,584**	**100%**

The National Property Fund of the Slovak Republic, based in Bratislava, Drieňová 27 owns 100% of SEPS a.s.'s registered capital and 100% of the 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 2010 were as follows:

Body	**Function**	**Name**
Board of Directors	Chairman	Ing. Ján Horkovič from 3 September 2010
	Chairman	Ing. Peter Adamec, PhD. until 3 September 2010
	Vice-Chairman	Ing. Emil Krondiak from 3 September 2010
	Vice-Chairman	Ing. Štefan Lovas, PhD. until 3 September 2010
	Member	Ing. Martin Bonko from 3 September 2010
	Member	Ing. Igor Grošaft from 3 September 2010
	Member	Ing. Michal Pokorný from 3 September 2010
	Member	Doc. Ing. Miroslav Rapšík, CSc. until 3 September 2010
	Member	Ing. Vladimír Ševčík until 3 September 2010
	Member	Ing. Rudolf Kvetán until 3 September 2010
Supervisory Board	Chairman	Ing. Ľubor Benkovič from 3 September 2010
	Chairman	Ing. Peter Matejíček until 3 September 2010
	Vice-Chairman	Ing. Ján Oráč
	Vice-Chairman	Ing. Peter Kollárik from 3 September 2010
	Vice-Chairman	Ing. Roman Schlosser until 3 September 2010
	Member	Michal Sokoli
	Member	Jaroslav Stratený
	Member	Ing. Anna Bubeníková from 3 September 2010
	Member	RNDr. Jozef Mertan from 3 September 2010
	Member	Vojtech Ravasz from 3 September 2010
	Member	Ing. Lajos Csóka from 3 September 2010
	Member	Ing. Pavol Faktor from 3 September 2010
	Member	Ing. Anton Letko from 3 September 2010
	Member	Ing. Miroslav Kolník until 1 November 2010
	Member	Ing. Juraj Obložinský until 3 September 2010
	Member	Dr.h.c. doc. Ing. Vladimír Mošat, CSc. until 3 September 2010
	Member	JUDr. Ľubomír Řehák until 3 September 2010
	Member	Mgr. Mária Janíková until 3 September 2010
	Member	Ľubomír Haško until 3 September 2010
	Member	Ing. Stanislav Kobela until 3 September 2010
Executive management	General Director	Ing. Ján Horkovič from 9 September 2010
	General Director	Ing. Peter Adamec, PhD. until 8 September 2010
	Managing Director of Operations	Ing. Martin Bonko from 9 September 2010
	Managing Director of Operations	Ing. Štefan Lovas, PhD. until 8 September 2010
	Managing Director of SED and Commerce	Ing. Michal Pokorný from 9 September 2010
	Managing Director of SED and Commerce	Doc. Ing. Miroslav Rapšík, CSc. until 8 September 2010
	Managing Director of Economics	Ing. Igor Grošaft from 9 September 2010
	Managing Director of Economics	Ing. Vladimír Ševčík until 8 September 2010
	Managing Director of Development and Capital Investment	Ing. Emil Krondiak from 9 September 2010
	Managing Director of Development and Capital Investment	Ing. Rudolf Kvetán until 8 September 2010

The Company employed 518 staff on average during 2010 (2009: 513), 5 of which were management (2009: 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 policies

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 reason for preparing the Financial Statements:
The Company's Financial Statements at 31 December 2010 have been prepared as ordinary Financial Statements under § 17 (6) of the Slovak Act No. 431/ 2002 Coll. ("Accounting Act") for the accounting period from 1 January 2010 to 31 December 2010.

The Accounting Act requires the Company to prepare Financial Statements for the year ended 31 December 2010 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 in force as of 31 December 2010.

These financial statements have been prepared under the historical cost measurement basis as modified by the revaluation of derivatives which are stated at fair value.

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 an 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 the 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 28 June 2010.

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

The Company is exempt from issuing consolidated financial statements in accordance with Article 22 (12) of Slovak Act No. 431/2002 Coll. on Accounting, as the Company only has a non-significant subsidiary OKTE, a.s. based in Mlynské nivy 59/A, 824 84 Bratislava.

2.2. Changes in the accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows when the Company has adopted the following new and amended IFRS and IFRIC interpretations as at 1 January 2010, all adopted by EU:

IFRS 2	Amendments to IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2010);
IFRS 3	Revised IFRS 3 Business Combinations (effective for annual periods beginning on or after 1 July 2009);
IAS 27	Amendments to IAS 27 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009);
IAS 39	Amendment to IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items (effective for annual periods beginning on or after 1 July 2009);
IFRIC 9, IAS 39	Amendments to IFRIC Interpretation 9 Reassessment of Embedded Derivatives and Amendment to IAS 39 Financial Instruments: Recognition and Measurement (effective for annual periods beginning on or after 30 June 2009);
IFRIC 12	Service Concession Arrangements (effective for annual periods beginning on or after 1 April 2009);
IFRIC 15	Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2010);
IFRIC 16	Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 July 2009);
IFRIC 17	Distributions of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009);
IFRIC 18	Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009);

Improvements to IFRS (issued by IASB in April 2009).

The Company has not early adopted any standards and interpretations where adoption is not mandatory at the balance sheet date due to the facts described below:

<u>Amendments to IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions</u>

The amendment clarifies the scope and the accounting for group cash-settled share-based payment transactions. The adoption of this amendment did not have any impact on the financial position or the performance of the Company.

<u>Revised IFRS 3 Business Combinations</u>

Revised IFRS 3 introduces significant changes in the accounting for business combinations occurring after the effective date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the reported results in the period that an acquisition occurs and future amount of the goodwill.

<u>Amendments to IAS 27 Consolidated and Separate Financial Statements</u>

Amended IAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by the amended IAS 27 will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests.

Amendment to IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items

The amendment clarifies the conditions under which certain financial/non-financial instruments may be designated as hedged items in a hedging relationship. The amendment specifies that an entity may also choose to hedge only one kind of change in the cash flow or in the fair value of the hedged items, which would constitute a one-sided risk. It is also specified that a purchased option designated as a hedge in a one-sided risk hedge relationship is perfectly effective only if the hedge risk refers exclusively to change in the intrinsic value of the hedging instrument, and not to changes in its time value as well. The adoption of this amendment did not have any impact on the financial position or the performance of the Company.

Amendments to IFRIC Interpretation 9 Reassessment of Embedded Derivatives and Amendment to IAS 39 Financial Instruments: Recognition and Measurement

The amendment requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. IAS 39 now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at fair value through profit or loss. The adoption of these amendments did not have any impact on the financial position or the performance of the Company.

IFRIC 12 Service Concession Arrangements

The Interpretation provides guidance to private sector entities on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. The adoption of this interpretation did not have any impact on the financial position or the performance of the Company.

IFRIC 15 Agreements for the Construction of Real Estate

This interpretation provides guidance on the accounting for revenue arising from agreements for the construction of real estate. The interpretation addresses the applicable accounting standard (IAS 11 Construction Contracts or IAS 18 Revenue) and the timing of revenue recognition. The adoption of this interpretation did not have any impact on the financial position or the performance of the Company.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation

The Interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The adoption of this interpretation did not have any impact on the financial position or the performance of the Company.

IFRIC 17 Distributions of Non-Cash Assets to Owners

This interpretation provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognise a liability, how to measure it and the associated assets, and when to derecognise the asset and liability. It did not have any impact on the consolidated financial statements as the Company has not made non-cash distributions to shareholders in the past and is exempt from issuing consolidated financial statements.

IFRIC 18 Transfers of Assets from Customers

This interpretation provides guidance on how to account for items of property, plant and equipment received from customers or cash that is received and used to acquire or construct specific assets. This interpretation is only applicable to such assets that are used to connect the customer to a network or to provide ongoing access to a supply of goods or services or both. The adoption of this interpretation did not have any impact on the financial position or the performance of the Company.

Improvements to IFRSs (Issued by IASB in April 2009)

In April 2009, the IASB issued the collection of amendments to its standards and interpretation, primarily view to removing inconsistencies and clarifying wording. The following standards and interpretations were amended:

IFRS 2	Share-based Payment (effective for annual periods beginning on or after 1 July 2009);
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations (effective for annual periods beginning on or after 1 January 2010);
IFRS 8	Operating Segments (effective for annual periods beginning on or after 1 January 2010);
IAS 1	Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2010);
IAS 7	Statement of Cash Flows (effective for annual periods beginning on or after 1 January 2010);
IAS 17	Leases (effective for annual periods beginning on or after 1 January 2010);
IAS 18	Revenue;
IAS 36	Impairment of Assets (effective for annual periods beginning on or after 1 January 2010);
IAS 38	Intangible Assets (effective for annual periods beginning on or after 1 July 2009);
IAS 39	Financial Instruments: Recognition and Measurement (effective for annual periods beginning on or after 1 January 2009);
IFRIC 9	Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 July 2009);
IFRIC 16	Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 July 2009).

The Company has concluded that the improvements did not have significant impact on the financial position or performance of the Company.

2.3. Investments

Investments are carried at cost in these Financial Statements. The cost is represented by the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire the investment at the time of their acquisition. Impairment losses are recognized using the present value of estimated future cash flows model.

2.4. Foreign currency transactions and translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

Foreign currency transactions 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 the 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 foreign currency are 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 transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the Income Statement.

2.5. Property, plant and equipment

All property, plant and equipment is carried at cost less accumulated depreciation out accumulated impairment losses.

(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 at 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 network assets varies between 20 and 30 years.

