Slovenský plynárenský priemysel, a.s.

INDEPENDENT AUDITOR'S REPORT AND SEPARATE FINANCIAL STATEMENTS (PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EU) FOR THE YEAR ENDED 31 DECEMBER 2016

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Register of the District Court Bratislava I
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Id. Nr.: 31 343 414
VAT Id. Nr.: SK2020325516

Slovenský plynárenský priemysel, a.s.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders, Supervisory Board and Board of Directors of Slovenský plynárenský priemysel, a.s.:

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Slovenský plynárenský priemysel, a.s. (the "Company"), which comprise the balance sheet as at 31 December 2016, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, a summary of significant accounting policies, and other supplementary information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("EU").

Basis for Opinion

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

Statutory Body's Responsibilities for the Financial Statements

The Company's statutory body is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as the Company's statutory body determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the statutory body is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the statutory body either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the statutory body.
- Conclude on the appropriateness of the statutory body's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on Information Disclosed in the Annual Report

The statutory body is responsible for information disclosed in the annual report prepared under the requirements of Act No. 431/2002 Coll. on Accounting, as amended (the "Act on Accounting"). Our opinion on the financial statements stated above does not apply to other information in the annual report.

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

The annual report was not available to us as at the issue date of the auditor's report on the audit of the financial statements.

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

- Information disclosed in the annual report prepared for 2016 is consistent with the financial statements for the relevant year; and
- The annual report includes information pursuant to the Act on Accounting.

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

Bratislava, 14 March 2017

Deloitte Audit s.r.o.
Licence SKAu No. 014

Ing. Peter Longauer, FCCA
Responsible Auditor
Licence UDVA No. 1136

CONTENTS

Slovenský plynárenský priemysel, a.s.
BALANCE SHEET
as at 31 December 2016 and 31 December 2015
(EUR '000)

	Note	31 December 2016	31 December 2015
ASSETS:			
NON-CURRENT ASSETS			
Investment property	8	18 785	20 641
Land, property, plant and equipment	7	85 884	90 626
Investments in subsidiaries and associates	6	2 031 495	2 031 495
Non-current intangible assets	9	5 109	3 216
Other non-current assets		28 514	33 590
Total non-current assets		2 169 787	2 179 568
CURRENT ASSETS			
Inventories	10	131 770	226 244
Receivables and prepayments	11	470 778	353 716
Income tax assets	22.1	-	31 733
Cash and cash equivalents		492 694	189 112
Total current assets		1 095 242	800 805
Assets held for sale or for reorganisation and partial sale		4	315
TOTAL ASSETS		**3 265 033**	**2 980 688**
EQUITY AND LIABILITIES:			
CAPITAL AND RESERVES			
Registered capital	16	885 062	885 062
Legal and other reserves	17	1 197 548	1 197 677
Revaluation reserves	17	257	(3 467)
Retained earnings		655 710	507 721
Total equity		2 738 577	2 586 993
NON-CURRENT LIABILITIES			
Non-current interest-bearing borrowings	14	84 397	84 240
Deferred income		25	25
Provisions for liabilities	13	31 190	28 823
Retirement and other long-term employee benefits	12	941	749
Other non-current liabilities		7 760	12 294
Total non-current liabilities		124 313	126 131
CURRENT LIABILITIES			
Trade and other payables	15	379 600	249 246
Income tax liabilities	22.1	2 825	-
Provisions and other current liabilities	13	19 718	18 318
Total current liabilities		402 143	267 564
Total liabilities		526 456	393 695
TOTAL EQUITY AND LIABILITIES		**3 265 033**	**2 980 688**

The financial statements on pages 5 to 43 were signed on 14 March 2017 on behalf of the Board of Directors:

Ing. Štefan Šabík
Chairman of the Board of Directors

Pierre Poncik, M.Sc.
Vice-Chairman of the Board of Directors

Slovenský plynárenský priemysel, a.s.
INCOME STATEMENT
Years ended 31 December 2016 and 31 December 2015
(EUR '000)

	Note	*Year ended 31 December 2016*	*Year ended 31 December 2015*
Sales of natural gas and electricity		1 279 987	1 332 501
Other		22 017	25 819
Own work capitalised		282	126
Purchases of natural gas, electricity, consumables and services		(1 148 443)	(1 271 975)
Depreciation and amortisation	7, 8, 9	(6 695)	(9 007)
Storage of natural gas and other services		(100 331)	(120 637)
Staff costs	18	(28 119)	(27 169)
Provisions for bad and doubtful debts, net	11	(21 123)	(11 397)
Provisions and impairment losses, net	13	(13 142)	(4 178)
Other, net		3 108	1 368
Investment income	19	499 753	542 576
Finance costs	20	(4 018)	(5 122)
Profit before income taxes		483 276	452 905
INCOME TAX	22	(20 287)	(17 786)
NET PROFIT FOR THE PERIOD		**462 989**	**435 119**

(EUR '000)

	Note	Year ended 31 December 2016	Year ended 31 December 2015
NET PROFIT FOR THE PERIOD		462 989	435 119
OTHER COMPREHENSIVE INCOME (may be reclassified to profit or loss in the future):	23		
Cash flow hedging		3 724	4 033
Deferred tax related to items of other comprehensive income for the period		-	-
OTHER COMPREHENSIVE INCOME (not reclassified to profit or loss in the future):	23		
Change in the liability for employee benefits		(129)	(6)
Deferred tax related to items of other comprehensive income for the period		-	-
OTHER NET COMPREHENSIVE INCOME FOR THE PERIOD		3 595	4 027
TOTAL NET COMPREHENSIVE INCOME FOR THE PERIOD		**466 584**	**439 146**

(EUR '000)

	Registered capital	*Legal and other funds*	*Hedging reserve*	*(Accumulated loss)/ Retained earnings*	*Total*
At 31 December 2014	**885 062**	**1 197 683**	**(7 500)**	**361 149**	**2 436 394**
Net profit for the period	-	-	-	435 119	435 119
Other comprehensive income for the period	-	(6)	4 033	-	4 027
Dividends paid	-	-	-	(288 547)	(288 547)
Transfer to retained earnings	-	-	-	-	-
At 31 December 2015	**885 062**	**1 197 677**	**(3 467)**	**507 721**	**2 586 993**
Net profit for the period	-	-	-	462 989	462 989
Other comprehensive income for the period	-	(129)	3 724	-	3 595
Dividends paid	-	-	-	(315 000)	(315 000)
Transfer to retained earnings	-	-	-	-	-
At 31 December 2016	**885 062**	**1 197 548**	**257**	**655 710**	**2 738 577**

(EUR '000)

	Note	*Year ended 31 December 2016*	*Year ended 31 December 2015*
OPERATING ACTIVITIES			
Cash flows from operating activities	24	92 118	58 732
Interest paid		(3 456)	(7 275)
Interest received		663	1 137
Income tax paid/refund of tax overpayments		14 270	(247 720)
Net cash flows from operating activities		103 595	(195 126)
INVESTING ACTIVITIES			
Proceeds from provided borrowings		-	-
Purchase of property, plant and equipment		(2 099)	(1 733)
Proceeds from the sale of land, property, plant and equipment and intangible assets		1 677	1 041
Dividends received*	19	515 443	238 165
Net cash inflow/(outflow) from investing activities		515 021	237 473
FINANCING ACTIVITIES			
Proceeds from interest-bearing borrowings	14	-	490 000
Expenditures for the repayment of interest-bearing borrowings	14	-	(74 268)
Dividends paid	17	(315 000)	(288 547)
Other proceeds and expenditures from financial activities, net		(46)	(53)
Net cash flows from financing activities		(315 046)	127 132
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		303 570	169 479
EFFECTS OF FOREIGN EXCHANGE FLUCTUATIONS		12	11
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		189 112	19 622
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**492 694**	**189 112**

**Dividends received for the year ended 31 December 2015 represent a portion of dividends received from joint ventures and associates, and the remaining amount of the received dividends was offset with a payable from received loans.*

(EUR '000)

1. GENERAL

1.1. General Information

Slovenský plynárenský priemysel, a.s. ("SPP") was founded on 21 December 1988 by a Memorandum of Association as a 100% state-owned enterprise in the Slovak Republic. On 1 July 2001, SPP was transformed into a joint-stock company (akciová spoločnosť) that was 100% owned by the National Property Fund of the Slovak Republic.

A consortium of strategic investors acquired a 49% share in SPP with management control with effect from 11 July 2002. As at 31 December 2012, SPP's shares are held by the National Property Fund of the Slovak Republic (51%) and Slovak Gas Holding, B. V., the Netherlands (49%) (jointly held indirectly by GDF SUEZ SA and E.ON Ruhrgas). On 15 January 2013, GDF International SAS, E.ON Ruhrgas International GmbH and E.ON SE signed an agreement with Energetický a Průmyslový Holding, a.s. ("EPH"), a leading player on the heat, coal and electricity market in Central Europe, on the sale of their ownership interests in Slovak Gas Holding, B.V. ("SGH"), which owned a 49% share in SPP and exercised operating and management control. The transaction was completed on 23 January 2013.

In 2014, the SPP Group underwent a reorganisation that also included the contribution of the SPP's ownership interests in the entities: SPP – distribúcia, a.s., eustream, a.s., NAFTA a.s., SPP Infrastructure Financing B.V., SPP Bohemia, a.s., SPP Storage, s.r.o., Pozagas, a.s., GEOTERM Košice, a.s., Probugas, a.s., SLOVGEOTERM, a.s. and GALANTATERM, spol. s r.o. into a newly-established 100% subsidiary, SPP Infrastructure, a.s. On 4 June 2014, SPP subsequently sold its almost 49% ownership interest including management control in SPP Infrastructure, a.s. to SGH, and acquired treasury shares from SGH. As a result, the Government of the Slovak Republic has become the 100% owner of SPP.

These financial statements represent the separate financial statements of SPP. They were prepared for the reporting period from 1 January to 31 December 2016 in accordance with International Financial Reporting Standards as adopted by the EU.

Identification number (IČO)	35 815 256
Tax identification number (DIČ)	2020259802

On 19 May 2016, the Annual General Meeting approved the 2015 financial statements of SPP.

1.2. Principal Activities

Since 1 July 2006, after the legal unbundling process SPP has sold natural gas and electricity.

1.3. Employees

The average number of SPP employees for the year ended 31 December 2016 was 731, of which 1 was executive management (for the year ended 31 December 2015: 750, of which 1 was executive management).

The actual number of full-time employees as at 31 December 2016 was 715 (as at 31 December 2015: 745).

1.4. Registered Address

Mlynské nivy 44/a
825 11 Bratislava
Slovak Republic

2. NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS AND CHANGES IN ESTIMATES

Application of New and Revised International Financial Reporting Standards

The Company has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that have been endorsed for use in the European Union (hereinafter the "EU"), and that are relevant to its operations and effective for annual periods beginning on 1 January 2016. The following standards, amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" – Investment Entities: Applying the Consolidation Exception – adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2016),

- Amendments to IFRS 11 "Joint Arrangements" – Accounting for Acquisitions of Interests in Joint Operations – adopted by the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016),

- Amendments to IAS 1 "Presentation of Financial Statements" – Disclosure Initiative – adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),

- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" – Clarification of Acceptable Methods of Depreciation and Amortisation – adopted by the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016),

- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" – Bearer Plants – adopted by the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016),

- Amendments to IAS 19 "Employee Benefits" – Defined Benefit Plans: Employee Contributions – adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),

- Amendments to IAS 27 "Separate Financial Statements" – Equity Method in Separate Financial Statements – adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),

- Amendments to various standards "Improvements to IFRSs (cycle 2010 – 2012)" resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015),

- Amendments to various standards "Improvements to IFRSs (cycle 2012 – 2014)" resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 15 December 2015 (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The adoption of these amendments to the existing standards has not led to any material changes in the Company's financial statements.

At the date of authorisation of these financial statements, the following new standards and amendments to standards issued by IASB and adopted by the EU are not yet effective:

- IFRS 9 "Financial Instruments" – adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),

- IFRS 15 "Revenue from Contracts with Customers" and amendments to IFRS 15 "Effective date of IFRS 15" – adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU as at the reporting date (effective dates stated below are for IFRS in full):

- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,

- IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019),

- Amendments to IFRS 2 "Share-based Payment" – Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),

- Amendments to IFRS 4 "Insurance Contracts" – Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied for the first time),

- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),

- Amendments to IFRS 15 "Revenue from Contracts with Customers" – Clarifications to IFRS 15 "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018),

- Amendments to IAS 7 "Statement of Cash Flows" – Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),

- Amendments to IAS 12 "Income Taxes" – Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017),

- Amendments to IAS 40 "Investment Property" – Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),

- Amendments to various standards "Improvements to IFRSs (cycle 2014 – 2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),

- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after 1 January 2018).

Hedge accounting for a portfolio of financial assets and liabilities whose principles have not been adopted by the EU remains unregulated.

According to the Company's estimates, the application of hedge accounting to a portfolio of financial assets or liabilities pursuant to IAS 39 "Financial Instruments: Recognition and Measurement" would not significantly impact the financial statements if applied as at the balance sheet date.

The Company anticipates that the adoption of these standards and amendments to the existing standards and interpretation will have no material impact on its financial statements in the initial application period.

3. SUMMARY OF ACCOUNTING POLICIES

a) Basis of Accounting

The separate financial statements have been prepared in accordance with IFRS as adopted by the EU. IFRS relevant for SPP as adopted by the EU currently do not significantly differ from IFRS as issued by the IASB.

The financial statements are prepared under the historical cost convention, except for the specified categories of property, plant and equipment and certain financial instruments. The principal accounting policies adopted are detailed below. The reporting and functional currency of SPP is the euro (EUR). The separate financial statements were prepared under the going-concern assumption.

SPP will prepare and issue consolidated financial statements for the year ended 31 December 2016 that comply with IFRS as adopted by the EU. The consolidated financial statements are issued separately and do not accompany these separate financial statements. For a better understanding of the Company's consolidated financial position and results of operations, reference should be made to the consolidated financial statements for the year ended 31 December 2016.

b) Subsidiaries and Associated Companies

Investments in subsidiaries and associated companies are recognised at cost. The cost of the investment in a subsidiary is based on the costs attributed to the acquisition of the investment, which represents the fair value of the consideration given and directly attributable transaction costs.

c) Financial Assets

Financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss" (FVTPL), "held-to-maturity investments", "available-for-sale financial assets" (AFS) and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require the delivery of the assets within the timeframe established by a regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets are classified as at FVTPL when the financial asset is either held for trading or designated as at FVTPL.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Financial assets classified as at FVTPL mainly include agreements on the purchase or sale of commodities not meeting the measurement exception under IAS 39 and financial derivatives concluded to ensure economic hedging to which the hedge accounting was not applied.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any 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. Loans and receivables including trade and other receivables, bank balances and cash are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Trade receivables are measured at the expected realisable value less a provision for debtors in bankruptcy or restructuring proceedings and less a provision for doubtful and uncollectible overdue receivables where there is a risk that the debtor will not pay them fully or partially.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For all other financial assets, objective evidence of impairment could include:
- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as a default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- The disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through a provision account. When a trade receivable is considered uncollectible, it is written off against the provision account. Subsequent recoveries of amounts previously written off are credited against the provision account. Changes in the carrying amount of the provision account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously-recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On the derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

d) Financial Liabilities

Financial liabilities are classified as either financial liabilities „at fair value through profit or loss" (FVTPL) or „ other financial liabilities".

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss when the financial liability is either held for trading or it is designated as at FVTPL.
Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'Finance costs' line in profit or loss.

Other financial liabilities

Other financial liabilities (including borrowings) are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Company derecognises financial liabilities only when the Company's obligations are met, cancelled or expired. The difference between the carrying amount of the financial liability and the consideration paid and the amount payable is recognised in the income statement.

e) Derivative Financial Instruments

The Company enters into a number of derivative contracts in order to manage the risk of changes in commodity prices, interest rates and the foreign exchange risk, including forward currency contracts and interest rate and commodity swaps.

Derivative financial instruments are contracts: (i) whose value changes in response to a change in one or more identifiable variables; (ii) that require no significant net initial investment; and (iii) that are settled at a certain future date. Derivative financial instruments, therefore, include swaps, futures, and firm commitments to buy or sell non-financial assets that include the physical delivery of the underlying assets, except for contracts intended for their own use (the so-called own use exception).

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Hedge accounting

The Company designates hedging instruments that include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in profit or loss in the line item relating to the hedged item.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair-value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

In the event that a financial derivate does not meet or no longer meets the requirements for hedge accounting, changes in the fair value are directly recognised in the income statement as "Mark-to-market" or as "Mark-to-market on commodity contracts other than trading instruments" in ordinary operating income from derivative financial instruments with non-financial assets as the underlying assets, and in financial revenues or expenses in the case of currency, interest rate or equity derivatives. Derivative financial instruments used by the Company for trading activities with own energy and energy on behalf of customers, and other derivative financial instruments that are due in less than 12 months are recognised in the statement of financial position as current assets or current liabilities, while derivative financial instruments due after this period are classified as non-current items.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

f) Land, Property, Plant and Equipment, and Intangible Assets

Prior to 2014, the property, plant and equipment used for natural gas transmission were recognised on the balance sheet at a remeasured value representing their fair value as at the remeasurement date less potential subsequent accumulated depreciation and subsequent accumulated losses from permanent impairment. As at 31 December 2016 and 31 December 2015, the Company did not recognise any assets used for natural gas transmission on the balance sheet using the revaluation model.

Other property, plant and equipment ("non-current assets") and intangible assets were recognised at cost net of accumulated depreciation as at 31 December 2016 and 31 December 2015. Cost includes all costs attributable to placing the non-current asset into service for its intended use.

In 2016, the Company changed its accounting policy for the measurement of assets. It stopped using the revaluation model under IAS 16 "Property, Plant and Equipment" and adopted the cost model based on historical costs net of accumulated depreciation and provisions. As the Company recognised no assets using the revaluation model as at 31 December 2016 and 31 December 2015, this change in the accounting policy had no impact on the financial statements as at 31 December 2016 and 31 December 2015.

Items of non-current assets that are retired or disposed of for another reason are derecognised from the balance sheet at the net book value. Any gain or loss resulting from such retirement or disposal is included in the income statement.

Other items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives. Depreciation is charged to the income statement computed so as to amortise the cost of the non-current assets to their estimated residual values over their residual useful lives.

(EUR '000)

The useful lives of non-current assets used are as follows:

	2016	*2015*
Buildings	30 - 40	30 - 40
Plant and machinery	3 - 15	3 - 15
Fixtures and fittings	8 - 15	8 - 15
Software – tangible	3 - 4	3 - 4
Other non-current tangible assets	8	8

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

Intangible assets with limited useful lives that are acquired separately are recognised at cost less accumulated amortisation and accumulated impairment losses. Estimated useful lives are re-assessed at the end of each reporting period.

At each reporting date, an assessment is made as to whether there is any indication that the realisable value of the Company's non-current assets is less than the carrying amount. When such an indication occurs, the realisable value of the asset, being the higher of the asset's fair value less costs of disposal and the present value of future cash flows ("value-in-use"), is estimated. The resulting impairment loss provision is recognised in full in the income statement in the year in which the impairment occurs. The discount rates used to calculate the present value of the future cash flows reflect the current market assessments of the time value of money and the risks specific to the asset. In the event that a decision is made to abandon a construction project in progress or significantly to postpone its planned completion date, the carrying amount of the asset is reviewed for potential impairment and a provision recorded, if appropriate.

Expenditures relating to an item of non-current assets after being placed into service are added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the original assessed standard of performance of the existing asset, will flow to the enterprise. All other expenditures are treated as repairs and maintenance and are expensed in the period in which they are incurred.

g) Investment Property

Investment property that is held to generate income from a lease is initially recognised at cost inclusive of costs related to acquisition. They are subsequently recognised at historical cost. The Company does not apply any revaluation model for such assets.

h) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of natural gas stored in underground storage facilities and raw materials is calculated using the weighted arithmetic average method. The cost of natural gas and raw materials includes the cost of acquisition and related costs, and the cost of inventories developed internally includes materials, other direct costs, and production overheads. A provision in the required amount is recorded for inventories if there is an indication of their impairment.

i) Cash and Cash Equivalents

Cash and cash equivalents consist of cash in hand and cash in bank, and highly liquid securities with insignificant risk of changes in value and original maturities of three months or less from the date of issue.

j) Provisions for Liabilities

A provision is recognised when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable 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. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. The amount of the provision is the present value of the risk-adjusted expenditures expected to be required to settle the obligation. The applied discounted rate reflects the current market expectations regarding the time value of money and risks specific to the relevant liability. Where discounting is used, the carrying amount of the provision increases in each period to reflect the unwinding of the discount by the passage of time.

k) Borrowing Costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

l) Revenue Recognition

Sales are recorded upon the delivery of products or the performance of services, net of value added tax and discounts. The Company records revenues from sales of natural gas and electricity and other activities on the accrual basis. Revenues include estimates of natural gas and electricity supplies, but not invoiced as at the reporting date.

m) Social Security and Pension Schemes

The Company is required to make contributions to various mandatory government insurance schemes, together with contributions by employees. The cost of social security payments is charged to the income statement in the same period as the related salary cost.

n) Retirement and Other Long-Term Employee Benefits

The Company has a long-term employee benefit program comprising a lump-sum retirement benefit, and work jubilee benefits, for which no separate financial funds were earmarked. In accordance with IAS 19, the employee benefits costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the income statement so as to spread the regular cost over the service period of employees. The benefit obligation is measured at the present value of the estimated future cash flows discounted by market yields on Slovak government bonds, which have terms to maturity approximating the terms of the related liability. All actuarial gains and losses are recognised in the statement of other comprehensive income. Past service costs are recognised when incurred as expenses.

o) Leases

A finance lease is a lease that transfers all the risks and rewards incidental to the ownership of an asset (economic substance of the arrangement). The accounting treatment of leases is not dependent on which party is the legal owner of the leased asset.

