

**Západoslovenská energetika, a.s.**

**Separate Financial Statements  
and Independent Auditor's Report  
31 December 2016 and 2015**

**March 2017**

Translation note:

This version of our report is a translation from the original, which was prepared in Slovak. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

# *Independent Auditor's Report*

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

## **Our opinion**

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of Západoslovenská energetika, a.s. (the "Company") as at 31 December 2016 and 31 December 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee.

## **What we have audited**

The separate financial statements of Západoslovenská energetika, a.s. comprise:

- the separate statements of financial position as at 31 December 2016 and 31 December 2015;
- the separate statements of profit or loss and other comprehensive income for the years then ended;
- the separate statements of changes in equity for the years then ended;
- the separate statements of cash flows for the years then ended; and
- the notes to the separate financial statements, which include significant accounting policies and other explanatory information.

## **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Separate Financial Statements* section of our report.

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

## **Independence**

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants issued by the International Federation of Accountants ("Code of Ethics") and other requirements of legislation that are relevant to our audit of the separate financial statements in the Slovak Republic. We have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company are in accordance with the applicable law and regulations in the Slovak Republic and that we have not provided non-audit services that are prohibited under Regulation (EU) No. 537/2014.

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The firm's ID No. (IČO): 35 739 347.

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 I, pod Vložkou č.: 16611/B, Oddiel: Sro.

The firm is registered in the Commercial Register of Bratislava I District Court, Ref. No.: 16611/B, Section: Sro.

## Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the separate financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the separate financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the separate financial statements as a whole.

<b>Overall materiality</b>	EUR 2,590 thousand (2015: EUR 3,048 thousand)
<b>How we determined it</b>	5% of profit before tax
<b>Rationale for the materiality benchmark applied</b>	We chose profit before tax as the benchmark because the performance of the Company is most commonly measured by users based on the Company's profitability. We chose 5% which is within the range of acceptable quantitative materiality thresholds set out in our firm's internal guidance.

## Reporting on other information in the annual report

Management is responsible for separate annual report prepared in accordance with the Slovak Act on Accounting No. 431/2002 as amended (the "Accounting Act"). The separate annual report comprises (a) the separate financial statements and (b) other information. Management has not prepared the separate annual report by the date of our audit report.

Our opinion on the separate financial statements does not cover the other information. When the separate annual report becomes available to us, our responsibility will be to read the other information identified above and, in doing so, to consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the separate annual report, we will also consider whether it includes the disclosures required by the Accounting Act, when it becomes available to us. This will include checking the consistency of the separate annual report with the separate financial statements, and whether the separate annual report has been prepared in accordance with the Accounting Act.

## Our appointment as independent auditors

We were first appointed as auditors of the Company in 2002. Our appointment has been renewed annually by shareholders resolution representing a total period of uninterrupted engagement appointment of 15 years. Under the transitional provisions of the EU Regulation 537/2014, our appointment cannot be renewed from 17 June 2023, provided the Company will then be public interest entity.

### ***Responsibilities of management and those charged with governance for the separate financial statements***

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with the relevant financial reporting framework and with other identified applicable local law or other requirements, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### ***Auditor's responsibilities for the audit of the separate financial statements***

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

As part of our audit, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication. We did not identify any key audit matters during our audit, which would require disclosure in this report.

*PricewaterhouseCoopers Slovensko*

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

Bratislava, 27 March 2017



*Tučný*

Mgr. Juraj Tučný, FCCA  
UDVA licence No. 1059



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**Západoslovenská energetika, a.s.**  
**Separate Statements of Financial Position**

<i>In thousands of EUR</i>	<b>Note</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	39,011	38,734
Intangible assets	6	661	1,264
Investment properties	7	10,407	9,870
Investments in subsidiaries, associates and joint ventures	8	287,337	290,106
Loans provided	9	630,000	630,000
<b>Total non-current assets</b>		<b>967,416</b>	<b>969,974</b>
<b>Current assets</b>			
Inventories	10	49	74
Accrued interest on loans receivable within one year	9	4,833	4,833
Trade and other receivables	11	4,154	4,060
Current income tax refund receivable		780	-
Receivables from cash pooling	20	1,288	12,663
Cash and cash equivalents	12	77,331	31,785
<b>Total current assets</b>		<b>88,435</b>	<b>53,415</b>
<b>TOTAL ASSETS</b>		<b>1,055,851</b>	<b>1,023,389</b>
<b>EQUITY</b>			
Share capital	13	196,969	196,969
Legal reserve fund	14	39,421	39,421
Retained earnings		98,315	104,754
<b>TOTAL EQUITY</b>		<b>334,705</b>	<b>341,144</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Issued bonds	15	628,828	628,187
Deferred income tax liabilities	16	1,336	1,484
Post-employment defined benefit obligations	17	1,260	1,552
Other long term employee benefits	18	294	244
<b>Total non-current liabilities</b>		<b>631,718</b>	<b>631,467</b>
<b>Current liabilities</b>			
Accrued interest on issued bonds payable within one year	15	4,114	4,114
Trade and other payables	19	13,527	8,971
Current income tax liability		-	1,839
Liabilities from cash pooling	20	71,787	35,854
<b>Total current liabilities</b>		<b>89,428</b>	<b>50,778</b>
<b>TOTAL LIABILITIES</b>		<b>721,146</b>	<b>682,245</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>1,055,851</b>	<b>1,023,389</b>

These separate financial statements have been approved for issue by the Board of Directors on 27 March 2017.

.....  
Jochen Kley  
Chairman of the Board of Directors and CEO

.....  
Marian Rusko  
Member of the Board of Directors



**Západoslovenská energetika, a.s.**  
**Separate Statements of Profit or Loss and Other Comprehensive Income**

<i>In thousands of EUR</i>	<b>Note</b>	<b>2016</b>	<b>2015</b>
<b>Revenues</b>	21	<b>39,000</b>	<b>43,991</b>
Raw material, energy and other consumption	22	(3,015)	(3,389)
Employee benefits	23	(12,546)	(12,453)
Depreciation of property, plant and equipment and investment properties	5,7	(3,607)	(3,134)
Amortisation of intangible assets	6	(494)	(536)
Other operating expenses	24	(21,837)	(21,184)
Dividend income	25	51,190	52,686
Other operating income	26	5,232	4,487
<b>Profit from operations</b>		<b>53,923</b>	<b>60,468</b>
<b>Finance income / (costs)</b>			
Interest income	28	22,703	22,763
Interest and similar expenses	27	(24,810)	(23,259)
<b>Finance costs, net</b>		<b>(2,107)</b>	<b>(496)</b>
<b>Profit before tax</b>		<b>51,816</b>	<b>59,972</b>
Income tax expense	16	(956)	(2,028)
<b>Profit for the year</b>		<b>50,860</b>	<b>57,944</b>
<b>Other comprehensive income</b>			
<i>Items that will not be subsequently reclassified to profit or loss</i>			
Actuarial remeasurements of post-employment defined benefit obligations	17	342	59
Deferred tax on actuarial remeasurements of post-employment defined benefit obligations	16	(72)	(13)
<b>Total other comprehensive income for the year</b>		<b>270</b>	<b>46</b>
<b>Total comprehensive income for the year</b>		<b>51,130</b>	<b>57,990</b>

**Západoslovenská energetika, a.s.**  
**Separate Statements of Changes in Equity**

<i>In thousands of EUR</i>	<b>Share capital</b>	<b>Legal reserve fund</b>	<b>Retained earnings</b>	<b>Total equity</b>
<b>Balance at 1 January 2015*</b>	<b>196,969</b>	<b>39,421</b>	<b>107,722</b>	<b>344,112</b>
Profit for the year	-	-	57,944	<b>57,944</b>
Other comprehensive income for the year	-	-	46	<b>46</b>
<b>Total comprehensive income for 2015</b>	<b>-</b>	<b>-</b>	<b>57,990</b>	<b>57,990</b>
Dividends declared and paid (Note 13)	-	-	(60,958)	<b>(60,958)</b>
<b>Balance at 31 December 2015</b>	<b>196,969</b>	<b>39,421</b>	<b>104,754</b>	<b>341,144</b>
Profit for the year	-	-	50,860	<b>50,860</b>
Other comprehensive income for the year	-	-	270	<b>270</b>
<b>Total comprehensive income for 2016</b>	<b>-</b>	<b>-</b>	<b>51,130</b>	<b>51,130</b>
Dividends declared and paid (Note 13)	-	-	(57,570)	<b>(57,570)</b>
Other	-	-	1	<b>1</b>
<b>Balance at 31 December 2016</b>	<b>196,969</b>	<b>39,421</b>	<b>98,315</b>	<b>334,705</b>

\* As explained in Note 3, the previously separately reported Other Reserves of EUR 902 thousand were transferred to Retained Earnings with retrospective effect.