(ii) Depreciation

The depreciation of property, plant and equipment starts in the month when the property, plant and equipment is available for use. Property, plant and equipment is 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 property, plant and equipment. The estimated useful lives of individual groups of assets are as follows:

Buildings, halls, networks and constructions	20 - 30 years
Machines, equipment and vehicles	4 – 12 years
Other property, plant and equipment	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.

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 asset until the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

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 recognized 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 included in operating profit.

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 amortisation 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 programmes 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 capitalised 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 amortised over their estimated useful lives, which does not exceed 4 years. Intangible assets are depreciated over 4 years, easement of access over 20 years.

2.7. Impairment of non-financial assets

Assets that have an indefinite useful life (e.g. goodwill), if any, 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 recoverable. 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 part of a single co-ordinated 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 not carried at fair value through profit and loss. Financial assets carried at fair value through profit or loss are initially recognised 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 derecognises 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 profit or loss

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 profit or loss. 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.

Gains or losses arising from changes in the fair value of the "available for sale financial assets" are recognised in equity in the period in which they arise and are recycled to the Income Statement upon disposal or impairment.

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 and held-to-maturity investments are carried at amortised cost using the effective interest method.

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 outstanding loan granted to company Central Auction Office ("CAO") (the Company owns 12.5% share in this company), loan granted to a 100% subsidiary OKTE, a.s., 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 realisable 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 realisable 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 amortised 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 (and 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.

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 EBRD for the Reconstruction – Structure 2, Part 2 and Structure 3 in Križovany, with the grant approved by EBRD 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 in Bystričany and for transmission lines in Horná Ždaňa – Križovany. This grant has not been drawn in 2010.

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 costs) 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 months after the reporting date.

2.18. Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are not recognized for future operating losses. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised 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 a 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 recognised 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 assessments of the time value of money and the risks specific to the obligation. The increase of the provision due to passage of time is recognized 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 includes the financial guarantees (Note 2.12).

2.21. Employee benefits

The Company has both defined benefit and defined contribution plans.

Pension plans

A defined benefit 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	3
3 - 9	5
10 – 14	6
15 – 19	7
Over 20	8

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 149.37 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 years.

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

The defined benefit 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) then attributing the calculated present value to the periods of service based on the plan's benefit formula.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised immediately in the Income Statement. Past-service costs are recognised immediately in the Income Statement, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised 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% (2009: 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% (2009: 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 employee 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 authorised for issue; or
- the past practice created a valid expectation of employees that they will receive a profit sharing or other bonus and the amount can be determined before the Financial Statements are authorised 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 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. Revenue is shown, net of value-added tax, estimated returns, rebates and discounts.

The revenue is recognised 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 recognised 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

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below:

IFRS 7	Amendments to IFRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 July 2011, these amendments have not been approved by EU yet);
IFRS 9	Financial Instruments (effective for annual periods beginning on or after 1 January 2013; this standard has not been approved by the EU yet);
IAS 12	Deferred tax: Recovery of Underlying Assets (Amendments to IAS 12) (effective for annual periods beginning on or after 1 January 2012, these amendments have not been approved by EU yet);

IAS 24	Revised IAS 24 Related Party Disclosures (effective for annual periods beginning on or after 1 January 2011);
IAS 32	Amendment to IAS 32 Financial instruments: Presentation: Classification of Rights Issues (effective for annual periods beginning on or after 1 February 2010);
IFRIC 14	Amendment to IFRIC 14 and IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2011);
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010);

Improvements to IFRS (issued by IASB in May 2010; these improvements have not been approved by the EU yet).

The principal effects of these changes are as follows:

Amendments to IFRS 7 Financial Instruments: Disclosures

The amendments allow users of financial statements to improve their understanding of transfer transactions of financial assets, including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. The Company is considering impact of this standard on its separate financial statements.

IFRS 9 Financial Instruments

IFRS 9 is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply. Prior periods need not be restated if an entity adopts the standard for reporting periods beginning before 1 January 2012. The Company is considering impact of this standard on its separate financial statements.

Deferred tax: Recovery of Underlying Assets (Amendments to IAS 12)

IAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 Investment Property. The amendment provides a practical solution to the problem by introducing a presumption that recovery of the carrying amount will, normally be, be through sale. The Company does not expect amendments to IAS 12 to have an impact on the separate financial statements.

Revised IAS 24 Related Party Disclosures

The amendment exempts government-related entity from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with (i) a government that has control, joint control or significant influence over the reporting entity; and (ii) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity. The revised Standard requires specific disclosures to be provided if a reporting entity takes advantage of this exemption. The revised Standard also amends the definition of a related party which resulted in new relations being included in the definition, such as, associates of the controlling shareholder and entities controlled, or jointly controlled, by key management personnel. The Company is considering impact of this standard on its separate financial statements.

Amendment to IAS 32 Financial instruments: Presentation: Classification of Rights Issues

The amendment requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The Company does not expect amendment to IAS 32 to have a significant impact on the separate financial statements.

Amendment to IFRIC 14 and IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The amendment of IFRIC 14 addresses the accounting treatment for prepayments made when there is also a minimum funding requirements (MFR). Under the amendments, an entity is required to recognise certain prepayments as an asset on the basis that the entity has a future economic benefit from the prepayment in the form of reduced cash outflows in future years in which MFR payments would otherwise be required. The Company does not expect amendment to IFRIC 14 to have an impact on the separate financial statements.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

The interpretation provides guidance on the accounting for debt for equity swaps. The Company does not expect IFRIC 19 to have an impact on the separate financial statements.

Improvements to IFRSs (Issued by IASB in May 2010)

In May 2010 the IASB issued the collection of amendments to its standards IAS and interpretations IFRIC, primarily view to removing inconsistencies and clarifying wording. The following standards and interpretations were amended:

IFRS 3	Business Combination (effective for annual periods beginning on or after 1 July 2010);
IFRS 7	Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2011);
IAS 1	Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2011);
IAS 27	Transition requirements for amendments arising as a result of IAS 27 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2010);
IAS 34	Interim Financial Reporting (effective for annual periods beginning on or after 1 January 2011);
IFRIC 13	Customer Loyalty Programmes (effective for annual periods beginning on or after 1 January 2011).

It is anticipated that these changes will have no significant effect on the Company's financial statements.

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 programme focuses on the unpredictability of financial markets and seeks to minimise 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 recognises part of purchases and credit financing with payments denominated in EUR. Due to the fact that the Slovak Republic adopted Euro as its official currency as at 1 January 2009, the Company was not exposed to foreign exchange risk related to transactions and balances denominated in EUR after 1 January 2009.

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 2010	**31 December 2009**	**31 December 2010**	**31 December 2009**
USD / CZK and other	- 1,796,403	-13,762	0	0

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

Based upon the sensitivity analysis of financial assets and liabilities recognised as at 31 December 2010, a 10% strengthening/weakening in the EUR against USD and CZK would result in an increase/decrease in the Company's profit by EUR 163,509. Management considers the risk is not significant.

(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 revenue structure by the Company's core activities mainly results from the regulatory framework and URSO decisions, issued by this institution for the relevant year. The Company performs its activities in compliance with these decisions. The Company's revenues mainly include the revenues for electricity transmission and rendering of related services including charges for: turn-out reservation and electricity transmission, to cover losses from electricity transmission, system operation. Furthermore, the Company generated significant revenues from clearing of cross-border transmissions, auctions and international transits.

The Company's services relates to the period the services were rendered.

The prices for these services, except for auctions, are determined by the URSO on an annual basis. Prices for other relating services are determined using a maximum allowed revenues basis. For some of these services, URSO determines also the maximum allowed expenditures and prices of purchased services. In case the actual revenues recognised by the Company were higher or lower than the maximum allowed revenues determined by the URSO, this difference was reflected in future prices for regulated services determined by the URSO using a so-called "correction factor". In 2010, the provisions reflecting the adjustments of future prices were recorded as the actual revenues in 2010 exceeded the maximum allowed revenues and the Company expects the maximum allowed revenues in 2012 to be lower than both, the maximum allowed expenses and the expected expenses for 2012.

According to the regulatory framework, the electricity market in the Slovak Republic is liberalised, and allows a free selection of electricity supplier for all customers.

Activities of the Company are subject to regulation by URSO. URSO, among other decisions, determines the regulation policy for each of the regulation periods, audits compliance of the Company with the current energy legislation and URSO decrees and issues decisions on maximum allowed revenues, expenditures and prices for the access to the transmission grid, electricity transmission, ancillary services and related services (clearing, evaluation and settlement of deviations, electricity purchased on daily market).

In the year 2009, a new three-year regulation period started. The principle of transmission service regulation is based on a price cap; however, the increase in regulation prices is restricted by inflation level. The increase in regulation prices due to inflation factor can only occur if the inflation level is more than 5%. The increase in regulation prices of transmission services is thus blocked.

Since 1 July 2009, the Company has been authorized to organize short-term electricity market where the counterparties that meet the legal requirements can trade with electricity on a daily basis. As at 31 August 2009, the daily electricity markets in the Slovak Republic and the Czech Republic were merged; this led to an increase in the volume of traded electricity. The substance of trading on the short-term market consists in matching the electricity sale and purchase offers and in financial settlement between the seller and the buyer. Exposure is minimal. Net revenues resulting from providing services as a daily market operator are presented either as Revenues or Cost of sales depending on the net effect from this transaction.

(d) Cash flow interest rate risk

The Company's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. All borrowings of the Company are at variable rate.

The Company analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Company calculates the impact on profit and loss of a defined interest rate shift. The scenarios are run only for liabilities that represent the major interest-bearing positions.

