Západoslovenská energetika, a.s.

Independent Auditor's Report and Consolidated Financial Statements for the year ended 31 December 2015 prepared in accordance with International Financial Reporting Standards as adopted by the European Union

Content

pwc

INDEPENDENT AUDITOR'S REPORT

To the Shareholders, Supervisory Board, and Board of Directors of Západoslovenská energetika, a.s.:

We have audited the accompanying consolidated financial statements of Západoslovenská energetika, a.s. and its subsidiaries, which comprise the consolidated balance sheet at 31 December 2015 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Západoslovenská energetika, a.s. and its subsidiaries as at 31 December 2015, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

PricewaterhouseCoopers Slovensko, s.r.o.
SKAU licence No.: 161

Slovenská komora audítorov SKAU Č. licencie 161 PricewaterhouseCoopers Slovensko, s.r.o.

Mgr. Juraj Tučný, FCCA
UDVA licence No.: 1059

Bratislava, 23 March 2016

Our report has been prepared in Slovak and in English languages. In all matters of interpretation of information, views or opinions, the Slovak language version of our report takes precedence over the English language version.

PricewaterhouseCoopers Slovensko, s.r.o., Karadžičova 2, Bratislava - 815 32, Slovak Republic
T: +421 (0) 2 59350 111, F: +421 (0) 2 59350 222, www.pwc.com/sk

The company's ID (IČO) No. 35739347.
Tax Identification No. of PricewaterhouseCoopers Slovensko, s.r.o. (DIČ) 2020270021.
VAT Reg. No. of PricewaterhouseCoopers Slovensko, s.r.o. (IČ DPH) SK2020270021.
Spoločnosť je zapísaná v Obchodnom registri Okresného súdu Bratislava 1, pod vložkou č. 16611/B, oddiel: Sro.
The company is registered in the Commercial Register of Bratislava 1 District Court, ref. No. 16611/B, Section: Sro.

(All amounts are in thousands of Euro unless stated otherwise)

	Note	As at 31 December 2015	As at 31 December 2014
ASSETS			
Non-current assets			
Property, plant and equipment	7	718,792	689,542
Intangible assets	8	12,058	10,874
Other non-current asset		4,935	2,398
		735,785	702,814
Current assets			
Inventories	10	9,646	10,302
Trade and other receivables	11	92,755	92,002
Current income tax receivables		1,986	4,067
Cash and cash equivalents	12	34,464	32,044
		138,851	138,415
Total assets		**874,636**	**841,229**
EQUITY AND LIABILITIES			
Share capital and reserves			
Share capital	13	196,969	196,969
Legal reserve fund	13	39,421	39,421
Other reserves		(420)	(915)
Retained earnings		(275,005)	(302,029)
Total equity		(39,035)	(66,554)
Non-current liabilities			
Issued bonds	16	628,187	627,775
Pension and other provisions for liabilities and charges	18	12,278	11,677
Deferred revenues	14	79,562	80,608
Deferred income tax liabilities	17	25,611	19,676
		745,638	739,736
Current liabilities			
Issued bonds	16	4,114	4,114
Trade and other payables	15	158,133	158,251
Deferred revenues	14	5,408	5,101
Pension and other provisions for liabilities and charges	18	378	581
		168,033	168,047
Total liabilities		**913,671**	**907,783**
Total equity and liabilities		**874,636**	**841,229**

These consolidated financial statements have been approved for issue by the Board of Directors on 23 March 2016.

Jochen Kley
Chairman of the Board of Directors and CEO

Marian Rusko
Member of the Board of Directors

(All amounts are in thousands of Euro unless stated otherwise)

		Year ended 31 December	
	Note	**2015**	**2014**
Revenues	19	1,009,024	1,013,018
Purchase of electricity, gas and related fees	20	(744,076)	(751,228)
Employee benefits	21	(57,589)	(54,905)
Depreciation and amortization	21	(47,031)	(45,784)
Other operating expenses	21	(47,132)	(51,695)
Other operating income	22	8,207	10,237
Own work capitalised		17,838	17,661
Profit from operations		**139,241**	**137,304**
Finance income / (expense)			
Interest income		277	168
Interest expense and other finance expenses	23	(22,303)	(22,210)
Net finance income / (expense)		**(22,026)**	**(22,042)**
Profit before tax		**117,215**	**115,262**
Income tax expense	24	(29,233)	(31,114)
Net profit		**87,982**	**84,148**
Other comprehensive income (items that will not subsequently be reclassified to profit or loss):		495	(675)
Total comprehensive income		**88,477**	**83,473**

Consolidated statement of changes in equity for the year ended 31 December 2015 prepared in accordance with IFRS as adopted by the European Union

(All amounts are in thousands of Euro unless stated otherwise)

	Share capital	Legal reserve fund	Other funds	Other reserves*)	Retained earnings	Total
Balance at 1 January 2014	**196,969**	**39,421**	**-**	**(240)**	**(332,567)**	**(96,417)**
Comprehensive income						
Profit for the year	-	-	-	-	84,148	84,148
Other comprehensive income	-	-	-	(675)	-	(675)
Total comprehensive income for year 2014	-	-	**-**	**(675)**	**84,148**	**83,473**
Transaction with owners						
Dividends	-	-	-	-	(52,213)	(52,213)
Transaction with owners	**-**	**-**	**-**	**-**	**(52,213)**	**(52,213)**
Other	-	-	-	-	(1,397)	(1,397)
Balance at 31 December 2014	**196,969**	**39,421**	**-**	**(915)**	**(302,029)**	**(66,554)**
Comprehensive income						
Profit for the year	-	-	-	-	87,982	87,982
Other comprehensive income	-	-	-	495	-	495
Total comprehensive income for year 2015	-	-	**-**	**495**	**87,982**	**88,477**
Transaction with owners						
Dividends (Note 13)**)	-	-	-	-	(60,958)	(60,958)
	-	**-**	**-**	**-**	**(60,958)**	**(60,958)**
Other	-	-	-	-	-	-
Balance at 31 December 2015	**196,969**	**39,421**	**-**	**(420)**	**(275,005)**	**(39,035)**

**) Other reserves include remeasurements post-employment benefit obligations net of income tax.*
***) Dividends are paid on the basis of separate financial statements of Západoslovenská energetika, a.s. The distributable retained earnings of Západoslovenská energetika, a.s. are disclosed in Note 13.*

Consolidated cash flow statement for the year ended 31 December 2015 prepared in accordance with IFRS as adopted by the European Union

(All amounts are in thousands of Euro unless stated otherwise)

	Note	Year ended 31 December 2015	2014
Cash flows from operating activities			
Cash generated from operations	25	184,833	173,709
Interest received		277	168
Interest paid		(20,841)	(21,070)
Income tax paid		(21,356)	(21,933)
Net cash from operating activities		**142,913**	**130,874**
Cash flows from investing activities			
Purchase of property and equipment and intangibles		(81,227)	(70,503)
Dividends received	22	745	629
Receipts from the sale of non-current assets	25	954	480
Expenditures on acquisition of associates		(7)	-
Net cash used in investing activities		**(79,535)**	**(69,394)**
Cash flows from financing activities			
Proceeds from issued bonds		-	-
Other expenditures related to issued bonds		-	-
Dividends paid	13, 28	(60,958)	(52,213)
Net cash used in financing activities		**(60,958)**	**(52,213)**
Net increase in cash and cash equivalents		**2,420**	**9,267**
Cash and cash equivalents at beginning of year	12	**31,911**	**22,644**
Cash and cash equivalents at end of year	12	**34,331**	**31,911**

1 General information

Západoslovenská energetika, a.s. (“the Company”, „ZSE“), in its current legal form as a joint stock company, was established on 15 October 2001 and incorporated on 1 November 2001 into the Commercial Register of the District Court Bratislava I.

According to the Act No. 197/2014 Coll. by which the Act No. 92/1991 Coll. on transfer conditions of state property to another person as amended is amending, on 1 August 2014 all the Shares held by the National Property Fund of the Slovak Republic in the Company representing 51% share of registered capital of the Company, were assigned to the state (Slovak Republic) on behalf of which the Ministry of Economy of the Slovak Republic is acting.

On 23 June 2015 E.ON Energie AG transferred 10% of total share capital of ZSE to E.ON Beteiligungen GmbH, Germany.

The described transaction resulted in the following structure of the Company’s shareholders at 31 December 2015:

	Absolute amount in thousands Euros	Interest in share capital in %	Voting rights
Ministry of Economics of Slovak Republic	100,454	51%	51
E.ON Slovensko, a.s.	76,818	39%	39
E.ON Beteiligungen GmbH	19,697	10%	10
Total	**196,969**	**100%**	**100**

The structure of Company’s shareholders at 31 December 2014 was as follows:

	Absolute amount in thousands Euros	Interest in share capital in %	Voting rights
Ministry of Economics of Slovak Republic	100,454	51%	51
E.ON Slovensko, a.s.	76,818	39%	39
E.ON Energie AG	19,697	10%	10
Total	**196,969**	**100%**	**100**

The Group (Note 5) provides electricity distribution and supply services primarily in the Western Slovakia region. At the end of 2011, the Group’s supply business commenced offering gas to large industrial customers and since April 2012 to SMEs and households in addition to electricity. The Group also operates two small hydroelectric plants which do not represent significant part of total revenues and is engaged in some ancillary activities such as small scale electricity network construction and maintenance related projects for the third parties.