**Západoslovenská energetika, a.s.**  
**Separate Statements of Cash Flows**

<i>In thousands of EUR</i>	<b>Note</b>	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities</b>			
Profit before tax		51,816	59,972
Adjustments for non-cash items:			
- Depreciation of property, plant and equipment and investment properties	5, 7	3,607	3,134
- Gain on disposal of property, plant and equipment	5	(197)	(374)
- Amortisation of intangible assets	6	494	536
- Gain on sale of part of the business	29	-	(29)
- Interest income		(22,703)	(22,763)
- Interest and similar expense		24,810	23,259
- Dividend income	25	(51,190)	(52,686)
- Other non-cash items		(36)	(19)
Cash generated from operations before changes in working capital		6,601	11,030
Changes in working capital:			
- Inventories		25	(22)
- Trade and other receivables		(94)	23
- Receivables and liabilities from cash pooling		47,308	2,028
- Trade and other payables		3,352	1,836
- Provisions for liabilities and charges and deferred income		73	102
<b>Cash generated from operations before interest and taxes</b>		<b>57,265</b>	<b>14,997</b>
Interest income received		22,703	17,930
Interest expense paid		(21,868)	(22,445)
Income tax paid	37	(3,795)	797
<b>Net cash from operating activities</b>		<b>54,305</b>	<b>11,279</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment and intangible assets		(3,650)	(5,453)
Dividend income received	25	51,190	52,686
Proceeds from sale of property, plant and equipment and intangible assets		739	624
Proceeds from sale of part of the business	29	-	3,544
Proceeds from reduction of other capital funds of an associate	8	537	-
Contribution to share capital of a subsidiary	8	(5)	-
<b>Net cash used in investing activities</b>		<b>48,811</b>	<b>51,401</b>
<b>Cash flows from financing activities</b>			
Dividends paid	13	(57,570)	(60,958)
<b>Net cash used in financing activities</b>		<b>(57,570)</b>	<b>(60,958)</b>
<b>Net change in cash and cash equivalents</b>		<b>45,546</b>	<b>1,722</b>
Cash and cash equivalents at the beginning of the year		31,652	29,930
<b>Cash and cash equivalents at the end of the year</b>	12	<b>77,198</b>	<b>31,652</b>

## **1 Introduction**

These separate financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union for the years ended 31 December 2016 and 2015 for Západoslovenská energetika, a.s. (hereinafter "The Company" or "ZSE").

The Company was incorporated and is domiciled in the Slovak Republic. The Company is a joint stock company limited by shares and was set up in accordance with Slovak legislation in its current legal form on 15 October 2001. The Company was incorporated in the Commercial Register of the District Court Bratislava I on 1 November 2001.

**Principal activity.** The Company provides supporting services for its subsidiaries and other related parties as accounting, controlling and general administration services, as well as in area of finance services, planning, HR services and facility management. From 1 January 2015, the provision of customer services by the Company has been transferred into the subsidiaries Západoslovenská distribučná, a.s. and ZSE Energia, a.s. (refer to Note 29).

The Company's principal subsidiaries are as follows: Západoslovenská distribučná, a.s. which operates electricity distribution network in Western Slovakia, ZSE Energia, a.s. which supplies electricity and gas to its retail and wholesale customers, ZSE Energy Solutions, s.r.o. which is in engineering business, ZSE MVE, s. r. o. which operates two small hydroelectric plants, ZSE Business Services, s. r. o. which is a trading company and ZSE Development, s.r.o. which is a company providing services. All of the subsidiaries are incorporated in the Slovak Republic and are wholly owned by the Company.

**Registered address and place of business.** The Company's registered address is Čulenova 6, Bratislava 816 47, Slovak Republic. Its identification number (IČO) is: 35 823 551 and its tax identification number (IČ DPH) is: SK20202852562.

**Presentation currency.** These separate financial statements are presented in Euro ("EUR"), rounded to thousands, unless otherwise stated. Negative amounts are presented in brackets.

**Ownership structure.** Ministry of Economy of the Slovak Republic owns 51% of the Company's shares, E.ON Slovensko, a.s. owns 39% and E.ON Beteiligungen GmbH owns 10% of the Company's shares at 31 December 2016 and 31 December 2015. The Company is jointly controlled by E.ON and the Slovak government as a result of a shareholders agreement, which requires the parties to act jointly together to direct the activities that significantly affect the returns of the reporting entity. Refer to Note 13.

List of members of the Company's board of directors and of the supervisory board is publicly available from the Commercial Register operated by the Ministry of Justice of the Slovak Republic at [www.orsr.sk](http://www.orsr.sk).

**Number of employees.** The Company employed 303 staff on average during 2016, of which 14 were management (2015: 309 employees on average, of which 15 were management).

## **2 Significant Accounting Policies**

**Basis of preparation.** These separate financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union under the historical cost convention. The principal accounting policies applied in the preparation of these separate financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 3).

The Board of Directors may propose to the Company's shareholders to amend the separate financial statements until their approval by the general shareholders meeting. However, § 16, points 9 to 11 of the Accounting Act No 431/2002 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 reporting period in which the relevant facts are identified.

## **2 Significant Accounting Policies (continued)**

These separate financial statements have been prepared in addition to the consolidated financial statements of the Group Západoslovenská energetika, a.s. The separate financial statements should be read in conjunction with the consolidated financial statements to obtain a complete understanding of the Company's results and financial position. These consolidated financial statements can be obtained from the Company at its registered address.

**Subsidiaries, associates and joint ventures.** Subsidiaries are those investees, including structured entities, that the Company controls because the Company (i) has power to direct 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 investor's returns. The existence and effect of substantive voting rights, including substantive potential voting rights, are considered when assessing whether the Company has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Company 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 Company 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 Company from controlling an investee.

Associates are all entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Jointly controlled entities ("joint ventures") are those in which the Company shares control of the operations with its joint venture partners.

Investments in subsidiaries, associates and in joint ventures are carried at cost in these separate financial statements. The cost is represented by the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire the subsidiaries, associates and joint ventures at the time of their acquisition. Impairment losses are recognized using an allowance account. Allowances are recognized to write down the investment to present value of estimated expected future cash flows.

**Property, plant and equipment.** Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

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 Company and the cost of the item can be measured reliably. Costs of minor repairs and day-to-day maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

At the end of each reporting period, management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss for the year within other operating income or costs.

**Investment property.** Investment property represents the building premises (and related part of the land on which the building stands), which is leased out to subsidiaries. Investment property is carried at cost less accumulated depreciation, calculated using straight line method to depreciate the asset to its residual value, based on estimate useful life of 30 to 50 years, similar to buildings held for own use.

**Depreciation.** Land and construction in progress is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

## **2 Significant Accounting Policies (continued)**

	<b>Useful lives in years</b>
Office buildings and halls	30 – 50 years
Building sites	40 years
Machinery	4 – 20 years
Fixtures, fittings and equipment	4 – 30 years
Vehicles	4 – 15 years
Other non-current tangible assets	4 – 30 years

The residual value of an asset is the estimated amount that the Company would currently obtain from the disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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.

**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 Company, and the cost of the asset can be measured reliably. After initial recognition, the intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses.

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 Company are recognised as intangible assets when the following criteria are met: (a) it is technically feasible to complete the software product so that it will be available for use; (b) management intends to complete the software product and use or sell it; (c) there is an ability to use or sell the software product; (d) it can be demonstrated how the software product will generate probable future economic benefits; (e) adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and (f) 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.

At the end of each reporting period management assesses whether there is any indication of impairment of intangible assets. If any such indication exists, management reduces the carrying value to the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use.

**Loans provided.** Loans provided are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

**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.

**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.

A provision for impairment of receivables is established when there is objective evidence that the Company 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 objective evidence that the trade receivable is impaired.

## **2 Significant Accounting Policies (continued)**

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 using an allowance account, and the amount of the loss is expensed 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 impairment losses within "other operating expenses".

**Value added tax.** Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the statement of financial position on a net basis. Where provision has been made for the impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

**Receivables from cash pooling.** These receivables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

**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. Cash and cash equivalents are carried at amortised cost.

**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.

**Dividends.** Dividends are recorded in equity in the period in which they are declared. The separate financial statements of the Company are the basis for profit distribution and other appropriations.

**Legal reserve fund.** The legal reserve fund is set up in accordance with the Commercial Code. Contributions to the legal reserve fund were made at 10% of the Company's profit for the year, 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.

**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 amortised cost using the effective interest method. The liabilities are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

**Liabilities from cash pooling.** These liabilities are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

**Income taxes.** Income taxes have been provided for in the separate financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.



## **2 Significant Accounting Policies (continued)**

Current income tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if the separate financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within other operating expenses.

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 end of the respective reporting period and apply to the period when the related deferred income tax asset will be realised, or the deferred income tax liability will be 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 except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

The Company offsets deferred tax assets and deferred tax liabilities where the Company 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.