Operating revenues and operating cash flows of the Company are independent, to a large extent, of the changes in interest rates on the market. The Company does not have material interest-bearing assets other than cash and cash equivalents. In 2007 and 2008, the Company entered into interest rate swaps with a maturity date in 2014, to mitigate the risk of fluctuations in interest rates. The agreed interest rates range between 3-month EURIBOR and the interest rate of 11.35%. The interest rate swaps refer to the agreed upon principal amounts in net book value totalling EUR 21,434,000 (31 December 2009: EUR 26,566,000). As at 31 December 2010, the Company made unrealized loss from interest rate swap in the amount EUR 1,523,384 (liabilities related to interest rate swap as at 31 December 2010: 2,270,358 EUR; as at 31 December 2009: 746,974 EUR).

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the reporting date. For variable rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the reporting date was outstanding for the whole year.

If interest rates had been 100 basis points higher and all other variables were held constant, the Company's profit for the year ended 31 December 2010 would decrease by EUR 1,815,324. If interest rates had been 100 basis points lower and all other variables were held constant, the Company's profit for the year ended 31 December 2010 would increase by EUR 464,126. This is mainly attributable to the Company's exposure to interest rates on its variable rate borrowings.

(ii) Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables. As for the banks and financial institutions, Company has relationships only with those ones that have high independent rating assessment. If wholesale customers are independently rated, these ratings are used. If there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

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

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

Maximal exposure related to trade and other receivables is the nominal value of trade receivables adjusted by individual impairment of EUR 3,893 (Note 12).

The table below shows the balances of receivables due from banks at the reporting date:

Counterparty	Internal Rating[2]	Balance as at 31 December 2010	2009
Banks rated[1]			
Všeobecná úverová banka, a.s	A1	2,664,243	1 ,069
Tatra banka, a.s.	A2	54,020,437	36,005,063
Dexia banka Slovensko, a.s.	A1	395,982	510,161
Slovenská sporiteľňa, a.s.,	A1	9,551,670	1,890,476
Other	n/a	60,509	69,006
Total		**66,692,841**	**38,475,775**

[1] The amount of cash and short-term deposits at banks as at 31 December 2010 amounts to EUR 66,692,841 (31 December 2009: EUR 38,475,775). Furthermore, the Company has agreed with those banks on credit lines on current accounts totalling EUR 46,465,743 (31 December 2009: EUR 23,235,743) which were not utilized. The Company has bank borrowings as at 31 December 2010 of EUR 53,100,000 (31 December 2009: EUR 64,560,532) and these credit lines were utilized.
[2] The Company uses the independent ratings of Moody's and Standard & Poor's.

(iii) Liquidity risk

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

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

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

Expected cash flow is prepared as follows:
- expected future cash inflows from main operations of the Company; and
- 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 into relevant maturity groupings based on the remaining period at the Statement of Financial Position to the contractual maturity date. 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 2010				
Bank loans (principal incl. future interest charges)	10,484, 358	10,375,108	33,553,584	-
Finance lease	-	-	-	-
Trade and other payables excluding liabilities not falling under IFRS 7	103,847,280	-	-	-
Total	**114,331,638**	**10,375,108**	**33,553,584**	**-**
At 31 December 2009				
Bank loans (principal incl. future interest charges)	11,528,600	10,055,416	34,792,360	8,548,450
Finance lease	-	-	-	-
Trade and other payables excluding liabilities not falling under IFRS 7	94,078,409	-	-	-
Total	**105,607,009**	**10,055,416**	**34,792,360**	**8,548,450**

The following table below summarizes liquidity analysis of Company's financial derivatives. The table has been prepared based on undiscounted net cash inflows/(outflows) from financial derivatives settled by the Company in gross amounts. For other than fixed amounts payable/receivable, recognised amounts were derived from projected interest rates as illustrated by yield curves as at the reporting date.

	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
31 December 2010				
Interest rate swaps	-390,242	-1,058,133	-1,163,256	-
Total	**-390,242**	**-1,058,133**	**-1,163,256**	**-**
31 December 2009				
Interest rate swaps	-292,998	-235,799	-367,062	-
Total	**-292,998**	**-235,799**	**-367,062**	**-**

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 amounts to, as at 31 December 2010, EUR 242,177,506 (31 December 2009: EUR 214,275,948).

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 2010	31 December 2009
Total equity and liabilities	470,830,596	420,853,930
Equity	242,177,506	214,275,948
Equity to Total equity and liabilities ratio	51%	51%

During 2010, the Company's strategy was unchanged from 2009, i.e. to maintain Equity to Total liabilities and equity ratio above 35% which is compliant with externally imposed capital requirements. During 2010 and 2009, the Company complied with the externally imposed capital requirements to which it is subject to (Note 16).

3.3 Fair value estimation

The fair value of derivatives and investments available for sale or held for trading 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. The resulting accounting estimates will, by definition, seldom equal the related actual results. Critical estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Regulated revenues

The company is subject to regulation from URSO. URSO under other introduces regulating policy for individual regulation periods, controls the compliance with the relevant energetic legislation and URSO directives and issues maximum acceptable revenue decisions, costs and prices for the access transmission grid and transmission of electric energy, system operation services and other regulated services (clearing, evaluation and settlement of deviations, organisation of short-term electricity market).

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

In the 2009 a new regulatory period commenced, which will last for next three years. The regulatory principle is based on price cap, whereas the growth of these regulated prices is limited by inflation level. The increase of these prices due to inflation factor may only happen if the inflation rate is higher than 5%. The increase of regulated prices transmission services is in this way blocked.

The company was entrusted to organise the short-term electricity market since 1 July 2009. The eligible subjects have the opportunity to trade daily electricity. As at 31 August 2009 the daily electricity markets in Slovak Republic and Czech Republic were connected, which led to an increase in amount of realised electricity trades. The substance of short-term electricity trades is in matching of supply and demand for electricity purchase and sale and in realisation of financial settlement between seller and buyer. Net revenues resulting from providing services as a daily market operator are presented either as Revenues or Cost of sales depending on the net effect from this transaction.

In 2010, the provisions reflecting the adjustments of future prices were recorded as the actual revenues in 2010 exceeded the maximum allowed revenues and the Company expects the maximum allowed revenues in 2012 to be lower than both, the maximum allowed expenses and the expected expenses for 2012. For system services, a provision was recorded for the difference by which the actual revenues in 2010 exceeded the maximum allowed revenues set by URSO as the Company expects that this excess will lead URSO to lower the revenue cap in 2012, which will be below the expenses allowed by URSO in 2012. For system operation, a provision was recorded for the difference by which the actual revenues exceed the actual costs in 2010 less allowance for coordination of the market with electricity, as the Company expects that it will have to return the excess to participants in the system through future price changes. Uncertainty related to estimating of provision is not significant.

(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. In 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 19).

(iii) Impairment review of non-current tangible and intangible assets

Management has performed impairment test to ensure that non-current tangible and intangible assets are carried at no more than their recoverable amount. The recoverable amount was identified using Discounted Cash Flow model (DCF model) to determine value-in-use.

The DCF model requires use of estimates for prices of regulated services that are consistent with prevailing legislation and decisions of regulator, amount of energy transferred that is consistent with the expected development of national economy and weighted average cost of capital that is consistent with other companies in the industry.

The Company plans to revalue the fixed assets to fair values effective from 1 January 2011. Presentation of fixed assets using a revaluation model would lead to a situation the Company's presentation is comparable to the presentation of fixed assets at other companies within the electricity industry. Presentation of fixed assets using revaluation model is conditioned by URSO approval for regulatory purposes. Revaluation has been performed by an independent valuation expert. In connection to the revaluation performed, an impairment loss has been recognized for administrative building in Bratislava and in Žilina as at 31 December 2010 as the value-in-use determined by an independent expert was lower than their carrying value (Note 5).

In relation to contribution in kind in the subsidiary OKTE, a.s. effective from 1 January 2011 (Note 7 and Note 30), the fixed assets, which are subject of the contribution, have been appraised by an expert. Impairment was recorded for an asset (software) for which the value-in-use determined by an independent expert was lower than its carrying value.

(iv) Valuation of swap

The Company uses Discounted Cash Flow model that uses only observable market data for determining the fair value of common financial instruments, like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values.

5 Property, plant and equipment

	Lands	Buildings, halls and constructions	Machinery, equipment, vehicles and other assets	Capital work in progress including advances (CIP)	Total
At 1 January 2009					
Cost	5,903,448	250,862,014	281,906,969	57,038,216	595,710,647
Accumulated depreciation and impairment charges	-	-118,275,753	-180,577,642	-35,269	-298,888,664
Net book value	**5,903,448**	**132,586,261**	**101,329,327**	**57,002,947**	**296,821,983**
Year ended 31 December 2009					
Opening net book value	5,903,448	132,586,261	101,329,327	57,002,947	296,821,983
Additions	12,808	20,746,090	28,828,927	17,755,343	67,343,168
Transfers	489,198	11,427,351	27,727,192	-39,643,741	-
Disposals	-162,392	-16,302	-135,133	-	-313,827
Depreciation charge	-	-10,535,871	-26,581,843	-	-37,117,714
Transferred to disposal group classified as held for sale	-181,020	-2,506,062	-7,796	-	-2,694,878
Closing net book value	**6,062,042**	**151,701,467**	**131,160,674**	**35,114,549**	**324,038,732**
At 31 December 2009					
Cost	6,062,042	278,408,646	327,647,823	35,149,818	647,268,329
Accumulated depreciation and impairment charges	-	-126,707,179	-196,487,149	-35,269	-323,229,597
Net book value	**6,062,042**	**151,701,467**	**131,160,674**	**35,114,549**	**324,038,732**
Year ended 31 December 2010					
Opening net book value	6,062,042	151,701,467	131,160,674	35,114,549	324,038,732
Additions	-	3,476,923	16,516,433	29,323,705	49,317,061
Transfers	175,534	6,660,377	2,027,641	-8,863,552	-
Disposals	-	-	-31,557	-	-31,557
Depreciation charge	-	-11,474,133	-25,348,884	-	-36,822,945
Impairment	-	-4,478,297	-		-4,478,297
Transferred to disposal group classified as held for sale	-	-	-308,571	-	-308,571
Closing net book value	**6,237,576**	**145,886,410**	**124,015,735**	**55,574,702**	**331,714,423**
At 31 December 2010					
Cost	6,237,576	290,671,198	335,861,190	55,609,971	688,379,935
Accumulated depreciation and impairment charges	-	-144,784,788	-211,845,455	-35,269	-356,665,512
Net book value	**6,237,576**	**145,886,410**	**124,015,735**	**55,574,702**	**331,714,423**

As at 31 December 2010, the most significant items within property, plant and equipment represent: switching stations and administrative buildings at net book value of EUR 169,126,990 (31 December 2009: EUR 197,546,712); transmission lines at net book value of EUR 69,309,553 (31 December 2009: EUR 73,094,824).