The Regulatory Office of Network Industries (“RONI”) regulates certain aspects of the Group’s relationships with its customers, including the pricing of electricity and gas and services provided to certain classes of the Group’s customers.

Throughout these consolidated financial statements, ZSE together with its subsidiaries (see Note 5), is referred to as the “Group”.

(All amounts are in thousands of Euro unless stated otherwise)

The members of the statutory bodies during the years ended 31 December 2015 and 31 December 2014 were as follows:

Board of Directors:	**As at 31 December 2015**	**As at 31 December 2014**
Chairman:	Jochen Kley	Jochen Kley
Vice Chairman:	Ing. Peter Adamec, PhD.	Ing. Peter Adamec, PhD.
Members:	Mgr. Juraj Krajcár Ing. Ján Rusnák Marian Rusko	Mgr. Juraj Krajcár Ing. Ján Rusnák Marian Rusko

Supervisory Board:	**As at 31 December 2015**	**As at 31 December 2014**
Chairman:	Ing. Ľubomír Streicher	Ing. Ľubomír Streicher
Vice Chairman:	Lars Lagerkvist	Lars Lagerkvist
Members:	Silvia Šmátralová Ing. Peter Hanulík Ing. Marek Hargaš Ing. Boris Hradecký JUDr. Libor Samec Robert Polakovič Ing. Martin Mislovič	Silvia Šmátralová Ing. Peter Hanulík Ing. Marek Hargaš Ing. Boris Hradecký JUDr. Libor Samec Robert Polakovič Ing. Martin Mislovič

Neither Západoslovenská energetika, a.s. nor its subsidiaries are shareholders with unlimited liability in other accounting entities.

The reporting entity is jointly controlled by E.ON and the Slovak government as a result of a shareholders agreement, which requires the parties to act together to direct the activities that significantly affect the returns of the reporting entity. The entity's governance structure dictates that the entity's strategic plan be approved by representatives of both E.ON and the Slovak government. Further, any decisions by general meeting of shareholders must be made jointly by the existing shareholders, because a qualified two thirds majority of votes is required to pass any decision, while contractual restrictions exist for transfer of shares to parties not under control of existing shareholders.

The Group employed 1,767 staff on average during 2015, of which 34 were management (2014: 1,817 employees on average, of which 34 were management).

Registered address:

Čulenova 6
816 47 Bratislava
Slovak Republic

Identification number (IČO) of the Company is: 35 823 551
Tax identification number (IČ DPH) of the Company is: SK2020285256

2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are described below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The Act on Accounting of the Slovak republic No. 431/2002 Coll. as amended requires the Group to prepare consolidated financial statements for the year ended 31 December 2015 in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").

The Group's consolidated financial statements at 31 December 2015 have been prepared as ordinary consolidated financial statements in accordance with the Slovak Act No. 431/ 2002 Coll. ("Accounting Act") for the accounting period from 1 January 2015 to 31 December 2015.

The consolidated financial statements have been prepared in compliance with International Financial Reporting Standards as adopted by European Union on going concern basis of the Group.

The consolidated financial statements were prepared on an accrual basis and under the going concern principle. The consolidated financial statements have been prepared under the historical cost convention.

The Board of Directors may propose to the Company's shareholders to amend the consolidated financial statements until their approval by the General Shareholders Meeting. However, § 16, points 9 to 11 of the Accounting Act prohibit reopening an entity's accounting records after the financial statements are approved by the General shareholders' meeting. If, after the financial statements are approved, management identifies that comparative information would not be consistent with the current period information, the Accounting Act allows entities to restate comparative information in the accounting period in which the relevant facts are identified.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies on problematic transactions. In the process of applying of accounting policies management of the Company also realizes certain critical decisions. The areas involving a higher degree of complexity of judgement, or areas where assumptions and estimates are significant for the financial statements are disclosed in Note 4.

These consolidated financial statements are prepared in thousands of Euro ("EUR").

2.1.1 Changes in accounting policy and disclosures

(a) **New standards, interpretations and amendments adopted by the Company during the financial year ended 31 December 2015**

The following new standards and interpretations became effective for the Group from 1 January 2015:

IFRIC 21 - Levies (issued on 20 May 2013 and effective in EU for annual periods beginning on or after 17 June 2014). The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply to interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. The interpretation to the standard does not have a material impact on the Group's financial statements. This interpretation was endorsed by the EU on 13 June 2014.

Annual Improvements to IFRSs 2013 (issued in December 2013 and effective in EU for annual periods beginning on or after 1 January 2015). The improvements consist of changes to four standards. The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented. IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself. The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9. IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination. These amendments to the standards do not have a material impact on the Group's financial statements. These amendments were endorsed by the EU on 18 December 2014.

(b) **New standards, interpretations and amendments issued but not effective for the financial year beginning 1 January 2015 and not early adopted**

Certain new standards, interpretations and amendments have been issued that are mandatory for the annual periods beginning on or after 1 January 2016 or later, and which the Company has not early adopted:

IFRS 9, Financial Instruments: Classification and Measurement (issued in July 2014 and effective for annual periods beginning on or after 1 January 2018).
Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).

- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Group is currently assessing the impact of the new standard on its financial statements. This standard has not yet been endorsed by the EU.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group is currently assessing the impact of the new standard on its financial statements. This standard has not yet been endorsed by the EU.

IFRS 16 "Leases" (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the new standard on its financial statements. This standard has not yet been endorsed by the EU.

Disclosure Initiative - Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Group is currently assessing the impact of the amendment on its financial statements. This amendment has not yet been endorsed by the EU.

Certain standards, interpretations and amendments are expected to have no impact on the Group's financial statements:

- Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions (issued in November 2013 and effective in EU for annual periods beginning on or after 1 February 2015).
- Annual Improvements to IFRSs 2012 (issued in December 2013 and effective in EU for annual periods beginning on or after 1 February 2015, unless otherwise stated below).
- IFRS 14, Regulatory Deferral Accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016).
- Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11 (issued on 6 May 2014 and effective in EU for the periods beginning on or after 1 January 2016).
- Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective in EU for the periods beginning on or after 1 January 2016).
- Agriculture: Bearer plants - Amendments to IAS 16 and IAS 41 (issued on 30 June 2014 and effective in EU for annual periods beginning 1 January 2016).
- Equity Method in Separate Financial Statements - Amendments to IAS 27 (issued on 12 August 2014 and effective in EU for annual periods beginning on or after 1 January 2016).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective in EU for annual periods beginning on or after 1 January 2016).
- Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective in EU for annual periods on or after 1 January 2016).
- Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods on or after 1 January 2016).
- Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017).

2.2 Consolidation

Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct the relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of the investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have a practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than the majority of the voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of the investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Acquisition-related costs are expensed as incurred. Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

Transactions with external parties are reported in a manner consistent with that in the consolidated income statement. Transactions between segments are eliminated upon consolidation.

2.4 Foreign currency translation

(i) Presentation currency
These financial statements are presented in thousands of EUR, which is the Group's presentation currency. The functional currency of all entities within the Group is EUR.

(ii) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

2.5 Property, plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

(i) Cost
Cost includes expenditure that is directly attributable to the acquisition of the items, including borrowing costs incurred from the date of acquisition until the date the item becomes available for use.
Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

The most significant part of property, plant and equipment, is represented by the network. The network includes mainly network buildings, power lines, pylons, switching stations and other equipment.

(ii) Depreciation

The depreciation of property, plant and equipment starts at the first date in the month when the property, plant and equipment is available for use. Property, plant and equipment are depreciated in line with the approved depreciation plan using the straight-line method. The monthly depreciation charge is determined as the difference between acquisition costs and residual value, divided by estimated useful life of the property, plant and equipment. Land and assets under construction are not depreciated.

The estimated useful lives of individual groups of assets are as follows:

	Useful lives in years
Network buildings	30 – 50 years
Office buildings	30 – 50 years
Power lines	15 – 40 years
Switching stations	4 – 20 years
Other network equipment	4 – 20 years
Vehicles	4 – 15 years

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

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

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

Items that are retired or otherwise disposed of are eliminated from the balance sheet, along with the corresponding accumulated depreciation. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised net in the statement of comprehensive income.

2.6 Intangible assets

Intangible assets are initially measured at cost. Intangible assets are recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the Group, and the cost of the asset can be measured reliably. After initial recognition, the intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses.

Borrowing costs are capitalised during the period from acquisition until the asset becomes available for use. The Group does not have intangible assets with indefinite useful lives. Intangible assets are amortized on the straight-line basis over their useful lives, not exceeding a period of 4 years.

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

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

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

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed four years.

2.7 Impairment of non-current non-financial assets

Assets that have an indefinite useful life and intangible assets not yet available for use are not subject to amortisation and are tested for impairment annually. Land, construction in progress and assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are individually identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that were impaired are reviewed for possible reversal of the impairment at the end of each reporting period.

2.8 Financial assets

The Group classifies its financial assets according to IAS 39 “Financial Instruments: Recognition and Measurement”. The classification depends on the purpose for which the financial assets were acquired, whether they are quoted in an active market and at the intention of management.

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

The Group’s loans and receivables comprise ‘trade and other receivables’ and ‘cash and cash equivalents’ in the balance sheet (Notes 2.13 and 2.15).

Purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognised at fair value and transaction costs are expensed in the profit and loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Loans and receivables are carried at amortised cost using the effective interest method.

The Group assesses at each year-end date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment testing of the receivables is described in note 2.13.

2.9 Financial liabilities

The Group classifies its financial liabilities according to IAS 39 “Financial Instruments: Recognition and Measurement”. The classification depends on the contractual provisions of the instrument and the intentions with which management entered into the contract.

Management determines the classification of its financial liabilities at initial recognition and re-evaluates this designation at every reporting date. When a financial liability is recognised initially, the Group measures it at its fair value net of transaction costs that are directly attributable to the origination of the financial liability.

After initial recognition, the Group measures all financial liabilities at amortised cost using the effective interest method.

Financial liability (or a part of a financial liability) is removed from the Group’s balance sheet when, and only when, it is extinguished - i.e. when the obligation specified in the contract is discharged or cancelled or expires.

2.10 Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

2.11 Leases

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

2.12 Inventories

Inventories are stated at the lower of acquisition cost and net realizable value. Weighted average method is used for determination of cost of inventories. The cost of material includes purchase price and directly attributable acquisition costs, such as customs duties or transportation costs. Net realizable value is the estimated selling price in the ordinary course of business, less cost of completion and selling expenses.

2.13 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, net of provision for impairment. Revenue recognition policy is described in Note 2.27.

A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy or financial reorganisation, default or delinquency in payments (more than 1 month overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income within “other operating expenses”.

When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against “other operating income”.

2.14 Construction contracts

The Group has an ancillary business related to construction of energy assets for third parties.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. Contract costs are recognised as expenses by reference to the stage of completion of the contract activity at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured.

The Group uses the ‘percentage-of-completion method’ to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred at the end of the reporting period as a percentage of total estimated costs for each contract.

Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion.

On the balance sheet, the Group reports the net contract position for each contract as either an asset or a liability. A contract represents an asset where costs incurred plus recognised profits (less recognised losses) exceed progress billings; a contract represents a liability where the opposite is the case.

2.15 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

In the statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the balance sheet, bank overdrafts are shown within borrowings in current liabilities.

Cash and cash equivalents are carried at amortised cost using the effective interest method. Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the balance sheet date are included in non-current assets.

2.16 Share capital

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

2.17 Dividend distribution

Dividends’ pay-out to the shareholders of the Company are recognised as a liability and deducted from equity at the end of the reporting period only if they are declared before or on the balance sheet date.

2.18 Legal reserve fund

The legal reserve fund is set up in accordance with the Commercial Code. Contributions to the legal reserve fund of the Group were made at 10% of net income of the Company, up to 20% of the share capital. Such funds are not distributable and may only be used to increase share capital or to cover losses.

2.19 Other funds

The Group has set up additional funds from profits to reserve funding for future capital expenditure as allowed by the Commercial Code and Articles of Association. The allocations to these funds have been approved by the General meeting of Shareholders. Such funds are not distributable unless otherwise decided by shareholders.

2.20 Other reserves

The other reserves comprise of re-measurement component of defined pensions plans, which are actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in calculation of pension obligations. The balances are included net of tax.

2.21 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less, or within the entity's operating cycle. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.22 Taxation

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

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Dividend income is currently not subject to income taxes in the Slovak Republic.

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

(ii) Current income tax
Income tax is recognised as an expense in the period in which the Group's tax liability in the accompanying income statement of the Group is calculated on the basis resulting from the profit before tax, which was adjusted for deductible and non-deductible items due to permanent and temporary adjustments to the tax base loss. The current tax liability is stated net of corporate income tax advances that the Group paid during the year. If corporate income tax advances paid during the year exceed the tax liability for the period, the Group records a tax receivable.

(iii) Special levy on business in regulated industries
Since 1 September 2012, the Group is obliged to pay the special levy on business in regulated industries, which generally includes licensed distribution of electricity and supply of electricity and gas. The levy is payable, if the revenues from licensed activities achieve at least 50% of the total revenues of the individual companies of the Group for the respective accounting period. The Group's obligation to pay the levy arises when the profit before tax for the accounting period is at least EUR 3 million. The levy rate is 4.356% per annum.

The levy is calculated as the multiple of the given rate and the accounting profit before tax determined under Slovak GAAP exceeding EUR 3 million. The Group has accounted for the levy as for the profit tax and included it, in accordance with IAS 12, within the income tax expense.

2.23 Contributions related to acquisition of property and equipment

Over time, the Group and its predecessor have received contributions for the construction of the electricity distribution network, in particular for the new municipal connections and networks. Certain customers of the Company contributed towards the cost of their connection.

Government subsidies and customer contributions are recognised at their fair value where there is a reasonable assurance that the contribution will be received.

Government subsidies and customer contributions relating to the acquisition of property and equipment during the process of connection of the customers to the grid are recognised over the life of acquired depreciable asset in other operating income with the amount not yet recognised presented as deferred revenues within the current and non-current liabilities. Both the fixed assets and deferred revenue are recorded at fair value at acquisition.

2.24 Issued bonds, loans and other borrowings

Issued bonds, loans and other borrowings are recognised initially at fair value, net of transaction costs incurred. Issued bonds, loans and other borrowings are carried at amortized cost using the effective interest method. Interest costs on Issued bonds, loans and other borrowings to finance the construction of property, plant and equipment are capitalised based on cost of the qualifying assets, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Issued bonds, loans and other borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Interest costs on issued bonds, loans and other borrowing that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset in accordance with IAS 23. To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of Interest costs on issued bonds, loans and other borrowing eligible for capitalization is determined by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the Interest costs on issued bonds, loans and other borrowing applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of Interest costs on issued bonds, loans and other borrowing capitalised during a period does not exceed the amount of borrowing costs incurred during that period.

Interest costs on issued bonds, loans and other borrowing are capitalized by the Group only if they are related to financing of own construction projects with realisation period more than 6 months .

2.25 Provisions / Contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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

Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain.

Contingent liabilities are not recognised in the consolidated financial statements. They are disclosed in the notes to the consolidated financial statements, unless the possibility of an outflow of resources embodying the economic benefits is not remote.

(All amounts are in thousands of Euro unless stated otherwise)

2.26 Employee benefits

The Group has both defined benefit and defined contribution plans.

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

(ii) Unfunded defined benefit pension plans
According to the contract with the Trade Unions for the years 2014 to 2016, the Group is obliged to pay its employees on retirement or disability the average of their monthly salary (2014: average of their monthly salary). Additionally, if the employees decide to resign exactly at the date of retirement, the Group is obliged to pay its employees an additional 6 multiples of their average monthly salary (2014: 6 multiples of their average monthly salary).

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

The Group also pays certain life and work long term service bonuses.

a) Life long term service benefits are paid by the Group in the amount of EUR 1,700 to each employee at the age of 50 under the condition that the employee worked for at least 10 years of continuous service for the Group.

b) Work long term service bonuses (long-term service bonuses) paid by the Group are dependent on the number of years of service for the Group and equal to the following amounts:

10 years	EUR 370
20 years	EUR 665
30 years	EUR 830
35 years	EUR 1,000
40 years	EUR 1,150

The defined benefit obligation is calculated annually by independent actuaries using the Projected Unit Credit Method. The present value of the defined benefit obligation is determined (a) by discounting the estimated future cash outflows using interest rates of high quality corporate bonds which have terms to maturity approximating the terms of the related pension liability and (b) then attributing the calculated present value to the periods of service based on the plan's benefit formula.

Remeasurements on post-employment benefits arising from experience adjustments and changes in actuarial assumptions are charged or credited in other comprehensive income in the period in which they arise. Past service costs are recognised immediately in expenses.

(iii) Defined contribution pension plans
The Group contributes to the government and private defined contribution pension plans.

The Group makes contributions to the government health, retirement benefit, accidental and guarantee insurance and unemployment schemes at the statutory rates in force during the year, based on gross salary payments. Throughout the year, the Group made contributions amounting to 35.2% (2014: 35.2%) of gross salaries up to a monthly salary cap, which is defined by the relevant law, to such schemes, together with contributions by employees of a further 13.4% (2014: 13.4%). The cost of these payments is charged to the profit and loss in the same period as the related salary cost.

In addition, with respect to employees who have chosen to participate in a supplementary pension scheme, the Group makes contributions to the supplementary scheme amounting to 3% (2014: 3%) from the total of monthly tariff wage.

(iv) Termination benefits
Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to terminating the employment of current employees according to a detailed formal plan without the possibility of withdrawal. Benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

(v) Profit sharing and bonus plans
A liability for employee benefits in the form of profit sharing and bonus plans is recognised within other payables when there is no realistic alternative but to settle the liability and at least one of the following conditions is met:

- there is a formal plan and the amounts to be paid are determined; or
- past practice has created a valid expectation by employees that they will receive a bonus/profit sharing and the amount can be determined.

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

2.27 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group’s activities. Revenue is shown, net of value-added tax, estimated returns, rebates and discounts.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and specific criteria will be met for each of the Group’s activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved.

(i) Revenue from sale and distribution of electricity
Revenue from the sale and distribution of electricity is recognised when the electricity is delivered to the customer.