**Post-employment and other long term employee benefits.** The Company contributes to state and private defined contribution pension and social benefit plans under which the Company 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. The contributions are expensed when incurred.

As agreed with the trade unions, the Company also has (a) a post-employment defined benefit obligation to pay seven monthly salaries to each employee upon retirement and (b) an obligation to pay work and life anniversary long service bonuses. These obligations are recognised as liabilities estimated 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 liability and (b) then attributing the calculated present value to the periods of service based on the plan's benefit formula.

Actuarial remeasurements on post-employment benefits arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise, and are immediately reclassified to retained earnings in the statement of changes in equity. Actuarial remeasurements of the obligation to pay work and life anniversary long service bonuses are recognised in profit or loss for the year as employee benefits expense when incurred. Past service costs, if any, are expensed when incurred.

As explained in IAS 19, *Employee Benefits*, paragraph 133, the Company does not distinguish current and non-current portions of defined benefit obligations and presents the estimate as a whole within non-current liabilities.

**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 less than one year, or within the entity's operating cycle. All other accounts payable 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 Significant Accounting Policies (continued)**

**Offsetting.** Financial assets and liabilities are offset and the net amount reported in the separate statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise 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.

**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 expensed on a straight-line basis over the period of the lease.

**Provisions / Contingent liabilities.** Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are not 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 Company 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 separate financial statements. They are disclosed in the notes to the separate financial statements, unless the possibility of an outflow of resources embodying the economic benefits is remote.

**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 Company's activities. Revenue is shown, net of value-added tax, estimated returns, rebates and discounts.

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

The Company provides supporting services for its subsidiaries ZSE Energia, a.s. and Západoslovenská distribučná, a.s. as accounting, controlling, facility management and general administration services. These services are provided also to the other subsidiaries ZSE Energy Solutions, s.r.o., ZSE Development, s.r.o., ZSE Business Services, s. r. o. and ZSE MVE, s. r. o. and to the shareholder E.ON Slovensko, a.s. as well as other related parties, E.ON Business Services Slovakia spol. s r. o. v likvidácii and E.ON Elektrárne s.r.o. From 1 January 2015, the provision of customer services by the Company has been transferred to the subsidiaries Západoslovenská distribučná, a.s. and ZSE Energia, a.s (Note 29).

**Raw material and spare parts.** The Company sells raw material and spare parts to its subsidiaries. Sale of material is recognized when the Company has delivered the material to the subsidiary and there is no unfulfilled obligation that could affect the subsidiary's acceptance of the material.

**Sales of services.** Sales of services are recognised in the reporting period in which the services are rendered, by reference to completion of the specific transaction assessed based on the actual service provided as a proportion of the total services to be provided.

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

**Interest income.** Interest income is recognised on an accrual basis using the effective interest method.

## **2 Significant Accounting Policies (continued)**

**Foreign currency translation.** These financial statements are presented in thousands of EUR, which is the Company's presentation currency.

**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 profit or loss.

**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.

Segment result is measured in accordance with accounting policies that are consistent with those applied by the Company in preparing its separate statement of profit or loss and other comprehensive income.

**Non-current assets (or disposal groups) held for sale and discontinued operations.** Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable within one year. They are stated at the lower of carrying amount and fair value less costs to sell.

A discontinued operation is a component of the Company that either has been disposed of, or that is classified as held for sale, and: (a) represents a separate major line of business or geographical area of operations; (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or (c) is a subsidiary acquired exclusively with a view to resale. Revenues, expenses and cash flows of discontinued operations, if any, are disclosed separately from continuing operations with comparatives being re-presented.

## **3 Adoption of New or Revised Standards and Interpretations**

The following amended standards became effective for the Company from 1 January 2016, but did not have any material impact on the Company:

- Annual Improvements to IFRSs 2012 (issued on 12 December 2013 and effective in the EU for annual periods beginning on or after 1 February 2015).
- Defined Benefit Plans: Employee Contributions - Amendments to IAS 19 (issued on 21 November 2013 and effective in the EU for annual periods beginning on or after 1 February 2015).
- Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11 (issued on 6 May 2014 and effective 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 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 for annual periods beginning 1 January 2016).
- Equity Method in Separate Financial Statements - Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016).
- Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning 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).

### **3 Adoption of New or Revised Standards and Interpretations (continued)**

- Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016). As a result of this amendment, the Company reassessed presentation of its financial statements, including that it no longer separately reports current portion of post-employment and other long term defined benefit obligations in the statement of financial position and accumulated actuarial remeasurements in the statement of changes in equity due to inherent uncertainty of the estimate and immateriality of such amounts. These changes in presentation did not have a material impact on the entity's separate financial statements. Refer also to Note 17 and 18.

### **4 New Accounting Pronouncements**

Certain new standards, interpretations and amendments have been issued that are mandatory for annual periods beginning on or after 1 January 2017, and which the entity 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).** The entity expects that impairment provisions for trade receivables will increase upon adoption of IFRS 9 because the standard introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. Under the new rules the Company will have to record an immediate loss equal to lifetime expected loss on initial recognition of its trade receivables that are not overdue and are not credit impaired. A reasonable estimate of this increase in provisions cannot be made because it is impossible to reliably forecast what forward looking information, including macro-economic forecasts and probabilities assigned to alternative macro-economic outlooks, will prevail at 1 January 2018, when the effects of adopting the standard will be recognised against opening balance of retained earnings. The Company is currently assessing other aspects of the new standard and its impact on the Company's separate financial statements.

**IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014, amended on 12 April 2016 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 Company is currently assessing the impact of the new standard on its financial statements.

**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 statement of profit or loss and other comprehensive income. 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 Company 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).** This amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Company will introduce the required disclosures in its 2017 financial statements.

#### **4 New Accounting Pronouncements (continued)**

The following standards, interpretations and amendments are not expected to have any material impact on the Company's separate financial statements:

- IFRS 14, Regulatory Deferral Accounts (issued in January 2014 and effective outside the European Union for annual periods beginning on or after 1 January 2016). This standard will not be adopted by the European Union.
  - 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). The EU endorsement is postponed until after the IASB determines the effective date of this amendment.
  - 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).
  - Amendments to IFRS 2, Share-based Payment\* (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
  - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4\* (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).
  - Annual Improvements to IFRSs 2014-2016 Cycle\* (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017 for amendments to IFRS 12, and on or after 1 January 2018 for amendments to IFRS 1 and IAS 28).
  - IFRIC 22 - Foreign Currency Transactions and Advance Consideration\* (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
  - Transfers of Investment Property - Amendments to IAS 40\* (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- \* These new standards, amendments and interpretations have not been endorsed by the European Union yet.

## 5 Property, Plant and Equipment

Movements in the carrying amount of property, plant and equipment were as follows:

<i>In thousands of EUR</i>	Land	Buildings	Equipment, vehicles and other assets	Capital work in progress	Total
Cost at 1 January 2015	4,415	34,929	28,884	3,355	71,583
Accumulated depreciation and impairment losses	-	(11,749)	(20,169)	-	(31,918)
<b>Carrying amount at 1 January 2015</b>	<b>4,415</b>	<b>23,180</b>	<b>8,715</b>	<b>3,355</b>	<b>39,665</b>
Additions	-	-	-	4,695	4,695
Transfers	-	3,025	1,582	(4,607)	-
Depreciation charge	-	(881)	(1,905)	-	(2,786)
Disposals	(166)	(69)	(15)	-	(250)
Contribution of assets to the share capital of the financial investment	(117)	(2,473)	-	-	(2,590)
Cost at 31 December 2015	4,132	35,015	30,376	3,443	72,966
Accumulated depreciation and impairment losses	-	(12,233)	(21,999)	-	(34,232)
<b>Carrying amount at 31 December 2015</b>	<b>4,132</b>	<b>22,782</b>	<b>8,377</b>	<b>3,443</b>	<b>38,734</b>
Transfer to investment property	-	(427)	-	-	(427)
Additions	-	-	-	4,489	4,489
Transfers	-	479	2,611	(3,090)	-
Depreciation charge	-	(1,195)	(2,048)	-	(3,243)
Disposals	(18)	(504)	(20)	-	(542)
Cost at 31 December 2016	4,114	33,907	32,676	4,842	75,539
Accumulated depreciation and impairment losses	-	(12,772)	(23,756)	-	(36,528)
<b>Carrying amount at 31 December 2016</b>	<b>4,114</b>	<b>21,135</b>	<b>8,920</b>	<b>4,842</b>	<b>39,011</b>

The Company holds insurance against damages caused by natural disasters up to EUR 242,403 thousand for buildings and up to amount of EUR 34,212 thousand for equipment, fixtures, fittings and other assets (2015: EUR 244,288 thousand and 33,632 thousand, respectively).