Non-current assets under construction consists mainly of EUR 17,141,212 for reconstruction of a switching station TR 400/110 kV Medzibrod (31 December 2009: EUR 9,336,276), EUR 5,756,808 for controlling training simulator (31 December 2009: EUR 1,264,655), EUR 4,609,362 for 2x400 kV switching station Košice-Lemešany (31 December 2009: EUR 1,920,321), EUR 4,083,876 for remote management of switching station in Križovany (31 December 2009: EUR 3,750,428), EUR 3,916,669 for transformer in Bošáca (31 December 2009: EUR 1,036,672) and EUR 4,286,462 for switching station and transmission lines in Gabčíkovo (31 December 2009: 2,791,982). These assets are not available for use at the reporting date.

In accordance with accounting policies of the Company, borrowing costs are capitalized and therefore the Company capitalized interest amounting to EUR 140,093 (31 December 2009: EUR 17,030 as a part of the acquisition cost of non-current assets. The effective interest rate related to capitalization as at 31 December 2010 amounted 1.0038% p.a. (31 December 2009: 1.568% p.a.).

As at 31 December 2010, an impairment loss of EUR 4,478,297 related to administrative buildings in Bratislava and in Žilina has been recognized in the financial statements. Details on method for calculation of the impairment loss are described in Note 4 (iii).

As at 31 December 2010 the net book value of assets under finance lease, namely machines, tools and equipment represented EUR 734,373 (31 December 2009: EUR 803,595).

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 2010			
Cost	4,255,681	135,715	4,391,396
Accumulated depreciation	-2,038,645	-20,672	-2,059,317
Net book value as at 31 December 2010	**2,217,036**	**115,043**	**2,332,079**
As at 31 December 2009			
Cost	2,831,423	-	2,831,423
Accumulated depreciation	-1,361,723	-	-1,361,723
Net book value as at 31 December 2009	**1,469,700**	**-**	**1,469,700**

The Company also leases optic fibres and circuits. The value of such fibres and circuits cannot be reasonably estimated, as they are a 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 December 2010 and 31 December 2009	Name of the insurance company
Buildings, halls and constructions	Damage or total loss	170,723,692	Allianz - Slovenská poisťovňa, a.s. (co-insurance company Generali, Kooperativa, QBE)
Machines, tools and equipment, vehicles without car licence plates	Damage or total loss	87,542,488	Allianz - Slovenská poisťovňa, a.s. (co-insurance company Generali, Kooperativa, QBE)
Transformers and control rooms	Damage or total loss	233,215,107	Allianz - Slovenská poisťovňa, a.s. (co-insurance company Generali, Kooperativa, QBE)
RRB (radio relay point)	Damage or total loss	16,641,010	Allianz - Slovenská poisťovňa, a.s. (co-insurance company Generali, Kooperativa, QBE)
Elevated power lines	Damage or total loss	768,707,030	Allianz - Slovenská poisťovňa, a.s. (co-insurance company Generali, Kooperativa, QBE)
Cables	Damage or total loss	2,956,773	Allianz - Slovenská poisťovňa, a.s. (co-insurance company Generali, Kooperativa, QBE)
Office equipment	Damage or total loss	813,904	Allianz - Slovenská poisťovňa, a.s. (co-insurance company Generali, Kooperativa, QBE)
Fixtures and fittings	Damage or total loss	621,531	Allianz - Slovenská poisťovňa, a.s. (co-insurance company Generali, Kooperativa, QBE)
Sets of movable non-current tangible assets, cables, elevated power lines	Damage or total loss, insurance against theft, burglary, and robbery, and robbery during transport and vandalism	331,939	Allianz - Slovenská poisťovňa, a.s. (co-insurance company Generali, Kooperativa, QBE)
Set of machines and equipment	Machines and equipment insurance	323,540,546	Allianz - Slovenská poisťovňa, a.s. (co-insurance company Generali, Kooperativa, QBE)
Scheduled capital expenditures, automatic coverage of new assets	Damage or total loss	33,193,919	Allianz - Slovenská poisťovňa, a.s. (co-insurance company Generali, Kooperativa, QBE)
Fixtures and fittings	Insurance against theft, burglary, and robbery, and robbery during transport and vandalism	290,966	Allianz - Slovenská poisťovňa, a.s. (co-insurance company Generali, Kooperativa, QBE)

Measuring devices and notebooks in motor vehicles	Insurance against theft, burglary, and robbery, and robbery during transport and vandalism	66,388	Allianz - Slovenská poisťovňa, a.s. (co-insurance company Generali, Kooperativa, QBE)
Scheduled capital expenditures	Machines and equipment insurance	23,235,743	Allianz - Slovenská poisťovňa, a.s. (co-insurance company Generali, Kooperativa, QBE)

6 Intangible assets

	Software and other intangible assets	Intangible assets not yet in use	Total
At 1 January 2009			
Cost	20,634,442	13,136,355	33,770,797
Accumulated amortisation and impairment charges	-10,282,008	-	-10,282,008
Net book value	**10,352,434**	**13,136,355**	**23,488,789**
Year ended 31 December 2009			
Opening net book amount	10,352,434	13,136,355	23,488,789
Additions	4,158,038	346,476	4,504,513
Transfers	12,704,834	-12,704,834	-
Disposals	-	-	-
Amortisation charge	-6,419,980	-	-6,419,980
Closing net book value	**20,795,326**	**777,996**	**21,573,322**
At 31 December 2009			
Cost	37,078,613	777,996	37,856,609
Accumulated amortisation and impairment charges	-16,283,287	-	-16,283,287
Net book value	**20,795,326**	**777,996**	**21,573,322**
Year ended 31 December 2010			
Opening net book amount	20,795,326	777,996	21,573,322
Additions	-	7,746,731	7,746,731
Transfers	5,320,417	-5,320,417	-
Disposals	-	-	-
Amortisation charge	-7,856,543	-	-7,856,543
Transferred to disposal group classified as held for sale	-4,660,867	-	-4,660,867
Closing net book value	**13,598,333**	**3,204,311**	**16,802,644**
At 31 December 2010			
Cost	34,810,695	3,204,311	38,015,006
Accumulated amortisation and impairment charges	-21,212,362	-	-21,212,362
Net book value	**13,598,333**	**3,204,311**	**16,802,644**

The computer software consists mainly of SAP, STET, XMatic, DAMAS (auction portal), Oracle and XM Trade. Net book value of SAP is EUR 3,020,436 (31 December 2009: EUR 4,926,991), remaining amortization period is 3 years. Net book value of DAMAS is EUR 2,905,956 (31 December 2009: EUR 3,106,317), remaining amortization period is 3 and 4 years.

Intangible assets not yet in use include EUR 1,010,244 for controlling training simulator and EUR 1,711,067 for SAP - PM implementation (31 December 2009: EUR 298,627) and EUR 483,000 for HR portal (31 December 2009: EUR 467,370).

Internally generated intangible assets are immaterial.

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

Management has performed impairment test to ensure that non-current tangible and intangible assets are carried at no more than their recoverable amount. The recoverable amount was identified using Discounted Cash Flow model (DCF Model) to determine value-in-use. The company did not recognize impairment loss, as no impairment loss was identified on the basis of current business plans which Management of the company believes are achievable. For details see Note 4 (iii).

7 Non-current assets held for sale

Non- current assets held for sale as at 31 December 2010 represent assets which were subject to contribution in kind in the subsidiary OKTE, a.s. effective from 1 January 2011, administrative building in Bratislava, apartment in Horná Ždaňa and machines and equipment that are to be recovered through a sale transaction rather than use and the sale is considered highly probable.

	31 December 2009	Additions	Sales	31 December 2010
Cost of assets	5,276,795	8,205,486	-6,793	13,475,488
Recorded accumulated depreciation	-2,522,681	-3,236,047	5,551	-5,753,177
Impairment loss upon re-measurement	-18,260	-695,195	-	-713,455
Total	**2,735,854**	**4,274,244**	**-1,242**	**7,008,856**

Thereof the assets representing the discontinued operations (assets which are subject to contribution in kind in the subsidiary OKTE, a.s.):

	31 December 2010
Acquisition costs	8,205,486
Accumulated depreciation	-3,236,047
Impairment loss	-695,195
Total	**4,274,244**

Impairment loss results from the lower of the value-in-use, which was determined by an independent external valuation expert, and the carrying value of a software. Details on method for calculation of impairment loss are described in Note 4 (iii).