Consumption to wholesale customers is metered and billed on a monthly basis. The consumption of retail customers in the segment of small businesses was metered during December 2015.

The consumption of retail customers in the households’ segment is metered and billed on an annual basis and the Group split its household customer base to twelve billing cycles. The billing of electricity supplied in 2015 for all twelve billing cycles will be completed in December 2016. The Group now uses the Enersim demand profile data for the billing purposes. Network losses are included in the cost of purchased electricity.

Revenue from the sale of electricity on the spot market and the settlement of variations in consumption and cross - border profile recharges represent mainly revenues from the sale of electricity purchased on the short-term market for regular customers due to unexpected short-term deviation in their consumption diagrams and revenue from fees paid by the regular customers for deviating from the planned consumption curve. All these revenues realised on the spot market are recognised when the electricity is delivered or the contract is fulfilled.

(ii) Connection fees
ZSE receives a contribution from their customers to connect them to the electricity network – connection fees. Revenue from such contributions is recognised as deferred revenue and is released to revenues over the useful life of the asset (approximately 20 years).

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

(iv) Dividend income
Dividend income is recognised when the right to receive the payment is established.

(v) Interest income
Interest income is recognised on an accrual basis in the period when it is incurred, independent of the actual payments of interest.

(vi) Contractual penalties
Contractual penalties are recognised as revenue when the cash payment is received, as contractual penalties mostly relate to contracts with customers who intended to defraud ZSE and as such are relatively difficult to collect.

(vii) Sales to hospitals
Hospitals pay with significant time delays. The Group recognises sales to some hospitals at estimated fair value of expected cash inflows.

3 Financial risk management

3.1 Financial risk factors

The Group's activities are exposing it to certain financial risks: market risk (including the risk of changes in foreign currency exchange rates and interest rate risk), credit risk and liquidity risk. The Group's principal financial instruments comprise trade receivables and payables, cash, issued bonds and short-term bank deposits.

Risk management is carried out under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as credit risk and the investment of excess liquidity.

(i) Market risk

(a) Foreign exchange risk
The Group operates mainly in the domestic market, and most of its sales, purchases and short-term deposits are denominated in Euro.

Management does not consider foreign exchange risk as a significant exposure to the Group's operations as it has only small volume of transactions in currency other than EUR.

(b) Price risk

The Group is not exposed to significant price risk arising from share prices, as it does not invest in equities.

(c) Cash flow and fair value interest rate risk

As the Group has no significant interest earning assets other than short-term bank deposits, short- term bonds and cash at bank accounts as of 31 December 2015 and 2014, the operating cash flows are only to a small extent dependent on the market interest rate fluctuations. The short term bank deposits are denominated at fixed interest rates.

During the year 2013 The Company issued bonds in total amount of EUR 630 mil. Bonds have fixed interest rates. Further information about issued bonds including their interest rate are stated in Note 16.

(ii) Credit risk

The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's sales of services on credit terms and other transactions with counterparties giving rise to financial assets.

The credit risk arises from cash and cash equivalents, financial derivates and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and transactions made.

As for the banks and financial institutions, the Group has relationships only with those that have a high independent rating assessment. If wholesale customers are independently rated, these ratings are used. If no independent rating is available, management assesses the credit quality of customer, taking into account its financial position, past experience and other factors. The Group does not set individual risk limits for counterparties. As for trade receivables, the Group does not have a significant concentration of credit risk mainly due to a large number of diverse customers.

The Group uses a system of reminders, which may culminate in a service disconnection, as the prevailing contract enforcement. The collection of receivables could be influenced by economic factors; management believes that there is no significant risk of loss to the Group beyond the provisions already recorded.

(All amounts are in thousands of Euro unless stated otherwise)

The table below shows the credit limit and balance of the major counterparties at the balance sheet date:

		31 December 2015		31 December 2014	
	Counterparty Rating *	**Credit limit**	**Balance at bank account**	**Credit limit**	**Balance at bank account**
Banks rated	A 3 (Moody's)		-		1,350
Banks rated	A 2 (Moody's)		3,581		-
Banks rated	A1 (Moody's)		839		12,212
Banks rated	Baa1 (Moody's)	55,000	29,795	55,000	18,102
Banks rated	Baa2 (Moody's)		100		244
Banks rated	BBB+ (Fitch)	20,000	65		-
Banks rated	A (Fitch)		-	20,000	55
		75,000	**34,380**	**75,000**	**31,963**
Banks not rated			84		81
			34,464		**32,044**

**) Rating provided by Moody's and Fitch at 31 December 2015*

(iii) Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group's Treasury aims to maintain flexibility in funding by keeping committed credit lines available.

The Group regularly monitors its liquidity position and uses overdrafts only in exceptional cases. The Group also uses the advantages of commercial terms between the Group and its suppliers to secure sufficient financing funds to cover its needs. The maturity of supplier's invoices is 20 days, on average.

The Group monitors movements of financial resources in bank accounts on a regular basis. Expected cash flow is prepared as follows:

1) expected future cash inflows from main operation of the Group; and
2) expected future cash outflows securing operation of the Group and leading to settlement of all liabilities of the Group, including tax payables.

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

The table below places the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

(All amounts are in thousands of Euro unless stated otherwise)

The amounts disclosed in the table are the contractual undiscounted cash flows:

	Less than one month	**1 – 3 months**	**3 months to 1 year**	**1 - 5 years**	**More than 5 years**	**Total**
At 31 December 2015						
Trade payables (Note 15)	54,649	10,200	-	4	-	64,853
Other accrued liabilities (Note 15)	2,604	7,477	-	-	-	10,081
Issued bonds including interest	-	-	21,656	383,513	352,800	757,969
Other financial liabilities (Note 15)	6,805	-	-	-	-	6,805
	64,058	**17,677**	**21,656**	**383,517**	**352,800**	**839,708**
At 31 December 2014						
Trade payables (Note 15)	77,229	6,993	800	-	-	85,022
Other accrued liabilities (Note 15)	3,250	1,435	185	-	-	4,870
Issued bonds including interest	-	-	21,656	392,569	365,400	779,625
Other financial liabilities (Note 15)	7,327	-	-	-	-	7,327
	87,806	**8,428**	**22,641**	**392,569**	**365,400**	**876,844**

3.2 Capital risk management

The Group’s objectives when managing capital are to safeguard the Group’s ability to continue as a going concern in order to provide returns for shareholders, and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. The Group’s management manages capital reported under IFRS as equity amounting to, as at 31 December 2015, EUR (39,035) thousand (31 December 2014: EUR (66,554) thousand).

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders or return capital to shareholders.

The Group’s management considers the most relevant indicator of capital management to be the return on average capital employed (ROACE). Management expects return on average capital employed to be higher than cost of capital. Indicator ROACE is calculated as follows: earnings before interest and taxes EBIT (in the Consolidated statement of comprehensive Income of the Group presented as Profit from operations) / average capital.

The Group is not subject to any externally imposed regulatory capital requirements.

(All amounts are in thousands of Euro unless stated otherwise)

3.3 Fair value estimation

Fair value measurements are analysed by level in the fair value hierarchy as follows:

(i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities,

(ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and

(iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs).

Management applies judgement in categorising financial instruments using the fair value hierarchy.

Assets and liabilities not measured at fair value but for which fair value is disclosed

	Fair value			**Carrying value**
At 31 December 2015	**Level 1**	**Level 2**	**Level 3**	
Financial liabilities	**696,531**	**-**	**-**	**632,301**
Issued bonds – XS0979598207, series 1	333,062	-	-	316,125
Issued bonds – XS0979598462, series 2	363,469	-	-	316,176

	Fair value			**Carrying value**
At 31 December 2014	**Level 1**	**Level 2**	**Level 3**	
Financial liabilities	**704,696**	**-**	**-**	**631,889**
Issued bonds – XS0979598207, series 1	337,356	-	-	315,926
Issued bonds – XS0979598462, series 2	367,340	-	-	315,963

The fair value of issued bonds was determined by quoted market price of bonds issued by the Company (Note 16).

At the balance sheet date, the fair values of other financial assets and liabilities approximate their carrying amounts.

4 Critical accounting estimates and judgements

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Critical estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Unbilled electricity

In 2011, the Group implemented a new customer information system which contributed to improved accuracy of the existing system of expected electricity demand (Enersim) through expected electricity demand profiles in time. Implementation of this system improvement allows for making more accurate estimates of unbilled revenues from delivery and distribution, as described below. The Group now uses the Enersim demand profile data for the billing purposes.

The unbilled revenues from delivery and distribution represent an accounting estimate based on estimated volume of delivered and distributed electricity expressed in MWh for low voltage network and estimated unit price that will be billed in the future. This accounting estimate is based on:

- the estimated volume delivered and distributed to households in technical units (MWh) between the date of the last meter reading and the end of the accounting period; the consumption estimate utilises the time patterns of consumption of various customer profiles observed on a sample basis;
- the estimated losses in the distribution network; and
- the estimated unit price in EUR/MWh, that will be applied to billing the electricity delivery and distribution in the future. The price is based on actual average tariffs applicable in a given calendar year.

The Group applied the method of estimated network losses. This method is consistent with that applied in prior accounting periods and is based on an expert report. Should the estimate of total network losses be lower by 0.1 %, representing 10 GWh of electricity, with other parameters being unchanged, the revenues for commodity and distribution services would increase by EUR 916 thousand (2014: EUR 946 thousand). The estimate of unbilled revenues is by EUR 1,528 thousand higher compared to the same period last year.