The above disclosures include carrying value of assets leased out under operating leases as follows:

<i>In thousands of EUR</i>	2016	2015
Equipment, vehicles and other assets	11,172	10,510
<b>Total carrying value of assets leased out under operating leases</b>	<b>11,172</b>	<b>10,510</b>

## **5 Property, Plant and Equipment (continued)**

Rental income is presented in Note 26. Future rental income due within one year from non-cancellable operating leases is EUR 268 thousand (2015: EUR 1,074 thousand), amount due from two to five years is EUR 0 thousand (2015: EUR 0 thousand) and the amount due after five years is EUR 0 thousand (2015: EUR 0 thousand).

The proceeds from disposal of property, plant and equipment were as follows:

<i>In thousands of EUR</i>	<b>2016</b>	<b>2015</b>
Net book value of disposals	542	250
Gain/ (Loss) on disposal of property, plant and equipment (Note 26)	197	374
<b>Proceeds from disposals</b>	<b>739</b>	<b>624</b>

## **6 Intangible Assets**

Movements in the carrying amount of intangible assets were as follows:

<i>In thousands of EUR</i>	<b>Software and similar assets</b>	<b>Assets not yet available for use</b>	<b>Total</b>
Cost at 1 January 2015	40,181	1,231	41,412
Accumulated amortisation and impairment losses	(34,427)	-	(34,427)
<b>Carrying amount at 1 January 2015</b>	<b>5,754</b>	<b>1,231</b>	<b>6,985</b>
Additions	-	301	301
Transfers	212	(212)	-
Sale of part of the business (Note 29)	(4,447)	(1,039)	(5,486)
Amortisation charge	(536)	-	(536)
Cost at 31 December 2015	27,728	281	28,009
Accumulated amortisation and impairment losses	(26,745)	-	(26,745)
<b>Carrying amount at 31 December 2015</b>	<b>983</b>	<b>281</b>	<b>1,264</b>



**6 Intangible Assets (continued)**

<i>In thousands of EUR</i>	<b>Software and similar assets</b>	<b>Assets not yet available for use</b>	<b>Total</b>
Cost at 1 January 2016	27,728	281	28,009
Accumulated amortisation and impairment losses	(26,745)	-	(26,745)
<b>Carrying amount at 1 January 2016</b>	<b>983</b>	<b>281</b>	<b>1,264</b>
Additions	-	(109)	(109)
Transfers	83	(83)	-
Amortisation charge	(494)	-	(494)
Cost at 31 December 2016	27,811	89	27,900
Accumulated amortisation and impairment losses	(27,239)	-	(27,239)
<b>Carrying amount at 31 December 2016</b>	<b>572</b>	<b>89</b>	<b>661</b>

**7 Investment Properties**

The Company leases out part of its administrative and operational buildings under operating leases mainly to its subsidiaries.

Movements in the carrying amount of the investment properties were as follows:

<i>In thousands of EUR</i>	<b>2016</b>	<b>2015</b>
Cost at 1 January	14,103	14,067
Accumulated depreciation and impairment losses	(4,233)	(3,885)
<b>Carrying amount at 1 January</b>	<b>9,870</b>	<b>10,182</b>
Transfer from property, plant and equipment to investment property	427	-
Additions	474	36
Depreciation charge	(364)	(348)
Cost at 31 December	15,158	14,103
Accumulated depreciation and impairment losses	(4,751)	(4,233)
<b>Carrying amount at 31 December</b>	<b>10,407</b>	<b>9,870</b>

The Company's management estimates that fair value of the investment properties at the balance sheet date is not materially different from their carrying amount.

## 7 Investment Properties (continued)

Rental income is presented in Note 26. Future rental income due within one year from non-cancellable operating leases is EUR 1,845 thousand (2015: EUR 92 thousand), amount due from two to five years is EUR 1,561 thousand (2015: EUR 42 thousand) and the amount due after five years is EUR 159 thousand (2015: EUR 0 thousand).

## 8 Investments in Subsidiaries, Associates and Joint Ventures

<i>In thousands of EUR</i>	2016	2015
<b>Total investments at the beginning of the year</b>	<b>290,106</b>	<b>287,875</b>
Additions	5	2,530
Disposals	(537)	-
Impairment	(2,238)	(299)
Other	1	-
<b>Total investments at the end of the year</b>	<b>287,337</b>	<b>290,106</b>

Additions during the year 2015 represent increase of endowment of foundation Nadácia ZSE in amount of EUR 2,530 thousand which was paid in by non-financial contribution of property, plant and equipment. The change was incorporated into the Register of Foundations of the Ministry of Interior of the Slovak Republic on 28 May 2015. The additions during the year 2016 represent the set-up of the subsidiary ZSE Business Services, s.r.o. on 15 August 2016, where the Company is sole shareholder. This subsidiary was incorporated in the Commercial Register on 1 September 2016. Disposals during the year 2016 represent reduction of other capital funds of the associate E.ON Business Services Slovakia spol. s r. o. v likvidácii. All of the subsidiaries, associates and joint ventures were incorporated and operate in the Slovak Republic.

<i>In thousands of EUR</i>	% *	Activities	2016	2015
Západoslovenská distribučná, a.s.	100	Distribution of electricity	276,684	276,684
ZSE Energia, a.s.	100	Trade in electricity / gas	6,725	6,725
ZSE Energy Solutions, s.r.o.	100	Engineering	2,200	1,901
ZSE MVE, s. r. o.	11.3**	Electricity production	1	1
ZSE Development, s.r.o.	100	Trading activities	564	564
ZSE Business Services, s. r. o.	100	Services	5	-
<b>Total investments in subsidiaries</b>			<b>286,179</b>	<b>285,875</b>
E.ON Business Services Slovakia spol. s r. o. v likvidácii	49	IT services	568	1,105
<b>Total investments in associates</b>			<b>568</b>	<b>1,105</b>
Energotel, a.s.	20	Telecommunication services	525	525
<b>Total investments in joint ventures</b>			<b>525</b>	<b>525</b>
Other			65	2,601
<b>Total investments in subsidiaries, associates and joint ventures</b>			<b>287,337</b>	<b>290,106</b>

\* Ownership interest and voting rights held.

\*\* The Company directly owns only 11.3% in ZSE MVE, s. r. o. but has in total 100% control over this company through its subsidiary ZSE Energy Solutions, s.r.o. which holds the remaining 88.7% in ZSE MVE, s. r. o. Therefore, ZSE MVE, s. r. o. was classified as subsidiary in these separate financial statements.

## **9 Loans Provided**

An overview of loans provided is as follows:

<i>In thousands of EUR</i>	<b>2016</b>	<b>2015</b>
Loan 1 provided to Západoslovenská distribučná, a.s. - principal	315,000	315,000
Loan 2 provided to Západoslovenská distribučná, a.s. - principal	315,000	315,000
Accrued interest payable within one year	4,833	4,833
<b>Total loans provided</b>	<b>634,833</b>	<b>634,833</b>

Both loans provided to the subsidiary Západoslovenská distribučná, a.s. are in amount of EUR 315,000 thousand each. The loan 1 is due on 1 October 2018 and carries a coupon of 3.04% p.a. The loan 2 is due on 1 October 2023 and carries a coupon of 4.14 % p.a. The loans are neither past due nor impaired and management of the Company considers this related party as creditworthy without an increased credit risk.

The potential effect of netting arrangements is disclosed in Note 33.

## **10 Inventories**

The inventory items included material and spare parts and are shown after provision for slow-moving materials and spare parts of EUR 1 thousand (2015: EUR 2 thousand). The cost of inventories recognized as expense and included in 'Raw materials, energy and other consumption' is disclosed in Note 22.

## **11 Trade and Other Receivables**

<i>In thousands of EUR</i>	<b>2016</b>	<b>2015</b>
Trade receivables	3,804	3,952
Less impairment provision for trade receivables	(87)	(81)
<b>Trade receivables, net</b>	<b>3,717</b>	<b>3,871</b>
Prepayments	437	189
<b>Total trade and other receivables</b>	<b>4,154</b>	<b>4,060</b>

Movements in the impairment provision for trade receivables are as follows:

<i>In thousands of EUR</i>	<b>2016</b>	<b>2015</b>
<b>Provision for impairment at 1 January</b>	<b>81</b>	<b>99</b>
Impairment loss expense	6	(11)
Amounts written off during the year as uncollectible	-	(7)
<b>Provision for impairment at 31 December</b>	<b>87</b>	<b>81</b>

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

## **11 Trade and Other Receivables (continued)**

The credit quality of trade receivables is as follows:

<i>In thousands of EUR</i>	<b>2016</b>	<b>2015</b>
<i>Neither past due nor impaired</i>		
- collected by 31 January after the reporting period	2,641	2,969
- not collected by 31 January after the reporting period and not overdue	765	763
- amounts that became overdue after the reporting period	20	12
<b>Total neither past due nor impaired</b>	<b>3,426</b>	<b>3,744</b>
<i>Individually impaired</i>		
1 to 30 days past due	215	125
31 to 60 days past due	72	3
61 to 90 days past due	2	-
91 to 120 days past due	10	2
121 to 180 days past due	-	(2)
181 to 360 days past due	-	-
Over 360 days past due	79	80
<b>Total individually impaired before provision for impairment</b>	<b>378</b>	<b>208</b>
<b>Less provision for impairment</b>	<b>(87)</b>	<b>(81)</b>
<b>Total trade receivables, net of provision</b>	<b>3,717</b>	<b>3,871</b>

The Company has a concentration of credit risk towards its subsidiaries and other related parties. Refer to Note 37.