Operating lease
An operating lease is a lease other than a finance lease. The lessee under an operating lease arrangement does not present assets subject to an operating lease in its balance sheet nor does it recognise operating lease obligations for future periods. Lease payments under an operating lease shall be recognised as an expense on a straight-line basis over the lease term.

Sales and operating leaseback
If the leaseback is classified as an operating lease, profit is recognised immediately if the terms and conditions of the sale and leaseback transaction are clearly stated at fair value. If this is not the case, the sale and leaseback are recognised as follows:

- If the price is equal to or lower than the fair value, gains and losses are recognised immediately. However, if the loss is compensated by future lease payments that are below the market value, the loss will be deferred and depreciated over the period over which the assets are expected to be used.
- If the selling price is higher than the fair value, the resulting profit will be deferred and depreciated over the useful life of the assets.
- If the fair value is lower than the carrying amount of the assets as at the transaction date, such difference is recognised immediately as an impairment loss.

p) Income Tax

Income tax is calculated from the profit/loss before tax recognised under International Financial Reporting Standards adjusted pursuant to the relevant Decree of the Ministry of Finance of the Slovak Republic after adjustments for individual items increasing and decreasing the tax base in line with Act No. 595/2003 Coll. on Income Tax, as amended, using the applicable income tax rate.

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Deferred tax is calculated at the tax rates that are expected to apply for the period when the asset is realised or the liability is settled. Deferred tax is charged or credited to the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also recorded in equity. The income tax rate effective for 2016 is 22% (tax rate effective since 1 January 2014). With effect from 1 January 2017, the income tax rate was changed to 21% (this rate will be used to calculate tax for a taxation period starting on 1 January 2017 or later).

The principal temporary differences arise from depreciations on property, plant and equipment and various provisions. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised.

Current and deferred tax for the year
Current and deferred tax are recognised through profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively. A special levy is recognised as part of income taxes.

Special Levy on Business in Regulated Industries
Pursuant to the requirements of the IFRS, the income tax also includes a special levy as per Act No. 235/2013 Coll. on a Special Levy on Business in Regulated Industries and on Amendment to and Supplementation of Certain Acts. It is recognised through profit or loss.

The Company is a regulated entity and has been obliged to pay special levies since September 2012. Under an amendment to the act effective from 1 January 2017, the last levy period of December 2016 was cancelled. The levy period is a calendar month and the levy rate effective for 2016 is 0.00363. The base for the Company's levy is the profit/loss before tax recognised in accordance with IFRS and adjusted to the profit/loss recognised pursuant to the relevant Decree of the Ministry of Finance of the Slovak Republic and further adjusted pursuant to the Special Levy Act.

q) Foreign Currencies

Transactions in foreign currencies are initially recorded at the exchange rates of the European Central Bank (ECB) valid on the transaction dates. Monetary assets, receivables, and payables denominated in foreign currencies are retranslated at the ECB exchange rates valid on the reporting date. Foreign exchange gains and losses are included in the income statement.

r) Non-Current Assets Held for Sale

Non-current assets are classified as held for sale if their carrying amount can be recovered through a sale transaction rather than through continuing use. This condition is considered fulfilled only when the sale is highly probable and the non-current asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. This classification was also applied to subsidiaries, joint ventures and associates which were partially disposed of during the reorganisation of the SPP Group (refer to Note 1.1).

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and the fair value less costs to sell.

4. ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Company's accounting policies, as described in Note 3, SPP has made the following decisions concerning uncertainties and estimates that have a significant impact on the amounts recognised in the financial statements. There is a significant risk of material adjustments in future periods relating to such matters, including the following:

Litigation

SPP is involved in various legal proceedings for which management has assessed the probability of loss that may result in cash outflow. In making this assessment, SPP has relied on the advice of external legal counsel, the latest available information on the status of the court proceedings, and an internal evaluation of the likely outcome. The final amount of any potential losses in relation to the legal proceedings is not known and may result in a material adjustment to the previous estimates. Details of the legal cases are included in Note 25.

Provision for Litigation and Potential Disputes

The financial statements include a provision for litigation and potential disputes which were estimated using available information and an assessment of the achievable outcome of the individual disputes. The provision is not recognised unless a reasonable estimate can be made.

Impairment of Property, Plant and Equipment

The Company calculated and recorded amounts for the impairment of property, plant and equipment on the basis of an evaluation of their future use, on planned liquidation or sale, and based on information received from real estate agencies. For some of these items, no final decision has yet been made and thus the assumptions on the use, liquidation, or sale of assets may change. Refer to Note 7 for details on the impairment of property, plant and equipment.

Un-Billed Gas Sales

SPP records significant amounts as revenues from gas sales on the basis of estimated gas consumption by small industrial customers and residential customers. SPP makes an estimate of these revenues by allocating actual measured gas consumption to the individual categories of customers on the basis of past consumption trends and applying the valid natural gas prices. Actual consumption by customers in the different categories may vary and so the amounts recorded as revenues may change, given the price differences between categories of customers.

Current Crisis in Ukraine

The Company is monitoring the development of the current crisis in Ukraine and its potential impact on the Company's business. The Company's management believes that a significant negative impact on the Company's financial performance is unlikely. The Company seeks to diversify its natural gas resources by purchasing and using reverse flows from Western Europe, and also by maintaining maximum natural gas reserves in storage facilities which are able to cover short-term deficits in Russian natural gas supplies. In the event of a long-term non-performance of liabilities by the Russian supplier of natural gas there may be potential adverse impacts, which, however, cannot be reasonably estimated.

Provision for Onerous Contracts

As at 31 December 2016, the separate financial statements include significant amounts recognised as provisions for onerous contracts with respect to non-cancellable contractual commitments to supply natural gas to customers based on sales contracts. These provisions are based on current market information on the future development of natural gas prices in spot markets, which are volatile. For more information, see Note 13.

Decisions In Application of Accounting Policies

In addition to key sources of uncertainty listed above, the Company used judgment when applying accounting policies and assessing the requirements of the standards as described in Note 3, which have a significant impact on the recognition of items in the separate financial statements. These requirements mainly include:

- Evaluation of new requirements under IFRS 13 for the measurement of non-financial assets at fair value (see Notes 2 and 3); and
- Assessment of the IAS 39 rules for the application of an exemption allowing one not to account for certain commodity sell and buy contracts as financial derivatives (see Note 3e).

(EUR '000)

5. FINANCIAL INSTRUMENTS

a) Financial Risk Management

The Company is exposed to various financial risks, including the effects of changes in gas purchase and selling prices. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company. In 2016 and 2015, the Company entered into derivative transactions, for example, forward currency contracts and commodity swaps, in order to manage certain risks. The purpose of forward currency contracts is to eliminate the effects of changes in the CZK/EUR exchange rates owing to future payments and revenues denominated in a foreign currency. The purpose of commodity swaps is to limit the price risks of sales contracts with customers and purchase contracts with suppliers.

The main risks arising from the Company's financial instruments are commodity price risk, interest rate risk, credit risk and liquidity risk. Risk management is performed by the Audit, Risk and Process Management Section in accordance with the procedures approved by the Board of Directors.

(1) Commodity Price Risk

The Company is a party to framework agreements for the purchase of natural gas and other services and materials. In addition, the Company enters into contracts for natural gas sales and natural gas storage. Contracts for natural gas storage are at fixed prices, which are escalated every year based on price indices.

As at 31 December 2016 the Company used commodity swap contracts to manage the risk of commodity price fluctuations. As at 31 December 2015, the Company also used hedging derivative contracts to hedge sale transactions.

The following table details the open commodity swap contracts at the reporting date:

Open commodity swap contracts	***2016***		***2016***	
	Nominal amount		***Fair value***	
	Hedging	***Held for trading***	***Hedging***	***Held for trading***
Purchase/sell gas				
Less than 3 months	77 390	180	5 288	44
3 to 12 months	119 099	513	9 793	128
Over 12 months	25 820	-	4 424	-

Open commodity swap contracts	***2015***		***2015***	
	Nominal amount		***Fair value***	
	Hedging	***Held for trading***	***Hedging***	***Held for trading***
Purchase/sell gas				
Less than 3 months	85 646	9	(22 299)	(16)
3 to 12 months	140 844	8	(33 239)	9
Over 12 months	56 763	693	(12 294)	246

(2) Interest Rate Risk

The Company was exposed to minimum interest rate risks associated with interest rate volatility, as it only drew one long-term loan with a fixed interest rate.

For SPP, the volatility of interest rates for short-term loans does not represent a significant risk as such loans are drawn only occasionally, and the level of interbank EURIBOR interest rates have recently been at their historical minimums (1M EURIBOR that is used as a reference interest rate for short-term loans drawn by the Company reached -0.368% p.a. as at 31 December 2016, which was a decrease by 0.163% p.a. compared to the amount as at 31 December 2015 when 1M EURIBOR reached -0.205% p.a.).

Given the minimum level of short-term interest rates, sensitivity to a potential decrease of interest rates by more than 0.1-0.2% cannot be tested. On the contrary, if interest rates increase, interest expenses will increase only slightly, since these loans are drawn by the Company only several times a year.

No short-term loan was drawn as at 31 December 2016 and 31 December 2015. In 2015, limited use was made of short-term loans to bridge a lack of liquidity for short periods.

(EUR '000)

(3) Credit risk related to receivables

The Company sells its products and services to various customers that, neither individually nor as a whole in terms of volume and solvency, represent a significant risk that receivables will not be settled pursuant to the valid risk management policy. The Company has policies in place that ensure that products and services are sold to customers with an appropriate credit history and that an acceptable limit to credit exposure is not exceeded.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet, net of provisions.

(4) Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash with an appropriate due date and marketable securities, the availability of funding through an adequate amount of committed credit lines, and the ability to close open market positions. Due to the dynamic nature of the underlying business, Treasury function aims to maintain flexibility by keeping committed credit lines available and synchronising the maturity of financial assets with financial needs. To settle outstanding liabilities, the Company has funds and undrawn credit lines at its disposal.

As at 31 December 2016, the Company only drew long-term loans (including accrued interest) amounting to EUR 84 397 thousand (31 December 2015: EUR 84 240 thousand).

Loans with maturity of less than 2 years are drawn in EUR with a variable interest rate linked to 1M EURIBOR (in some cases O/N for overdraft facilities). For long-term loans, the interest rate is set as fixed.

The bulk of short-term credit lines include an automatic loan extension clause, provided that none of the parties concerned cancels the loan within the specified period. Long- or medium-term loans have a fixed maturity date, while the loan is payable in a lump sum as at the final maturity date, ie 2020.

All loans are provided without any collateral, using common market provisions (pari-passu, ban to pledge assets, substantial negative impact). With regard to the balance of the credit facilities drawn as at 31 December 2016 in the amount of EUR 84 397 thousand (whereas the funds and tradable securities amounted to EUR 492 694 thousand), the net debt totals EUR 0. If necessary, maturing credit facilities may be paid off from undrawn credit facilities, as well as from available funds and tradable securities (at 31 December 2016 in the amount of EUR 500 000 thousand from joint ventures and associates and EUR 304 000 thousand from banks).

The table below summarises the maturity of financial liabilities at 31 December 2016 and 31 December 2015 based on contractual undiscounted payments:

31 December 2016	***On demand***	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***> 5 years***	***Total***
Borrowings	-	-	-	84 397	-	84 397
Other liabilities	-	94 929	72 970	7 760	-	175 659
Trade payables	-	199 872	-	-	-	199 872

31 December 2015	***On demand***	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***> 5 years***	***Total***
Borrowings	-	-	-	84 240	-	84 240
Other liabilities	-	56 922	33 239	12 294	-	102 455
Trade payables	-	144 968	-	-	-	144 968

(EUR '000)

b) Capital Risk Management

The Company manages its capital to ensure that it continues as a going concern while maximising the return to shareholders through optimising the debt and equity ratio, as well as through ensuring a high credit rating and sound capital ratios.

The capital structure of the Company consists of cash and cash equivalents and equity attributable to the Company's owners, which comprise the registered capital, legal and other reserves and retained earnings as disclosed in Notes 16 and 17 and loans as discussed in Note 14.

The gearing ratio:

	At 31 December 2016	*At 31 December 2015*
Debt (i)	84 397	84 240
Cash and cash equivalents	492 694	189 112
Net debt	-	-
Equity (ii)	2 738 577	2 586 993
Net debt to equity ratio	**0%**	**0%**

(i) Debt is defined as long- and short-term borrowings (including accrued interest)
(ii) Page 5

c) Categories of Financial Instruments

	At 31 December 2016	*At 31 December 2015*
Financial assets		
Loans and receivables (including cash and cash equivalents)	830 013	491 639
Financial derivatives held for trading	109 306	20 416
Financial derivatives recognised as hedging	31 935	64 363
Financial liabilities		
Financial liabilities carried at amortised costs	298 260	239 404
Financial derivatives held for trading	129 988	24 427
Financial derivatives recognised as hedging	31 680	67 832

d) Estimated Fair Value of Financial Instruments

The fair value of interest rate swaps is calculated as the present value of estimated future cash flows using forward interest rates as at the reporting date and agreed forward rates taking into account the credit risks of various parties.

The fair value of commodity swaps is determined using forward commodity prices and forward exchange rates at the reporting date and the agreed forward rates, taking into account the credit risk of various parties.

The fair value of ordinary shares not in a book-entry form has been estimated using a valuation technique based on assumptions that they are not supported by observable market prices. The valuation requires management to make estimates of the expected future cash flows from shares that are discounted at current rates.

Estimated fair values of financial assets and liabilities that are not regularly remeasured to fair value

The estimated fair values of other instruments, mainly current financial assets and liabilities, approximate their carrying amounts.

When determining the fair value of non-traded derivatives and other financial instruments, the Company uses a number of methods and market assumptions that are based on the market conditions prevailing as at the reporting date. Other methods, mainly the estimated discounted value of future cash flows, are used to determine the fair value of other financial instruments.

The following table provides an analysis of financial instruments that, upon initial revaluation, are subsequently recognised at fair value, in accordance with the fair value hierarchy.

Level 1 of the fair value measurement represents those fair values that are derived from the prices of similar assets or liabilities quoted on active markets.

(EUR '000)

Level 2 of the fair value measurement represents those fair values that are derived from input data other than the quoted prices included in Level 1, which are observable on the market for assets or liabilities directly (eg prices) or indirectly (eg derived from prices).

Level 3 of the fair value measurement represents those fair values that are derived from valuation models, including subjective input data for assets or liabilities not based on market data.

2016	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets at fair value	**2 997**	**138 244**	**-**	**141 241**
Financial derivatives held for trading	2 997	106 309	-	109 306
Financial derivatives recognised as hedging	-	31 935	-	31 935
Available-for-sale financial assets		-	-	-
Financial liabilities at fair value	**1 282**	**160 386**	**-**	**161 668**
Financial derivatives held for trading	1 282	128 706	-	129 988
Financial derivatives recognised as hedging	-	31 680	-	31 680

2015	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets at fair value	**52**	**84 727**	**-**	**84 779**
Financial derivatives held for trading	52	20 364	-	20 416
Financial derivatives recognised as hedging	-	64 363	-	64 363
Available-for-sale financial assets		-	-	-
Financial liabilities at fair value	**-**	**92 259**	**-**	**92 259**
Financial derivatives held for trading	-	24 427	-	24 427
Financial derivatives recognised as hedging	-	67 832	-	67 832

Embedded Derivative Instruments

The Company signed a long-term contract for purchases of natural gas denominated in USD. Following an agreement with the Russian partner, the contract was modified by an amendment and the price was converted to EUR with a direct link to the development of the relevant spot market. Both the economic characteristics and risks of embedded forward derivative instruments (USD to EUR), and natural gas prices are generally believed to be closely related to the economic characteristics and risks of the underlying purchase agreements. Hence, in accordance with IAS 39 (as revised in December 2003), SPP does not recognise embedded derivatives separately from the host contract.

The Company has assessed all other significant contracts and agreements for embedded derivatives that should be recorded. The Company concluded that there are no embedded derivatives in these contracts and agreements that are required to be measured and recognised separately as at 31 December 2016 and 31 December 2015 under the requirements of IAS 39 (as revised in 2009).

(EUR '000)

6. SUBSIDIARIES, ASSOCIATED COMPANIES, JOINT VENTURES AND OTHER INVESTMENTS

As at 31 December 2015	***Subsidiaries***	***Joint ventures and associates***
Opening balance, net	4 944	2 155 011
Additions	-	-
In-kind contribution	-	-
Reclassifications	-	-
Disposals	-	(128 460)
Impairment	-	-
Closing balance, net	**4 944**	**2 026 551**
Cost	6 550	2 026 551
Impairment	(1 606)	-
Closing balance, net	**4 944**	**2 026 551**

The decrease of the value of joint ventures and associates in 2015 represents a decrease in the legal reserve fund of SPP Infrastucture, a.s.

As at 31 December 2016	***Subsidiaries***	***Joint ventures and associates***
Opening balance, net	4 944	2 026 551
Additions	-	-
In-kind contribution	-	-
Reclassifications	-	-
Disposals	-	-
Impairment	-	-
Closing balance, net	**4 944**	**2 026 551**
Cost	6 550	2 026 551
Impairment	(1 606)	-
Closing balance, net	**4 944**	**2 026 551**

The information on subsidiaries, joint ventures and associated companies of SPP as at 31 December 2016 and 31 December 2015 can be summarised as follows:

Name	***Country of incorporation***	***Ownership interest %***	***Principal activity***
SPP CZ, a.s.	Czech Republic	100	Purchase and sale of natural gas and electricity
SPP CNG s.r.o.	Slovakia	100	Sale of CNG
SPP Infrastructure, a.s.	Slovakia	51	Asset holding
Nadácia SPP	Slovakia	100	Foundation
EkoFond, n.f.	Slovakia	100	Non-investment fund

As at 31 December 2016 and 31 December 2015, the 51% non-controlling ownership interest in SPP Infrastructure, a.s. is recognised in accordance with the relevant IFRS as a financial investment in an associate.

Additional information on subsidiaries, joint ventures and associates:

Name and seat of the company	***Equity***		***Profit/(loss)***	
	2016	***2015***	***2016***	***2015***
SPP CZ, a.s. Seat: Nové sady 996/25, Staré Brno, 602 00 Brno, Czech Republic	CZK 58 026 ths.	CZK 21 016 ths.	CZK 37 011 ths.	CZK 4 874 ths.
SPP CNG s.r.o. Seat: Mlynské nivy 44/a, Bratislava	5 031	5 136	(105)	110
SPP Infrastructure, a.s. [1] Seat: Mlynské nivy 44/a, Bratislava	4 551 064	4 893 561	668 175	1 550 062
Nadácia SPP Seat: Mlynské nivy 44/a, Bratislava	298	302	-	-
EkoFond, n.f. Seat: Mlynské nivy 44/a, Bratislava	(15)	(15)	-	-

(1) In 2014, SPP Infrastructure, a.s. changed its reporting period for a fiscal year to 1 July to 30 June. The 2015 profit/(loss) is for the period from 1 January 2015 to 31 December 2015 and the 2016 profit/(loss) is for the period form 1 January 2016 to 31 December 2016.

(EUR '000)

7. LAND, PROPERTY, PLANT AND EQUIPMENT

	Land	*Buildings*	*Plant, machinery and equipment*	*Transportation means*	*Fixtures & fittings*	*Software tangible*	*Other non-current tangible assets*	*Assets in course of construction*	*Total*
Year ended 31 December 2015									
Opening net book value	3 607	80 302	6 095	13	214	7	401	1 387	92 026
Additions	-	-	-	-	-	-	-	645	645
Placed into service	15	144	454	-	5	-	121	(739)	-
Reclassifications – assets for sale	(98)	(217)	-	-	-	-	-	-	(315)
Reclassifications – IAS 40 (Note 8)	10	3 740	-	-	-	-	-	-	3 750
Disposals	(6)	(60)	(36)	(3)	-	-	(10)	(1 065)	(1 180)
Depreciation charge	-	(4 225)	(1 876)	(12)	(117)	(6)	-	-	(6 236)
Change of provisions	(352)	2 282	(20)	2	-	-	-	24	1 936
Closing net book value	**3 176**	**81 966**	**4 617**	**-**	**102**	**1**	**512**	**252**	**90 626**
At 31 December 2015									
Acquisition cost	3 761	135 126	44 048	-	2 796	1 016	519	265	187 531
Provisions and accumulated depreciation	(585)	(53 160)	(39 431)	-	(2 694)	(1 015)	(7)	(13)	(96 905)
Net book value	**3 176**	**81 966**	**4 617**	**-**	**102**	**1**	**512**	**252**	**90 626**
Year ended 31 December 2016									
Opening net book value	3 176	81 966	4 617	-	102	1	512	252	90 626
Additions	10	-	7	-	-	-	10	916	943
Placed into service	-	170	226	-	-	-	-	(396)	-
Reclassifications – assets for sale	(4)	-	-	-	-	-	-	-	(4)
Reclassifications – IAS 40 (Note 8)	954	2 023	-	-	-	-	-	-	2 977
Disposals	(187)	(1 019)	(11)	-	-	-	-		(1 217)
Depreciation charge	-	(3 639)	(1 103)	-	(47)	(1)	-	-	(4 790)
Change of provisions	(43)	(2 580)	(6)	-	-	-	-	(22)	(2 651)
Closing net book value	**3 906**	**76 921**	**3 730**	**-**	**55**	**-**	**522**	**750**	**85 884**
At 31 December 2016									
Acquisition cost	4 535	137 587	43 336	337	2 764	1 016	529	786	190 890
Provisions and accumulated depreciation	(629)	(60 666)	(39 606)	(337)	(2 709)	(1 016)	(7)	(36)	(105 006)
Net book value	**3 906**	**76 921**	**3 730**	**-**	**55**	**-**	**522**	**750**	**85 884**

(EUR '000)

Type and amount of insurance of property, plant, machinery and equipment and non-current intangible assets:

Insured assets	*Type of insurance*	*Cost of insured assets 2016*	*Cost of insured assets 2015*	*Name of the insurance company*
Buildings, halls, structures, machinery, equipment, fittings, low-value TFA, other TFA, works of art, inventories Movables, assets, inventories	Insurance of assets	227 615	227 615	AIG Europe Limited, pobočka zahraničnej poisťovne

Cost of fully depreciated non-current assets (includes also software classified in non-current intangible assets), which were still in use as at 31 December 2016, amounted to EUR 105 601 thousand (31 December 2015: EUR 129 578 thousand).