Gain on the disposal of the assets related to the discontinued operation in the amount of EUR 345,571 (difference between the certified value of the contribution in kind determined by an independent appraisor and its carrying amount) will be recognized in the Income Statement at the transaction date - as at 1 January 2011.

8 Shares in subsidiaries and other investments

	2010	2009
At the beginning of the year	12,500	12,500
Additions	25,000	-
Disposals	-	-
At the end of the year	**37,500**	**12,500**

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, a.s. a Vattenfall Europe Transmission GmbH established Central Auction Office (CAO) based in Gute Änger 15, Freising, Germany for the purpose of introducing regional coordinated management of network overloading. In years 2009 and 2010 the Company participated with a share of 12.5% in this company.

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 consists of 25 registered shares at a nominal value of EUR 1,000. The Company contributed assets (contribution in kind) in the amount of EUR 4,619,815 in its subsidiary effective from 1 January 2011 (Note 7 and Note 30).

9 Financial assets

Loans to the company CAO

	2010	2009
At the beginning of the year	60,000	75,000
Additions	-	-
Disposals	-	15,000
At the end of the year	**60,000**	**60,000**
Less non-current portion of Loans to the company	-30,000	-45,000
Current portion of Loans to the Company	**30,000**	**15,000**

The balance as at 31 December 2010 represents the outstanding loan granted to the auction office (Note 8) with final maturity in year 2013 and repayment thereof in five annual installments.

The fair value of the loan granted to the auction office was calculated using the method of the discounted cash flows, using the discount rate of 12-month EURIBOR. The fair value is approximately equal to the carrying value of the loan. The credit risk exposure related to this loan is limited by the carrying value of the loan.

EUR 15,000 from the outstanding balance as at 31 December 2010 is past due. The Company expects a settlement therefore the loan is not considered to be impaired.

10 Financial instruments by category

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

As at 31 December 2010	**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)	-	38,697,009	38,697,009
Receivables due to derivative financial instruments	-	-	-
Other receivables	-	3,998,266	3,998,266
Cash at bank and in hand	-	66,692,841	66,692,841
Short-term bank deposits	-	-	-
Loans to the company CAO	-	60,000	60,000
Total	**-**	**109,448,116**	**109,448,116**

As at 31 December 2010	**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	-	66,228,110	66,228,110
Received guarantees	-	34,152,548	34,152,548
Liabilities due from derivative financial instruments	2,559,855	-	2,559,855
Other payables	-	239,318	239,318
Bank loans	-	53,100,000	53,100,000
Total	**2,559,855**	**153,719,976**	**156,279,831**

As at 31 December 2009	**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)	-	21,891,602	21,891,602
Receivables due to derivative financial instruments	-	-	-
Other receivables	-	4,454,871	4, 454,871
Cash at bank and in hand	-	38,475,775	38,475,775
Short-term bank deposits	-	-	-
Loans to the company CAO	-	60,000	60,000
Total	**-**	**64,882,248**	**64,882,248**

As at 31 December 2009	**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	-	68,056,330	68,056,330
Received guarantees	-	23,288,585	23,288,585
Liabilities due from derivative financial instruments	1,110,382	-	1,110,382
Other payables	-	1,957,216	1,957,216
Bank loans	-	64,560,532	64,560,532
Total	**1,110,382**	**157,862,663**	**158,973,045**

11 Inventories

	As at 31 December	
	2010	**2009**
Materials and spare parts	719,554	579,325
	719,554	**579,325**

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

12 Trade and other receivables

	As at 31 December 2010	2009
Current receivables and prepayments:		
Neither past due nor impaired trade receivables	34,356,960	19,171,483
Past due but not impaired trade receivables	4,336,156	102,852
Individually impaired trade receivables	3,893	2,617,267
Trade receivables (before provision for impairment)	**38,697,009**	**21,891,602**
Less: Provision for impairment of receivables	-3,893	-2,617,267
Trade receivables – net	**38,693,116**	**19,274,335**
VAT receivable	2,923,987	6,607,043
Grant receivable, current portion	-	107,790
Loan granted to OKTE, a.s.	20,000	-
Prepayments	76,982	6,767
Other receivables including accrued income	3,998,266	4,454,871
Less: Provision for impairment of other receivables	-	-11,708
Other receivables including accrued income - net	**7,019,235**	**11,164,763**
Total trade and other receivables	**45,712,351**	**30,439,098**

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

	As at 31 December 2010	2009
Receivables within due date	34,356,960	19,171,483
Overdue receivables	4,340,049	2,720,119
Total	**38,697,009**	**21,891,602**

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

	As at 31 December 2010	2009
Slovenské elektrárne, a.s.	3,421,829	1,642,586
Západoslovenská energetika, a. s.	53,294	49,799
Západoslovenská energetika Distribúcia, a. s.	5,270,356	4,031,564
Západoslovenská energetika Energia, a. s.	1,878,326	1,203,469
Stredoslovenská energetika, a. s.	2,110,242	1,467,329
Stredoslovenská energetika Distribúcia, a. s.	4,234,500	3,120,266
Východoslovenská energetika, a. s.	699,046	605,145
Východoslovenská energetika Distribúcia, a. s.	2,224,846	1,495,700
Other	14,464,521	5,555,625
Neither past due nor impaired trade receivables	**34,356,960**	**19,171,483**

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 2010, trade receivables of EUR 4,336,156 (31 December 2009: EUR 102,852) were past due but not impaired. Their ageing analysis is as follows:

	As at 31 December 2010	2009
1 to 90 days	4,336,109	102,852
91 to 180 days	47	-
Total past due but not impaired trade receivables	**4,336,156**	**102,852**

The closing balance of the Company's trade receivables includes receivables in the carrying amount of up to EUR 4,336,156 (31 December 2009: EUR 102,852) 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 2010, trade receivables of EUR 3,893 (31 December 2009: EUR 2,628,975) were impaired and provided for. As at 31 December 2010, the Company recorded a 100% provision for such receivables.

The ageing of these receivables is as follows:

	As at 31 December 2010	2009
Over 361 days	3,893	2,628,975
Total individually impaired receivables	**3,893**	**2,628,975**

The movements in the provision for impairment of trade receivables are recognized in the Income Statement in Other operating (expenses) / income. Movements are presented below:

	2010	2009
At the beginning of the year	2,628,975	2 ,994,062
Additional provision for receivables impairment	-	-
Unused amounts released	-1,318,328	-365,087
Receivables written-off during the year as uncollectible	-1,306,754	-
At end of the year	**3,893**	**2,628,975**

Amount of receivables written-off during the year and unused amounts are related to receivable due from Slovenské elektrárne, a.s. for providing of services related to capacity 200 MW on Slovak-Hungary border. Service was provided to Slovenské elektrárne, a.s. as it was probable that a contract will be signed by both counter-parties. The contract has not been signed, however, the service was provided during 2004 by SEPS, a.s. – the capacity has been provided to and used by Slovenské elektrárne, a.s. In 2005, the cross-border capacity of 200 MW has been subject to yearly auctions. In 2010, the receivable of EUR 1,306,754 was settled and EUR 1,306,754 has been released .

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

13 Cash and cash equivalents

	As at 31 December 2010	2009
Cash at bank and in hand	64,029,588	38,475,775
Short-term bank deposits	2,663,253	-
	66,692,841	**38,475,775**

At 31 December 2010 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 2010	2009
Cash and bank balances and deposits with original maturities of less than three months	66,692,841	38,475,775
	66,692,841	**38,475,775**

The carrying amounts of cash and cash equivalents as of 31 December 2010 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).

14 Shareholder's Equity

As at 31 December 2010, the registered capital of the Company consists 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 34,194 and 459 registered shares at a nominal value of EUR 34.

Equal rights are attributable to all types of shares.

In 2009, the share capital of the Company was increased by EUR 1,209 in relation to the replacement of national currency from SKK to EUR. The nominal value of shares was rounded up to whole Euros. The Company does not have any equity subscribed but not recorded in the Commercial Register.

Legal reserve fund is obligatorily created from profit of the Company in accordance with the Slovak Commercial Code. The minimum prescribed creation of the Legal reserve fund is 10% of its 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 16,366,275 as at 31 December 2010 (as at 31 December 2009: EUR 16,366,275).

Other capital reserves comprise statutory fund of EUR 104,890,029 as at 31 December 2010 to finance capital expenditure activities (31 December 2009: EUR 97,193,946).

The statutory fund to finance future capital expenditures is used to accumulate internal funds of the Company generated from profit to finance capital expenditures. In 2010, the Company contributed to this fund an amount of EUR 7,696,083 (31 December 2009: EUR 21,768,614) from 2009 profit distribution. 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 General Meeting decision.

The General Meeting held on 28 June 2010 approved the Financial Statements for 2009 and decided to pay dividends to the shareholders for 2009. In 2010, a dividend of EUR 1,344.27 (rounded) per share at a nominal value of EUR 33,194 and EUR 1.38 (rounded) per share at nominal value of EUR 34 was declared to the shareholders for the year 2009 (in 2009: EUR 2,302.50 per share at a nominal value of EUR 33,194 and EUR 2.30 per share at nominal value of EUR 34).

The profit generated for the year 2009 of EUR 11,551,815 was distributed as follows:

	2009 profit distribution	**2008 profit distribution**
Dividends paid – National Property Fund	3,313,996	5,676,160
Appropriation to the Statutory Fund	7,696,083	21,768,614
Transfer to retained earnings	541,736	298,746
Total	**11,551,815**	**27,743,520**

The retained earnings of the Company at 31 December 2010, incl. profit for the year, amounted to EUR 39,088,618 (31 December 2009: EUR 18,883,143).