## **12 Cash and Cash Equivalents**

<i>In thousands of EUR</i>	<b>2016</b>	<b>2015</b>
Current accounts with banks	77,331	26,652
Overnight bank deposits	-	5,133
<b>Total cash and cash equivalents in the statement of financial position</b>	<b>77,331</b>	<b>31,785</b>
<b>Less restricted cash balances</b>	<b>(133)</b>	<b>(133)</b>
<b>Total cash and cash equivalents in the statement of cash flows</b>	<b>77,198</b>	<b>31,652</b>

The Company has a concentration of cash and cash equivalents balances towards 4 banks (2015: 4 banks).

## **12 Cash and Cash Equivalents (continued)**

The credit quality of cash and cash equivalents is as follows:

<i>In thousands of EUR</i>	<b>2016</b>	<b>2015</b>
<i>Neither past due nor impaired</i>		
Credit rating A1 by Moody's	19	26
Credit rating A2 by Moody's	65,085	3,564
Credit rating Baa1 by Moody's	12,224	28,191
Credit rating BBB+ by Fitch	3	4
<b>Total cash and cash equivalents</b>	<b>77,331</b>	<b>31,785</b>

As at 31 December 2016, the Company has agreements with banks about revolving credit facilities amounting to EUR 75,000 thousand (2015: EUR 75,000 thousand). As at 31 December 2016 the Company has drawn EUR 0 thousand from these facilities (2015: EUR 0 thousand).

As at 31 December 2016, the Company issued guarantees in favour of its subsidiary ZSE Energia, a.s. in total amount of EUR 8,151 thousand (2015: 5,589 thousand). The fair value of issued guarantees is insignificant.

## **13 Share Capital**

The Company issued and has outstanding 5,934,594 ordinary shares (2015: 5,934,594 shares) with a par value of EUR 33.19 each. All issued shares are fully paid in.

The Company 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 general meeting of the Company's shareholders approved the Company's prior year separate financial statements and declared dividends of EUR 57,570 thousand or EUR 9.70 per share (2015: dividends of EUR 60,958 thousand or EUR 10.27 per share). Slovak legislation identifies distributable reserves as retained earnings reported in the separate financial statements of the Company which amount to EUR 98,315 thousand (2015: EUR 104,754 thousand).

## **14 Legal Reserve Fund**

The legal reserve fund represents appropriations of profits of the Company required by Slovak legislation. The Company is obliged to appropriate at least 10% of its profit until the legal reserve fund achieves at least 20% of the Company's share capital. This fund is not distributable and exists to cover future losses.

## **15 Issued Bonds**

The issued bonds (ISIN: XS0979598207) of EUR 315,000 thousand are due on 14 October 2018 and carry a coupon of 2.875% p.a. The series two of issued bonds (ISIN XS0979598462) of EUR 315,000 thousand are due on 14 October 2023 and carry a coupon of 4.000 % p.a. The bonds are traded on the Irish Stock Exchange, Dublin.

## 15 Issued Bonds (continued)

Amortised cost carrying value of the bonds is as follows:

<i>In thousands of EUR</i>	2016	2015
<b>Amortised cost of the bonds</b>	<b>632,942</b>	<b>632,301</b>
Less accrued interest payable within one year	(4,114)	(4,114)
<b>Total issued bonds – non-current</b>	<b>628,828</b>	<b>628,187</b>

## 16 Income Taxes

Income tax expense comprises the following:

<i>In thousands of EUR</i>	2016	2015
Current tax at standard rate of 22% (2015: 22%)	1,176	2,143
Deferred tax	(220)	(115)
<b>Income tax expense/(credit) for the year</b>	<b>956</b>	<b>2,028</b>

In 2016, the applicable standard income tax rate was 22% (2015: 22%). A reconciliation between the reported income tax charge and the theoretical amount that would arise using the applicable tax rates is as follows:

<i>In thousands of EUR</i>	2016	2015
<b>Profit before tax</b>	<b>51,816</b>	<b>59,972</b>
Theoretical tax charge at applicable tax rate of 22% (2015: 22%)	11,400	13,194
Non-deductible expenses / (non-taxable income) for which deferred tax was not recognised	(11,262)	(11,591)
- dividend income not subject to tax	954	441
- expenses not deductible for tax purposes	(64)	-
Effect on deferred tax of change in tax rate to 21% from 1 January 2017	(72)	(16)
Other		
<b>Income tax expense for the period</b>	<b>956</b>	<b>2,028</b>

The deferred taxes are expected to be recovered or settled after more than twelve months after the end of the reporting period because income tax returns are due annually, that is, the deferred tax outstanding at 31 December 2016, that will become current tax in 2017, will be settled in 2018 upon filing the 2017 tax return. The corporate tax advance payments are calculated based on prior year taxes and are thus unrelated to deferred tax balances or the current tax expense expected for subsequent years.

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

## 16 Income Taxes (continued)

Deferred taxes are attributable to the following temporary differences:

<i>In thousands of EUR</i>	2016	2015
Differences between tax base and carrying value of property, plant and equipment	2,464	2,418
Post-employment defined benefit obligation	(265)	(341)
Other long term employee benefits	(62)	(54)
Other liabilities	(722)	(471)
Provision for impairment of trade receivables	(3)	(2)
Other	(76)	(66)
<b>Total net deferred tax liability</b>	<b>1,336</b>	<b>1,484</b>

The movements in deferred taxes for temporary differences were recognised in profit or loss except for EUR (72) thousand (2015: EUR (13) thousand) for actuarial remeasurements of post-employment defined benefit obligation, which was recognised in other comprehensive income.

In November 2016, the Slovak parliament enacted a tax on dividend income from profits earned on or after 1 January 2017. The Company has not recorded a deferred tax liability in respect of investments in subsidiaries because (a) the tax is applicable to future profits and thus temporary differences, if any, may only arise in the future and (b) the tax is not applicable to dividends from Slovak subsidiaries, joint ventures and associates. In addition, the Company is able to control the timing of the reversal of such temporary differences and does not intend to reverse them in the foreseeable future, eg through taxable dividend income from subsidiaries.

## 17 Post-Employment Defined Benefit Obligations

As agreed with the trade unions, the Company has a post-employment defined benefit obligation to pay seven monthly salaries to each employee upon retirement. The movements in the present value of defined benefit obligation are:

<i>In thousands of EUR</i>	2016	2015
<b>Present value of unfunded post-employment defined benefit obligations at the beginning of the year</b>	<b>1,552</b>	<b>1,642</b>
Current service cost	66	143
Interest cost	27	32
Past service costs due to changes in the defined benefit plan rules	-	-
<b>Total expense (Note 23)</b>	<b>93</b>	<b>175</b>
<i>Actuarial remeasurements:</i>		
- attributable to changes in financial assumptions	31	(19)
- attributable to changes in demographic assumptions	(350)	-
- attributable to experience adjustments	(23)	(40)
<b>Total actuarial remeasurements recognised in other comprehensive income</b>	<b>(342)</b>	<b>(59)</b>
Benefits paid during the year	(43)	(56)
Other changes	-	(150)
<b>Present value of unfunded post-employment defined benefit obligations at the end of the year</b>	<b>1,260</b>	<b>1,552</b>



## **17 Post-Employment Defined Benefit Obligations (continued)**

The principal actuarial assumptions were as follows:

	2016	2015
Number of employees at 31 December	304	303
Staff turnover	4.55% p.a.	4.61% p.a.
Expected salary increases short-term	2.50% p.a.	3.00% p.a.
Expected salary increases long-term	3.00% p.a.	3.00% p.a.
Discount rate	1.10% p.a.	1.80% p.a.

In 2016, Slovak legislation has changed and the retirement age will depend on expected longevity of the population. This effect, along with staff turnover, resulted in an actuarial gain presented within actuarial remeasurements attributable to changes in demographic assumptions. In 2016, Slovak legislation also removed a cap on social security tax payable on the post-employment benefits with effect from 2017, which in combination with salary level assumptions resulted in an actuarial loss presented above as a loss attributable to changes in demographic assumptions. Management applied its judgement in determining that the changes in legislation are not past service costs caused by changes in the benefit plan rules and thus recognised the effects in other comprehensive income as an actuarial remeasurement caused by changes in retirement age, salary level and social security tax assumptions.