8. INVESTMENT PROPERTY

	2016	*2015*
Opening net book value	20 641	22 579
Depreciation charge	(870)	(1 003)
Change in provisions	1 991	2 815
Additions, disposals and reclassifications to non-current tangible assets	(2 977)	(3 750)
Closing net book value	**18 785**	**20 641**

SPP leases assets not related to gas mainly to SPP – distribúcia, a.s. In accordance with IAS 40, SPP opted for the recognition at historical cost. The Company estimated that the restated value of the assets would be EUR 20 937 thousand if a revaluation model was used.

9. NON-CURRENT INTANGIBLE ASSETS AND OTHER ASSETS

	Software	*Other non-current intangible assets*	*Assets in course of construction*	*Total*
Year ended 31 December 2015				
Opening net book value	2 420	706	1 360	4 486
Additions	6	-	489	495
Placed into service	584	19	(603)	-
Reclassifications	255	(44)	(211)	-
Disposals	-	-	-	-
Amortisation	(1 424)	(343)	-	(1 767)
Change of provisions	-	-	2	2
Closing net book value	**1 841**	**338**	**1 037**	**3 216**
At 31 December 2015				
Acquisition cost	94 741	4 028	1 098	99 867
Provisions and accumulated depreciation	(92 900)	(3 690)	(61)	(96 651)
Net book value	**1 841**	**338**	**1 037**	**3 216**
Year ended 31 December 2016				
Opening net book value	1 841	338	1 037	3 216
Additions	-	-	2 916	2 916
Placed into service	373	78	(451)	-
Reclassifications	522	238	(760)	-
Disposals	-	-	-	-
Amortisation	(898)	(125)	-	(1 023)
Change of provisions	-	-	-	-
Closing net book value	**1 838**	**529**	**2 742**	**5 109**
At 31 December 2016				
Acquisition cost	70 077	3 242	2 803	76 122
Provisions and accumulated depreciation	(68 239)	(2 713)	(61)	(71 013)
Net book value	**1 838**	**529**	**2 742**	**5 109**

(EUR '000)

10. INVENTORIES

	31 December 2016	*31 December 2015*
Natural gas	144 448	259 275
Raw materials	7	6
Provisions	(12 685)	(33 037)
Total	**131 770**	**226 244**

As at 31 December 2016 and 31 December 2015, the Company recorded a provision for natural gas related to the adjustment of the cost of natural gas to its net realisable value.

11. RECEIVABLES AND PREPAYMENTS

	31 December 2016	*31 December 2015*
Trade receivables from natural gas and electricity sales	282 358	197 889
Prepayments for natural gas distribution	27 190	43 513
Receivables from financial derivatives	133 459	72 239
Prepayments and other receivables	27 771	40 075
Total	**470 778**	**353 716**

As at 31 December 2016, trade receivables from natural gas and electricity sales are shown net, and represent receivables from billed and unbilled gas and electricity supplies.

Receivables and prepayments are shown net of provisions for bad and doubtful receivables in the amount of EUR 142 150 thousand (31 December 2015: EUR 131 710 thousand).

As at 31 December 2016, receivables and prepayments made also include receivables from SPP CZ, a.s. in the amount of EUR 5 007 thousand (31 December 2015: EUR 1 963 thousand), from SPP CNG s.r.o. in the amount of EUR 40 thousand (31 December 2015: EUR 27 thousand) and from SPP Infrastructure, a.s. in the amount of EUR 4 thousand (31 December 2015: EUR 8 thousand).

As at 31 December 2016, the Company recorded receivables within maturity in the amount of EUR 461 991 thousand and overdue receivables in the amount of EUR 150 937 thousand (excluding provisions). In the comparable period, as at 31 December 2015, the Company recorded receivables within maturity in the amount of EUR 334 590 thousand and overdue receivables in the amount of EUR 150 836 thousand (excluding provisions). As at 31 December 2016, the Company recorded receivables from a customer in the large consumer segment in the amount of EUR 31 412 thousand (31 December 2015: EUR 27 115 thousand), for which the Company concluded that a specific provision will be required due to management's doubts about the customer's ability to repay amounts due to the Company. Due to limited availability of information on the customer's ability to pay its liabilities and the related high level of uncertainty, as at 31 December 2016 the Company recorded a provision for all overdue receivables from the customer amounting to EUR 21 869 thousand as at 31 December 2016 (31 December 2015: EUR 14 849 thousand).

Receivables overdue that were not provided for:

	31 December 2016	*31 December 2015*
Less than 3 months	4 778	10 617
3 to 12 months	2 340	-
More than 12 months	-	-
Total	**7 118**	**10 617**

Receivables overdue that were provided for:

	31 December 2016	*31 December 2015*
Less than 3 months	8 208	2 939
3 to 12 months	20 186	14 542
More than 12 months	115 425	122 738
Total	**143 819**	**140 219**

(EUR '000)

The movements in provisions for current receivables were as follows:

	31 December 2016	*31 December 2015*
Opening value	(131 710)	(128 397)
Creation	(21 138)	(6 723)
Use	332	35
Reversal	10 366	3 375
Closing value	**(142 150)**	**(131 710)**

12. RETIREMENT AND OTHER LONG-TERM EMPLOYEE BENEFITS

The long-term employee benefits program at SPP was originally launched in 1995. This is a defined benefit program, under which employees are entitled to a lump-sum payment upon old age or disability retirement and, subject to vesting conditions, work jubilee payments. In 2013, SPP signed a collective agreement effective until the end of 2015; on 30 October 2015, SPP signed a new collective agreement for 2016 and 2017 under which employees are entitled to retirement payments based on the number of years worked at SPP upon retirement after meeting the relevant conditions. Retirement benefits range from three to five average monthly salaries of employees with a guaranteed minimum (EUR 665) and threshold maximum amount (EUR 1 330). As at 31 December 2016, the obligation relating to retirement and other long-term employee benefits was calculated on the basis of the valid collective agreement effective from 1 January 2016.

In the new collective agreement valid for 2016 and 2017, the work jubilee benefit amount has been decreased in each category by EUR 50; the retirement payment amount remained the same as in the collective agreement valid until the end of 2015.

As at 31 December 2016, there were 715 (31 December 2015: 745) employees of SPP covered by this program. As of that date, it was an un-funded program, with no separately-allocated assets to cover the program's liabilities.

The movements in the net liability recognised in the balance sheet for the year ended 31 December 2016 are as follows:

	Long-term benefits	*Post-employment benefits*	*Total at 31 December 2016*	*Total at 31 December 2015*
Net liability at 1 January	196	632	828	2 059
Decrease in liabilities	-	-	-	(1 270)
Expenses of the past and current service, net	19	50	69	58
Interest expense	7	22	29	28
Employee benefits paid	(23)	(23)	(46)	(53)
Actuarial (gains)/losses:				
Actuarial (gains)/losses from a change in demographic assumptions	-	-	-	-
Actuarial (gains)/losses from a change in financial assumptions	167	41	208	35
Actuarial (gains)/losses arising from operations	(115)	37	(78)	(29)
Net liabilities	**251**	**759**	**1 010**	**828**

	Current liabilities (included in other current liabilities)	*Non-current liabilities*	*Total*
At 31 December 2016	69	941	1 010
At 31 December 2015	79	749	828

(EUR '000)

A breakdown of items related to the liability for employee benefits recognised in the income statement for the reporting period is stated below:

	Long-term benefits	*Post-employment benefits*	*Total at 31 December 2016*	*Total at 31 December 2015*
Expenses of the past and current service, net	19	50	69	58
Interest expense	7	22	29	28
Other (decrease in liability)	-	-	-	(1 270)
Total expenses for employee benefits	**26**	**72**	**98**	**(1 184)**

A breakdown of items related to the liability for employee benefits recognised in the statement of other comprehensive income is stated below:

	Long-term benefits	*Post-employment benefits*	*Total at 31 December 2016*	*Total at 31 December 2015*
Actuarial (gains)/losses from a change in demographic assumptions	-	-	-	-
Actuarial (gains)/losses from a change in financial assumptions	167	41	208	35
Actuarial (gains)/losses arising from operations	(115)	37	(78)	(29)
Total actuarial (gains)/losses	**52**	**78**	**130**	**6**

Sensitivity analysis – in the event of an increase/decrease in the discount rate and/or inflation, the amount of the liability for employee benefits would change as follows:

	Long-term benefits	*Post-employment benefits*	*Total at 31 December 2016*
Increase in the discount rate by 0.25%	246	736	982
Increase in inflation by 0.25%	257	777	1 034
Decrease in the discount rate by 0.25%	257	784	1 041
Decrease in inflation by 0.25% (at 0%)	251	742	993

Key assumptions used in actuarial valuation:

	At 31 December 2016	*At 31 December 2015*
Market yield on government bonds	1.382%	3.504%
Annual future real rate of salary increases	2.00%	2.00%
Annual employee turnover	Ranging from 1.9% to 20% depending on the age category, average of 6.01%	Ranging from 1.9% to 20% depending on the age category, average of 6.01%
Retirement ages (male and female)	In 2017, 62 years plus 76 days for men and women. The average estimated age for drawing an old age pension benefit is 64.7.	62 for male and female

(EUR '000)

13. PROVISIONS FOR LIABILITIES

The movements in provisions for liabilities are summarised as follows:

	Provision for onerous contracts	*Other provisions*	*Total at 31 December 2016*	*Total at 31 December 2015*
Balance at 1 January	18 913	26 644	45 557	46 670
Effect of discounting	35	-	35	28
Additions	19 321	3 234	22 555	9 176
Use	(8 690)	-	(8 690)	(10 060)
Reversal	(10 288)	-	(10 288)	(257)
Closing balance	**19 291**	**29 878**	**49 169**	**45 557**

The provisions are included in liabilities as follows:

	Current provisions	*Non-current provisions*	*Total provisions*
At 31 December 2016	17 979	31 190	49 169
At 31 December 2015	16 734	28 823	45 557

a) Provision for Onerous Contracts

The Company identified and recorded a provision for onerous contracts in connection with non-cancellable contractual commitments to supply natural gas to customers under sales contracts in 2017 and beyond. These provisions are based on an assumption that the future costs to purchase natural gas, which are mainly influenced by the long-term purchase contract with Gazprom Export LLC, to provide natural gas to these customers will exceed the economic benefits obtained at the sale. The calculation of the provision is subject to various assumptions of current market information relating to the future development of natural gas prices on spot markets, which are volatile. The actual losses generated with regard to these contracts may vary, and such differences may be material.

c) Other Provisions

Other provisions amounting to EUR 29 878 thousand (31 December 2015: EUR 26 644 thousand) comprise a provision for various pending court and other potential disputes. Refer also to Note 25.

14. INTEREST-BEARING BORROWINGS

	31 December 2016 Secured	*31 December 2016 Unsecured*	*31 December 2016 Total*	*31 December 2015 Secured*	*31 December 2015 Unsecured*	*31 December 2015 Total*
Interest-bearing borrowings	-	84 397	84 397	-	84 240	84 240
Bonds	-	-	-	-	-	-
Total	**-**	**84 397**	**84 397**	**-**	**84 240**	**84 240**
Loans by currency						
EUR						
- with fixed interest rate	-	84 397	84 397	-	84 240	84 240
- with variable interest rate	-	-	-	-	-	-
Total loans	**-**	**84 397**	**84 397**	**-**	**84 240**	**84 240**
Loans are due as follows:						
Less than 1 year	-	-	-	-	-	-
1 to 2 years	-	-	-	-	-	-
2 to 5 years	-	84 397	84 397	-	84 240	84 240
More than 5 years	-	-	-	-	-	-
Total loans	**-**	**84 397**	**84 397**	**-**	**84 240**	**84 240**

In 2016 and 2015, SPP drew loans denominated in EUR with both variable and fixed interest rates. As at 31 December 2016, a single loan with a fixed interest rate of 4.125% p.a. and a maturity of 3.5 years was drawn. The interest rate of loan drawn as at 31 December 2015 was 4.125% p.a. and the average loan maturity was 4.5 years.

(EUR '000)

The drawn long-term loan bears interest at a fixed interest rate; short-term loans can be drawn on a revolving basis with one-month interest period or as an overdraft loan facility. The loans were not secured by any assets.

Interest rates on loans:

Loans	
EUR	
– with a fixed rate	4.125% p.a.
– with a variable rate	1M EURIBOR plus margin

The carrying amount and face value of loans and bonds:

	Carrying amount		*Face value*	
	31 December 2016	***31 December 2015***	***31 December 2016***	***31 December 2015***
Loans	84 397	84 240	85 000	85 000
Bonds	-	-	-	-
Total	**84 397**	**84 240**	**85 000**	**85 000**

SPP has the following outstanding credit facilities:

	31 December 2016	***31 December 2015***
Variable rate:		
- due within 1 year	304 000	304 000
- due after more than 1 year	-	-
Fixed rate:		
- due within 1 year	-	-
- due after more than 1 year	500 000	500 000
Total	**804 000**	**804 000**

Based on certain loan agreements, SPP is required to comply with agreed financial covenants, ie on each relevant day of each calendar year over the term of the contract, the net debt of the Company on the respective relevant day of the relevant calendar year against the Company's EBITDA for the previous 12 months prior to that relevant day may be not higher than 2. As at 31 December 2016, the Company complied with this covenant.

15. TRADE AND OTHER PAYABLES

	At 31 December 2016	***At 31 December 2015***
Payables from natural gas purchases and sales	173 632	112 774
Payables from electricity purchases and sales	4 314	3 560
Other trade payables and other payables	25 630	29 855
Amounts due to employees	4 820	5 559
Social security and other taxes	13 568	15 701
Payables from financial derivatives	153 908	79 965
Payables from distribution activities	3 728	1 832
Total	**379 600**	**249 246**

The payables from purchases and sales of natural gas represent current liabilities resulting from the purchase of natural gas and overpayments to natural gas customers.

Trade payables and other payables as at 31 December 2016 also include payables to SPP CZ, a.s. in the amount of EUR 129 thousand (31 December 2015: EUR 2 218 thousand) and to SPP CNG s.r.o. in the amount of EUR 3 thousand (31 December 2015: EUR 1 thousand).

As at 31 December 2016, SPP recorded payables within maturity in the amount of EUR 379 600 thousand; no overdue payables were recorded. As at 31 December 2015 (for the comparable period), SPP recorded payables within maturity in the amount of EUR 249 246 thousand; no overdue payables were recorded.

(EUR '000)

Social fund payables:

	Amount
Opening balance as at 1 January 2016	438
Total additions:	266
from expenses	*266*
non-mandatory allotment	-
Total drawing:	(333)
monetary bonuses and gifts	*(14)*
work jubilee benefits	*(18)*
catering allowance	*(86)*
benefit cafeteria	*(215)*
other drawing as per the collective agreement	-
Closing balance as at 31 December 2016	**371**

16. REGISTERED CAPITAL

As a result, the Company's registered capital as at 31 December 2016 and 31 December 2015 comprises 26 666 536 fully-paid shares (with a face value of EUR 33.19), which are owned by the Slovak Republic represented by the Ministry of Economy of the Slovak Republic.

The registered capital was incorporated in the Commercial Register in the full amount.

Pursuant to the Company's Articles of Association, if all shares (except for treasury shares acquired by the Company pursuant to Article 161a or Article 161b of the Commercial Code) are held by one shareholder, in cases where the law requires a two-third (2/3) majority, a two-third (2/3) majority of votes of the shareholders present at a general meeting is required to adopt decisions. If the company has a sole shareholder, such a shareholder acts in the capacity of the general meeting in the form of written decisions that must be signed by the shareholder. In cases stipulated by law, such decisions must be in the form of a notarial deed.

17. LEGAL AND OTHER FUNDS AND RETAINED EARNINGS

Since 1 January 2006, SPP has been required to prepare financial statements in accordance with IFRS as adopted by the EU (both separate and consolidated) only. Distributable profit represents amounts only as stated in the separate financial statements.

Legal reserve fund

The legal reserve fund in the amount of EUR 1 197 683 thousand (31 December 2015: EUR 1 197 683 thousand) is recorded in accordance with Slovak law and is not distributable to the shareholders. The reserve is created from retained earnings to cover possible future losses or increases in the registered capital. Transfers of at least 10% of the current year's profit are required to be made until the reserve is equal to at least 20% of the registered capital.

(EUR '000)

Hedging Reserve

Hedging reserves represent gains and losses arising from cash flow hedging.

	Year ended 31 December 2016	*Year ended 31 December 2015*
Opening balance	(3 467)	(7 500)
Gain/loss from cash flow hedging	257	(3 467)
Currency forward contracts	-	-
Commodity swap contracts	257	(3 467)
Interest rate swap contracts	-	-
Income tax applicable to gains/losses recognised through equity	-	-
Transfer to profit/loss	3 467	7 500
Currency forward contracts	-	-
Commodity swap contracts	3 467	6 621
Interest rate swap contracts	-	879
Income tax applicable to gains/losses recognised through profit/loss	-	-
Transfer to initial carrying amount of the hedged item	-	-
Currency forward contracts	-	-
Commodity swap contracts	-	-
Interest rate swap contracts	-	-
Income tax applicable to amounts transferred to the initial carrying amount of the hedged item	-	-
Closing balance	**257**	**(3 467)**

A hedging reserve represents a cumulative accrued portion of gains and losses arising from a change in the fair value of hedging instruments concluded for cash flow hedging purposes. A cumulative gain or loss arising from a change in the fair value of hedging derivatives recognised and accumulated in the hedging reserve is reclassified to profit or loss provided that the hedged transaction has an effect on the income statement or is included as an adjustment of the base in the hedged non-financial item in accordance with the applicable accounting procedures.

Gains/(losses) arising from a change in the fair value of the hedging instruments transferred during the current period from equity to profit or loss are disclosed in the following lines of the income statement:

	Year ended 31 December 2016	*Year ended 31 December 2015*
Sale of natural gas	3 467	6 621
Purchases of natural gas, consumables and energy consumption	-	-
Other costs, net	-	-
Finance (costs)/revenues	-	879
Income tax charged to expenses	-	-
Total	**3 467**	**7 500**

Retained Earnings and Profit Distribution

Other funds and reserves in equity are not distributable to the Company's shareholders.

Type of allotment	*Distribution of 2015 profit*	*Distribution of 2014 profit*
Net profit amount for dividends pay-out	303 000	288 547
Transfer to retained earnings	132 119	-
Profit for the 2015/2014 period	**435 119**	**288 547**

Based on a resolution of the Government of the SR, on 25 January 2016 the sole shareholder of Slovenský plynárenský priemysel, a.s. transferred funds from the Company to Hlavné mesto Slovenskej republiky Bratislava (City of Bratislava) in the amount of EUR 12 million under the terms and conditions of a Donation Agreement. The Donation Agreement on the Transfer of Funds between the Company and Hlavné mesto Slovenskej republiky Bratislava (City of Bratislava) was signed on 29 January 2016. The transfer of funds was recognised by the Company in 2016 as a gift with a counter entry in retained earnings.

(EUR '000)

18. STAFF COSTS

	Year ended 31 December 2016	*Year ended 31 December 2015*
Wages, salaries and bonuses	20 160	20 678
Social security costs	7 959	6 491
Total staff costs	**28 119**	**27 169**

The Company pays a contribution of 35.2% of the relevant statutory assessment base, which is capped at EUR 4 290 (except for accident insurance). Employees contribute a further 13.4% of their assessment bases into these funds, however capped at the above limit.

19. INVESTMENT INCOME

	Year ended 31 December 2016	*Year ended 31 December 2015*
Interest income	684	570
Cumulative gain/(loss) upon the sale of available-for-sale investments	-	-
Net gain/(loss) from financial derivative instruments designated at fair value through profit and loss	(16 374)	(7 756)
Gain/(loss) from ineffective cash flow hedging	-	-
Dividends from subsidiaries	-	-
Dividends from joint ventures and associates	515 443	549 762
Other income/(losses) on investments, net	-	-
Total investment income	**499 753**	**542 576**

An increase in the net loss from financial derivative instruments designated at fair value through profit and loss is primarily related to an increased volume of concluded financial derivatives which do not meet, or no longer meet, the requirements for hedge accounting, and thus, changes in the fair value are recognised directly in the income statement as "Mark-to-market" or "Mark-to-market on commodity contracts other than trading instruments".