(ii) Estimated useful life of network

The useful life of network assets was based on accounting estimates described in Note 2.5 and their carrying values as of 31 December 2015 and 31 December 2014 are disclosed in Note 7. If the estimated useful life of network assets had been shorter by 10% than management's estimates at 31 December 2015, the Group would have recognised an additional depreciation of network assets of EUR 4,649 thousand (2014: EUR 4,527 thousand).

(All amounts are in thousands of Euro unless stated otherwise)

5 Group structure

The Group structure as of 31 December 2015 and as of 31 December 2014 was as follows:

Name	Country of incorporation	Percentage of shareholding in the ordinary share capital	Principal activities
Západoslovenská distribučná, a.s.	Slovakia	100%	Distribution of electricity
ZSE Energia, a.s.	Slovakia	100%	Purchase and supply of electricity and of gas
ZSE Energy Solutions, s.r.o.	Slovakia	100%	Engineering
ZSE Development, s.r.o.	Slovakia	100%	Trading activities
ZSE MVE, s.r.o.	Slovakia	100%	Electricity generation

The requirement to unbundle legally the distribution business from other commercial activities of integrated electricity companies has been established by the European Directive 2003/54 on common rules for the internal market with electricity. The Directive has been transposed into Slovak legislation by the Act on Energy (656/2004) issued in 2004. The Act prescribed legal unbundling by 30 June 2007 at the latest.

ZSE has chosen to unbundle distribution through a model of new distribution business subsidiary resulting in the transfer of all core activities of distribution to Západoslovenská distribučná, a.s.. The energy supply business has been transferred to ZSE Energia, a.s.

Západoslovenská distribučná, a.s. was established on 20 April 2006 and incorporated in the Trade Register on 20 May 2006 as a company fully owned by ZSE. Since 1 July 2007, the company engages in the distribution of electricity in the region of Western Slovakia.

ZSE Energia, a.s. was established on 18 August 2006 and incorporated in the trade register on 22 September 2006 as a company fully owned by ZSE. Since 1 July 2007, the company engages in the supply of electricity and gas mainly in the region of Western Slovakia.

ZSE Energy Solutions, s.r.o. was established on 14 April 2003 and incorporated on 10 June 2003 as a company fully owned by ZSE. On 1 July 2003, ZSE transferred to ZSE Energy Solutions, s.r.o. (till 13 August 2014: Enermont, s.r.o.) part of its business relating to the construction of electricity distribution structures.

ZSE Development, s.r.o. was established on 14 April 2003 and incorporated in the Commercial Register on 2 June 2003 as a private company fully owned by ZSE. On 1 July 2003, ZSE transferred to ZSE Development, s.r.o. part of its business relating to the calibration of electricity metering equipment. Effective 1 January 2012, ZSE Development, s.r.o. sold its calibration and metering business back to ZSE and sold its switching equipment maintenance business to ZSE Energy Solutions, s.r.o. and became a dormant company. ZSE Development was not consolidated on a full basis in these financial statements on materiality grounds but was included at cost within other non-current assets.

ZSE MVE, s.r.o. was established on 9 February 2005 and incorporated in the Commercial Register on 25 March 2005 as a company owned by ZSE. Based on the decision of the sole shareholder from 26 June 2014, the subsidiary ZSE Prenos, s.r.o. was renamed to ZSE MVE, s.r.o. effective from 14 August 2014. ZSE MVE, s.r.o. ZSE MVE, s.r.o. generates electricity in two small hydroelectric plants. On 26 June 2014, the Company sold part of its shareholding in the subsidiary ZSE MVE, s. r. o. in amount of EUR 6 thousands to the subsidiary ZSE Energy

Solutions, s.r.o. Change in shareholdings was incorporated into the Commercial Register on 15 July 2014.

ZSE Development, s.r.o., ZSE MVE, s.r.o., Západoslovenská distribučná, a.s. and ZSE Energia, a.s. don't have any subsidiaries of their own. ZSE Energy Solutions, s.r.o. owns 88,7% share in the company ZSE MVE, s.r.o.

6 Segment reporting

The Group presents segment information for the current and comparative reporting periods in accordance with IFRS 8 Operating segments.

The Group's operating segments are those used by the Board of Directors to manage the Group's business, allocate resources and make strategic decisions. The Group identifies its segments according to the nature of products and services provided by each segment. The Group's operating segments are (i) electricity distribution, (ii) electricity and gas supply and (iii) other activities as described below. The Group's activities are concentrated in Slovakia.

The main indicators used by the Board of Directors in their decision making are earnings before interest, taxes, depreciation and amortisation (EBITDA) and capital investment. The Board of Directors separately monitor the operating results of the segments to take decisions on how to allocate the resources, to evaluate the effects of the allocation and to evaluate performance.

The types of products and services from which each reportable operating segment derives its operating results are:

Electricity distribution
Distribution of electricity using the distribution networks in Western Slovakia. The distribution business is regulated and the Group is required to provide access to its network to third parties on terms approved by RONI.

Electricity and gas supply
Supply of electricity and gas to wholesale and retail customers in Slovakia. This business is open to competition by other suppliers. Pricing for certain classes of customers of the segment is regulated by RONI.

As a result of regulation of the distribution business and partial regulation of the supply business approximately 90% during period ended 31 December 2015 (31 December 2014: approximately 92%) of the Group's EBITDA were generated from the sales to customers who are subject to the price regulation.

Other
Segment Other includes activities provided by the Parent company together with its subsidiaries ZSE Energy Solutions, s.r.o. and ZSE MVE, s. r. o. . Board of Directors does not assess activities and results of the Company separately but within segment Other. Segment Other provides mainly headquarter type functions, as central services, accounting, controlling, HR and other services, to both supply and distribution businesses. The segment realizes also electricity production in two small hydroelectric plants and generates also some external revenues from projecting and engineering activities in investment construction for third parties. Until 31 December 2014 segment Other consisted also of customer services for distribution and supply businesses, while these activities have been contributed from 1 January 2015 into the segments Electricity distribution and Electricity and gas supply within the sale of part of the business.

Transactions with external parties are reported in a manner consistent with that in the consolidated income statement. Transactions between segments are eliminated upon consolidation.

(All amounts are in thousands of Euro unless stated otherwise)

An analysis of revenues, costs, EBITDA, profit before tax and capital expenditures by individual operating segments in the current and comparative reporting period is provided below:

	31 December 2015				
	Distribution	**Supply**	**Other**	**Eliminations**	**Total**
Revenue from external customers	255,701	750,312	3,011	-	**1,009,024**
Inter-segment revenues	198,415	43,099	43,612	(285,126)	**-**
Purchases of electricity, gas and related fees	(217,067)	(753,993)	(7,587)	234,571	**(744,076)**
Employee benefits expenses	(37,539)	(6,664)	(13,457)	71	**(57,589)**
Other operating expenses	(63,898)	(17,678)	(18,962)	53,406	**(47,132)**
Other operating income	2,056	2,423	6,811	(3,083)	**8,207**
Own work capitalised	18,222	-	-	(384)	**17,838**
Earnings before interest, taxes, depreciation and amortization (EBITDA)	**155,890**	**17,499**	**13,428**	**(545)**	**186,272**

	31 December 2014				
	Distribution	**Supply**	**Other**	**Eliminations**	**Total**
Revenue from external customers	222,395	786,055	4,568	-	**1,013,018**
Inter-segment revenues	210,549	43,384	57,507	(311,440)	**-**
Purchases of electricity, gas and related fees	(201,197)	(790,704)	(7,905)	(248,578)	**(751,228)**
Employee benefits expenses	(35,524)	(5,797)	(13,600)	16	**(54,905)**
Other operating expenses	(63,105)	(24,627)	(29,700)	(65,737)	**(51,695)**
Other operating income	2,527	3,823	6,865	(2,978)	**10,237**
Own work capitalised	18,278	-	-	(617)	**17,661**
Earnings before interest, taxes, depreciation and amortization (EBITDA)	**153,923**	**12,134**	**17,735**	**(704)**	**183,088**

(All amounts are in thousands of Euro unless stated otherwise)

	Year ended 31 December	
Reconciliation of Earnings before interest, taxes, depreciation and amortization (EBITDA) to Profit before tax	**2015**	**2014**
EBITDA	**186,272**	**183,088**
Depreciation and amortisation	(47,031)	(45,784)
Interest income	277	168
Interest expense	(21,084)	(21,445)
Other financial expenses	(1,219)	(765)
Profit before tax	**117,215**	**115,262**

	Distribution	**Supply**	**Other**	**Eliminations**	**Total**
31 December 2015					
Capital investment	76,783	4,141	5,032	(6,856)	**79,100**
31 December 2014					
Capital investment	77,192	-	8,241	(3,299)	**82,134**

Reconciliation of Capital investment to Purchase of property, plant and equipment (PP&E) and intangibles (cash effective)	**31 December 2015**	**31 December 2014**
Capital investment	**79,100**	**82,134**
Assets acquired but not paid for	(10,426)	(15,622)
Payments to assets acquired in prior periods	12,553	3,991
Purchase of PP&E and intangibles (cash effective)	**81,227**	**70,503**

(All amounts are in thousands of Euro unless stated otherwise)