As at the date of authorisation of these Financial Statements for issue, the statutory body has not yet proposed the distribution of the 2010 profit.

15 Trade and other payables

	As at 31 December	
	2010	**2009**
Trade payables	66,228,110	68,056,330
Received guarantees	34,152,548	23,288,585
Payables due to employees	798,623	229
Social security	370,492	359,063
Accrued personnel expenses	2,792,773	2,424,255
Liabilities due from derivative financial instruments	289,715	1,110,382
Social fund	259,749	190,759
Other payables	239,318	1,957,216
Total	**105,131,328**	**97,386,819**

The liabilities from derivative financial instruments include derivate transactions, other than hedging. These derivatives are used especially for the purpose of managing the risk related to the usual business transactions. As at 31 December 2010, the Company has three interest rate swaps with a negative fair value in the amount of EUR 2,270,140 (31 December 2009: negative fair value of swaps was EUR 746,549). The accrued interest amounted to EUR 289,715 (31 December 2009: EUR 363,833).

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

No payables are secured by a lien or other collateral.

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

	As at 31 December 2010	2009
Payables not yet due	97,886,182	82,177,812
Overdue payables	7,245,146	15,209,007
Total	**105,131,328**	**97,386,819**

Social fund

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

	2010	2009
Opening balance at 1 January	**190,759**	**68,947**
Appropriations expensed	466,496	464,048
Usage	-397,506	-342,236
Closing balance at 31 December	**259,749**	**190,759**

16 Bank loans and finance lease liabilities

	As at 31 December 2010	2009
Non-current		
Long term portion of bank loans (a)	43,100,000	53,100,000
Long term portion of finance lease	-	-
	43,100,000	**53,100,000**
Current		
Short term portion of bank loans (a)	10,000,000	11,460,532
Short term portion of finance lease	-	-
	10,000,000	**11,460,532**

(a) Bank loans

The maturity of bank loans is as follows:

Maturity	As at 31 December 2010	2009
Short term portion of bank loans	10,000,000	11,460,532
Long term portion of bank loans		
1-5 years	43,100,000	44,600,000
Over 5 years	-	8,500,000
Total	**53,100,000**	**64,560,532**

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

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

	31 December 2010	2009
Floating rate		
- Expiring within one year	23,235,743	23,235,743
- Expiring beyond one year	23,230,000	-
Fixed rate		
- Expiring within one year	-	-
Total	**46,465,743**	**23,235,743**

Loans from Dexia banka, a.s., from VÚB, a.s. and from Tatra banka, a.s. include certain financial covenants related to limits on debt ratios, interest coverage and debt to operating profit ratios 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:

	2010	2009
Bank borrowings	1.0038%	1.58%

Structure of bank loans as at 31 December 2010 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 2010	31 December 2009					
Dexia banka, a.s	Investment	EUR	-	1,460,532	0.903%	26.12.2010	-	-	-
Tatra banka, a.s.	Investment	EUR	18,200,000	23,800,000	3-month EURIBOR + 0.145%	23.4.2014	-	5,600,000	12,600,000
Slovenská sporiteľňa, a.s.	Investment	EUR	17,900,000	22,300,000	1-month EURIBOR + 0.145%	31.12.2014	-	4,400,000	13,500,000
Všeobecná úverová banka, a.s.	Investment	EUR	17,000,000	17,000,000	3-month EURIBOR + 0.85%	3.12.2015	-	-	17,000,000
Total	**X**	**X**	**53,100,000**	**64,560,532**	**X**	**X**	**X**	**10,000,000**	**43,100,000**

17 Grants and deferred revenues

Deferred revenues include the following items:

	As at 31 December	
	2010	**2009**
Deferred revenues		
Atel contract – long-term portion (a)	5,169,326	7,049,081
– current portion (a)	1,879,755	1,879,755
EBRD grant Križovany – long-term portion (b)	17,092,996	19,077,901
– current portion (b)	1,976,943	2,058,164
EBRD grant Lemešany – long term portion (c)	4,801,766	1,055,540
Auctions – current portion (d)	195,990	49,268
US Steel – long-term portion (e)	5,446,789	4,139,076
– current portion (e)	606,766	622,058
EU TEN-E – long-term portion (f)	926,471	-
– current portion (f)	51,952	-
E.ON – long-term portion (g)	3,698,937	-
– current portion (g)	392,866	-
Other – long-term portion	1,126,965	704,993
– current portion	63,403	39,161
Total	**43,430,925**	**36,674,997**

a)
As at the day of establishment, the Company assumed a contract providing rights with respect to the transmission of electricity from the predecessor entity, Slovenské elektrárne, a.s. The contract is signed with Atel (Switzerland) for a period of 16 years from the signing of the contract in 1998 until 30 September 2014, for which the predecessor entity received an amount of CHF 38 000 thousand which is released to revenues on a straight-line basis over a period of the contract duration. As at 31 December 2010, the deferred revenue amounts to EUR 7,049,081 (31 December 2009: EUR 8,928,836).

The contract is not in accordance with the European Union regulations which became effective after the contract had been concluded. The Company is convinced that a potential law suit result will be favourable and is currently negotiating a termination of the contract.

b)
On 10 December 2003, the Company concluded a grant contract with the European Bank for Reconstruction and Development (EBRD), under which the EBRD undertook to provide a grant of EUR 24 million for IPR "Križovany 400 kW, 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.

An amount of EUR 19,069,939 (31 December 2009: EUR 21,136,065) 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.

c)
On 18 December 2007, the Company concluded a grant contract with the European Bank for Reconstruction and Development (EBRD), under which the EBRD undertook to provide a grant of EUR 43.9 million for extension of IPR Bošáca 400kV, 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.

An amount of EUR 4,801,766 (31 December 2009: EUR 1,055,540) 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 also include the short-term received payments for auctions of available transmission capacity for 2011 in the amount of EUR 195,990 (31 December 2009: EUR 49,268).

e)
Deferred revenues include an amount of EUR 6,053,555 (31 December 2009: EUR 4,761,134) related to investment in the switching station in Košice. This station is owned by the Company, however, the company US Steel was obligated to co-finance the half of the station's acquisition costs. The cash receipt will be released into the Income Statement on a straight-line basis during the expected useful life of the station.

f)
Deferred revenue of EUR 978,423 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.

g)
Amount of EUR 4,091,803 included in Deferred revenues is related to a 100% co-financing by company E.ON for a part of station in Križovany, field 13.

18 Deferred tax

Deferred taxes are calculated on temporary differences under the balance sheet liability method using a principal tax rate of 19%.

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.

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

	At 1 January 2010	(Charge)/ credit to profit for the year	At 31 December 2010
Provisions for assets	2,375	-2,250	125
Depreciation and amortisation	-1,901,017	-225,834	-2,126,851
Provisions	388,802	117,063	505,865
Retirement benefit	1,451,024	1,882,754	3,333,778
Other	138,607	229,664	368,271
Total	**79,791**	**2,001,397**	**2,081,188**

The deferred tax asset related to discontinued operations of EUR 132,087 is included in the total balance as at 31 December 2010. The deferred tax charge was credited to the profit for the year from discontinued operations (Note 30).

	At 1 January 2009	(Charge)/ credit to profit for the year	At 31 December 2009
Provisions for assets	7,263	-4,888	2,375
Depreciation and amortisation	-1,238,477	-662,540	-1,901,017
Retirement benefit	337,502	51,300	388,802
Provisions	302,874	1,148,150	1,451,024
Other	16,398	122,209	138,607
Total	**-574,440**	**654,231**	**79,791**

19 Provisions for liabilities and charges

	Pensions benefits (a)	Legal claims (b)	Others (c)	Total
At 1 January 2010	**2,046,325**	**33,194**	**5,876,115**	**7,955,634**
Additional provisions	762,120	-	15,357,633	16,119,753
Provisions used	-146,000	-	-5,876,115	-6,022,115
Reversals of unused provision	-	-	-	-
At 31 December 2010	**2,662,445**	**33,194**	**15,357,633**	**18,053,272**

Analysis of total provisions	**As at 31 December 2010**	**2009**
Non-current	11,436,540	2,046,325
Current	6,616,732	5,909,309
Total	**18,053,272**	**7,955,634**

(a) Pension benefits

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

(i) post employment benefits

	As at 31 December 2010	**2009**
Present value of unfunded retirement obligations	2,625,482	2,014,362
Unrecognised actuarial gains/ (losses) and portion of past service costs	-	-
Obligation in the Statement of Financial Position	**2,625,482**	**2,014,362**

The present value of the unfunded retirement obligation as at 31 December 2008 amounted to EUR 1,751,362.