## **18 Other Long Term Employee Benefits**

The Company makes EUR 1,700 (2015: EUR 1,700) payment to each employee at the age of 50, subject to 10 year service vesting condition. In addition, the Company pays regular long term work anniversary bonuses in general every 10 years in amounts between EUR 370 to EUR 1,150 (2015: between EUR 370 to EUR 1,150).

The liability for other long-term employee benefits was estimated using the Projected Unit Credit Method.

## **19 Trade and Other Payables**

<i>In thousands of EUR</i>	2016	2015
Trade payables	5,563	3,422
Other accrued liabilities	3,299	1,442
Other financial liabilities	1,322	489
<b>Total financial instruments within trade and other payables</b>	<b>10,184</b>	<b>5,353</b>
Employee benefits payable	429	524
Social security on employee benefits	337	325
Accrued staff costs	1,736	1,733
Advance payments	14	-
Value added tax payable	589	794
Other payables	238	242
<b>Total trade and other payables</b>	<b>13,527</b>	<b>8,971</b>

The Company had overdue trade payables of EUR 93 thousand (2015: EUR 26 thousand).

**20 Receivables and Liabilities from Cash Pooling**

<i>In thousands of EUR</i>	<b>2016</b>	<b>2015</b>
Západoslovenská distribučná, a.s.	-	11,217
ZSE MVE, s. r. o.	1,271	1,446
ZSE Business Services, s. r. o.	17	-
<b>Total receivables from cash pooling</b>	<b>1,288</b>	<b>12,663</b>
ZSE Energia, a.s.	38,500	31,176
ZSE Energy Solutions, s.r.o.	1,727	1,430
ZSE Development, s.r.o.	564	571
E.ON Business Services Slovakia spol. s r. o. v likvidácii	1,179	2,677
Západoslovenská distribučná, a.s.	29,817	-
<b>Total liabilities from cash pooling</b>	<b>71,787</b>	<b>35,854</b>

The Company has concluded with its subsidiaries and associate a cash pooling agreement. Based on this agreement the available cash is managed by the Company. If the case of additional financing needs the cash from the cash pool of the Company is made available to subsidiaries and associate. The interest rate on receivables from cash pooling was 0.112% p.a. and since May 2016 is 0.4% p.a. (2015: 0.23 % p.a.). The interest rate on liabilities from cash pooling was 0.1% p.a. and since May 2016 is 0.05% p.a. (2015: 0.1 % p.a.).

The cash pooling receivables are neither past due nor impaired and are presented above in descending order of their credit quality.

**21 Revenues**

Revenues comprise the following:

<i>In thousands of EUR</i>	<b>2016</b>	<b>2015</b>
Services provided to subsidiaries, associates and to the shareholder	37,661	42,822
Other revenues	1,339	1,169
<b>Total revenues</b>	<b>39,000</b>	<b>43,991</b>

**22 Raw Materials, Energy and Other Consumption**

The following amounts have been charged to consumption of material, energy and other consumption:

<i>In thousands of EUR</i>	<b>2016</b>	<b>2015</b>
Fuel consumption	1,449	2,073
Energy consumption	1,052	1,038
Consumption of other materials and spare parts	514	278
<b>Total raw materials, energy and other consumption</b>	<b>3,015</b>	<b>3,389</b>

## 23 Employee Benefits

	2016	2015
<i>In thousands of EUR</i>		
Wages and salaries	7,782	7,964
Defined contribution pension costs	1,253	1,340
Post-employment defined benefit plan expense (Note 17)	93	175
Other long-term employee benefit plans - current service and interest cost	1	46
Actuarial remeasurements of other long-term employee benefit plans	49	(11)
Other social costs	3,368	2,939
<b>Total employee benefits expense</b>	<b>12,546</b>	<b>12,453</b>

## 24 Other Operating Expenses

	2016	2015
<i>In thousands of EUR</i>		
Information technology and software maintenance costs	1,056	2,725
Repairs and maintenance costs	1,733	658
Repairs and maintenance services for subsidiaries	1,231	1,550
Operating lease expense	3,572	3,634
Postal and telecommunication services	2,616	3,317
Security services	1,194	1,212
Advertising services	533	424
Marketing	258	-
Facility management expenses	1,013	978
Project management expenses	734	11
Operation and maintenance of telecommunication network	678	677
Travel expenses	136	150
Gifts	450	647
Insurance	203	118
Advisory services	858	909
Statutory audit	108	60
Other non-audit services	7	19
Other operating expenses	258	254
Property and motor vehicle tax	208	217
Other purchased services	4,991	3,624
<b>Total other operating expenses</b>	<b>21,837</b>	<b>21,184</b>

Comparative amounts were reclassified to conform to the presentation in the current period. In particular, employee benefits of EUR 12,453 thousand, depreciation of EUR 3,134 thousand and amortisation of EUR 536 thousand are now presented separately in the statement of profit or loss and other comprehensive income and EUR 3,204 thousand was reclassified from 'raw materials, energy and other consumption' to 'other operating expenses'. The changes in the presentation did not have an impact on the total amount of assets, equity or the result of operations of the previous period.

## 25 Dividend Income

	2016	2015
<i>In thousands of EUR</i>		
Západoslovenská distribučná, a.s.	38,328	42,983
ZSE Energia, a.s.	12,627	8,727
ZSE Energy Solutions, s.r.o.	-	231
E.ON Business Services Slovakia spol. s r. o. v likvidácii	218	398
Other	17	347
<b>Total dividend income</b>	<b>51,190</b>	<b>52,686</b>

**26 Other Operating Income**

	2016	2015
<i>In thousands of EUR</i>		
Operating lease income (Note 5 and 7)	4,091	3,897
Gain on sale of part of the business (Note 29)	-	29
Gain on disposal of property, plant and equipment (Note 5)	197	374
Grants	757	65
Other	187	122
<b>Total other operating income</b>	<b>5,232</b>	<b>4,487</b>

**27 Interest and Similar Expenses**

	2016	2015
<i>In thousands of EUR</i>		
Interest expense on bonds	21,656	21,656
Amortisation of bonds transaction costs and similar costs	677	580
Other interest expense	77	85
Impairment of investments in subsidiaries, associates and joint ventures (Note 8)	2,238	299
Other finance costs	162	639
<b>Total interest and similar expenses</b>	<b>24,810</b>	<b>23,259</b>

**28 Interest Income**

	2016	2015
<i>In thousands of EUR</i>		
Interests income from loans to Západoslovenská distribučná, a.s.	22,617	22,617
Other interest income	86	146
<b>Total interest income</b>	<b>22,703</b>	<b>22,763</b>

**29 Sale of Part of the Business**

From 1 January 2015, the provision of customer services has been transferred to the subsidiaries Západoslovenská distribučná, a.s. and ZSE Energia, a.s.

The details of the assets and liabilities disposed of are as follows:

	At 1 January 2015
<i>In thousands of EUR</i>	
Intangible assets	5,487
Trade and other payables	(1,661)
Pension and other provisions for liabilities and charges	(311)
<b>Net assets disposed of</b>	<b>3,515</b>
Gain on sale of part of the business (Note 26)	29
<b>Cash inflow from sale of part of the business</b>	<b>3,544</b>

### 30 Segment Reporting

The operating segments are those used by the Board of Directors to manage the business of the Company and its subsidiaries (together the "Group"), allocate resources and make strategic decisions. The segments are therefore reported for the Group as a whole; management does not review component financial information of the Company standing alone. 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 expenditures. 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. Segment income and costs are measured in a manner consistent with that in the consolidated statement of profit or loss and other comprehensive income. The Group does not analyse assets and liabilities by operating segments.

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 93% (2015: 94%) of the Group's EBITDA were generated from sales to customers who are subject to the price regulation.