7 Property, plant and equipment

	Land	Network buildings	Power lines	Switching stations and similar network equipment	Machinery, non-network and administration buildings, vehicles and other assets	Capital work in progress including advances (CIP)	Total
At 1 January 2014							
Cost	19,116	61,168	548,532	290,872	123,011	38,273	1,080,972
Accumulated depreciation including impairment charge	-	(20,825)	(209,582)	(132,741)	(63,296)	-	(426,444)
Net book value	**19,116**	**40,343**	**338,950**	**158,131**	**59,715**	**38,273**	**654,528**
Year ended 31 December 2014							
Additions	-	-	-	-	-	75,843	75,843
Transfers	1,141	8,410	28,249	23,661	14,237	(75,698)	-
Depreciation charge (Note 21)	-	(1,290)	(14,980)	(17,118)	(7,352)	-	(40,740)
Disposals (Note 25)	(14)	(33)	-	(7)	(162)	(24)	(240)
Other	-	-	-	-	-	155	155
Impairment (charge)/release (Note 21)	-	-	-	-	-	(4)	(4)
At 31 December 2014 net book value	**20,243**	**47,430**	**352,219**	**164,667**	**66,438**	**38,545**	**689,542**

(All amounts are in thousands of Euro unless stated otherwise)

	Land	Network buildings	Power lines	Switching stations and similar network equipment	Machinery, non-network and administration buildings, vehicles and other assets	Capital work in progress including advances (CIP)	Total
At 31 December 2014							
Cost	20,243	70,011	566,307	315,346	136,300	38,547	1,146,754
Accumulated depreciation including impairment charge	-	(22,581)	(214,088)	(150,579)	(69,862)	(2)	(457,212)
Net book value	**20,243**	**47,430**	**352,219**	**164,667**	**66,438**	**38,545**	**689,542**
Year ended 31 December 2015							
Additions	-	-	-	-	-	73,894	73,894
Transfers	1,105	9,255	37,424	22,539	2,640	(72,963)	-
Depreciation charge (Note 21)	-	(1,232)	(16,426)	(3,990)	(20,420)	-	(42,068)
Disposals (Note 25)	(427)	(60)	-	(31)	(42)	-	(560)
Acquisition of the business and other	49	(2,639)	-	-	43	328	(2,219)
Impairment (charge)/release (Note 21)	-	-	-	-	(4)	207	203
Closing net book value	**20,970**	**52,754**	**373,217**	**183,185**	**48,655**	**40,011**	**718,792**
At 31 December 2015							
Cost	20,970	95,997	602,060	336,118	115,520	40,011	1,210,676
Accumulated depreciation including impairment charge	-	(43,243)	(228,843)	(152,933)	(66,865)	-	(491,884)
Net book value	**20,970**	**52,754**	**373,217**	**183,185**	**48,655**	**40,011**	**718,792**

The impairment charge to Capital work in progress relates to projects which have been started, where the finalisation of those assets is uncertain.

Property plant and equipment includes the capitalised interest on debt apportioned to the construction period of qualifying assets as part of their cost of acquisition in amount of EUR 957 thousand in 2015 (2014: EUR 676 thousand).

During the year ended 31 December 2015, the Group received from customers fixed assets and cash to finance the construction of fixed assets at fair value of EUR 6,489 thousand (during the year ended 31 December 2014: EUR 6,697 thousand). As at 31 December 2015, the cost and net book value of fixed assets financed through contributions amounts to EUR 81,281 thousand and EUR 61,879 thousand respectively (as at 31 December 2014: EUR 74,792 thousand and EUR 55,540 thousand respectively).

At 31 December 2015 and 2014, no property, plant and equipment were collaterised or pledged. Non-current tangible assets are insured in Ergon Insurance Limited against damages caused by natural disasters and water from exchange up to the amount of EUR 548,974 thousand for buildings and building parts and up to amount of EUR 553,772 thousand for machinery, equipment, fixtures, fittings and other assets (2014: EUR 559,324 thousand and 522,806 thousand respectively).

(All amounts are in thousands of Euro unless stated otherwise)

8 Intangible assets

	Computer software and other	Assets not yet available for use	Total
At 1 January 2014			
Cost	43,706	4,564	48,270
Accumulated depreciation including impairment charge	(36,124)	-	(36,124)
Net book value	**7,582**	**4,564**	**12,146**
Year ended 31 December 2014			
Additions	17	3,755	3,772
Transfers	5,490	(5,490)	-
Disposals	-	-	-
Amortisation charge (Note 21)	(5,044)	-	(5,044)
Closing net book value	**8,045**	**2,829**	**10,874**
At 31 December 2014			
Cost	43,989	2,829	46,818
Accumulated depreciation including impairment charge	(35,944)	-	(35,944)
Net book value	**8,045**	**2,829**	**10,874**
Year ended 31 December 2015			
Additions	-	5,946	5,946
Transfers	5,012	(5,014)	(2)
Amortisation charge (Note 21)	(4,963)	-	(4,963)
Other	180	23	203
Closing net book value	**8,274**	**3,784**	**12,058**
At 31 December 2015			
Cost	49,177	3,784	52,961
Accumulated depreciation including impairment charge	(40,903)	-	(40,903)
Net book value	**8,274**	**3,784**	**12,058**

Assets not yet available for use comprise mostly the acquisition of additional software for upgrade and improvement of functionality of the customer and the graphical information system. Assets are expected to be finalised and available for use in 2016.

(All amounts are in thousands of Euro unless stated otherwise)

9 Financial instruments by category

All financial assets are classified in category "loans and receivables" in accordance with IAS 39. All financial liabilities are measured at amortised cost using the effective interest method.

10 Inventories

	As at 31 December	
	2015	2014
Natural gas	8,329	9,089
Materials and spare parts	1,317	1,213
Total inventories	**9,646**	**10,302**

The inventory items are shown after provision for slow-moving materials and spare parts of EUR 17 thousand (2014: EUR 22 thousand).

Movements in provision for slow-moving items for year ended 31 December 2015 are presented below:

	At 1 January 2015	Set-up	Release	At 31 December 2015
Materials and spare parts	22	-	(5)	17
Total	**22**	**-**	**(5)**	**17**

11 Trade and other receivables

	As at 31 December	
	2015	2014
Trade receivables within the due date and not impaired	87,854	84,513
Individually impaired trade receivables	34,090	37,560
Less: Provision for impairment of receivables	(29,805)	(31,312)
Trade receivables – net	**92,139**	**90,791**
Amounts due from customers for contract work – third parties	217	724
Total financial assets	**92,356**	**91,485**
Prepayments	399	517
Excise tax receivable	-	-
Total trade and other receivables	**92,755**	**92,002**

(All amounts are in thousands of Euro unless stated otherwise)

The structure of trade receivables and other receivables (including receivables for unbilled electricity) by maturity is shown in the following table:

	As at 31 December	
	2015	**2014**
Trade receivables and accrued revenues - neither past due nor impaired	88,470	85,754
from this: receivables collected as of 31 January 2016 (2014: as of 31 January 2015)	87,102	77,956
receivables that became overdue after the balance sheet date	1,368	7,798
Overdue receivables	34,090	37,560
Less: Provision for impairment of receivables	(29,805)	(31,312)
Total trade and other receivables	**92,755**	**92,002**

The ageing of overdue receivables is as follows:

	As at 31 December	
	2015	**2014**
1 to 30 days after due date	4,182	5,051
31 to 60 days after due date	598	1,091
61 to 90 days after due date	311	849
91 to 120 days after due date	284	1,789
121 to 180 days after due date	422	4,662
181 to 360 days after due date	1,106	5,472
Over 360 days after due date	27,187	18,646
Total individually impaired receivables	**34,090**	**37,560**

The movements in the provision for impairment of trade receivables are presented below:

	2015	**2014**
At the beginning of the year	31,312	34,731
Additional provision for receivables impairment	1,406	7,471
Reversal provision for receivables impairment	(419)	
Receivables written off during the year as uncollectible	(2,494)	(10,890)
At end of the year	**29,805**	**31,312**

Bad debt provision is calculated in the amount of 100% of the value of individual receivables from companies in bankruptcy and receivables subject to court proceedings. Bad debt provision is calculated based on the ageing analysis of individual receivables and the type of the customer.

The Group constructs properties for third parties. Amounts recognised in respect of contracts in progress at the balance sheet date are:

	As at 31 December	
	2015	**2014**
Costs incurred and recognised profits (less recognised losses) to date	2,122	787
Less progress billings	(1,905)	(63)
Amounts due from/(to) customers for contract work	**217**	**724**

(All amounts are in thousands of Euro unless stated otherwise)

Amounts due from customers for contract work are neither past due nor impaired and will be invoiced upon achievement of agreed construction contract milestones.

Amounts due to customers for contract work are expected to be settled by deliveries of construction services.

The maximum exposure to credit risk is limited by the carrying value of receivables. There is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers.