The amounts recognised in the Income Statement are as follows:

	2010	**2009**
Current service cost	710,120	144,000
Recognised actuarial gains/ (losses)	-24,000	163,000
Interest cost	64,000	59,000
Pension (credit) / cost, included in staff costs	**750,120**	**366,000**

Movements in the present value of defined benefit obligation are:

	2010	2009
Present value of unfunded retirement obligations at beginning of the year	2,014,362	1,751,362
Current service cost	710,120	144,000
Interest cost	64,000	59,000
Benefits paid	-139,000	-103,000
Actuarial (gains)/ losses	-24,000	163,000
Present value of unfunded retirement obligations at the end of the year	**2,625,482**	**2,014,362**

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

	As at 31 December	
	2010	2009
Present value of unfunded obligations	36,963	31,963
Obligation in the Statement of Financial Position	**36,963**	**31,963**

The amounts recognised in the Income Statement are as follows:

	2010	2009
Current service cost	3,000	3,000
Recognised actuarial gains/loss	7,000	9,000
Interest expense	1,000	1,000
Pension (credit) / cost, included in staff costs	**11,000**	**13,000**

Movements in the present value of defined benefit obligation are:

	2010	2009
Present value of unfunded retirement obligations at beginning of the year	31,963	24,963
Current service cost	3,000	3,000
Interest cost	1,000	1,000
Benefits paid	-6,000	-6,000
Actuarial gains/(losses)	7,000	9,000
Present value of unfunded retirement obligations at the end of the year	**36,963**	**31,963**

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

As at 31 December 2010	
Percentage of employees, who will terminate their employment with SEPS a.s. prior to retirement (fluctuation rate)	Approximately 5.2 – 10.1 % p.a., differing with age and sex
Expected salary increases - long-term	6% p. a.
- short-term	3% p. a.
Discount rate	4.61% p. a.

As at 31 December 2009	
Percentage of employees, who will terminate their employment with SEPS a.s. prior to retirement (fluctuation rate)	Approximately 6.6 – 14.5% p.a., differing with age and sex
Expected salary increases - long - term	6% p. a.
- short - term	3% p. a.
Discount rate	4.22% p. a.

(b) Provision for legal claims

A provision is created for those legal claims where it is probable, at the reporting date, that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. 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.

The Company recorded a provision for the legal dispute with E. I. S. spol. s r.o., in which E. I. S. spol. s.r.o. has claimed damages from the Company in the amount of EUR 33,194 as a result of lost profit. Resolution of the legal dispute is anticipated in the next year.

(c) Others

The Company concluded a trade contract for the period 2009 to 2011. The expected obligation for the Company from this contract exceeds the future economic benefits which will flow into the Company. The Company recorded a provision in the amount of EUR 6,583,538 (31 December 2009: EUR 5,876,115) for the expected negative impact of this contract.

In 2010, the provisions reflecting the adjustments of future prices were recorded as the actual revenues in 2010 exceeded the maximum allowed revenues and the Company expects the maximum allowed revenues in 2012 to be lower than both, the maximum allowed expenses and the expected expenses for 2012. Therefore the provision in the amount of EUR 8,774,095 as at 31 December 2010 was recorded.

20 Revenues

Revenues include the following:

Revenues from electricity transmission and transit:

	2010	**2009**
Access to transmission grid	105,054,631	80,563,396
Covering losses	13,802,717	17,633,396
System operation	26,126,342	9,858,274
System services	199,502,487	187,059,195
Auctions	5,822,886	28,666,770
Transit and other services	4,848,568	5,688,278
Total revenues from electricity transmission and transit	**355,157,631**	**329,469,309**
Rental	389,041	293,983
Telecommunications services	718,255	929,330
Other revenues	134,143	145,949
Total other revenues	**1,241,439**	**1,369,262**
Total revenue	**356,399,070**	**330,838,571**

The revenue from the Company's core activities mainly results from the regulatory framework and the URSO decisions, issued by this institution for the relevant year. For more information refer to Note 3.1 (i) (c).

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

21 Consumed materials and services

Consumed materials and services included the following:

	2010	2009
Material and energy consumption	23,123,208	25,638,902
Repair and maintenance	14,503,125	18,888,237
Travel expenses	280,407	333,708
Representation expenses	452,865	459,409
Rental	414,931	418,550
Telephone services	1,081,468	1,463,822
Stations service	4,304,534	4,703,953
Protection and maintenance of area	869,715	446,538
Revisions, controls, security services	1,953,728	1,706,442
Technical advisory	176,189	490,749
Cleaning	209,401	210,916
Biological recultivation	140,443	227,012
Geodetic services	450	379,900
Experts examinations, analysis, experts opinion, certifications	2,887,996	1,883,076
Information technology services, advertisement	8,037,377	6,569,013
Expenses for ancillary services	165,400,656	172,814,502
Expenses for system operation	24,450,697	10,466,807
Expenses for cross-border assistance	-	20,400
Expenses for auctions	1,263,106	678,778
Cross-border assistance expenses (CBT)	-50,000	242,421
Audit of Financial Statements provided by auditor	26,890	28,000
Advisory services	529,703	723,430
Tax advisory	17,925	21,754
Other services provided by auditor	11,150	7,000
Other	875,233	1,442,550
Total	**250,961,197**	**250,265,869**

Increase of expenses for system operation is caused by recording of provision reflecting adjustments of future prices (Note 4 (i) and 19 (c)) and by increase of volume of services provided.

22 Staff costs

	2010	2009
Wages and salaries	12,699,758	12,879,390
Other staff costs	2,035,100	1,183,054
Pension costs – defined contribution plans	3,699,552	3,419,815
Current service costs	713,120	147,000
Interest costs on pension and similar liabilities	65,000	60,000
Recognized actuarial losses/(gains)	-17,000	172,000
Total	**19,195,530**	**17,861,259**

23 Other operating expenses

	2010	2009
Insurance costs	2,257,793	2,182,120
Taxes and other fees	245,259	329,536
Gifts	489,300	574,215
Creation of provision	707,423	5,876,115
Other operating expense	192,840	415,807
Total	**3,892,615**	**9,377,793**

24 Other operating income

	2010	2009
Gain from sale of fixed assets	24,841	369,639
Gain from sale of material	154,570	62,659
Release of deferred revenues from a grant	2,054,904	1,954,014
Change in value adjustment to trade receivables	1,318,328	-
Contractual penalties	2,112,427	2,400,153
Release of provisions	-	776,278
Release of deferred revenues – Košice	607,538	192,858
Re-invoicing of overhead	497,909	-
Insurance claims and other	1,144,087	90,710
Total	**7,914,604**	**5,846,311**

25 Finance expense, net

	2010	2009
Interest income	69,149	115,441
Interest expense from borrowings	-493,833	-965,210
Foreign exchange gains	829	274,373
Foreign exchange losses	-16,774	-376,966
Finance income on derivative instruments	-	106,191
Finance expense on derivative instruments	-3,000,237	-1,383,263
Other financial expense	-16,751	-30,413
Net finance expense	**-3,457,617**	**-2,259,847**

26 Income tax expense

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

	Year ended 31 December	
	2010	**2009**
Profit before tax (from continuing operations)	39,850,970	15,080,103
Theoretical income tax related to current period at 19%	7,571,684	2,865,220
- Other income not subject to tax (permanent)	-26,330	-128,546
- Non-deductible expenses (permanent)	1,394,166	791,614
	8,939,520	**3,528,288**

Income tax expense for the period

The tax charge for the period comprises:		
- Deferred tax charge – expense/(income) (Note 18)	-1,869,310	-654,231
- Current income tax expense	10,808,830	4,182,519
	8,939,520	**3,528,288**
Effective tax rate	**22.4%**	**23.4 %**

The Slovak corporate tax rate valid for 2010 and 2009 is 19%.

27 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 liberalisation 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.

(c) Other

The Company is currently involved in a legal case with its former employee who is suing the Company for alleged unfair dismissal. According to the opinion of the management and taking into account relevant legal advices, it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate cannot be made of the amount of the obligation at the reporting date.

28 Commitments

(a) Capital commitments

The Company has contractual obligations under the contracts for the purchase of non-current assets entered into before 31 December 2010, the performance of which is scheduled only after 31 December 2010. The total obligation under the contracts amounts to EUR 152,247,453 (2009: EUR 84,914,327). Capital commitments represent mainly reconstruction of "Transmission lines 2x400 kV switching station Košice – Lemešany", reconstruction of switching station in Medzibrod, realization of transmission lines 2x400 kV for switching station in Medzibrod, reconstruction of transmission lines V406 Sučany-Hubová and remote management of switching stations.

The Company approved its capital expenditure budget for 2011 in the amount of EUR 89,062,804 (the 2010 capital expenditure budget: EUR 65,268,398). Capital expenditures mainly relate to the reconstruction of power lines 400/110 kV and switching station in Medzibrod, to reconstruction of power lines 400kV in Gabčíkovo, to remote management in Veľký Ďúr, Levice, Križovany and

Horná Ždaňa, to transmission lines 2x400 kV for switching station in Košice – Lemešany, to ICT systems.

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

(b) Operating lease commitments - Company as lessee

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

	31 December 2010	31 December 2009
Due within 1 year	425,547	444,044
Due in 2 to 5 years (inclusive)	1,693,165	1,727,783
Due after 5 years	402,275	840,693
Total	**2,520,987**	**3,012,520**

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 150,926 (31 December 2009: EUR 301,761). The main items include the lease of telecommunications routes.

c) Operating lease commitments - Company as lessor

The Company leases out mainly radio relay points and optic fiber cables.

The Company records the following minimum lease installments in relation to the operating lease contracts:

	31 December 2010	31 December 2009
Due within 1 year	75,371	347,954
Due in 2 to 5 years (inclusive)	280,668	1,810,627
Due after 5 years	110,448	778,277
Total	**466,487**	**2,936,858**

The Company has also entered into operating lease for an unlimited period of time, for which the annual lease payments amount to EUR 596,369 (31 December 2009: EUR 404,262).