20. FINANCE COSTS

	Year ended 31 December 2016	*Year ended 31 December 2015*
Interest expense	(3 703)	(4 858)
Foreign exchange differences –gain/(loss)	12	10
Other	(327)	(274)
Total finance costs	**(4 018)**	**(5 122)**

21. COSTS OF AUDIT SERVICES

	Year ended 31 December 2016	*Year ended 31 December 2015*
Audit of financial statements	49	49
Other assurance services	-	6
Tax advisory services	-	-
Other related services provided by the auditor	-	9
Total	**49**	**64**

(EUR '000)

22. TAXATION

22.1. Income Tax

Income tax comprises the following:

	Year ended 31 December 2016	*Year ended 31 December 2015*
Current income tax	252	(92)
Special levy on business in regulated industries	20 035	17 878
Deferred income tax (Note 22.2)		
– Current year	-	-
– Change in the tax rate	-	-
Total	**20 287**	**17 786**

The reconciliation between the reported income tax and the theoretical amount calculated using the standard tax rates is as follows:

	Year ended 31 December 2016	*Year ended 31 December 2015*
Profit before taxation	483 276	452 905
Income tax at 22%	106 321	99 639
Effect of income exempt from taxation and adjustments from permanent differences between net book and net tax values of assets and liabilities	(112 019)	(120 568)
Reversal of a deferred tax and effect of temporary differences incl. the tax loss for which no deferred tax asset was recognised	6 491	21 670
Effect of the change in the tax rate	-	-
Special levy incl. the effect of a special levy as a tax-deductible item	19 242	17 137
Other adjustments	252	(92)
Income tax for the year	**20 287**	**17 786**

The actually-recognised tax rate differs from the tax rate of 22% stipulated by law in 2016 mainly due to the adjustments of the tax base in respect of the current income tax for items increasing and decreasing the tax base pursuant to the valid tax legislation. Such adjustments mainly include dividends, tax non-deductible provisions for liabilities and provisions for assets, a difference between tax and accounting deprecation charges of non-current assets, tax deductible expenses after payment, etc. Also as at 31 December 2016, deferred tax assets were not recognised as there are uncertainties concerning sufficient future taxable income to utilise such deferred tax assets.

Pursuant to the requirements of IFRS, the income tax also includes a special levy on business in regulated industries pursuant to a special regulation (see Note 3, part p).

As at 31 December 2016, the Company recognised on the balance sheet an estimated payable from a special levy on business in regulated industries in the amount of EUR 2 822 thousand. As at 31 December 2015, the Company recognised on the balance sheet an estimated overpayment from a special levy on business in regulated industries in the amount of EUR 30 547 thousand.

22.2. Deferred Income Tax

For the deferred income tax calculation, the Company applied the income tax rate of 21% that has been valid in Slovakia as of 1 January 2017.

As the Company expects no taxable profits against which temporary differences could be utilised in the near future, deferred tax assets were not recognised as at 31 December 2016 and 31 December 2015.

The amount of deductible temporary differences and tax losses for which no deferred tax asset was recognised as at 31 December 2016 is EUR 399 282 thousand (31 December 2015: EUR 507 453 thousand).

(EUR '000)

23. TAX EFFECTS IN THE STATEMENT OF OTHER COMPREHENSIVE INCOME

Disclosure of tax effects relating to each component of other comprehensive income:

At 31 December 2016	*Before tax*	*Tax*	*After tax*
Increase/(decrease) in financial investment revaluation reserve	-	-	-
Hedging derivatives (cash flow hedging)	3 724	-	3 724
Other	(129)	-	(129)
Other comprehensive income for the period	**3 595**	**-**	**3 595**

At 31 December 2015	*Before tax*	*Tax*	*After tax*
Increase/(decrease) in financial investment revaluation reserve	-	-	-
Hedging derivatives (cash flow hedging)	4 033	-	4 033
Other	(6)	-	(6)
Other comprehensive income for the period	**4 027**	**-**	**4 027**

24. CASH FLOWS FROM OPERATING ACTIVITIES

	Year ended 31 December 2016	*Year ended 31 December 2015*
Profit before tax	483 276	452 905
Adjustments for:		
Depreciation and amortisation	6 696	9 005
Interest income, net	3 019	4 288
Income from financial investments	(515 443)	(549 762)
FX differences	(12)	(77)
Derivatives	16 672	9 013
Provisions and other non-cash items	4 930	33 132
Impairment losses	-	-
Loss/(profit) from sale of non-current assets	(176)	(988)
(Increase)/decrease in receivables and prepayments	(76 474)	74 215
(Increase)/decrease in inventories	114 826	19 105
Increase/(decrease) in trade and other payables	54 804	7 896
Cash flows from operating activities	**92 118**	**58 732**

25. COMMITMENTS AND CONTINGENCIES

Capital Expenditure Commitments

As at 31 December 2016, capital expenditure of EUR 2 172 thousand (31 December 2015: EUR 6 787 thousand) had been committed under contractual arrangements for the acquisition of non-current assets but were not recognised in the financial statements.

Operating Lease Arrangements

Means of Transport

The Company leases means of transport under an operating lease agreement. This contract is concluded until July 2018 and the Company has no pre-emptive right to purchase the assets after the end of the lease term. The lease payments amounted to EUR 497 thousand in the year ended 31 December 2016.

Non-cancellable operating lease payables amount to:

Period	*2016*	*2015*
Within 1 year	497	506
From 1 to 5 years	290	802
Total	**787**	**1 308**

Non-residential Premises and Movable Assets

The Company leases non-residential premises (approx. 58 500 m²), land plots including external carparks and movable assets. The annual lease revenues amount to approximately EUR 5 962 thousand. The lease agreements are mostly concluded for an indefinite period. Leased non-residential premises, land and movable assets are recognised by the Company on the balance sheet as investment property.

Natural Gas Purchase

The majority of natural gas purchases was supplied from the Russian Federation also in 2016. The natural gas supplies were performed in line with the long-term agreement with Gazprom export LLC.

The natural gas purchase price from Gazprom export LLC is determined using the agreed price formula.

Natural Gas Storage Contracts

The Company stores natural gas in underground storage facilities operated by NAFTA, a.s. and POZAGAS, a.s. that are used for depositing and extracting natural gas as per seasonal demand, as well as for securing the supplies' safety standard as required by law. The storage fee is set in individual storage contracts.

Gas Sales Contracts

Sales of natural gas to medium- and large-sized customers are subject to gas supplies contracts, which are generally agreed for one or more years. The prices agreed in the contracts usually include capacity and commodity components.

Electricity Sale Contracts

The sale of electricity to mid-sized and large customers is the subject matter of composite electricity supply contracts or electricity supply contracts with the assumed liability for a deviation. Such contracts usually determine the price for the commodity supply. The price of the distribution and other components is determined based on the RONI's price decisions for distribution companies and the market and transmission system operator. Composite electricity supply contracts with small businesses and households define products for which price lists are issued in accordance with the RONI's price decisions for the regulated entity, SPP as an electricity supplier.

Taxation

The Company has transactions with subsidiaries and associated companies and other related parties. The tax environment in which the Company operates in the Slovak Republic is dependent on the prevailing tax legislation and practice, with relatively little existing precedent. There is an inherent risk that the tax authorities may require an adjustment to the tax base, for example due to transfer pricing, or other adjustments. The tax authorities in the Slovak Republic have broad powers of interpretation of tax laws, which, moreover, are often amended, which could result in unexpected results from tax inspections. The amount of any potential tax liabilities related to these risks cannot be estimated.

Litigation and Potential Losses

The Company is involved in a number of legal disputes relating to disputed bills of exchange and alleged breaches of contracts. In addition to the bills of exchange and disputes described below, the Company is also involved in other litigation arising in the normal course of business that is not expected, either individually or in the aggregate, to have a significant adverse effect on the accompanying financial statements. The final outcome of such litigation may result in liabilities higher than the provisions recognised, and such differences may be significant.

Bills of exchange

The management of the Company is aware of the existence of bills of exchange that were allegedly signed by the former General Director of SPP prior to 1999. SPP announced publicly that it would repudiate the validity of these bills of exchange signed by the former General Director before the court, on the basis of the suspicion that these bills are fraudulent and are in no way related to any contractual relations of SPP.

At present, ten (10) bills of exchange with principal totalling EUR 75 million are at various stages of legal proceedings before courts in the Slovak Republic. In another five (5) cases related to bills of exchange with principal totalling approximately EUR 108 million a final and binding court decision was made in favour of SPP. Efforts of the counterparties to overturn the positive result for SPP by use of extraordinary remedies cannot be excluded.

The management of SPP, following the advice of its legal counsel, defends the interests of the Company in these cases by all legitimate means available. SPP recorded a provision for potential losses related to several bills of exchange. The amount of the provision has not been disclosed separately, as the management of SPP believes that any such disclosure could seriously jeopardise the position of SPP in the relevant litigation. These financial statements do not include any other provisions for potential losses related to the bills of exchange as the final outcome of the remaining cases is uncertain and cannot currently be predicted.

Other legal cases and disputes

SPP is a defendant in other legal cases and disputes.

The amounts of the provisions and other information relating to these individual legal cases and disputes have not been disclosed separately as the management of SPP believes this could seriously jeopardise the position of SPP in the disputes.

Legislative Conditions for Business Activities in the Energy Sector

Legal and Regulatory Framework for the Natural Gas Market in the Slovak Republic and the Implementation of the EU Energy Legislation

Act No. 251/2012 Coll. on Energy and on Amendments to and Supplementation of Certain Acts and Act No. 250/2012 Coll. on Regulation in Network Industries that became effective on 1 September 2012 represent a basic legal framework for business in the energy sector.

On 1 December 2014, Act No. 321/2014 Coll. on Energy Efficiency and on Amendments to and Supplementation of Certain Acts (the "Energy Efficiency Act") entered into force, through which the Slovak Republic partially transposed Directive No 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on Energy Efficiency into its laws. The Energy Efficiency Act stipulates a framework for the rational use of energy, measures to support and improve energy efficiency, procedure and liabilities of responsible entities in making policies and action plans for energy efficiency and energy efficiency goals, rights and obligations of entities in the area of energy efficiency and in the performance of an energy audit, the business activities related to the provision of energy services, and introduces some new rules for the provision of information to end users of energy and to the monitoring system operator. For the Company, the Energy Efficiency Act introduced several new obligations, as well as a potential business opportunity to support its core business activity of natural gas and electricity supplies by providing supporting energy services and energy services with guaranteed energy savings.

The Company is a wholesale energy market participant and is therefore obliged to comply with obligations arising from Regulation of the European Parliament and of the Council No. 1227/2011 on the Wholesale Energy Market Integrity and Transparency (ie REMIT). The obligations include compliance with the obligation to disclose confidential information, prohibition of insider trading, prohibition of market manipulation and the obligation to provide records of transactions on wholesale energy markets, including orders to trade, to the Agency for Cooperation of Energy Regulators. Details related to data reporting are regulated by Commission Implementing Regulation (EU) No. 1348/2014.

Price Regulation

The basic framework in the price regulation of gas supplies is stipulated by Act No. 250/2012 Coll. on Regulation in Network Industries. 2016 was the last year of the 2012 – 2016 regulation period. Details related to the scope and method of conducting price regulation are determined in the generally-binding legal regulations issued by the RONI based on the above acts. In 2016, gas supplies to households, gas supplies to small businesses (with an annual consumption of up to 100 thousand kWh/year), gas supplies to suppliers of last resort, electricity supplies to households, electricity supplies to small businesses and production, distribution and supply of heat continue to be subject to price regulation. In 2016, the same scope of price regulation applied to electricity supplies (in this case, a small business is a customer with a maximum annual consumption of 30 thousand kWh). In 2016, price regulation in the above areas is stipulated in Decrees of the RONI, namely Decree No. 193/2013 Coll. providing for price regulation in the gas sector, Decree No. 222/2013 Coll. providing for price regulation in the heat-power industry and Decree No. 221/2013 Coll. providing for price regulation in the electricity sector.

The regulation policy for the upcoming 2017 – 2021 regulation period was published on 9 March 2016. The regulation policy, inter alia, extended the scope of price regulation for household gas supply. In 2016, new implementing regulations were adopted, ie RONI Decree No. 223/2016 Coll. on price regulation in the gas industry, Decree No. 248/2016 Coll. on price regulation in the heat-power industry and Decree No. 260/2016 Coll. on price regulation in the electricity sector.

(EUR '000)

26. RELATED PARTY TRANSACTIONS

The Slovak Republic, represented by the Ministry of Economy of the Slovak Republic, was the 100% owner of SPP's shares as at 31 December 2016 and 31 December 2015.

During the year, the Company entered into the following transactions with related parties:

	Year ended 31 December 2016					*31 December 2016*		
	Revenues	***Creation/ (reversal) of provisions for receivables***	***Expenses***	***Dividends***	***Other***	***Receivables***	***Provisions for receivables***	***Payables***
National Property Fund of the SR	-	-	-	-	-	-	-	-
Ministry of Economy of the SR	4	-	-	303 000	-	-	-	-
Subsidiaries	15 788	-	1 743	-	-	5 047	-	132
Associates	515 537	-	-	-	-	4	-	-
Joint ventures	-	-	-	-	-	-	-	-
Other related parties	19 398	-	364 595	-	1 705	51 697	13 525	4 241

The Company's management considers the transactions with related parties to have been made on an arm's length basis.

Transactions with subsidiaries, associates and joint ventures, and other related parties mainly represent services related to purchases, sales and transmission of natural gas, lease of non-current assets and natural gas storage.

	Year ended 31 December 2015					*31 December 2015*		
	Revenues	***Creation/ (reversal) of provisions for receivables***	***Expenses***	***Dividends***	***Other***	***Receivables***	***Provisions for receivables***	***Payables***
National Property Fund of the SR	-	-	-	-	-	-	-	-
Ministry of Economy of the SR	-	-	-	288 547	-	-	-	-
Subsidiaries	11 849	-	1 219	-	-	2 144	-	2 219
Associates	549 826	-	232	-	-	8	-	-
Joint ventures	-	-	-	-	-	-	-	-
Other related parties	29 186	-	379 789	-	-	67 153	13 524	557

(EUR '000)

The compensation of the members of the Company's bodies and executive management was as follows:

	Year ended 31 December 2016	***Year ended 31 December 2015***
Remuneration to members of the Board of Directors, Supervisory Board, executive management and former members of the Company's bodies, total	1 651	1 572
Of which:		
Board of Directors and executive management	*1 448*	*1 426*
Supervisory Board	*203*	*146*
Benefits after the employment termination to members of the Board of Directors, Supervisory Board, executive management and to former members of the Company's bodies, total	-	-
Of which:		
Board of Directors and executive management	-	-
Other long-term benefits to members of the Board of Directors, Supervisory Board, executive management and to former members of the Company's bodies, total	-	-
Of which:		
Board of Directors and executive management	-	-
Benefits after the employment termination to members of the Board of Directors, Supervisory Board, executive management and to former members of the Company's bodies, total	-	-
Of which:		
Board of Directors and executive management	-	-
Benefits in kind to members of the Board of Directors, Supervisory Board, executive management and to former members of the Company's bodies, total	36	41
Of which:		
Board of Directors and executive management	*35*	*38*
Supervisory Board	*1*	*3*

27. SUPPLEMENTARY INFORMATION TO COMPLY WITH OTHER STATUTORY REQUIREMENTS FOR SEPARATE FINANCIAL STATEMENTS

a) Members of the Company's Bodies

Body	***Function***	***Name***
Board of Directors	Chairman	Ing. Štefan Šabík
	Vice-Chairman	Pierre Poncik, M.Sc.
	Member	Ing. Milan Hargaš
	Member	Mgr. Ivana Zelizňáková
	Member	Ing. Ján Szalay – since 7 Nov 2016
	Member	Ing. Daniel Kvocera – until 15 Sep 2016
Supervisory Board	Chairman	Mgr. Maroš Čislák – since 20 Dec 2016
	Chairman	Ing. Michal Ďurkovič – until 19 Dec 2016
	Member	Ing. Michal Ďurkovič – since 20 Dec 2016
	Member	Ing. Robert Maguth
	Member	Viera Uhrová
	Member	Ing. Valéria Janočková
	Member	Ing. Robert Zemánek – until 19 Dec 2016
	Member	Ing. arch. Tomáš Gál, PhD. – until 19 Dec 2016
	Member	Prof. Ing. Juraj Janočko, CSc., Dr. Scient. – until 19 Dec 2016
	Member	Ing. Dušan Žák – until 19 Dec 2016
	Member	Ing. Peter Vaštík
	Member	JUDr. Matúš Bušniak – since 20 Dec 2016
	Member	JUDr. Peter Dráč – since 20 Dec 2016
	Member	Ing. Zoltán Kovács – since 20 Dec 2016

(EUR '000)

b) Consolidated Financial Statements

As at 31 December 2016, SPP provided consolidated financial information as a consolidated reporting entity for higher consolidation to the Ministry of Economy of the Slovak Republic, with its registered seat at Mierová 19, 827 15 Bratislava.

The ultimate reporting entity that consolidates SPP as at 31 December 2016 is the Ministry of Finance of the Slovak Republic.

The consolidated and separate financial statements are published on the Company's website (www.spp.sk).

The consolidated and separate financial statements of SPP published in periods before 31 December 2013 were published in the Commercial Journal and filed with the Commercial Register of Bratislava 1 District Court (Záhradnícka 10, 812 44 Bratislava). The consolidated and separate financial statements of SPP published in the period after 1 January 2014 are filed at the Register of Financial Statements. The separate and consolidated financial statements of the subsidiaries and associated undertakings in the period after 1 January 2014 are filed with the Register of Financial Statements for entities based in the Slovak Republic and in the Collection of Deeds (Sbírka listin) for entities based in the Czech Republic.

28. POST-BALANCE SHEET EVENTS

No events occurred after 31 December 2016 that would have a material impact on the Company's financial statements.

Prepared on:	***Signature of a member of the statutory body of the reporting entity or a natural person acting as a reporting entity:***	***Signature of the person responsible for the preparation of the financial statements:***	***Signature of the person responsible for bookkeeping:***
14 March 2017			
Approved on:	Ing. Štefan Šabík Chairman of the Board of Directors	Ing. Petr Ivánek Director of Economics and Operational Services	Ing. Miroslav Jankovič Director of Accounting and Taxes Section
	Pierre Poncik, M.Sc. Vice-Chairman of the Board of Directors		

Slovenský plynárenský priemysel, a.s.

INDEPENDENT AUDITOR'S REPORT AND CONSOLIDATED FINANCIAL STATEMENTS (PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EU)

FOR THE YEAR ENDED 31 DECEMBER 2016

Deloitte.

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Section Sro, File 4444/B
Id. Nr.: 31 343 414
VAT Id. Nr.: SK2020325516

Slovenský plynárenský priemysel, a.s.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders, Supervisory Board and Board of Directors of Slovenský plynárenský priemysel, a.s.:

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Slovenský plynárenský priemysel, a.s. (the "Company"), which comprise the consolidated balance sheet as at 31 December 2016, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended, a summary of significant accounting policies, and other supplementary information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("EU").

Basis for Opinion

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

Emphasis of Matter

We draw attention to Note 1.3 to the consolidated financial statements, which describes a change in the Company's accounting policy for the measurement of assets related to gas transmission, distribution and storage. Our opinion is not modified in respect of this matter.

Statutory Body's Responsibilities for the Consolidated Financial Statements

The Company's statutory body is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as the Company's statutory body determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the statutory body is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the statutory body either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when such exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the statutory body.
- Conclude on the appropriateness of the statutory body's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on Information Disclosed in the Annual Report

The statutory body is responsible for information disclosed in the annual report prepared under the requirements of the Act No. 431/2002 Coll. on Accounting, as amended (the "Act on Accounting"). Our opinion on the financial statements stated above does not apply to other information in the annual report.

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

The annual report was not available to us as at the issue date of the auditor's report on the audit of the financial statements.

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

- Information disclosed in the annual report prepared for 2016 is consistent with the financial statements for the relevant year; and
- The annual report includes information pursuant to the Act on Accounting.