12 Cash and cash equivalents

	As at 31 December	
	2015	**2014**
Cash at bank and in hand	29,331	26,911
Short-term bank deposits	5,133	5,133
Total	**34,464**	**32,044**

Cash and cash equivalents included in the cash flow statement are as follows:

	As at 31 December	
	2015	**2014**
Cash at bank and in hand	29,331	26,911
Total	**29,331**	**26,911**

The effective interest rate on short-term bank deposits was 0.1% (year ended 31 December 2014: 0.1%) and these deposits have an average maturity of 1 day (year ended 31 December 2014: 1 day). As at 31 December 2015, the restricted cash amounted to EUR 133 thousand (as at 31 December 2014: EUR 133 thousand) and was excluded from cash and cash equivalents for the purposes of the cash flow statement. As at 31 December 2015, the Company issued guarantees in favour of ZSE Energia, a.s. in total amount of EUR 5,589 thousand.

The cash and short-term deposits are kept by the Group in 6 banks. The credit quality of cash in the bank and bank deposits can be assessed by external credit ratings (Moody’s and Fitch) at 31 December 2015.

These balances are neither past due nor impaired.

13 Shareholders’ equity

The total authorised number of ordinary shares of the parent company of the Group (“the Company”) is 5,934,594 shares (2014: 5,934,594) with a par value of EUR 33.19 per share, representing share capital of EUR 196,969 thousand. All authorised shares are issued and fully paid. The Company does not have any share capital subscribed but not recorded in the Commercial Register.

No changes in the share capital of the Company occurred during the year 2015 and year 2014.

A Legal reserve fund is obligatorily created from the profit of the Company in accordance with the Slovak Commercial Code, paragraph 67. The minimum prescribed creation of the Legal reserve fund is specified in paragraph 217 of the Commercial Code and it defines that the Company is obliged to create a Legal reserve fund in the amount of 10% of its share capital at the time of the incorporation of the Company. This amount must be increased annually by at least 10% from net profit, until the Legal reserve fund achieves 20% of the share capital. Use of this fund is restricted under the Commercial Code only to cover losses of the Company and it is not a distributable reserve. The Legal reserve fund amounted to EUR 39,421 thousand as at 31 December 2015 (as at 31 December 2014: EUR 39,421 thousand).

(All amounts are in thousands of Euro unless stated otherwise)

The General Meeting of the Company held on 28 May 2015 approved the statutory financial statements for the previous accounting period and the distribution of 2014 profit amounting to EUR 61,361 thousand as follows:

Appropriation to the social fund	EUR	403	thousand
Dividends paid	EUR	60,958	thousand

Dividend per share represents EUR 10.27 for the year ended 31 December 2015 (2014: EUR 8.80 per share).

The distributable retained earnings of the Company at 31 December 2015 determined with reference to the Company's standalone financial statements amounted to EUR 103,797 thousand (2014: EUR 106,820 thousand). The decision on the appropriation of the 2015 profit of EUR 57,935 thousand will be made by the General Meeting.

14 Deferred revenues

	As at 31 December	
	2015	**2014**
Non-current		
Contributions – long-term portion (a)	32,410	33,959
Connection fee – long-term portion (b)	47,152	46,649
	79,562	**80,608**
Current		
Contributions – current portion (a)	1,678	1,678
Connection fee – short-term portion (b)	3,730	3,423
	5,408	**5,101**

a) Contributions are paid primarily by customers for capital expenditures made on their behalf, and access network assets transferred to the Company by its customers free of charge. The contributions are non-refundable and are recognised in revenue in line with the depreciation lives of the related assets.

b) Connection fees are paid by customers to connect them to a network. Contribution is recognised as deferred revenue and is released to revenues in accordance with a defined useful life of related tangible fixed asset (approximately 20 years).

(All amounts are in thousands of Euro unless stated otherwise)

15 Trade and other payables

	As at 31 December	
	2015	**2014**
Current trade and other payables		
Trade payables	64,853	85,022
Other accrued liabilities	10,081	4,870
Other financial liabilities	6,805	7,327
Financial liabilities	**81,739**	**97,219**
Other current payables and accrued expenses		
Deferred revenues – unbilled electricity and distribution	32,023	32,044
Payables to employees	2,455	2,487
Social security	1,733	1,661
Accrued personnel expenses	8,797	7,417
Advance payments	19,069	8,882
VAT payable	3,421	2,406
Other payables	8,721	5,934
Excise duty – liability	175	201
	76,394	61,032
Total	**158,133**	**158,251**

Out of the total payables at 31 December 2015, overdue trade payables are EUR 893 thousand (at 31 December 2014: EUR 211 thousand). All other payables are within the due date.

16 Issued bonds

An overview of issued bonds is presented in the table below:

	As at 31 December	
	2015	**2014**
Non-current		
Bonds	628,187	627,775
Current		
Accrued interest payable within one year	4,114	4,114
Total	**632,301**	**631,889**

The Company issued bonds on 14 October 2013 registered in form in name of bearer. Interest revenues from bonds are due on annual basis. They were accepted to quoted regulated market of the Irish Stock Exchange, Dublin.

More details about issued bonds are presented in the table below:

	Emission amount in thousand EUR	Emission rate	Interest	Maturity date
ISIN: XS0979598207 series 1	315,000	100%	2.875% p.a.	14 October 2018
ISIN: XS0979598462 series 2	315,000	99.814%	4.000% p.a.	14 October 2023
Total	**630,000**			

(All amounts are in thousands of Euro unless stated otherwise)

17 Deferred income taxes

The Group's deferred income taxes are calculated on temporary differences under the balance sheet liability method using a principal tax rate of 22% (2014: 22%).

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

The deferred tax liability can be analysed as follows:

	As at 31 December	
	2015	**2014**
Deferred tax asset:		
to be recovered after more than 12 months	(4,483)	(1,977)
to be recovered within 12 months	(2,165)	(3,518)
	(6,648)	(5,495)
Deferred tax liability:		
to be paid after more than 12 months	29,963	17,555
to be paid within 12 months	2,296	7,616
	32,259	25,171
Total deferred tax liability	**25,611**	**19,676**

The movements in deferred tax liability during the year 2015 are as follows:

	As at 1 January 2015	**Credited/ (charged) to profit and loss**	**Credited to other comprehensive income**	**As at 31 December 2015**
Property, plant and equipment	25,171	7,088	-	32,259
Pension liability and other liabilities	(2,537)	(2,621)	139	(5,019)
Provisions against bad debts	(2,958)	1,432	-	(1,526)
Other	-	(103)	-	(103)
Total	**19,676**	**5,796**	**139**	**25,611**

The movements in deferred tax liability during the year 2014 are as follows:

	As at 1 January 2014	**Credited/ (charged) to profit and loss**	**Credited to other comprehensive income**	**As at 31 December 2014**
Property, plant and equipment	20,911	4,260	-	25,171
Pension liability and other liabilities	(3,911)	1,567	(193)	(2,537)
Provisions against bad debts	(2,508)	(450)	-	(2,958)
Total	**14,492**	**5,377**	**(193)**	**19,676**

(All amounts are in thousands of Euro unless stated otherwise)

18 Pension and other provisions for liabilities and charges

Provisions for pensions and other employee benefits:

	2015	2014
At 1 January	**12,258**	**11,545**
Additional provisions	634	1,516
Used/paid during year	(628)	(612)
Release of unused provision	(57)	(191)
Acquisition of the business	449	-
At 31 December	**12,656**	**12,258**

	As at 31 December	
Analysis of total provisions	**2015**	**2014**
Non-current	12,278	11,677
Current	378	581
	12,656	**12,258**

(a) Pension and other staff benefits

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

(i) post employment benefits

Movements in the present value of defined benefit obligation are:

	As at 31 December	
	2015	**2014**
Present value of unfunded retirement obligations at beginning of the year	10,206	9,346
Current service cost	670	148
Interest expense	199	298
Past service cost	-	-
Paid	(366)	(336)
Remeasurements of pension obligation	(520)	750
Acquisition of the business	449	-
Present value of unfunded retirement obligations at the end of the year	**10,638**	**10,206**

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

	2015	2014
Number of employees at 31 December	1,802	1,809
Percentage of employees, who will terminate their employment with the Group prior to retirement (staff turnover)	4.61% p.a.	4.65% p.a.
Expected salary increases short-term	3.0% p.a.	3.5% p.a.
Expected salary increases long-term	3.0% p.a.	3.3% p.a.
Discount rate	1.8% p.a.	2.0% p.a.

(All amounts are in thousands of Euro unless stated otherwise)

(ii) other long-term benefits (life and work awards)

Movements in the present value of other long-term benefits are:

	As at 31 December	
	2015	**2014**
Present value of the obligation at beginning of the year	2,032	2,199
Current service cost	327	(116)
Interest expense	46	75
Paid	(273)	(276)
Actuarial (gains) / losses recognized through profit	(114)	150
Present value of unfunded retirement obligations at the end of the year	**2,018**	**2,032**

19 Revenues

Revenues include the following:

	Year ended 31 December	
	2015	**2014**
Electricity sales:		
Sales of electricity to industrial and commercial customers	198,762	207,873
Sales of electricity to residential customers	91,660	103,737
Distribution charges related to:		
Sales of electricity to industrial and commercial customers	346,798	375,514
Sales of electricity to residential customers	158,947	157,417
Tariff for system operation and system services – OKTE, a.s.	115,237	97,604
Revenues for reserved capacity	9,823	9,900
Other revenue:		
Sales of gas	77,299	49,811
Revenues for connection works and testing fees	3,917	3,784
Revenue for construction work	1,516	3,175
Other	5,065	4,203
	1,009,024	**1,013,018**

The Group provides access to the distribution network at regulated prices. Slovakia has implemented the European Union electricity market directive, which resulted in a complete liberalisation of the market whereby all customers, including households, became eligible to buy electricity in the open market from 1 July 2007.