**Other.** Segment Other includes activities provided by the 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.

Reportable segments information for 2016 is as follows (as monitored by the CODM for the Group as a whole):

<i>In thousands of EUR</i>	<b>Distribution</b>	<b>Supply</b>	<b>Other</b>	<b>Eliminations</b>	<b>Total Group</b>
Revenue from external customers	275,875	723,777	1,634	-	<b>1,001,286</b>
Inter-segment revenues	199,255	24,547	38,558	(262,360)	-
<b>Total segment revenues</b>	<b>475,130</b>	<b>748,324</b>	<b>40,192</b>	<b>(262,360)</b>	<b>1,001,286</b>
Purchases of electricity and related fees	(223,656)	(635,144)	(3,015)	220,303	<b>(641,512)</b>
Purchases of natural gas	-	(74,638)	-	72	<b>(74,566)</b>
Employee benefits expense	(39,965)	(7,396)	(12,862)	10	<b>(60,213)</b>
Other operating expenses	(62,671)	(17,317)	(22,182)	45,661	<b>(56,509)</b>
Share of profit of equity method investees	-	-	235	-	<b>235</b>
Other operating income	1,948	2,672	6,972	(4,177)	<b>7,415</b>
Own work capitalized	18,443	-	-	(82)	<b>18,361</b>
<b>Earnings before interest, taxes, depreciation and amortisation (EBITDA)</b>	<b>169,229</b>	<b>16,501</b>	<b>9,340</b>	<b>(573)</b>	<b>194,497</b>
<b>Capital expenditures</b>	<b>71,980</b>	<b>2,087</b>	<b>4,854</b>	<b>(585)</b>	<b>78,336</b>

### 30 Segment Reporting (continued)

Reportable segments information for 2015 is as follows:

<i>In thousands of EUR</i>	<b>Distribution</b>	<b>Supply</b>	<b>Other</b>	<b>Eliminations</b>	<b>Total Group</b>
Revenue from external customers	255,701	750,312	3,011	-	1,009,024
Inter-segment revenues	198,415	43,099	43,407	(284,921)	-
<b>Total segment revenues</b>	<b>454,116</b>	<b>793,411</b>	<b>46,418</b>	<b>(284,921)</b>	<b>1,009,024</b>
Purchases of electricity and related fees	(221,597)	(679,720)	(4,178)	242,013	(663,482)
Purchases of natural gas	-	(74,273)	-	-	(74,273)
Employee benefits expense	(37,448)	(6,653)	(13,445)	71	(57,475)
Other operating expenses	(59,368)	(17,678)	(22,166)	45,732	(53,480)
Share of profit of equity method investees	-	-	745	-	745
Other operating income	2,056	2,423	6,066	(3,056)	7,489
Own work capitalized	18,222	-	-	(384)	17,838
<b>Earnings before interest, taxes, depreciation and amortisation (EBITDA)</b>	<b>155,981</b>	<b>17,510</b>	<b>13,440</b>	<b>(545)</b>	<b>186,386</b>
<b>Capital expenditures</b>	<b>76,783</b>	<b>4,141</b>	<b>5,032</b>	<b>(6,856)</b>	<b>79,100</b>

The total segment items are measured using the entity's accounting policies for its external reporting and hence, the only reconciling item from segment information to the Company's amounts under IFRS are eliminations of effects of consolidating subsidiaries.

Reconciliation of EBITDA for all segments to profit before tax is as follows:

<i>In thousands of EUR</i>	<b>2016</b>	<b>2015</b>
<b>Total EBITDA for all operating segments</b>	<b>194,497</b>	<b>186,386</b>
Depreciation of property, plant and equipment of the Group	(44,960)	(42,068)
Amortisation of intangible assets of the Group	(3,830)	(4,963)
Interest income of the Group	89	277
Interest and similar expense of the Group	(23,795)	(22,303)
Elimination of impact of consolidation of subsidiaries	(70,185)	(57,357)
<b>Profit before tax of the Company</b>	<b>51,816</b>	<b>59,972</b>

Reconciliation of capital expenditures for all operating segments to payments for purchases of property, plant and equipment and intangible assets is as follows:

<i>In thousands of EUR</i>	<b>2016</b>	<b>2015</b>
<b>Total capital expenditures for all operating segments</b>	<b>78,336</b>	<b>79,100</b>
Assets acquired but not paid for	(17,575)	(10,426)
Payments for assets acquired in prior periods	8,082	12,553
<b>Payments for purchases of property, plant and equipment and intangible assets</b>	<b>68,843</b>	<b>81,227</b>

### **30 Segment Reporting (continued)**

**Entity wide information.** Revenue is analysed by type of product or service in Note 21. Substantially all of the Company's revenues are from customers in the Slovak Republic and all of the Company's property, plant and equipment and intangible assets are located in the Slovak Republic.

### **31 Financial Risk Management**

The Company's activities are exposing it to certain financial risks: market risks, credit risk and liquidity risk. The Company's principal financial instruments comprise trade receivables and payables, cash and cash equivalents, issued bonds, loans provided, receivables and payables from cash pooling, and short-term bank deposits.

**Foreign exchange risk.** The Company operates mainly in the domestic market, and most of its sales, purchases and short-term deposits are denominated in EUR. Management does not consider foreign exchange risk as a significant exposure for the Company's operations as it has only an immaterial volume of transactions in currency other than EUR. A reasonably possible change in spot exchange rate of EUR against foreign currencies as of the end of the reporting period, would not have any impact on the Company's profit or loss for the year.

**Equity price risk.** The Company is not exposed to significant equity price risk because it does not have material financial investments in equities carried at fair value.

**Interest rate risk.** The Company does not have any significant interest rate risk exposure because all of its financial assets and liabilities, including issued bonds carry fixed interest rates. A reasonably possible change in market interest rates, such as Euribor, as of the end of the reporting period, would not have any impact on the Company's profit or loss for the year.

**Commodity price risk.** The Company is not exposed to significant commodity price risk because it does not have material commodity contracts.

**Credit risk.** The Company 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 Company's sales of services on credit terms and other transactions with counterparties giving rise to financial assets. The exposure includes cash and cash equivalents, financial derivatives and deposits with banks and financial institutions, as well as exposures to customers, including outstanding receivables and transactions made. From 1 July 2007 after legal unbundling, the subsidiaries Západoslovenská distribučná, a.s. and ZSE Energia, a.s. are the main customers of the Company.

As for the banks and financial institutions, the Company has relationships only with those that have a high independent rating assessment.

The credit quality of outstanding balances with banks is presented in Note 12 and credit quality information about trade receivables is included in Note 11.

The maximum exposure to credit risk is limited by the carrying value of receivables. As of 31 December 2016 and 2015, there is a significant concentration of credit risk with respect of receivables of the Company towards Západoslovenská distribučná, a.s. and ZSE Energia, a.s. The Company manages this exposure through cash-pooling agreements. The collection of receivables could be influenced by economic factors; management believes that there is no significant risk of loss to the Company beyond the provisions already recorded.

**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 balances, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Company aims to maintain flexibility in funding by keeping committed credit lines available. In addition, the Company relies on liquidity of financial markets and its ability to refinance its outstanding bonds in the medium term.



### 31 Financial Risk Management (continued)

The Company regularly monitors its liquidity position and uses overdrafts only in exceptional cases. The Company also uses the advantages of commercial terms between the Company and its suppliers to secure sufficient financing funds to cover its needs. The maturity of supplier's invoices is 60 days, on average. Expected cash flows forecast is prepared weekly as follows: (a) expected future cash inflows from main operation of the Company, and (b) expected future cash outflows securing operation of the Company and leading to settlement of all liabilities of the Company, including tax payables. The cash flow forecast identifies the immediate need for cash and, if funds are available, it enables the Company to make short-term bank deposits.

The table below analyses the Company's undiscounted amount of financial liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date. The maturity analysis is as follows at 31 December 2016:

<i>In thousands of EUR</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months</b>	<b>From 12 months to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Liabilities</b>						
Issued bonds – principal due	-	-	-	315,000	315,000	<b>630,000</b>
Issued bonds – future interest payments	-	-	21,656	59,457	25,200	<b>106,313</b>
Trade payables (Note 19)	4,140	1,423	-	-	-	<b>5,563</b>
Other accrued liabilities (Note 19)	864	1,636	420	157	222	<b>3,299</b>
Other financial liabilities (Note 19)	-	1,322	-	-	-	<b>1,322</b>
Liabilities from cash pooling (Note 20)	71,787	-	-	-	-	<b>71,787</b>
Issued guarantees	8,151	-	-	-	-	<b>8,151</b>
<b>Total future payments, including future principal and interest payments</b>	<b>84,942</b>	<b>4,381</b>	<b>22,076</b>	<b>374,614</b>	<b>340,422</b>	<b>826,435</b>

The maturity analysis is as follows at 31 December 2015:

<i>In thousands of EUR</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months</b>	<b>From 12 months to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Liabilities</b>						
Issued bonds – principal due	-	-	-	315,000	315,000	<b>630,000</b>
Issued bonds – future interest payments	-	-	21,656	68,513	37,800	<b>127,969</b>
Trade payables (Note 19)	2,784	638	-	-	-	<b>3,422</b>
Other accrued liabilities (Note 19)	304	714	285	139	-	<b>1,442</b>
Other financial liabilities (Note 19)	50	439	-	-	-	<b>489</b>
Liabilities from cash pooling (Note 20)	35,854	-	-	-	-	<b>35,854</b>
Issued guarantees	5,589	-	-	-	-	<b>5,589</b>
<b>Total future payments, including future principal and interest payments</b>	<b>44,581</b>	<b>1,791</b>	<b>21,941</b>	<b>383,652</b>	<b>352,800</b>	<b>804,765</b>

### 32 Management of Capital

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders, and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. The Company manages capital reported under IFRS as equity amounting to EUR 334,705 thousand at 31 December 2016 (2015: EUR 341,144 thousand). In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders or return capital to shareholders.