29 Cash generated from operations

	Note	2010	2009
Profit before income tax		39,850,970	14,815,080
Adjustments for:			
Depreciation	5	36,668,655	36,962,910
Amortisation	6	5,880,804	5,142,124
Impairment charge for non-current assets	5	4,478,297	-
Changes in provisions for receivables	12	-2,625,081	-
Change in fair value of derivatives		1,523,591	
(Gain)/loss on disposal of property, plant and equipment		-24,841	-369,639
Interest income/expense, net	25	424,684	849,769
Net movements in provisions	19	10,097,638	6,146,115
Changes in working capital:			
Inventories (gross)		-140,229	-38,552
Trade and other receivables		-16,527,222	1,066,390
Trade and other payables, deferred revenues		-5,000,847	-81,849,829
Cash flows from discontinued operations	30	5,996,230	3,395,366
(Increase)/decrease of receivables related to approved grants not yet used for acquisition of non-current assets		-	45,940,286
Cash generated from operations		**80,602,649**	**32,060,020**

In the cash flow statement, proceeds from sale of property, plant and equipment are as follows:

	Note	Year ended 31 December 2010	2009
Net book amount	5	31,557	1,526,493
Profit/(loss) on disposal of property, plant and equipment	24	24,841	369,639
Proceeds from disposal of property, plant and equipment		**56,398**	**1,896,132**

30 Discontinued operations

On 11 August 2010, the 100% subsidiary of SEPS, a.s., the company OKTE, a.s., has been registered into the Commercial Register. The subsidiary has started to provide the services, which were provided by SEPS, a.s until 31 December 2010 (as a daily market operator for electricity traded on daily markets and for deviations in the Slovak Republic). Due to these facts the above mentioned activities are presented as discontinued operations.

	Year ended 31 December 2010	2009
Discontinued operations:		
Revenues	93,605,188	75,227,188
Consumed materials and services	-90,411,776	-73,338,680
Staff costs	-194,423	-190,825
Depreciation and amortization	-2,130,029	-1,432,660
Impairment loss for intangible assets	-695,195	-
Other operating expenses	-1,748	-
Operating profit	**172,017**	**265,023**
Profit before tax	**172,017**	**265,023**
Income tax (income) - deferred	132,087	-
Profit for the year from discontinued operations	**304,104**	**265,023**

The most significant part of revenues represent revenues from providing the services for deviations and regulatory energy in the amount of EUR 91,694,038 (31 December 2009: EUR 74,115,145) and other regulated services in the amount of EUR 1,806,675 (31 December 2009: EUR 1,112,043).

The highest part of consumed materials and services represent expenses for deviations and regulatory energy in the amount of EUR 89,705,565 (31 December 2009: EUR 73,052,516).

The Company started to providing services as a daily market operator since 2009. Net revenues resulting from providing services as a daily market operator are presented either as Revenues or Costs of sales depending on the net effect from this transaction. In the year 2010, the total amount of transaction amounted to EUR 133,314,621 (31 December 2009: EUR 37,692,931) and the related expenses represented EUR 134,012,872 (31 December 2009: 37,720,537). Net loss of EUR 698,251 (31 December 2009: 27,606) is presented under Consumed material and services.

Cash flows from discontinued operations

	2010	**2009**
Profit before tax	172,017	265,023
Adjustment for:		
Depreciation	154,290	154,804
Amortisation	1,975,739	1,277,856
Changes in provisions for non-current assets	695,195	-
Trade and other receivables	3,899,623	2,171,628
Trade and other payables, deferred revenues	-900,634	-473,945
Cash flow from discontinued operations	**5,996,230**	**3,395,366**

31 Related party transactions

Parties related to the Company include its sole shareholder, the subsidiary OKTE, a.s., investment in the company CAO and key management personnel of the Company or the shareholder. The Company has no significant transactions and balances with the shareholder and the company CAO.

The National Property Fund (FNM), an entity fully owned by the Slovak Republic is the sole shareholder of the Company.

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

The National Property Fund (FNM), an entity fully owned by the Slovak Republic, is the 51% shareholder of Západoslovenská energetika, a.s., Východoslovenská energetika, a.s. and Stredoslovenská energetika, a.s..

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

As at 31 December 2010, the outstanding balances with state-controlled entities and government bodies were as follows:

	Gross amount of trade receivables	**Other receivables**	**Value adjustment to trade receivables**	**Trade and other payables**
Slovenské elektrárne, a.s.	3,657,396	-	-	-11,855,235
Západoslovenská energetika, a.s.	58,748	-	-	-77,802
Západoslovenská energetika – Distribúcia, a.s.	9,250,857	-	-	-363,765
Západoslovenská energetika – Energia, a.s.	1,878,326	-	-	-213,598
Východoslovenská energetika, a.s.	699,046	-	-	-77,606
Východoslovenská energetika – Distribúcia, a.s.	2,224,846	-	-	-822,351
Stredoslovenská energetika, a.s.	2,110,242	-	-	-2,950,660
Stredoslovenská energetika – Distribúcia, a.s.	4,234,500	-	-	-534,488
Tepláreň Košice, a. s.	42,485	-	-	-2,074,894
Žilinská teplárenská, a. s.	4,507	-	-	-257,571
Martinská teplárenská, a. s.	82,309	-	-	-4,195,820
Zvolenská teplárenská, a. s.	644	-	-	-417,476
OKTE, a.s. - loan	184	20,000	-	-

The income and expense items with state-controlled entities and government bodies for the year ended 31 December 2010 were as follows:

	Sale of services	**Purchase of services**
Slovenské elektrárne, a.s.	51,113,735	-111,881,101
Západoslovenská energetika, a.s.	322,511	-681,839
Západoslovenská energetika – Distribúcia, a.s.	119,221,258	-3,595,353
Západoslovenská energetika – Energia, a.s.	20,869,589	-3,535,728
Východoslovenská energetika, a.s.	8,692,513	-2,780,508
Východoslovenská energetika – Distribúcia, a.s.	60,224,011	-14,269,383
Stredoslovenská energetika, a.s.	19,771,558	-18,368,113
Stredoslovenská energetika – Distribúcia, a.s.	83,247,043	-4,892,073
Tepláreň Košice, a. s.	308,393	-10,334,685
Žilinská teplárenská, a. s.	-	-1,175,616
Martinská teplárenská, a. s.	180,213	-1,872,003
Zvolenská teplárenská, a. s.	98,248	-3,247,989

As at 31 December 2009, the outstanding balances with state-controlled entities and government bodies were as follows:

	Gross amount of trade receivables	**Other receivables**	**Value adjustment to trade receivables**	**Trade and other payables**
Slovenské elektrárne, a.s.	4,255,826	-	-2,613,240	-9,626,573
Západoslovenská energetika, a.s.	68,246	-	-	-292,480
Západoslovenská energetika – Distribúcia, a.s.	4,031,564	-	-	-317,924
Západoslovenská energetika – Energia, a.s.	1,203,469	-	-	-894,607
Východoslovenská energetika, a.s.	605,145	-	-	-225,482
Východoslovenská energetika – Distribúcia, a.s.	1,495,700	-	-	-95,332
Stredoslovenská energetika, a.s.	1,467,329	-	-	-2,985,194
Stredoslovenská energetika – Distribúcia, a.s.	3,120,266	-	-	-437,242
Tepláreň Košice, a. s.	27,224	-	-	-1,601,696
Žilinská teplárenská, a. s.	1,469	-	-	-324,452
Martinská teplárenská, a. s.	17,060	-	-	-455,632
Zvolenská teplárenská, a. s.	24,909	-	-	-411,174

The income and expense items with state-controlled entities and government bodies for the year ended 31 December 2009 were as follows:

	Sale of services	**Purchase of services**
Slovenské elektrárne, a.s.	37,653,637	-132,585,632
Západoslovenská energetika, a.s.	235,311	-913,894
Západoslovenská energetika – Distribúcia, a.s.	106,949,187	-2,686,556
Západoslovenská energetika – Energia, a.s.	19,818,628	-3,370,797
Východoslovenská energetika, a.s.	8,780,913	-2,441,853
Východoslovenská energetika – Distribúcia, a.s.	55,503,370	-2,950,196
Stredoslovenská energetika, a.s.	18,235,481	-27,248,921
Stredoslovenská energetika – Distribúcia, a.s.	74,636,384	-5,685,795
Tepláreň Košice, a. s.	341,678	-10,555,205
Žilinská teplárenská, a. s.	-	-1,313,524
Martinská teplárenská, a. s.	164,742	-2,477,133
Zvolenská teplárenská, a. s.	200,934	-3,917,766

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 2010 and 31 December 2009, are as follows:

	Year ended 31 December 2010	**Year ended 31 December 2009**
Salaries and short term employee benefits	2,537,808	2,175,774
Total	**2,537,808**	**2,175,774**

32 Events after the reporting period

The Company plans to revalue the fixed assets to fair values effective from 1 January 2011. Presentation of fixed assets using a revaluation model would lead to a situation the Company's presentation is comparable to the presentation of fixed assets at other companies within the electricity industry. Presentation of fixed assets using revaluation model is conditioned by URSO approval for regulatory purposes. Revaluation has been performed by an independent valuation expert.

On 11 August 2010, the 100% subsidiary of SEPS, a.s., the company OKTE, a.s., has been registered into the Commercial Register. The subsidiary has started to provide the services, which were provided by SEPS, a.s until 31 December 2010 (as a daily market operator for electricity traded on daily markets and for deviations in the Slovak Republic). For more information refer to Note 7 and Note 30.

The Financial Statements for the year ended 31 December 2010 prepared in accordance with International Financial Reporting Standards as adopted by the European Union were prepared and authorized for issue on 25 March 2011.

....
Ing. Ján Horkovič
Chairman of the Board of Directors

....
Ing. Igor Grošaft
Member of the Board of Directors

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

....
Štefánia Gerthoferová
Person responsible for bookkeeping