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

Bratislava, 14 March 2017

Deloitte Audit s.r.o.
Licencia SKAu č. 014

Ing. Peter Longauer, FCCA
Responsible Auditor
Licence UDVA No. 1136

CONTENTS

Slovenský plynárenský priemysel, a.s.
CONSOLIDATED BALANCE SHEET
31 December 2016, 31 Decmeber 2015 and 31 December 2014
(in thousand EUR)

	Note	*31 December 2016*	*31 December 2015 (restated)*	*31 December 2014 (restated)*
ASSETS:				
NON-CURRENT ASSETS				
Investment property	9	18 785	20 641	22 579
Land, property, plant and equipment	8	85 913	90 666	92 084
Investments recognised using the equity method	7	1 451 990	1 672 820	2 022 680
Other investments		4 944	4 944	4 944
Non-current intangible assets		5 110	3 216	4 494
Other non-current assets		28 965	33 630	30 706
Total non-current assets		**1 595 707**	**1 825 917**	**2 177 487**
CURRENT ASSETS				
Inventories	10	132 533	228 911	272 891
Receivables and prepayments	11	488 734	370 629	420 807
Income tax assets	20.1	-	31 733	-
Cash and cash equivalents		498 067	194 217	23 917
Total current assets		**1 119 334**	**825 490**	**717 615**
Non-current assets held for sale		4	315	-
TOTAL ASSETS		**2 715 045**	**2 651 722**	**2 895 102**
EQUITY AND LIABILITIES:				
CAPITAL AND RESERVES				
Registered capital	16	885 062	885 062	885 062
Legal and other reserves	17	1 197 533	1 197 662	1 197 773
Revaluation reserves	17	257	(3 467)	(7 500)
Retained earnings		83 311	154 755	229 352
Share in equity attributable to SPP's shareholders		2 166 163	2 234 012	2 304 687
Minority interests of other owners of subsidiaries		-	-	-
Total equity		**2 166 163**	**2 234 012**	**2 304 687**
NON-CURRENT LIABILITIES				
Provisions for liabilities	13	32 445	28 909	26 965
Non-current interest-bearing borrowings	14	84 397	84 240	84 089
Retirement and other long-term employee benefits	12	941	749	1 943
Deferred tax liability	20.2	-	-	-
Other non-current liabilities		7 788	12 326	4 428
Total non-current liabilities		**125 571**	**126 224**	**117 425**
CURRENT LIABILITIES				
Trade and other payables	15	399 954	273 168	228 664
Current portion of non-current interest-bearing borrowings	14	-	-	24 293
Current income tax	20.1	2 825	-	198 202
Provisions and other current liabilities		20 532	18 318	21 831
Total current liabilities		**423 311**	**291 486**	**472 990**
Total liabilities		**548 882**	**417 710**	**590 415**
TOTAL EQUITY AND LIABILITIES		**2 715 045**	**2 651 722**	**2 895 102**

The financial statements on pages 5 to 44 were signed on 14 March 2017 on behalf of the Board of Directors:

Ing. Štefan Šabík
Chairman of the Board of Directors

Pierre Poncik, M.Sc.
Vice-Chairman of the Board of Directors

Slovenský plynárenský priemysel, a.s.
CONSOLIDATED INCOME STATEMENT
Years ended 31 December 2016 and 31 December 2015
(in thousand EUR)

	Note	*Year ended 31 December 2016*	*Year ended 31 December 2015 (restated)*
Sales of natural gas and electricity		1 323 100	1 398 650
Other		21 431	19 043
Own work capitalised		282	126
Purchases of natural gas, electricity and consumables and services		(1 185 541)	(1 328 162)
Depreciation and amortisation	8, 9	(6 706)	(9 026)
Storage of natural gas and other services		(101 827)	(122 098)
Staff costs	18	(28 960)	(28 024)
Provisions for bad and doubtful receivables, net	10, 11	(21 160)	(11 417)
Provisions and impairment losses, net	8, 9, 13	(15 124)	(3 682)
Other, net		2 560	1 576
Gain/(loss) on investments	19	(15 108)	(8 355)
Share in profit of associated undertakings and joint ventures	7	294 613	328 440
Finance costs		(4 129)	(5 251)
Profit/(loss) before income taxes		**263 431**	**231 820**
Income tax	20.1	(19 875)	(17 870)
PROFIT FOR THE PERIOD		**243 556**	**213 950**
Net profit attributable to:			
SPP shareholders		243 556	213 950
Minority interests of other owners of subsidiaries		-	-
Total		**243 556**	**213 950**

(in thousand EUR)

	Note	*Year ended 31 December 2016*	*Year ended 31 December 2015 (restated)*
Net profit for the period		**243 556**	**213 950**
Other comprehensive income (may be reclassified to profit or loss in the future):	21	**3 724**	**3 928**
Movement in FX translation reserve		-	(105)
Decrease in the revaluation reserve due to changes in fair value		-	-
Hedging derivatives (Cash flow hedging):		3 724	4 033
Gains (losses) for the period		*3 724*	*4 033*
Less: reclassification of comprehensive income (loss) in the income statement		-	-
Less: other adjustments		-	-
Deferred tax related to items of other comprehensive income reclassified to profit or loss in the future		-	-
Other comprehensive income (not reclassified to profit or loss in the future):		**(129)**	**(6)**
Change in the liability for employee benefits		(129)	(6)
Deferred tax related to items of other comprehensive income not reclassified to profit or loss in the future		-	-
Other net comprehensive income for the period		**3 595**	**3 922**
Total net comprehensive income/(loss) for the period		**247 151**	**217 872**
Net comprehensive income attributable to:			
SPP shareholders		247 151	217 872
Minority interests of other owners of subsidiaries		-	-
Total		**247 151**	**217 872**

(in thousand EUR)

	Registered capital	*Legal reserve fund and other funds*	*Foreign currency translation reserve*	*Hedging reserves*	*Revaluation reserves*	*Retained earnings (restated)*	*Equity attributable to SPP shareholders*	*Minority interests of other owners of subsidiaries*	*Total*
At 31 December 2014 (initially recognised)	**885 062**	**1 197 683**	**90**	**(7 500)**	**-**	**326 762**	**2 402 097**	**-**	**2 402 097**
Adjustment for a change in the accounting policy (See Note 1.3.)	-	-	-	-	-	(97 410)	(97 410)	-	(97 410)
At 31 December 2014 (restated)	**885 062**	**1 197 683**	**90**	**(7 500)**	**-**	**229 352**	**2 304 687**	**-**	**2 304 687**
Net profit for the period	-	-	-	-	-	213 950	213 950	-	213 950
Other comprehensive income for the period	-	(6)	(105)	4 033	-	-	3 922	-	3 922
Dividends	-	-	-	-	-	(288 547)	(288 547)	-	(288 547)
Transfer to retained earnings	-	-	-	-	-	-	-	-	-
At 31 December 2015 (restated)	**885 062**	**1 197 677**	**(15)**	**(3 467)**	**-**	**154 755**	**2 234 012**	**-**	**2 234 012**
Net profit for the period	-	-	-	-	-	243 556	243 556	-	243 556
Other comprehensive income for the period	-	(129)	-	3 724	-	-	3 595	-	3 595
Dividends	-	-	-	-	-	(315 000)	(315 000)	-	(315 000)
Transfer to retained earnings	-	-	-	-	-	-	-	-	-
At 31 December 2016	**885 062**	**1 197 548**	**(15)**	**257**	**-**	**83 311**	**2 166 163**	**-**	**2 166 163**

(in thousand EUR)

	Note	*Year ended 31 December 2016*	*Year ended 31 December 2015*
Operating activities			
Cash flows from operating activities	22	92 437	59 052
Interest paid		(3 566)	(7 427)
Interest received		676	1 718
Income tax paid		14 270	(247 720)
Net cash flows from operating activities		103 817	(194 377)
Investing activities			
Purchase of property, plant and equipment		(2 099)	(1 749)
Proceeds from sales of property, plant and equipment and intangible assets		1 677	1 065
Dividends received *		515 443	238 165
Net cash inflow/(outflow) from investing activities		515 021	237 481
Financing activities			
Proceeds from interest-bearing borrowings		-	490 000
Expenses for interest-bearing borrowings		-	(74 268)
Dividends paid		(315 000)	(288 547)
Other proceeds from financing activities		-	-
Net cash flows from financing activities		(315 000)	127 185
Net (decrease)/increase in cash and cash equivalents		**303 838**	**170 289**
Cash and cash equivalents at the beginning of the period		**194 217**	**23 917**
Effects of foreign exchange fluctuations		12	11
Cash and cash equivalents at the end of the period		**498 067**	**194 217**

**Dividends received for the year ended 31 December 2015 represent a portion of dividends received from joint ventures and associates, and the remaining amount of the received dividends was offset with a payable from received loans.*

(in thousand EUR)

1. GENERAL

1.1. General Information

The consolidated financial statements for the year ended 31 December 2016 have been prepared by Slovenský plynárenský priemysel, a.s. ("SPP") and its subsidiaries and associated undertakings (the "Group") in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (the "EU"). The reporting currency of the Group is the Euro (EUR). The consolidated financial statements were prepared under the going-concern assumption.

The consolidated financial statements for the year ended 31 December 2016 have been prepared pursuant to Article 22 of Act No. 431/2002 Coll. on Accounting, as amended, for the reporting period from 1 January 2016 until 31 December 2016.

SPP (formerly Slovenský plynárenský priemysel, š. p.) was founded on 21 December 1988 by a Memorandum of Association as a 100% state-owned enterprise in Slovakia. On 1 July 2001, SPP was transformed into a joint-stock company (akciová spoločnosť) that was 100% owned by the National Property Fund of the Slovak Republic. A consortium of strategic investors acquired a 49% share in SPP with management control with effect from 11 July 2002. As at 31 December 2012, SPP's shares were held by the National Property Fund of the Slovak Republic (51%) and Slovak Gas Holding, B. V., the Netherlands (49%) (jointly held indirectly by GDF SUEZ SA and E.ON Ruhrgas).

On 15 January 2013, GDF International SAS, E.ON Ruhrgas International GmbH and E.ON SE signed an agreement with Energetický a Průmyslový Holding ("EPH"), a key player on the heat, coal and electricity market in Central Europe, on the sale of their shares in Slovak Gas Holding, B.V. ("SGH"), which owned a 49% share in SPP (the parent company) and also exercised operating and management control. The transaction was completed on 23 January 2013.

In 2014, the SPP Group underwent a reorganisation that also included the contribution of SPP's ownership interests in the entities: SPP – distribúcia, a.s., eustream, a.s., NAFTA a.s., SPP Infrastructure Financing B.V., SPP Bohemia, a.s., SPP Storage, s.r.o., Pozagas, a.s., GEOTERM Košice, a.s., Probugas, a.s., SLOVGEOTERM, a.s. and GALANTATERM, spol. s r.o. into a newly-established 100% subsidiary, SPP Infrastructure, a.s. On 4 June 2014, SPP subsequently sold its near 49% ownership interest including management control in SPP Infrastructure, a.s. to SGH, and acquired treasury shares from SGH. As a result, the Government of the Slovak Republic is now the 100% owner of SPP.

Identification number (IČO)	35 815 256
Tax identification number (DIČ)	2020259802

1.2. Principal Activities

After May 2014, the only segment is the sale of natural gas and electricity in Slovakia and the Czech Republic.

1.3. Changes in Accounting Procedures and Policies

In 2016, the Group changed its accounting policy for the measurement of assets related to gas transmission, distribution and storage. It replaced the revaluation model under IAS 16 "Property, Plant and Equipment" with the cost model based on historical costs net of accumulated depreciation and provisions.

The Group believes that the outcome will be IFRS financial statements which provide more reliable and more relevant information. In accordance with the requirement of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", the change was applied retrospectively and, therefore, the Group adjusted the measurement of the financial investment in the associated undertaking, and the related share in profit of the associated undertaking, initially recognised in the financial statements for the years ended 31 December 2015 and 31 December 2014.

The change in the accounting policy has an impact on the decrease in amount of investments recognised using the equity method and a decrease in retained earnings by EUR 97 410 thousand in the balance sheet as at 1 January 2015.

(in thousand EUR)

The effect of the change in the accounting policy for the subsequent measurement of the financial investment in the associated undertaking using the cost model based on historical costs on individual affected items of the consolidated financial statements is as follows:

Consolidated Balance Sheets

ASSETS

	Note:	***31 December 2015 (initially recognised)***	***Effect of change in accounting policy***	***31 December 2015 (restated)***	***31 December 2014 (initially recognised)***	***Effect of change in accounting policy***	***31 December 2014 (restated)***
Investments recognised using the equity method	7	1 766 660	(93 840)	1 672 820	2 120 090	(97 410)	2 022 680
TOTAL ASSETS		**1 766 660**	**(93 840)**	**1 672 820**	**2 120 090**	**(97 410)**	**2 022 680**

EQUITY AND LIABILITIES

	Note:	***31 December 2015 (initially recognised)***	***Effect of change in accounting policy***	***31 December 2015 (restated)***	***31 December 2014 (initially recognised)***	***Effect of change in accounting policy***	***31 December 2014 (restated)***
Retained earnings		248 595	(93 840)	(154 755)	326 762	(97 410)	(229 352)
TOTAL EQUITY		**248 595**	**(93 840)**	**(154 755)**	**326 762**	**(97 410)**	**(229 352)**

Consolidated Income Statement

	Note	***31 December 2015 (initially recognised)***	***Effect of change in accounting policy***	***31 December 2015 (restated)***
Share in profit of associated undertakings	7	324 870	3 570	328 440
NET PROFIT FOR THE YEAR		**324 870**	**3 570**	**328 440**

1.4. Employees

The average number of the Group's employees for the year ended 31 December 2016 was 767, of which 2 were executive management (for the year ended 31 December 2015: 775, of which 2 were executive management).

1.5. Registered Address

Mlynské nivy 44/a
825 11 Bratislava
Slovakia

1.6. Costs of Audit Services

The costs for the audit of the financial statements by the auditor amounted to EUR 61 thousand (2015: EUR 61 thousand). In 2016, no costs were incurred for other assurance services (2015: EUR 6 thousand), tax advisory (2015: EUR 0 thousand), or other related services provided by the auditor (2015: EUR 9 thousand).

2. NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS AND CHANGES IN ESTIMATES

2.1. Application of New and Revised International Financial Reporting Standards

The Group has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that have been endorsed for use in the European Union (hereinafter the "EU"), and that are relevant to its operations and effective for annual periods beginning on 1 January 2016. The following standards, amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" – Investment Entities: Applying the Consolidation Exception – adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2016),

- Amendments to IFRS 11 "Joint Arrangements" – Accounting for Acquisitions of Interests in Joint Operations – adopted by the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016),

- Amendments to IAS 1 "Presentation of Financial Statements" – Disclosure Initiative – adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),

- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" – Clarification of Acceptable Methods of Depreciation and Amortisation – adopted by the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016),

- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" – Bearer Plants – adopted by the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016),

- Amendments to IAS 19 "Employee Benefits" – Defined Benefit Plans: Employee Contributions – adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),

- Amendments to IAS 27 "Separate Financial Statements" – Equity Method in Separate Financial Statements – adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),

- Amendments to various standards "Improvements to IFRSs (cycle 2010 – 2012)" resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015),

- Amendments to various standards "Improvements to IFRSs (cycle 2012 – 2014)" resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 15 December 2015 (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The adoption of these amendments to the existing standards has not led to any material changes in the Company's financial statements.

At the date of authorisation of these financial statements, the following new standards and amendments to standards issued by IASB and adopted by the EU are not yet effective:

- IFRS 9 "Financial Instruments" – adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),

- IFRS 15 "Revenue from Contracts with Customers" and amendments to IFRS 15 "Effective Date of IFRS 15" – adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU as at the reporting date (effective dates stated below are for IFRS in full):

- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,

- IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019),

- Amendments to IFRS 2 "Share-based Payment" – Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),

- Amendments to IFRS 4 "Insurance Contracts" – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied for the first time),

- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),

- Amendments to IFRS 15 "Revenue from Contracts with Customers" – Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018),

- Amendments to IAS 7 "Statement of Cash Flows" – Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),

- Amendments to IAS 12 "Income Taxes" – Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017),

- Amendments to IAS 40 "Investment Property" – Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),

- Amendments to various standards "Improvements to IFRSs (cycle 2014 – 2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),

- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after 1 January 2018).

Hedge accounting for a portfolio of financial assets and liabilities whose principles have not been adopted by the EU remains unregulated.

According to the Company's estimates, the application of hedge accounting to a portfolio of financial assets or liabilities pursuant to IAS 39 "Financial Instruments: Recognition and Measurement" would not significantly impact the financial statements if applied as at the balance sheet date.

The Group anticipates that the adoption of these standards and amendments to the existing standards and interpretation will have no material impact on its financial statements in the initial application period.

3. SUMMARY OF ACCOUNTING POLICIES

a) Basis of Accounting

The consolidated financial statements have been prepared in accordance with IFRS as adopted by the EU. IFRS relevant to the SPP Group, as adopted by the EU, do not significantly differ from IFRS as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements are prepared under the historical cost convention, except for the certain financial instruments. The principal accounting policies adopted are detailed below. The accompanying consolidated financial statements reflect certain adjustments and reclassifications not recorded in the accounting records of certain Group companies in order to conform the Slovak statutory and other financial statements to financial statements prepared in accordance with IFRS as adopted by the EU.

b) Business Combinations

(1) Subsidiaries

Those business undertakings in which SPP, directly or indirectly, has an interest of usually more than one half of the voting rights or otherwise has power to exercise control over the operations are defined as subsidiary undertakings (subsidiaries) and have been fully consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to SPP and they are no longer consolidated from the date when such control ceases.

The acquisition of subsidiaries is accounted for using the purchase method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the interests in equity issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

Identifiable acquired assets and assumed liabilities are recognised at fair value as at the acquisition date, except for:

- Deferred tax assets or liabilities, and liabilities or assets related to employee benefit arrangements, which are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits,* respectively;

- Liabilities or equity instruments related to share-based payment arrangements of the acquiree, or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree, which are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date; and

- Assets (or disposal groups of assets and liabilities) that are classified as held for sale in accordance with IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*, which are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously-held equity interest in the acquiree over the net of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously-held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that represent the existing equity securities and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may initially be measured either at fair value or at the non-controlling interest's proportional share in the acquiree's identifiable net assets. The selection of the measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interest are measured at fair value or, when applicable, on the basis specified in other IFRS.

When a business combination is carried out in stages, the Group's previously-held interest in the acquiree is remeasured to fair value at the acquisition date (ie the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that had previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Business combinations that took place prior to 1 January 2010 were accounted for in accordance with the previous version of IFRS 3.

Goodwill arising on consolidation is recognised as an asset and represents the excess of the cost of the business combination over the Group's interest in the fair value of the identifiable assets, liabilities, and contingent liabilities.

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

All transactions, balances, and unrealised profits and losses on transactions within the Group have been eliminated upon consolidation.

(2) Investments in Associated Undertakings

Financial investments in associated undertakings are accounted for using the equity method.

Associated undertakings are entities in which SPP exercises substantial, but not controlling, influence. Owing to their impairment, a provision is recorded.

When applying the equity method, investments in associated undertakings are recognised in the balance sheet at cost adjusted for subsequent changes in the Group's share in the net assets of an associated undertaking. Goodwill related to associated undertakings is recognised in the carrying amount of an investment and is not depreciated. The income statement reflects a share in the associated undertakings' operating results. If a change occurs that was recognised directly in the associated undertakings' equity, the Group will recognise its share in such change and if necessary, recognise it in the statement of changes in equity. Profits and losses from transactions between the Group and associated undertakings are eliminated to the extent of the Group's investment in associated undertakings.

c) Financial Assets

Financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss" (FVTPL), "held-to-maturity" investments, "available-for-sale" (AFS) financial assets and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require the delivery of the assets within the timeframe established by a regulation or convention in the marketplace.

<u>Financial assets at FVTPL</u>

Financial assets are classified as at FVTPL when the financial asset is either held for trading or designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Financial assets classified as at FVTPL mainly include agreements on the purchase or sale of commodities not meeting the measurement exception under IAS 39 and financial derivatives concluded to ensure economic hedging to which the hedge accounting was not applied.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any 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. Loans and receivables including trade and other receivables, bank balances and cash are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Trade receivables are measured at the expected realisable value less a provision for debtors in bankruptcy or restructuring proceedings and less a provision for doubtful and uncollectible overdue receivables where there is a risk that the debtor will not pay them fully or partially.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as a default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- The disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through a provision account. When a trade receivable is considered uncollectible, it is written off against the provision account. Subsequent recoveries of amounts previously written off are credited against the provision account. Changes in the carrying amount of the provision account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously-recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On the derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

d) Financial Liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'Finance costs' line in profit or loss.

Other financial liabilities

Other financial liabilities (including borrowings) are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Group derecognises financial liabilities only when the Group's obligations are met, cancelled or expired. The difference between the carrying amount of the financial liability and the consideration paid and the amount payable is recognised in the income statement.

e) Derivative Financial Instruments

The Group enters into a number of derivative contracts in order to manage the risk of changes in commodity prices and interest rates and the foreign exchange risk, including forward currency contracts and interest rate and commodity swaps.

Derivative financial instruments are contracts: (i) whose value changes in response to a change in one or more identifiable variables; (ii) that require no significant net initial investment; and (iii) that are settled at a certain future date. Derivative financial instruments, therefore, include swaps, futures, and firm commitments to buy or sell non-financial assets that include the physical delivery of the underlying assets, except for contracts intended for their own use (the so-called own use exception).

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Hedge accounting

The Group designates hedging instruments that include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the entity documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in profit or loss in the line item relating to the hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair-value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

In the event that a financial derivate does not meet or no longer meets the requirements for hedge accounting, changes in the fair value are directly recognised in the income statement as "Mark-to-market" or as "Mark-to-market on commodity contracts other than trading instruments" in ordinary operating income from derivative financial instruments with non-financial assets as the underlying assets, and in financial revenues or expenses in the case of currency, interest rate or equity derivatives. Derivative financial instruments used by the Group for trading activities with own energy and energy on behalf of customers, and other derivative financial instruments that are due in less than 12 months are recognised in the consolidated statement of financial position as current assets or current liabilities, while derivative financial instruments due after this period are classified as non-current items.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

(in thousand EUR)

f) Land, Property, Plant and Equipment, and Intangible Assets

The Group decided that as at 31 December 2016, 31 December 2015 and 31 December 2014 it will use a different classification of non-current tangible assets, primarily due to the fact that the Group no longer recognises assets related to natural gas transmission, distribution and storage on the balance sheet (Note 1.3 and 7).