(All amounts are in thousands of Euro unless stated otherwise)

20 Purchases of electricity, gas and related fees

The following amounts have been charged to purchases of electricity, gas and related fees:

	Year ended 31 December	
	2014	**2013**
Purchases of electricity from:		
Slovenské elektrárne ("SE")	132,135	140,737
Other domestic electricity producers and traders	219,377	275,743
Purchases on the spot market	44,638	9,773
Electricity transmission fees, system access and ancillary service charges and renewable sources feed-in tariffs (see also Note 19)	258,646	263,659
Cost of purchased gas	74,273	47,850
Other	15,007	13,466
	744,076	**751,228**

21 Operating expenses

	Year ended 31 December	
	2015	**2014**
Employee benefit costs		
Wages and salaries	37,762	36,598
Pension costs – defined contribution plans	6,872	5,811
Other social costs	12,955	12,496
	57,589	**54,905**
Depreciation and amortisation		
Depreciation (Note 7)	42,068	40,740
Amortisation (Note 8)	4,963	5,044
	47,031	**45,784**
Operating expenses		
Repairs and maintenance of machinery	1,753	2,282
IT maintenance fees	11,175	11,568
Advisory services	1,192	2,024
Rental costs	3,631	3,783
Other repairs and maintenance	3,298	1,856
Advertising	1,116	1,160
Call centre services	2,719	2,881
Post and telecommunication costs	3,375	3,297
Security services	1,215	1,260
External services	125	72
Travel expenses	969	878
Audit of financial statements	229	192
Other non-audit services	-	48
Other services	5,856	5,698
Bad debt expense (Note 11)	987	7,471
Impairment of non-current assets	203	(4)
Other operating expenses	9,289	7,229
	47,132	**51,695**

(All amounts are in thousands of Euro unless stated otherwise)

22 Other operating income

	Year ended 31 December	
	2015	**2014**
Customer grants	1,678	1,678
Income from rental	610	615
Gain on disposal of fixed assets	402	248
Dividend income	745	629
Income from contractual penalties	439	1,263
Income from unauthorized consumption of electricity	420	787
Fees for payment reminders	1,831	2,371
Other	2,082	2,646
	8,207	**10,237**

23 Interest expense and other finance expenses

	Year ended 31 December	
	2015	**2014**
Interest expenses:		
- Interest from bonds	20,699	20,980
- other interest	385	465
Other finance expenses:		
- finance expenses related to bonds	1,219	765
- other	-	-
	22,303	**22,210**

24 Income tax expense

In 2015 the applicable income tax rate was 22% (2014: 22%). The rate on special levy on the profit over EUR 3 mil. in regulated industries was 4.356%, and the levy rate was effective from September 2012 and is deductible when calculating income tax.

A reconciliation between the reported income tax charge and the theoretical amount that would arise using the statutory tax rates is as follows:

	Year ended 31 December	
	2015	**2014**
Profit before tax	117,215	115,262
Theoretical income tax related to current period at 24,69% included Special levy 2,69 % (2014: 24,73%)	28,946	28,505
Income tax related to prior periods	-	370
Effect of change of the tax rate to 22%	-	-
Effect of other comprehensive income to deferred tax	(139)	193
Other tax non-deductible items	426	2,046
Other	-	-
Income tax expense for the period	**29,233**	**31,114**

The tax charge for the period comprises:		
Deferred tax charge/ (credit) (Note 17)	5,796	5,377
Current tax charge in respect of current period	20,278	22,220
Special levy on business in regulated industries	3,159	3,147
Income tax related to prior periods	-	370
Income tax expense for the period	**29,233**	**31,114**

(All amounts are in thousands of Euro unless stated otherwise)

25 Cash generated from operations

	Note	Year ended 31 December 2015	Year ended 31 December 2014
Profit before tax		117,215	115,262
Adjustments for:			
Depreciation	7, 21	42,068	40,740
Amortisation	8, 21	4,963	5,044
Net movements in provisions		155	338
Loss/(Gain) on sale of property and equipment		(402)	(248)
Interest income		(277)	(168)
Interest expense	23	21,084	21,445
Dividend income	22	(745)	(629)
Net movements in provisions and deferred revenues		(6,069)	(2,039)
Other expenditures related to issued bonds		412	573
Other non-cash transactions		715	(2,265)
Changes in working capital			
Inventories	10	656	(2,867)
Trade and other receivables		(753)	21,811
Trade and other payables		5,811	(23,288)
Cash generated from operations		**184,833**	**173,709**

	Year ended 31 December 2015	Year ended 31 December 2014
Net book amount of disposals	552	232
Gain/(Loss) on disposal of property, plant and equipment	402	248
Proceeds from disposals	**954**	**480**

26 Contingencies

Taxation

Due to the fact that Slovak tax law contains certain provisions allowing for more than one interpretation, as well as the practice developed in the generally unstable environment by the tax authority of making arbitrary judgements on business activities, Management’s interpretation of the Company’s business activities may not coincide with the interpretation of these activities by the tax authorities. The fiscal years from 2010 to 2015 remain open to tax inspection.

Litigations

From time to time and in the normal course of business, claims against the Company may be received. Certain companies or their representatives contest fairness and appropriateness of network industries regulations or decisions of the regulator, where currently there are low risks that any material losses will be incurred in respect of any such potential claims, but an unquantifiable risk exists that, in the future, such risks may crystallise in an unfavourable manner for the Company.

(All amounts are in thousands of Euro unless stated otherwise)

27 Commitments

(i) Capital commitments

At 31 December 2015, the Group concluded contracts for the purchase of non-current assets totalling EUR 8,746 thousand which will become effective after this date (2014: EUR 8,546 thousand).

(ii) Operating lease commitments – the Group as lessee

The operating lease payments amounted to EUR 2,826 thousand (2014: EUR 3,783 thousand). These lease payments are recorded as expenses on a straight-line basis over the lease term.

The future aggregate minimum lease payments under non-cancellable operating leases are due as follows:

	Year ended 31 December	
	2015	**2014**
No later than one year	2,679	2,646
Later than one year and no later than five years	6,252	5,880
Later than five years	1,681	819
	10,612	**9,345**

As at 31 December 2015 and 31 December 2014, the Group leases cars and various premises for business and administrative purposes under operating leasing contracts.

28 Related party transactions

During the periods presented in these financial statements, the Company had transactions with the following related parties:

(i) Shareholders, which have common control – E.ON and Slovak Republic,
(ii) Entities under common control of the shareholder in part (i),
(iii) Key management personnel of the entity or its parent.

The Slovak Government influences the financial and operating policy decisions of the Group through its ownership of 51% of the shares of the Group subject to arrangements agreed in the Shareholders Agreement. Therefore, the Slovak Government and the companies controlled, jointly controlled or significantly influenced by the Slovak Government are classified as related parties of the Group (“Government related entities”).

The Group also purchases services and goods from Government related entities in the normal course of business.

In case of disclosures of transactions with government entities Slovak Republic Company has applied the exemption under IAS 24, paragraph 25.

(All amounts are in thousands of Euro unless stated otherwise)

These consolidated financial statements disclose summarised significant operations with government bodies and other non-government entities in 2015:

	Shareholders, which have common control	**Entities under common control of the shareholder**	**Subsidiaries**	**Associates**	**Joint ventures**
Payment of dividends	60,958	-	-	-	-
Sales	513	155,533	-	621	1,858
Purchases and expenses		453,735	-	13,336	1,864
Property and motor vehicle tax	600	-	-	-	-
Receivables except taxes	5	18,176	-	1	107
Payables except taxes	-	28,920	-	2,683	272

These consolidated financial statements disclose summarised significant operations with government bodies and other non-government entities in 2014:

	Shareholders, which have common control	**Entities under common control of the shareholder**	**Subsidiaries**	**Associates**	**Joint ventures**
Payment of dividends	52,213	-	-	-	-
Sales	606	136,295	-	635	1,102
Purchases and expenses	-	509,158	-	12,735	1,697
Property and motor vehicle tax	621	-	-	-	-
Receivables except taxes	-	13,016	-	24	107
Payables except taxes	4	39,358	-	3,302	-

Income tax is presented in Note 24. VAT tax payable is presented in Note 15.

There are no other purchase or sales commitments with related parties as of 31 December 2015 and 2014, other than disclosed above.

(iv) Key management personnel of the entity or its parent

- Members of the Board of Directors
- Members of the Supervisory Board
- Divisional directors

(All amounts are in thousands of Euro unless stated otherwise)

	Year ended 31 December	
	2015	2014
Board of directors and other key management personnel		
Salaries and short-term employee benefits	1,728	1,304
Pension costs – defined contribution plans	145	123
Total	**1,873**	**1,427**
Supervisory board		
Salaries and short-term employee benefits	270	278
Pension costs – defined contribution plans	41	41
Total	**311**	**319**

29 Events after the end of the reporting period

After 31 December 2015, no significant events have occurred that would require recognition or disclosure in the 2015 financial statements.

Signature of the entity´s statutory representatives

....
Jochen Kley Marian Rusko
Chairman of the Board of Directors and CEO Member of the Board of Directors