Other property, plant, and equipment and intangible assets are stated at cost less accumulated depreciation. Cost includes all costs attributable to placing the asset into service for its intended use.

Items of property, plant, and equipment and intangible assets that are retired or otherwise disposed of are removed from the balance sheet at the net book value. Any gain or loss resulting from such retirement or disposal is included in the income statement.

Other items of property, plant, and equipment are depreciated on a straight-line basis over the estimated useful lives. Depreciation is charged to the income statement computed so as to amortise the cost of the assets to their estimated residual values over their residual useful lives.

The useful lives of non-current assets used are as follows:

	2016	***2015***
Buildings and structures	30 – 40	30 – 40
Plant and machinery	3 – 15	3 – 15
Fixtures and fittings	8 – 15	8 – 15
Software – tangible	3 – 4	3 – 4
Other non-current tangible assets	8	8

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

Intangible assets with limited useful lives that are acquired separately are recognised at cost less accumulated amortisation and accumulated impairment losses. Estimated useful lives are re-assessed at the end of each reporting period.

At each reporting date, an assessment is made as to whether there is any indication that the realisable value of the Group's non-current assets is less than the carrying amount. When such an indication occurs, the realisable value of the asset, being the higher of the asset's fair value less costs of disposal and the present value of future cash flows ("value-in-use"), is estimated. The resulting impairment loss provision is recognised in full in the income statement in the year in which the impairment occurs. The discount rates used to calculate the present value of the future cash flows reflect the current market assessments of the time value of money and the risks specific to the asset. In the event that a decision is made to abandon a construction project in progress or to significantly postpone its planned completion date, the carrying amount of the asset is reviewed for potential impairment and a provision recorded, if appropriate.

Expenditures relating to an item of non-current assets after being placed into service are added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the original assessed standard of performance of the existing asset, will flow to the enterprise. All other expenditures are treated as repairs and maintenance and are expensed in the period in which they are incurred.

g) Investment Property

Investment property that is held to generate rental income is initially recognised at cost inclusive of costs related to acquisition. Investment properties are subsequently recognised at historical cost. The Group does not apply any revaluation model for such assets.

h) Research and Development

Research and development costs are recognised as expenses except for costs incurred on development projects, which are recognised as non-current intangible assets to the extent of expected economic benefits. However, development costs initially recognised as expenses are not capitalised in a subsequent period.

i) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of natural gas stored in underground storage facilities and raw materials is calculated using the weighted arithmetic average method. The cost of natural gas and raw materials includes the cost of acquisition and related costs, and the cost of inventories developed internally includes materials, other direct costs, and production overheads. A provision in the required amount is recorded for inventories if there is an indication of their impairment.

j) Cash and Cash Equivalents

Cash and cash equivalents consist of cash in hand and cash in bank, and highly-liquid securities with insignificant risk of changes in value and original maturities of three months or less from the date of issue.

k) Provisions for Liabilities

A provision is recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable 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. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. The amount of the provision is the present value of the risk-adjusted expenditures expected to be required to settle the obligation.

The applied discount rate reflects the current market expectations regarding the time value of money and risks specific to the relevant liability. Where discounting is used, the carrying amount of the provision increases in each period to reflect the unwinding of the discount by the passage of time.

Provision for Various Litigation and Potential Disputes

The financial statements include a provision for various litigation and potential disputes which were estimated using available information and an assessment of the achievable outcome of the individual disputes. The provision is not recognised unless a reasonable estimate can be made.

l) Revenue Recognition

Sales are recorded upon the delivery of products or the performance of services, net of value added tax and discounts. The Group records revenues from sales of gas and electricity, and other activities on the accrual basis. Revenues include estimates of natural gas and electricity supplies, but not invoiced as at the reporting date.

m) Borrowing Costs

Borrowing costs are recognised as an expense in the period in which they incurred, except for borrowing costs directly attributable to the acquisition, construction or production of the relevant non-current assets. Such borrowing costs are recognised in the period when the assets are placed into service as part of their cost.

n) Social Security and Pension Schemes

The Group is required to make contributions to various mandatory government insurance schemes, together with contributions by employees. The cost of social security payments is charged to the income statement in the same period as the related salary cost.

o) Retirement and Other Long-Term Employee Benefits

The Group has a long-term employee benefit program comprising a lump-sum retirement benefit and work jubilee benefits, for which no separate financial funds were earmarked. In accordance with IAS 19, the employee benefits costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the income statement so as to spread the regular cost over the service period of employees. The benefit obligation is measured at the present value of the estimated future cash flows discounted by market yields on Slovak government bonds, which have terms to maturity approximating the terms of the related liability. All actuarial gains and losses are recognised in the statement of other comprehensive income. Past service costs are recognised when incurred as expenses.

p) Leases

Finance lease
A finance lease is a lease that transfers all the risks and rewards incidental to the ownership of an asset (economic substance of the arrangement). The accounting treatment of leases is not dependent on which party is the legal owner of the leased asset.

Operating lease
An operating lease is a lease other than a finance lease. The lessee under an operating lease arrangement does not present assets subject to an operating lease in its balance sheet nor does it recognise operating lease obligations for future periods. Lease payments under an operating lease shall be recognised as an expense on a straight-line basis over the lease term.

Sales and operating leaseback
If the leaseback is classified as an operating lease, profit is recognised immediately if the terms and conditions of the sale and leaseback transaction are clearly stated at fair value. If this is not the case, the sale and leaseback are recognised as follows:

- If the price is equal to or lower than the fair value, gains and losses are recognised immediately. However, if the loss is compensated by future lease payments that are below the market value, the loss will be deferred and depreciated over the period over which the assets are expected to be used.
- If the selling price is higher than the fair value, the resulting profit will be deferred and depreciated over the useful life of the assets.
- If the fair value is lower than the carrying amount of the assets as at the transaction date, such difference is recognised immediately as an impairment loss.

r) Income Tax

Income tax is calculated from the profit/loss before tax recognised under International Financial Reporting Standards adjusted pursuant to the relevant Decree of the Ministry of Finance of the Slovak Republic after adjustments for individual items increasing and decreasing the tax base in line with Act No. 595/2003 Coll. on Income Tax, as amended, using the applicable income tax rate.

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Deferred tax is calculated at the tax rates that are expected to apply for the period when the asset is realised or the liability is settled. Deferred tax is charged or credited to the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also recorded in equity. The income tax rate effective for 2016 is 22% (tax rate effective since 1 January 2014). With effect from 1 January 2017, the income tax rate was changed to 21% (this rate will be used to calculate tax for a taxation period starting on 1 January 2017, or later).

The principal temporary differences arise from depreciations on property, plant, and equipment and various provisions. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associated undertakings, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not be reversed in the foreseeable future.

Current and deferred tax for the year
Current and deferred tax are recognised through profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively. Where current tax and deferred tax arise from the initial recognition of a business combination, the tax effect is included in the recognition of the business combination.

Special levy on business in regulated industries
Pursuant to the requirements of the IFRS, the Group's income tax also includes a special levy as per Act No. 235/2013 Coll. on Special Levy on Business in Regulated Industries and on Amendment to and Supplementation of Certain Acts. It is recognised through profit or loss.

SPP is a regulated entity and has been obliged to pay special levies since September 2012. Under an amendment to the act effective from 1 January 2017, the last levy period of December 2016 was cancelled. The levy period is a calendar month and the levy rate effective for 2016 is 0.00363. The base for the Company's levy is profit/loss before tax recognised under IFRS and adjusted to the profit/loss recognised pursuant to the relevant Decree of the Ministry of Finance of the Slovak Republic and adjusted pursuant to the Special Levy Act.

s) Foreign Currencies

Transactions in foreign currencies are initially recorded at the exchange rates of the European Central Bank (ECB) valid on the transaction dates. Monetary assets and payables denominated in foreign currencies are retranslated at the ECB exchange rates valid on the reporting date. Foreign exchange gains and losses are included in the income statement.

On consolidation, the assets and liabilities of the foreign subsidiaries are translated at the ECB exchange rates prevailing on the reporting date. Revenues and expenses are translated at the average exchange rates for the period. Foreign exchange differences, if any, are classified as equity as foreign exchange translation reserve. Such reserve is recognised as income or as an expense at the moment the financial investment in a subsidiary is disposed of.

t) Non-Current Assets Held for Sale

Non-current assets are classified as held for sale if their carrying amount can be recovered through a sale transaction rather than by continued use. This condition is considered fulfilled only when the sale is highly probable and the non-current asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and the fair value less costs to sell.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, as described in Note 3, the Group has made the following decisions concerning uncertainties and estimates that have a significant impact on the amounts recognised in the financial statements. There is a significant risk of material adjustments in future periods relating to such matters, including the following:

Litigation

The Group is involved in various legal proceedings for which management has assessed the probability of loss that may result in cash outflow. In making this assessment, the Group has relied on the advice of external legal counsel, the latest available information on the status of the court proceedings, and an internal evaluation of the likely outcome. The final amount of any potential losses in relation to the legal proceedings is not known and may result in a material adjustment to the previous estimates. Details of the legal cases are included in Note 23.

Provision for Litigation and Potential Disputes

The financial statements include a provision for litigation and potential lawsuits which were estimated using the available information and an assessment of the likely outcome of individual lawsuits. The provision is not recognised unless a reasonable estimate can be made.

Impairment of Property, Plant and Equipment

The Group calculated and recorded significant amounts related to the impairment of property, plant and equipment on the basis of an assessment of their future use, planned liquidation or sale, based on information received from real estate agencies. For some of these items, no final decision has yet been made and thus the assumptions regarding the use, liquidation, or sale of the assets may change. Refer to Note 8 for details on the impairment of property, plant and equipment.

(in thousand EUR)

Unbilled Gas Sales

The Group records significant amounts as revenues from gas sales on the basis of estimated gas consumption by small industrial customers and residential customers. The Group makes an estimate of these revenues by allocating actual measured gas consumption to the individual categories of customers on the basis of past consumption trends and applying the valid natural gas prices. Actual consumption by customers in the different categories may vary and so the amounts recorded as revenues may change, given the price differences between categories of customers.

Current Crisis in Ukraine

The Group is monitoring the development of the current crisis in Ukraine and its potential impact on the Group's business. The Group's management believes that a significant negative impact on the Group's financial performance is unlikely. The Group seeks to diversify its natural gas resources by purchasing and using reverse flows from Western Europe, and also by maintaining maximum natural gas reserves in storage facilities which are able to cover short-term deficits in Russian natural gas supplies. In the event of a long-term non-performance of liabilities by the Russian supplier of natural gas, there may be potential adverse impacts, however, these cannot be reliably estimated.

Provision for Onerous Contracts

As at 31 December 2016, the consolidated financial statements include significant amounts recognised as provisions for onerous contracts in connection with non-cancellable contractual commitments to supply natural gas to customers based on the sales contracts. These provisions are based on current market information on the future development of natural gas prices in spot markets, which are volatile. For more information, see Note 13.

Decisions In Application of Accounting Policies

In addition to key sources of uncertainty listed above, the Group used a judgment when applying accounting policies and assessing the requirements of the standards as described in Note 3, which have a significant impact on the recognition of items in the consolidated financial statements. These requirements mainly include:

- Evaluation of new requirements under IFRS 13 for the measurement of non-financial assets at fair value (see Notes 2 and 3); and
- Assessment of the IAS 39 rules for the application of an exemption allowing one not to account for certain commodity sell and buy contracts as financial derivatives (see Note 3e).

5. STRUCTURE OF THE GROUP

Consolidated Subsidiaries

The consolidated subsidiaries as at 31 December 2016 and 31 December 2015 are as follows:

Name	***Seat***	***Ownership share %***	***Principal activity***
SPP CZ, a.s.	Nové sady 996/25, Staré Brno, Brno, Czech Republic	100.00	Gas purchase and sale and electricity

6. FINANCIAL INSTRUMENTS

a) Financial Risk Factors

The Group is exposed to a variety of financial risks, including the effects of changes in foreign currency exchange rates and gas purchase and selling prices. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. In 2016 and 2015, the Group entered into derivative transactions, for example, commodity swaps and forward currency contracts in order to manage certain risks. The purpose of forward currency contracts was to eliminate the effects of changes in the CZK/EUR exchange rates owing to future payments and revenues in foreign currency. The purpose of commodity swaps is to limit the price risks of sales contracts made with customers and purchase contracts with suppliers.

The main risks arising from the Group's financial instruments are foreign currency risk, commodity price risk, credit risk, and liquidity risk. Risk management is decentralised and performed by the audit, risk and process management section, using policies approved by the Board of Directors or the management of individual group companies.

(1) Foreign Currency Risk

The Group is exposed to foreign currency risk arising from transactions in foreign currencies, primarily in Czech crowns (CZK).

Analysis of financial assets and financial liabilities denominated in foreign currency:

	Financial assets		*Financial liabilities*	
	As at 31 December 2016	***As at 31 December 2015***	***As at 31 December 2016***	***As at 31 December 2015***
USD	121	137	4 979	5 081
CZK	231 399	21 916	20 291	25 459

Sensitivity to foreign currency changes

The following tables show the Group's sensitivity to a 3% weakening of the Euro against the CZK. The sensitivity analysis includes items denominated in a foreign currency and adjusts the currency translation at the end of the reporting period by the 3% FX change. A negative value indicates a decrease in the income statement if the euro weakens with regard to the relevant currency.

	Impact of CZK	
	As at 31 December 2016	***As at 31 December 2015***
Effect on profit/loss before tax	242	(4)

The effects mainly relate to the risk relating to outstanding receivables and payables in CZK as at the reporting date.

(2) Commodity Price Risk

The Group is a party to framework agreements for the purchase of natural gas. In addition, the Group enters into contracts for the sale of natural gas and natural gas storage. The Group covers a portion of the risks related to changes in oil and natural gas prices by commodity derivative instruments. Contracts for natural gas storage are at fixed prices, which are escalated based on price indices every year.

As at 31 December 2016 and 31 December 2015, the Group also used commodity swap contracts to manage the risk of commodity price fluctuations.

The following table details the open swap commodity contracts at the reporting date.

Open swap commodity contracts	***2016***		***2016***	
	Nominal value		***Fair value***	
In million EUR	***Hedging***	***Held for trading***	***Hedging***	***Held for trading***
Purchase/Sell gas				
Less than 3 months	77 390	180	5 288	44
3 to 12 months	119 099	513	9 793	128
Over 12 months	25 820	-	4 424	-

Open swap commodity contracts	***2015***		***2015***	
	Nominal value		***Fair value***	
In million EUR	***Hedging***	***Held for trading***	***Hedging***	***Held for trading***
Purchase/Sell gas				
Less than 3 months	85 646	9	(22 299)	(16)
3 to 12 months	140 844	8	(33 239)	9
Over 12 months	56 763	693	(12 294)	246

(3) Interest Rate Risk

The Group was exposed to minimum interest rate risks associated with interest rate volatility, as it only drew one long-term loan with a fixed interest rate.

For the Group, the volatility of interest rates for short-term loans does not represent a significant risk as such loans are drawn only occasionally, and the level of interbank EURIBOR interest rates have recently been at their historical minimums (1M EURIBOR that is used as a reference interest rate for short-term loans drawn by the Group reached -0.368% p.a. as at 31 December 2016, which was a decrease by 0.163% p.a. compared to the amount as at 31 December 2015 when 1M EURIBOR reached -0.205% p.a.).

Given the minimum level of short-term interest rates, sensitivity to a potential decrease of interest rates by more than 0.1-0.2% cannot be tested. On the contrary, if interest rates increase, interest expenses will increase only slightly, since these loans are drawn by the Group only several times a year.

No short-term loan was drawn as at 31 December 2016 and 31 December 2015. In 2015, limited use was made of short-term loans to bridge a lack of liquidity for short periods.

(4) Credit Risk Related to Receivables

The Group sells its products and services to various customers that, neither individually nor jointly in terms of volume and solvency, represent significant risk that the receivable will not be settled pursuant to the valid risk management policy. The Group has policies in place that ensure that products and services are sold to customers with an appropriate credit history and that an acceptable limit to credit exposure is not exceeded.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet, net of provisions.

(5) Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash with an appropriate due date and marketable securities, the availability of funding through an adequate amount of committed credit lines, and the ability to close open market positions. Due to the dynamic nature of the underlying business, Treasury management aims to maintain flexibility by keeping committed credit lines available and synchronising the maturity of financial assets with financial needs. To settle outstanding liabilities, the Group has funds and undrawn credit lines at its disposal.

As at 31 December 2016, the Group only drew long-term loans amounting to EUR 84 397 thousand (31 December 2015: EUR 84 240 thousand).

Loans with maturity of less than 2 years are drawn in EUR with a variable interest rate linked to 1M EURIBOR (in some cases O/N for overdraft facilities). For long-term loans, the interest rate is set as fixed.

The bulk of short-term credit lines include an automatic loan extension clause, provided that none of the parties concerned cancels the loan within the specified period. Long- or medium-term loans have a fixed final maturity date, while the loan is payable in a lump sum as at the final maturity date, ie in 2020.

All loans are provided without any collateral, using common market provisions (pari-passu, ban to pledge assets, substantial negative impact). If necessary, maturing credit facilities may be paid off from undrawn credit facilities, as well as from available funds and tradable securities (at 31 December 2016: EUR 500 000 thousand from joint ventures and associates and EUR 304 000 thousand from banks).

(in thousand EUR)

The table below summarises the maturity of financial liabilities at 31 December 2016 and 31 December 2015 based on contractual undiscounted payments:

	On demand	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*> 5 years*	*Total*
31 December 2016						
Trade payables	-	219 810	-	3	-	219 813
Other liabilities	-	95 222	72 970	7 760	-	175 952
Variable interest rate instruments	-	-	-	-	-	-
Fixed interest rate instruments	-	-	-	84 397	-	84 397
31 December 2015						
Trade payables	-	167 518	-	6	-	167 524
Other liabilities	-	57 370	33 527	12 294	-	103 191
Variable interest rate instruments	-	-	-	-	-	-
Fixed interest rate instruments	-	-	-	84 240	-	84 240

b) Capital Risk Management

The Group manages its capital to ensure that the Group companies are able to continue as a going concern while maximising the return to shareholders through optimising the debt and equity ratio, as well as through ensuring a high credit rating and sound capital ratios.

The capital structure of the Group consists of debt, ie borrowings disclosed in Note 14, cash and cash equivalents and equity attributable to the owners of the parent company, which comprise the registered capital, legal and other reserves, and retained earnings as disclosed in Notes 16 a 17.

The gearing ratio was as follows:

	At 31 December 2016	*At 31 December 2015 (restated)*
Debt (i)	84 397	84 240
Cash and cash equivalents	498 067	194 217
Net debt	-	-
Equity (ii)	2 166 163	2 234 012
Net debt to equity ratio	**- %**	**- %**

(i) Debt is defined as long- and short-term borrowings.
(ii) Page 5

c) Categories of Financial Instruments

	At 31 December 2016	*At 31 December 2015*
Financial assets	**1 015 315**	**598 436**
Financial derivatives recognised as hedging	31 935	64 363
Financial derivatives held for trading	109 306	20 416
Loans and receivables (including cash and cash equivalents)	874 074	513 657
Financial liabilities	**480 908**	**354 914**
Financial derivatives recognised as hedging	31 680	67 832
Financial derivatives held for trading	130 039	25 054
Financial liabilities carried at amortised costs	319 189	262 028

(in thousand EUR)

d) Estimated Fair Value

The fair value of commodity swaps is determined using forward commodity prices and forward exchange rates as at the reporting date, and agreed forward rates taking into account credit risk of various parties.

The fair value of ordinary shares not in a book-entry form has been estimated using a valuation technique based on assumptions that they are not supported by observable market prices. The valuation requires management to make estimates of the expected future cash flows from shares that are discounted at current rates.

The estimated fair values of other instruments, mainly current financial assets and liabilities, approximate their carrying amounts.

When determining the fair value of non-traded derivatives and other financial instruments, the Group uses a number of methods and market assumptions that are based on the market conditions prevailing as at the reporting date. Other methods, mainly the estimated discounted value of future cash flows, are used to determine the fair value of other financial instruments. The following table provides an analysis of financial instruments that, upon initial revaluation, are subsequently recognised at fair value, in accordance with the fair value hierarchy.

Level 1 of the fair value measurement represents those fair values that are derived from the prices of similar assets or liabilities quoted on active markets.

Level 2 of the fair value measurement represents those fair values that are derived from input data other than the quoted prices included in Level 1, which are observable on the market for assets or liabilities directly (eg prices) or indirectly (eg derived from prices).

Level 3 of the fair value measurement represents those fair values that are derived from valuation models, including subjective input data for assets or liabilities not based on market data.

Year 2016	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets at fair value	**2 977**	**138 244**	**-**	**141 241**
Financial derivatives held for trading	2 977	106 309	-	109 306
Financial derivatives recognised as hedging	-	31 935	-	31 935
Financial liabilities at fair value	**1 333**	**160 386**	**-**	**161 719**
Financial derivatives held for trading	1 333	128 706	-	130 039
Financial derivatives recognised as hedging	-	31 680	-	31 680

Year 2015	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets at fair value	**52**	**84 727**	**-**	**84 779**
Financial derivatives held for trading	52	20 364	-	20 416
Financial derivatives recognised as hedging	-	64 363	-	64 363
Financial liabilities at fair value	**627**	**92 259**	**-**	**92 886**
Financial derivatives held for trading	627	24 427	-	25 054
Financial derivatives recognised as hedging	-	67 832	-	67 832

Embedded Derivative Instruments

The Group signed a long-term contract for purchases of natural gas denominated in USD. Following an agreement with the Russian partner, the contract was modified by an amendment and the price was converted to EUR with a direct link to the development of the relevant spot market. Both the economic characteristics and risks of embedded forward derivative instruments (USD to EUR), and natural gas prices are generally believed to be closely related to the economic characteristics and risks of the underlying purchase agreements. Hence, in accordance with IAS 39 (as revised in December 2003), the Group does not recognise embedded derivatives separately from the host contract.

(in thousand EUR)

The Group has assessed all other significant contracts and agreements for embedded derivatives that should be recorded. The Group concluded that there are no embedded derivatives in these contracts and agreements that are required to be measured and recognised separately as at 31 December 2016 and 31 December 2015 under the requirements of IAS 39 (as revised in December 2009).

7. INVESTMENTS RECOGNISED USING THE EQUITY METHOD

Details of the Group's associated undertakings as at 31 December 2016 can be summarised as follows:

Name	***Seat***	***Ownership interest %***	***Principal activity***	***Value under equity method at 31 December 2016***
SPP Infrastructure, a. s.	Mlynské nivy 44/a, Bratislava, Slovakia	51.00	Holding company	1 451 990

SPP has recognised this ownership interest in SPP Infrastructure, a.s. using the equity method.

An overview of assets, liabilities, revenues, and expenses of SPP Infrastructure, a.s. is as follows:

	At 31 December 2016	***At 31 December 2015 (restated)***	***At 31 December 2014 (restated)***
Property, plant and equipment	4 929 000	5 061 000	5 227 000
Investments in securities	150 000	154 000	50 000
Other non-current assets	27 000	28 000	10 000
Current assets	500 000	1 010 000	913 000
Total assets	**5 606 000**	**6 253 000**	**6 200 000**
Non-current interest-bearing borrowings	2 123 000	2 185 000	1 516 000
Provisions for liabilities and other long-term liabilities	919 000	978 000	966 000
Current liabilities	224 000	317 000	259 000
Total liabilities	**3 266 000**	**3 480 000**	**2 741 000**
Net assets	**2 340 000**	**2 773 000**	**3 459 000**

	At 31 December 2016	***At 31 December 2015 (restated)***
Revenues	1 297 000	1 333 000
Profit before income taxes	848 000	845 000
Income tax including deferred tax	(171 000)	(211 000)
Profit after tax	**677 000**	**634 000**

A reconciliation of the financial information stated above with the carrying amount of the share in SPP Infrastructure, a.s. recognised in these consolidated financial statements is as follows:

	At 31 December 2016	***At 31 December 2015 (restated)***	***At 31 December 2014 (restated)***
Net assets of SPP Infrastructure, a.s.	2 340 000	2 773 000	3 459 000
Ownership interest (51%)	1 193 400	1 414 230	1 764 090
Goodwill	258 590	258 590	258 590
Carrying amount of the share in SPP Infrastructure, a.s.	**1 451 990**	**1 672 820**	**2 022 680**

(in thousand EUR)

8. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings (measured at historical costs)	*Plant, machinery and equipment (measured at historical costs)*	*Other non-current tangible assets (measured at historical costs)*	*Assets in course of construction (measured at historical costs)*	*Total*
Year ended 31 December 2015					
Opening net book value	83 908	6 095	645	1 436	92 084
Additions	2	-	15	645	662
Placed into service	159	454	174	(787)	-
Reclassifications to investment property	3 750	-	-	-	3 750
Disposals	(66)	(36)	(29)	(1 065)	(1 196)
Depreciation charge	(4 225)	(1 877)	(153)	-	(6 255)
Change of provisions	1 931	(19)	-	24	1 936
Reclassification – assets for sale	(315)	-	-	-	(315)
Closing net book value	**85 144**	**4 617**	**652**	**253**	**90 666**
At 31 December 2015					
Cost	138 889	44 048	4 476	266	187 679
Provisions and accumulated depreciation	(53 745)	(39 431)	(3 824)	(13)	(97 013)
Net book value	**85 144**	**4 617**	**652**	**253**	**90 666**
Year ended 31 December 2016					
Opening net book value	85 144	4 617	652	253	90 666
Additions	10	7	10	915	942
Placed into service	170	226	(1)	(395)	-
Reclassifications to investment property	2 977	-	-	-	2 977
Disposals	(1 206)	(11)	-	-	(1 217)
Depreciation charge	(3 640)	(1 103)	(57)	-	(4 800)
Change of provisions	(2 623)	(6)	-	(22)	(2 651)
Reclassification – assets for sale	(4)	-	-	-	(4)
Closing net book value	**80 828**	**3 730**	**604**	**751**	**85 913**
At 31 December 2016					
Cost	142 124	43 336	4 762	786	191 008
Provisions and accumulated depreciation	(61 296)	(39 606)	(4 158)	(35)	(105 095)
Net book value	**80 828**	**3 730**	**604**	**751**	**85 913**

(in thousand EUR)

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

Insured assets	***Type of insurance***	***Cost of insured assets 2016***	***Cost of insured assets 2015***	***Name and seat of the insurance company***
Buildings, halls, structures, machinery, equipment, fittings & fixtures, low-value TFA, other TFA, works of art, inventories (except for gas pipelines) Movables, assets, inventories	Insurance of assets	227 615	227 615	AIG Europe Limited, pobočka zahraničnej poisťovne
Motor vehicles	Motor third-party liability insurance, motor hull insurance	83	111	Kooperativa, a.s., Česká podnikatelská pojišťovna

9. INVESTMENT PROPERTY

	At 31 December 2016	***At 31 December 2015***
Opening net book value	20 641	22 579
Depreciation charges	(870)	(1 003)
Change of provisions	1 991	2 815
Additions and disposals and reclassifications to non-current tangible assets	(2 977)	(3 750)
Closing net book value	**18 785**	**20 641**

SPP leases non-gas assets primarily to SPP – distribúcia, a.s. In accordance with IAS 40, SPP opted for recognition at historical cost. If the revaluation model was used, the restated value of the assets would be EUR 20 937 thousand based on the company's estimate.

10. INVENTORIES

	At 31 December 2016	***At 31 December 2015***
Natural gas	145 211	261 942
Raw materials	7	6
Provisions	(12 685)	(33 037)
Total	**132 533**	**228 911**

As at 31 December 2016, a provision was recorded for natural gas related to the adjustment of the cost of natural gas to its net realisable value in the amount of EUR 12 685 thousand (31 December 2015: EUR 33 037 thousand).

11. RECEIVABLES AND PREPAYMENTS

	At 31 December 2016	***At 31 December 2015***
Trade receivables from the sale of natural gas and electricity	292 340	210 699
Prepayments for distribution of natural gas	27 190	43 512
Receivables from financial derivatives	133 459	72 239
Prepayments and other receivables	35 745	44 179
Other tax assets	-	-
Total	**488 734**	**370 629**

Trade receivables from the sale of natural gas and electricity are shown net, and represent receivables from billed and unbilled gas and electricity supplies.

(in thousand EUR)

Receivables and prepayments are shown net of provisions for bad and doubtful receivables in the amount of EUR 142 269 thousand (31 December 2015: EUR 131 791 thousand).

As at 31 December 2016, the Group recorded receivables within maturity in the amount of EUR 479 728 thousand and receivables overdue in the amount of EUR 151 275 thousand, excluding provisions. As at 31 December 2015, the Group recorded receivables within maturity and overdue in the amount of EUR 351 503 thousand and EUR 150 917 thousand, respectively, excluding provisions. As at 31 December 2016, SPP recorded receivables from a customer in the large consumer segment in the amount of EUR 31 412 thousand (31 December 2015: EUR 27 115 thousand), for which the Company concluded that a specific provision will be required due to management's doubts about the customer's ability to repay amounts due to the Company. Due to the limited availability of information on the customer's ability to pay its liabilities and the related high level of uncertainty, as at 31 December 2016 SPP recorded a provision for all overdue receivables from the customer amounting to EUR 21 869 thousand as at 31 December 2016 (31 December 2015: EUR 14 849 thousand).

Movements in the provision for bad and doubtful receivables were as follows:

	At 31 December 2016	***At 31 December 2015***
Balance at 1 January	131 791	128 397
Use of provision	(332)	(35)
Release of provision	(10 447)	(3 375)
Additions to provision	21 257	6 803
Closing balance	**142 269**	**131 791**

Receivables overdue that were not provided for:

	2016	***2015***
Less than 3 months	4 980	10 617
3 to 12 months	2 340	-
More than 12 months	-	-
Total	**7 320**	**10 617**

Receivables overdue that were provided for:

	2016	***2015***
Less than 3 months	8 219	2 939
3 to 12 months	20 186	14 542
More than 12 months	115 550	122 819
Total	**143 954**	**140 300**

12. RETIREMENT AND OTHER LONG-TERM EMPLOYEE BENEFITS

The long-term employee benefits program at SPP was originally launched in 1995. This is a defined benefit program, under which employees are entitled to a lump-sum payment upon old age or disability retirement and, subject to vesting conditions, work jubilee payments. In 2013, SPP signed a new collective agreement effective until the end of 2015; on 30 October 2015, SPP signed a new collective agreement for 2016 and 2017 under which employees are entitled to retirement payments based on the number of years worked at SPP at the date of retirement after meeting the relevant conditions. Retirement benefits range from three to five average monthly salaries of employees with a guaranteed minimum (EUR 665) and a threshold maximum amount (EUR 1 330). As at 31 December 2016 the obligation relating to retirement and other long-term employee benefits was calculated based on the valid collective agreement effective from 1 January 2016.

In the new collective agreement valid for 2016 and 2017, the work jubilee benefit amount has decreased in each category by EUR 50; the retirement payment amount remained the same as in the collective agreement valid until the end of 2015.

As at 31 December 2016, 715 employees of SPP (31 December 2015: 745) were covered by this program. As of that date, it was an unfunded program, with no separately-allocated assets to cover the program's liabilities.

(in thousand EUR)

Movements in the net liability recognised in the balance sheet for the year ended 31 December 2016 are as follows:

	Long-term benefits	*Post-employment benefits*	*Total benefits at 31 December 2016*	*Total benefits at 31 December 2015*
Net liability at 1 January	196	632	828	2 059
Decrease in liabilities	-	-	-	(1 270)
Expenses of the past and current service, net	19	50	69	58
Interest expense	7	22	29	28
Employee benefits paid	(23)	(23)	(46)	(53)
Actuarial (gains)/losses:				
Actuarial (gains)/losses from a change in demographic assumptions	-	-	-	-
Actuarial (gains)/losses from a change in financial assumptions	167	41	208	35
Actuarial (gains)/losses arising from operations	(115)	37	(78)	(29)
Net liabilities	**251**	**759**	**1 010**	**828**

	Current liabilities (included in other current liabilities)	*Non-current liabilities*	*Total*
At 31 December 2015	69	941	1 010
At 31 December 2016	79	749	828

A breakdown of significant items related to the liability for employee benefits recognised in the income statement for the reporting period is stated below:

	Long-term benefits	*Post-employment benefits*	*Total at 31 December 2016*	*Total at 31 December 2015*
Expenses of the past and current service, net	19	50	69	58
Interest expense	7	22	29	28
Other (decrease in liability)	-	-	-	(1 270)
Total expenses for employee benefits	**26**	**72**	**98**	**(1 184)**

A breakdown of items related to the liability for employee benefits recognised in the statement of other comprehensive income:

	Long-term benefits	*Post-employment benefits*	*Total at 31 December 2016*	*Total at 31 December 2015*
Actuarial (gains)/losses from a change in demographic assumptions	-	-	-	-
Actuarial (gains)/losses from a change in financial assumptions	167	41	208	35
Actuarial (gains)/losses arising from operations	(115)	37	(78)	(29)
Total actuarial (gains)/losses	**52**	**78**	**130**	**6**

Sensitivity analysis – in the event of an increase/decrease in the discount rate and/or inflation, the amount of the liability for employee benefits would change as follows:

	Long-term benefits	*Post-employment benefits*	*Total at 31 December 2016*
Increase in the discount rate by 0.25%	246	736	982
Increase in inflation by 0.25%	257	777	1 034
Decrease in the discount rate by 0.25%	257	784	1 041
Decrease in inflation by 0.25% (at 0%)	251	742	993

(in thousand EUR)

Key assumptions used in the actuarial valuation:

	At 31 December 2016	*At 31 December 2015*
Market yield on government bonds	1.382%	3.504%
Annual future real rate of salary increases	2.00%	2.00%
Annual employee turnover	Ranging from 1.9% to 20% depending on the age category, average of 6.01%	Ranging from 1.9% to 20% depending on the age category, average of 6.01%
Retirement ages (male and female)	The average estimated age for drawing an old age pension benefit is 64.7	62 for male and 62 for female

13. PROVISIONS FOR LIABILITIES

Movements in the provisions for liabilities are summarised as follows:

	Provision for onerous contracts	*Other provisions*	*Total at 31 December 2016*	*Total at 31 December 2015*
Balance at 1 January	18 913	26 730	45 643	47 242
Effect of discounting	35	-	35	28
Additions	21 390	3 234	24 624	9 261
Use	(8 690)	(86)	(8 776)	(10 632)
Reversal	(10 288)	-	(10 288)	(257)
Closing balance	**21 360**	**29 878**	**51 238**	**45 642**

The provisions are included in liabilities as follows:

	Current provisions	*Non-current provisions*	*Total provisions*
At 31 December 2015	16 734	28 908	45 642
At 31 December 2016	18 793	32 445	51 238

a) Provision for Onerous Contracts

The Group identified and recorded a provision for onerous contracts in connection with non-cancellable contractual commitments to supply natural gas to customers under sales contracts in 2016 and beyond. These provisions are based on an assumption that future costs to purchase natural gas, which are mainly influenced by the long-term purchase contract with Gazprom Export LLC, to provide natural gas to these customers will exceed economic benefits obtained at the sale. The calculation of the provision is subject to various assumptions of current market information relating to the future development of natural gas prices in spot markets, which are volatile. The actual losses generated with regard to these contracts may vary and such differences may be material.

b) Other Provisions

Other provisions amounting to EUR 29 878 thousand (31 December 2015: EUR 26 730 thousand) comprise a provision for various pending lawsuits and other potential lawsuits. Refer also to Note 23.

(in thousand EUR)

14. INTEREST-BEARING BORROWINGS

	31 December 2016 Secured	*31 December 2016 Unsecured*	*31 December 2016 Total*	*31 December 2015 Secured*	*31 December 2015 Unsecured*	*31 December 2015 Total*
Loans	-	84 397	84 397	-	84 240	84 240
Bonds	-	-	-	-	-	-
Total loans	**-**	**84 397**	**84 397**	**-**	**84 240**	**84 240**
Loans by currency						
EUR						
– with fixed interest rate	-	84 397	84 397	-	84 240	84 240
– with variable interest rate	-	-	-	-	-	-
Total loans	**-**	**84 397**	**84 397**	**-**	**84 240**	**84 240**
Loans are due as follows:						
Less than 1 year	-	-	-	-	-	-
1 to 2 years	-	-	-	-	-	-
2 to 5 years	-	84 397	84 397	-	84 240	84 240
More than 5 years	-	-	-	-	-	-
Total loans	**-**	**84 397**	**84 397**	**-**	**84 240**	**84 240**

In 2016 and 2015, the Group drew loans denominated in EUR bearing both floating and fixed interest rates. As at 31 December 2016, a single loan bearing a fixed interest rate of 4.125% p.a. and with a maturity of 3.5 years was drawn.

The drawn long-term loan bears interest at a fixed interest rate; short-term loans can be drawn on a revolving basis with a one-month interest period or as an overdraft loan facility. The loans were not secured by any assets.

Interest rates on loans and bonds:

Loans	***2016***	***2015***
EUR		
– with a fixed rate	4.125	4.125
– with a variable rate	1M EURIBOR plus margin	1M EURIBOR plus margin

The carrying amount and face value of loans:

	Carrying amount		***Face value***	
	31 December 2016	***31 December 2015***	***31 December 2016***	***31 December 2015***
Loans	84 397	84 240	85 000	85 000
Bonds	-	-	-	-
Total	**84 397**	**84 240**	**85 000**	**85 000**

The Group has the following outstanding credit facilities:

	At 31 December 2016	***At 31 December 2015***
Variable rate:		
- due within 1 year	304 000	304 000
- due after more than 1 year	-	-
Fixed rate:		
- due within 1 year	-	-
- due after more than 1 year	500 000	500 000
	804 000	**804 000**

Based on certain loan agreements, SPP is required to comply with the agreed financial covenants, ie on each relevant day of each calendar year over the term of the loan agreement, the net debt on the respective relevant day of the relevant calendar year against the EBITDA for the previous 12 months prior to that relevant day may not be higher than 2. As at 31 December 2016, SPP complied with this covenant.

(in thousand EUR)

15. TRADE AND OTHER PAYABLES

	At 31 December 2016	*At 31 December 2015*
Payables from purchases and supplies of natural gas and electricity	197 814	138 773
Other trade payables and other payables	21 996	28 745
Other liabilities	7 433	3 049
Employee liabilities	4 993	5 630
Social security and other taxes	13 759	16 379
Payables from financial derivatives	153 959	80 592
Total	**399 954**	**273 168**

The payables arising from purchases and sales of natural gas and electricity represent current liabilities resulting from the purchase of natural gas and electricity, overpayments for natural gas and electricity supplies to customers.

As at 31 December 2016, the Group recorded payables within maturity in the amount of EUR 399 954 thousand (31 December 2015: EUR 273 168 thousand) and overdue payables in the amount of EUR 0 thousand (31 December 2015: EUR 0 thousand).

The Group has no significant liability secured by a pledge or any other form of collateral.

Social fund payables:

	Amount
Opening balance as at 1 January	444
Total additions:	266
from expenses	*266*
from profit	-
Total drawing:	(335)
monetary rewards and gifts	*(14)*
work jubilee benefits	*(18)*
catering allowance	*(88)*
other	*(215)*
Closing balance as at 31 December	**375**

16. REGISTERED CAPITAL

The Company's registered capital as at 31 December 2016 and 31 December 2015 comprises 26 666 536 fully-paid shares (with a face value of EUR 33.19), which are owned by the Slovak Republic represented by the Ministry of Economy of the Slovak Republic.

The registered capital was recorded in the Commercial Register in the full amount.

Pursuant to the Company's Articles of Association, if all shares (except for treasury shares acquired by the Company pursuant to Article 161a or Article 161b of the Commercial Code) are held by one shareholder, in cases where the law requires a two-third (2/3) majority, a two-third (2/3) majority of votes of the shareholders present at a general meeting is required to adopt decisions. If the company has a sole shareholder, such a shareholder acts in the capacity of the general meeting in the form of written decisions that must be signed by the shareholder. In cases stipulated by law, such decisions must be in the form of a notarial deed.

17. NON-DISTRIBUTABLE RESERVES

Since 1 January 2006, SPP has been required to prepare financial statements in accordance with IFRS as adopted by the EU (both separate and consolidated) only. Distributable profit represents retained earnings only as stated in the separate financial statements.

The legal reserve fund in the amount of EUR 1 198 million (31 December 2015: EUR 1 198 million) is recorded in accordance with Slovak law and is not distributable to the shareholders. The reserve is created from retained earnings to cover possible future losses or increases in the registered capital. Transfers of at least 10% of the current year's profit (as presented in the individual financial statements) are required to be made until the reserve is equal to at least 20% of the registered capital.

(in thousand EUR)

Based on a resolution of the Government of the SR, on 25 January 2016 the sole shareholder of Slovenský plynárenský priemysel, a.s. transferred funds from the Company to Hlavné mesto Slovenskej republiky Bratislava (City of Bratislava) in the amount of EUR 12 million under the terms and conditions of a Donation Agreement. The Donation Agreement on the Transfer of Funds between the Company and Hlavné mesto Slovenskej republiky Bratislava (City of Bratislava) was signed on 29 January 2016. The transfer of funds was recognised by the Company in 2016 as a gift with a counter entry in retained earnings.

Other funds and reserves in equity are not distributable to SPP's shareholders.

Hedging reserves

Hedging reserves represent gains and losses arising from cash flow hedging.

	Year ended 31 December 2016	***Year ended 31 December 2015***
Opening balance	(3 467)	(7 500)
Gain/loss from cash flow hedging	-	-
Commodity swap contracts	257	(3 467)
Interest rate swap contracts	-	-
Income tax applicable to gains/losses recognised through equity	-	-
Transfers to profit and loss		
Commodity swap contracts	3 467	6 621
Interest rate swap contracts	-	879
Income tax applicable to gains/losses recognised through profit/loss	-	-
Transfer to initial carrying amount of the hedged item	-	-
Commodity swap contracts	-	-
Income tax applicable to amounts transferred to the initial carrying amount of the hedged item	-	-
Closing balance	**257**	**(3 467)**

A hedging reserve represents a cumulative accrued portion of gains and losses arising from a change in the fair value of hedging instruments concluded for cash flow hedging purposes. A cumulative gain or loss arising from a change in the fair value of hedging derivatives recognised and accumulated in the hedging reserve is reclassified to profit or loss provided that the hedged transaction has an effect on the income statement or is included as an adjustment of the base in the hedged non-financial item in accordance with the applicable accounting procedures.

Gains/(losses) arising from a change in the fair value of the hedging instruments transferred during the current period from equity to profit or loss are disclosed in the following lines of the consolidated income statement:

	Year ended 31 December 2016	***Year ended 31 December 2015***
Sale of natural gas and electricity	3 467	6 621
Purchase of natural gas and electricity, consumables and energy consumption	-	-
Other costs, net	-	-
Finance costs	-	879
Income tax charged to expenses	-	-
Total	**3 467**	**7 500**

(in thousand EUR)

18. STAFF COSTS

	Year ended 31 December 2016	*Year ended 31 December 2015*
Wages, salaries and bonuses	20 787	21 310
Social security costs	6 842	6 505
Other social security costs and severance pay	1 331	209
Total staff costs	**28 960**	**28 024**

The Group makes a contribution amounting to 35.2% of the relevant assessment base according to the law, however, no more than from approximately EUR 4 290 (except for accident insurance). The employees contribute to these funds an additional 13.4% of their assessment bases, but only up to the above limit.

19. INVESTMENT INCOME

	Year ended 31 December 2016	*Year ended 31 December 2015*
Interest income	689	556
Net gain/(loss) from financial derivative instruments designated at fair value through profit and loss	(15 797)	(8 911)
Gain/(loss) from ineffective cash flow hedging	-	-
Total investment income	**(15 108)**	**(8 355)**

An increase in the net loss from financial derivative instruments designated at fair value through profit and loss is primarily related to an increased volume of concluded financial derivatives which do not meet, or no longer meet, the requirements for hedge accounting, and thus, changes in the fair value are recognised directly in the income statement as "Mark-to-market" or "Mark-to-market on commodity contracts other than trading instruments".

20. TAXATION

20.1. Income Tax

Income tax comprises the following:

	Year ended 31 December 2016	*Year ended 31 December 2015*
Current income tax	252	(92)
Special levy on business in regulated industries	20 035	17 878
Share in income tax of associated undertakings and joint ventures	-	-
Deferred income tax		
- current year	(412)	84
- effect of the change in the tax rate on deferred tax	-	-
Total	**19 875**	**17 870**

The reconciliation between the reported income tax and the theoretical amount calculated using the standard tax rates is as follows:

	Year ended 31 December 2016	*Year ended 31 December 2015 (restated)*
Profit/(loss) before taxation	263 431	231 820
Income tax at 22%	57 955	51 000
Effect of income exempt from taxation and adjustments from permanent differences between net book and net tax values of assets and liabilities	(44 571)	(54 801)
Withholding tax	-	-
Reversal of a deferred tax and the effect of temporary differences incl. the tax loss for which no deferred tax asset was recognised	6 491	21 670
Additional tax charges	-	-
Income tax for the year	**19 875**	**17 870**

(in thousand EUR)

The actually-recognised tax rate differs from the tax rate of 22% stipulated by law in 2016 mainly due to the adjustments of the tax base in respect of the current income tax for items increasing and decreasing the tax base pursuant to valid tax legislation. Such adjustments primarily include tax non-deductible provisions for liabilities and provisions for assets, a difference between tax and accounting deprecation charges of non-current assets, the revaluation reserve for non-cash contributions, etc. In addition as at 31 December 2016, deferred tax assets were not recognised as there are uncertainties as to sufficient future taxable income to utilise such deferred tax assets.

Pursuant to IFRS requirements, the income tax also includes a special levy on business in regulated industries pursuant to a special regulation (see Note 3, part r).

As at 31 December 2016, the Group recognised on the balance sheet an estimated payable from a special levy on business in regulated industries in the amount of EUR 2 822 thousand. As at 31 December 2015, the Group recognised on the balance sheet an estimated overpayment from a special levy on business in regulated industries in the amount of EUR 30 547 thousand.

20.2. Deferred Income Tax

As SPP expects no taxable profits against which temporary differences could be utilised in the near future, deferred tax assets of SPP were not recognised as at 31 December 2016 and 31 December 2015.

Deductible temporary differences and tax losses for which no deferred tax asset was recognised as at 31 December 2016 amount to EUR 399 282 thousand (31 December 2015: EUR 507 453 thousand).

21. TAX EFFECTS IN THE STATEMENT OF OTHER COMPREHENSIVE INCOME

Disclosure of tax effects relating to each component of other comprehensive income:

At 31 December 2015	***Before tax***	***Tax***	***After tax***
Change in FX translation reserve	(105)	-	(105)
Hedging derivatives (Cash flow hedging)	4 033	-	4 033
Other	(6)	-	(6)
Other comprehensive income for the period	**3 922**	**-**	**3 922**

At 31 December 2016	***Before tax***	***Tax***	***After tax***
Change in FX translation reserve	-	-	-
Hedging derivatives (Cash flow hedging)	3 724	-	3 724
Other	(129)	-	(129)
Other comprehensive income for the period	**3 595**	**-**	**3 595**

22. CASH FLOWS FROM OPERATING ACTIVITIES

	Year ended 31 December 2016	***Year ended 31 December 2015 (restated)***
Profit before tax	263 431	231 820
Adjustments for:		
Depreciation and amortisation	6 706	9 026
Provisions and other non-cash items	6 502	37 393
Impairment losses	632	(4 752)
Profit from sale of non-current assets	(176)	(988)
Derivatives	16 672	9 013
Interest expense/(income), net	3 116	4 423
Share in profit of associated undertakings and joint ventures	(294 613)	(328 440)
Other financial revenues, net	(551)	170
(Increase)/decrease in receivables and prepayments	(76 974)	74 440
(Increase)/decrease in inventories	116 730	16 439
Increase/(decrease) in trade and other payables	50 962	10 508
Cash flows from operating activities	**92 437**	**59 052**

(in thousand EUR)

23. COMMITMENTS AND CONTINGENCIES

Capital Expenditure Commitments

As at 31 December 2016, capital expenditure of EUR 2 172 thousand (31 December 2015: EUR 6 787 thousand) had been committed under contractual arrangements for the acquisition of non-current assets, but were not recognised in these consolidated financial statements.

Operating Lease Arrangements

The Group leases means of transport under an operating lease agreement. This contract was concluded until July 2018 and the Group has no pre-emptive right to purchase the assets after the expiry of the term of the lease. The lease payments amounted to EUR 497 thousand in the year ended 31 December 2016 (31 December 2015: EUR 506 thousand).

The Group continues to lease non-residential premises and land from third parties. The lease agreements are mostly concluded for an indefinite period. The annual rent amounts to EUR 383 thousand. The Group is not aware of the value of the leased assets; expenses to determine such value would be several times higher than the benefit from obtaining the information on such value.

Total non-cancellable operating lease payables amount to:

Period	*2016*	*2015*
Within 1 year	593	585
From 1 to 5 years	1 069	1 164
More than 5 years	-	-
Total	**1 662**	**1 749**

The Group leases out non-residential premises (approx. 58 500 m²), land plots including external carparks and movable assets. The annual lease revenues amount to approximately EUR 6 185 thousand. The lease agreements are mostly concluded for an indefinite period. Leased non-residential premises, land and movable assets are recognised by the Group on the balance sheet as investment property.

Natural Gas Purchase

The majority of natural gas purchases were supplied from the Russian Federation in 2016. Natural gas supplies were performed in line with a long-term agreement with Gazprom export LLC.

The natural gas purchase price from Gazprom export LLC is determined using the agreed price formula.

Gas Sales Contracts

Sales of natural gas to medium- and large-sized customers are subject to gas supplies contracts, which are generally agreed for one or more years. The prices agreed in the contracts usually include capacity and commodity components.

Electricity Sale Contracts

The sale of electricity to mid-sized and large customers is the subject matter of composite electricity supply contracts or electricity supply contracts with an assumed liability for a deviation. Such contracts usually determine the price for the commodity supply. The price of the distribution and other price components is determined based on RONI's price decisions for distribution companies and the market and transmission system operator. Composite electricity supply contracts with small businesses and households define products for which price lists are issued in accordance with RONI's price decisions for the regulated entity SPP as an electricity supplier.

Significant Contractual Liabilities with Former Subsidiaries That Continue After the Completion of the SPP Group Reorganisation

After the completion of the SPP Group reorganisation, SPP will continue to have significant contractual liabilities due to the purchase of storage capacities with NAFTA, a.s., and in the purchase of distribution and transport services from SPP – distribúcia, a.s. and eustream, a.s.

The Group stores natural gas in underground storage facilities operated by NAFTA, a.s. and POZAGAS, a.s. that are used for depositing and extracting natural gas as per seasonal demand, and for securing the supply safety standard as required by law. The storage fee is set in individual storage contracts.

The Group purchases transmission services and transmission capacities under *ship or pay* contracts concluded with eustream, a.s. Fees and business terms in these contracts are fully regulated by the RONI.

Fees for distribution services depend on the fixed and variable components and are also fully regulated by the RONI.

Taxation

The Group has transactions with subsidiaries and associated undertakings and other related parties. The tax environment in which the Group operates in Slovakia is dependent on the prevailing tax legislation and practice and has relatively little existing precedents. There is an inherent risk that the tax authorities may require, for example, transfer pricing or other adjustments to the corporate income tax base. Corporate income tax in Slovakia is levied on each individual legal entity and, as a consequence, there is no concept of Group taxation or relief. The tax authorities in Slovakia have broad powers of interpretation of tax laws, which, moreover, are often amended, which could result in unexpected results from tax inspections. The amount of any potential tax liabilities related to these risks cannot be estimated.

Litigation and Potential Losses

The Group is involved in a number of legal disputes relating to disputed bills of exchange and alleged breaches of contracts. In addition to the bills of exchange and disputes described below, the Group is also involved in other litigation arising in the normal course of business that is not expected, either individually or in the aggregate, to have a significant adverse effect on the accompanying financial statements. The final outcome of such litigation may result in liabilities higher than the provisions recognised, and such differences may be significant.

Bills of exchange

SPP's management is aware of the existence of bills of exchange that were allegedly signed by the former General Director of SPP prior to 1999. SPP announced publicly that it would repudiate the validity of these bills of exchange signed by the former General Director before the court, on the basis of the suspicion that these bills are fraudulent and are in no way related to any contractual relations of SPP.

At present, ten (10) bills of exchange with principal totalling approx. EUR 75 million are at different stages of legal proceedings at courts in the Slovak Republic. In another five (5) cases related to bills of exchange with principal amounting to approx. EUR 108 million, a final and binding court decision was adopted in favour of SPP. Efforts of the counterparties to overturn the positive result for SPP by using extraordinary remedies cannot be excluded.

The management of SPP, following the advice of its legal counsel, defends the interests of the Company in these cases by all legitimate means available. SPP recorded a provision for potential losses related to several bills of exchange. The amount of the provision has not been disclosed separately, as the management of SPP believes that any such disclosure could seriously jeopardise the position of SPP in the relevant litigation. These financial statements do not include any other provisions for potential losses related to the bills of exchange as the final outcome of the remaining cases is uncertain and cannot currently be predicted.

Other legal cases and disputes

SPP is a defendant in other legal cases and disputes.

The amounts of the provisions and other information relating to these individual legal cases and disputes have not been disclosed separately as the management of SPP believes this could seriously jeopardise the position of SPP in these disputes.

Legislative Conditions for Business Activities in the Energy Sector

Legal and Regulatory Framework for the Natural Gas Market in the Slovak Republic and the Implementation of EU Energy Legislation

Act No. 251/2012 Coll. on Energy and on Amendments to and Supplementation of Certain Acts and Act No. 250/2012 Coll. on Regulation in Network Industries that became effective on 1 September 2012 represent a basic legal framework for business in the energy sector.

On 1 December 2014, Act No. 321/2014 Coll. on Energy Efficiency and on Amendments to and Supplementation of Certain Acts (the "Energy Efficiency Act") entered into force, by which the Slovak Republic partially transposed Directive No 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on Energy Efficiency into its laws. The Energy Efficiency Act stipulates a framework for the rational use of energy, measures to support and improve energy efficiency, procedure and the liabilities of responsible entities as regards making policies and action plans for energy efficiency and energy efficiency goals, rights and obligations of entities in the area of energy efficiency and in the performance of an energy audit, the business activities related to the provision of energy services, and introduces new rules for the provision of information to end users of energy and to the monitoring system operator. The Energy Efficiency Act introduced several new obligations for the Company, and a potential business opportunity to support its core business activity of natural gas and electricity supplies by providing supporting energy services and energy services with guaranteed energy savings.

SPP is a participant in the wholesale energy market and is therefore obliged to comply with obligations arising from Regulation of the European Parliament and of the Council No. 1227/2011 on the Wholesale Energy Market Integrity and Transparency (ie REMIT). The obligations include, in particular, compliance with an obligation to disclose confidential information, a ban on insider trading, a ban on market manipulation and an obligation to provide records of transactions on the wholesale energy markets, including orders to trade, to the Agency for Cooperation of Energy Regulators. Details related to data reporting are regulated by Commission Implementing Regulation (EU) No. 1348/2014.

Price Regulation

The basic framework in the price regulation of gas supplies is stipulated by Act No. 250/2012 Coll. on Regulation in Network Industries. 2016 was the last year of the 2012 – 2016 regulation period. Details related to the scope and method of conducting price regulation are determined in the generally-binding legal regulations issued by the RONI based on the above acts. In 2016, gas supplies to households, gas supplies to small businesses (with an annual consumption of up to 100 thousand kWh/year), gas supplies to suppliers of last resort, electricity supplies to households, electricity supplies to small businesses and production, distribution and supply of heat continue to be subject to price regulation. In 2016, the same scope of price regulation applied to electricity supplies (in this case, a small business is a customer with a maximum annual consumption of 30 thousand kWh). In 2016, price regulation in the above areas was stipulated in RONI Decrees, ie Decree No. 193/2013 Coll. on price regulation in the gas sector, Decree No. 222/2013 Coll. on price regulation in the heat-power industry and Decree No. 221/2013 Coll. on price regulation in the electricity sector.

The regulation policy for the 2017 – 2021 regulation period was published on 9 March 2016. The regulation policy, inter alia, extended the scope of price regulation for household gas supply. In 2016, new implementing regulations were adopted, ie RONI Decree No. 223/2016 Coll. on price regulation in the gas industry, Decree No. 248/2016 Coll. on price regulation in the heat-power industry and Decree No. 260/2016 Coll. on price regulation in the electricity sector.

(in thousand EUR)

24. RELATED PARTY TRANSACTIONS

The Slovak Republic, represented by the Ministry of Economy of the Slovak Republic, was the 100% owner of SPP's shares as at 31 December 2016 and 31 December 2015.

During the year, the Group entered into the following transactions with related parties that are not consolidated entities in the relevant periods in these consolidated financial statements:

	2016					31 December 2016		
	Revenues	***Creation/ (reversal) of provisions for receivables***	***Expenses***	***Dividends***	***Other***	***Receivables***	***Provisions for receivables***	***Payables***
Ministry of Economy of the SR	4	-	-	303 000	-	-	-	-
Slovak National Property Fund	-	-	-	-	-	-	-	-
Other companies	232	-	(28)	-	-	40	-	3
Associates	53	-	(41)	-	-	4	-	-
Joint ventures	-	-	-	-	-	-	-	-
Other related parties	19 398	-	364 595	-	1 705	51 697	13 525	4 241

Management considers that the transactions with related parties have been made on an arm's length basis.

Transactions with other companies and other related parties represent mainly services related to purchases and sales of natural gas, electricity, lease of non-current assets and storage of natural gas.

	2015					31 December 2015		
	Revenues	***Creation/ (reversal) of provisions for receivables***	***Expenses***	***Dividends***	***Other***	***Receivables***	***Provisions for receivables***	***Payables***
Ministry of Economy of the SR	3	-	-	288 547	-	-	-	-
Slovak National Property Fund	-	-	-	-	-	-	-	-
Other companies	2 002	-	(40)	-	-	181	-	1
Associates	64	-	232	-	-	8	-	-
Joint ventures	-	-	-	-	-	-	-	-
Other related parties	29 186	-	379 789	-	-	67 153	13 524	557

(in thousand EUR)

The compensation of the members of the bodies and executive management was as follows:

	Year ended 31 December 2016	***Year ended 31 December 2015***
Remuneration to members of the Board of Directors, Supervisory Board, executive management and former members of the bodies - total	1 729	1 602
Of which – Board of Directors and executive management	*1 501*	*1 456*
- Supervisory Board	*228*	*146*
Benefits after termination of employment to members of the Board of Directors, Supervisory Board, executive management and former members of the bodies – total	-	-
Of which – Board of Directors and executive management	-	-
Other long-term benefits to members of the Board of Directors, Supervisory Board, executive management and former members of the bodies – total	-	-
Of which – Board of Directors and executive management	-	-
Benefits after termination of employment of members of the Board of Directors, Supervisory Board, executive management and former members of the bodies – total	-	-
Of which – Board of Directors and executive management	-	-
Other benefits to members of the Board of Directors, Supervisory Board, executive management and former members of the bodies – total	36	41
Of which – Board of Directors and executive management	*35*	*38*
- Supervisory Board	*1*	*3*

25. SUPPLEMENTARY INFORMATION TO COMPLY WITH OTHER STATUTORY REQUIREMENTS FOR CONSOLIDATED FINANCIAL STATEMENTS

a) Consolidated Financial Statements

As at 31 December 2016, SPP submitted consolidated financial information as a consolidated reporting entity for higher consolidation to the Ministry of Economy of the Slovak Republic based at Mierová 19, 827 15 Bratislava.

The ultimate reporting entity that consolidates the SPP Group as at 31 December 2016 is the Ministry of Economy of the Slovak Republic.

SPP prepares consolidated financial statements for its group of companies. See Notes 5 and 7 for details on these companies.

The consolidated and separate financial statements of SPP are published on SPP's website (www.spp.sk).

The consolidated and separate financial statements of SPP published in periods before 31 December 2013 were published in the Commercial Journal and filed with the Commercial Register of Bratislava 1 District Court (Záhradnícka 10, 811 07 Bratislava). The consolidated and separate financial statements of SPP and its subsidiaries and associates based in the Slovak Republic published in the period after 1 January 2014 are filed with the Register of Financial Statements and in the Collection of Deeds (Sbírka listin) for entities based in the Czech Republic. The consolidated and separate financial statements of subsidiaries, joint ventures and associates for the periods until 31 December 2013 and of companies based outside the Slovak Republic are available at the relevant Courts of Records in terms of their registered seats.

For more details on the consolidated and consolidating companies, refer to Notes 1, 5, and 7.

(in thousand EUR)

b) Members of the Company's Bodies

Body	***Function***	***Name***
Board of Directors	Chairman	Ing. Štefan Šabík
	Vice-Chairman	Pierre Poncik, M.Sc.
	Member	Ing. Milan Hargaš
	Member	Mgr. Ivana Zelizňáková
	Member	Ing. Ján Szalay – since 7 Nov 2016
	Member	Ing. Daniel Kvocera – until 15 Sep 2016
Supervisory Board		
	Chairman	Mgr. Maroš Čislák – since 20 Dec 2016
	Chairman	Ing. Michal Ďurkovič – until 19 Dec 2016
	Member	Ing. Michal Ďurkovič – since 20 Dec 2016
	Member	Ing. Robert Maguth
	Member	Viera Uhrová
	Member	Ing. Valéria Janočková
	Member	Ing. Robert Zemánek – until 19 Dec 2016
	Member	Ing. arch. Tomáš Gál, PhD. – until 19 Dec 2016
	Member	Prof. Ing. Juraj Janočko, CSc., Dr. Scient. – until 19. 12. 2016
	Member	Ing. Dušan Žák – until 19. 12. 2016

26. POST-BALANCE SHEET EVENTS

No events occurred after 31 December 2016 that would have a material impact on the Group's financial statements.

Prepared on:

14 March 2017

Approved on:

Signature of a member of the statutory body of the reporting entity or a natural person acting as a reporting entity:

Ing. Štefan Šabík
Chairman of the Board of Directors

Pierre Poncik, M.Sc.
Vice-Chairman of the Board of Directors

Signature of the person responsible for the preparation of the financial statements:

Ing. Petr Ivánek
Director of Economics and Operational Services

Signature of the person responsible for bookkeeping:

Ing. Miroslav Jankovič
Director of Accounting and Taxes Section

Proposal
for the distribution of SPP profit for 2016 period

The proposal for the distribution of profit for the financial period of 2016 has been prepared in line with the Articles of Association of Slovenský plynárenský priemysel, a.s., Article XIX PROFIT DISTRIBUTION, Article XVIII CREATION AND USE OF THE RESERVE FUND, Article XX CREATION OF OTHER FUNDS, and in accordance with the provisions of the Commercial Code no. 513/1991 Coll., as amended.

The profit distribution proposal for 2016 period is based on the audited 2016 individual financial statements and is in accordance with the medium-term plan for payment of dividends approved by the sole shareholder. The value allocated for dividends is fully covered by the company's cash without any additional requirements for receiving dividends from SPP Infrastructure.

I.	**Net profit**	**€ 462,989,174.89**
II.	**Replenishment of the statutory reserve fund** in accordance with Article XVIII of the Articles of Association, the reserve fund reached the level of 20% of the registered capital	**€ 0.00**
III.	**Net profit allocated for dividends**	**€ 310,000,000.00**
IV.	**Transfer to retained earnings**	**€ 152,989,174.89**
V.	**Royalties to members of company bodies**	**€ 0.00**

The dividend shall be paid out to the shareholder within 180 days of the adoption of the decision of the sole shareholder of the company on the distribution of 2016 profit of the company.