The Company'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 individual statement of profit or loss and other comprehensive Income of the Company presented as profit from operations) / average capital.

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

### 33 Offsetting Financial Assets and Financial Liabilities

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2016:

	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position	Cash collateral received	Net amount of exposure
				Financial instruments		
<i>In thousands of EUR</i>	(a)	(b)	(c) = (a) - (b)	(d)	(e)	(c) - (d) - (e)
<b>ASSETS</b>						
Loans provided	634,833	-	634,833	29,817	-	605,016
Receivables from cash pooling	1,288	-	1,288	1,288	-	-
<b>TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT</b>						
	636,121	-	636,121	31,105	-	605,016
<b>LIABILITIES</b>						
Liabilities from cash pooling	71,787	-	71,787	31,105	-	40,682
<b>TOTAL LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT</b>						
	71,787	-	71,787	31,105	-	40,682

### 33 Offsetting Financial Assets and Financial Liabilities (continued)

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2015:

	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amounts after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure
				Financial instruments	Cash collateral received	
<i>In thousands of EUR</i>	(a)	(b)	(c) = (a) - (b)	(d)	(e)	(c) - (d) - (e)
<b>ASSETS</b>						
Loans provided	634,833	-	634,833	-	-	634,833
Receivables from cash pooling	12,633	-	12,633	12,633	-	-
<b>TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT</b>	<b>647,466</b>	<b>-</b>	<b>647,466</b>	<b>12,633</b>	<b>-</b>	<b>634,833</b>
<b>LIABILITIES</b>						
Liabilities from cash pooling	35,854	-	35,854	12,633	-	23,221
<b>TOTAL LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT</b>	<b>35,854</b>	<b>-</b>	<b>35,854</b>	<b>12,633</b>	<b>-</b>	<b>23,221</b>

The amount set off in the statement of financial position reported in column (b) is the lower of (i) the gross amount before offsetting reported in column (a) and (ii) the amount of the related instrument that is eligible for offsetting. Similarly, the amounts in columns (d) and (e) are limited to the exposure reported in column (c) for each individual instrument in order not to understate the ultimate net exposure. The Company has master netting arrangements, which are enforceable in case of default. In addition, applicable legislation allows an entity to unilaterally set off trade receivables and payables that are due for payment, denominated in the same currency and outstanding with the same counterparty.

### 34 Fair Value Disclosures

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 valuation 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). If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

### 34 Fair Value Disclosures (continued)

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

Fair values analysed by level in the fair value hierarchy and the carrying value of assets and liabilities not measured at fair value are as follows:

<i>In thousands of EUR</i>	31 December 2016			31 December 2015		
	Level 1 fair value	Level 2 fair value	Carrying value	Level 1 fair value	Level 2 fair value	Carrying value
<b>ASSETS</b>						
Loans provided including accrued interest (Note 9)	-	714,231	634,833	-	696,531	634,833
Trade receivables, net (Note 11)	-	3,717	3,717	-	3,871	3,871
Receivables from cash pooling (Note 20)	-	1,288	1,288	-	12,663	12,663
Cash and cash equivalents (Note 12)	-	77,331	77,331	-	31,785	31,785
<b>TOTAL ASSETS</b>	-	<b>796,567</b>	<b>717,169</b>	-	<b>744,850</b>	<b>683,152</b>
<b>LIABILITIES</b>						
Issued bonds (Note 15)	714,231	-	632,942	696,531	-	632,301
Trade payables (Note 19)	-	5,563	5,563	-	3,422	3,422
Other accrued liabilities (Note 19)	-	3,299	3,299	-	1,442	1,442
Other financial liabilities (Note 19)	-	1,322	1,322	-	489	489
Liabilities from cash pooling (Note 20)	-	71,787	71,787	-	35,854	35,854
<b>TOTAL LIABILITIES</b>	<b>714,231</b>	<b>81,971</b>	<b>714,913</b>	<b>696,531</b>	<b>41,207</b>	<b>673,508</b>

The fair value of provided loans (Note 9) was estimated based on the price development of the related issued bonds on the financial market.

The fair value of issued bonds was determined at the quoted market price of the bonds (Note 15).

The fair values of other financial assets and liabilities approximate their carrying amounts.

### 35 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39 "Financial Instruments: Recognition and Measurement", classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. All of the Company's financial assets fall in the loans and receivables category. All of the Company's financial liabilities were carried at amortised cost.

### 36 Contingencies and Commitments

**Tax contingencies.** Slovak tax law contains certain provisions that allow for more than one interpretation. Management's interpretation of the Company's business activities may not coincide with the interpretation of these activities by the tax authorities, but the extent of this risk cannot be reasonably quantified. The fiscal years from 2011 to 2016 remain open to tax inspection.

**Capital expenditure commitments.** At 31 December 2016, the Company had outstanding contractual commitments for purchases of property, plant and equipment of EUR 1,359 thousand (2015: EUR 2,305 thousand). Outstanding contractual commitments for purchases of intangible assets were EUR 50 thousand (2015: EUR 191 thousand).

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

<i>In thousands of EUR</i>	2016	2015
No later than one year	2,812	2,658
Later than one year and no later than five years	6,737	6,187
Later than five years	1,395	666
<b>Total</b>	<b>10,944</b>	<b>9,511</b>

Operating lease expense for the year is disclosed in Note 24.

### 37 Balances and Transactions with Related Parties

The primary related parties of the Company are (a) its shareholders which have joint control over the Company as explained in Notes 1 and 13: (i) the Slovak Government and (ii) E.ON, as well as (b) key management personnel. The Company applies the exemption from disclosing transactions with the Slovak government and entities over which it has control, joint control or significant influence. The exemption does not apply to individually significant transactions, such as taxes incurred and paid, other purchases from an entity in which the Slovak government has a significant shareholding and other transactions presented below.

The related party transactions and outstanding balances were as follows for 2016:

<i>In thousands of EUR</i>	Ministry of Economy of the Slovak Republic	E.ON Slovensko, a.s.	E.ON Group**	Slovak government*	Subsidiaries (Note 8)	Associate (Note 8)	Joint venture (Note 8)
Revenue	-	508	197	11	63,541	-	1,102
Purchases and expenses	-	11	2,060	158	2,698	-	1,862
Receivables other than taxes	-	8	126	4	639,174	-	107
Payables other than taxes	-	11	1,230	23	70,758	1,180	189
Dividends declared and paid	29,360	22,452	5,758	-	-	-	-

\* The Slovak government caption represents individually material transactions with entities under control, joint control or significant influence of the Slovak government.

\*\* E.ON Group caption represents transactions with entities under control, joint control or significant influence of the E.ON Group.

### 37 Balances and Transactions with Related Parties (continued)

Income taxes are disclosed in the statement of financial position, statement of profit or loss and other comprehensive income, in the statement of cash flows and are also analysed in Note 16. Outstanding value added tax payable is presented in Note 19. Property and motor vehicle taxes are disclosed in Note 24.

Information on loans provided to the subsidiary is presented in Note 9. Information on receivables and liabilities from cash pooling is presented in Note 20.

The Company's sales related mainly to supporting services provided to subsidiaries. The services sold to the subsidiaries and to the shareholder are provided based on service level agreements concluded for indefinite time period with cancellation notice of 3 months.

There are no other sales commitments with related parties as of 31 December 2016 and 2015 other than disclosed.

The income tax paid was as follows:

<i>In thousands of EUR</i>	2016	2015
Current income tax expense at standard rate of 22% (2015: 22%) – refer to Note 16	1,176	2,143
Income tax refund receivable / (liability) at the beginning of the period	(1,839)	1,101
Income tax refund receivable / (liability) at the end of the reporting period	780	(1,839)
<b>Income tax paid</b>	<b>(3,795)</b>	<b>797</b>

The related party transactions and outstanding balances were as follows for 2015:

<i>In thousands of EUR</i>	Ministry of Economy of the Slovak Republic	E.ON Slovensko, a.s.	E.ON Group**	Slovak government*	Subsidiaries (Note 8)	Associate (Note 8)	Joint venture (Note 8)
Revenue	-	513	118	5	67,786	621	1,102
Purchases and expenses	-	-	1,095	241	1,804	3,613	1,858
Receivables other than taxes	-	5	367	-	650,351	1	107
Payables other than taxes	-	-	9	19	33,581	2,677	85
Dividends declared and paid	31,089	23,774	6,095	-	-	-	-

\* The Slovak government caption represents individually material transactions with entities under control, joint control or significant influence of the Slovak government.

\*\* E.ON Group caption represents transactions with entities under control, joint control or significant influence of the E.ON Group.

The tables with related party transactions above and on the previous page exclude individually immaterial transactions such with the government ministries and many other government controlled or otherwise government related enterprises on normal commercial terms and conditions. Management did not identify other government related transactions that are collectively, but not individually, significant.

### **37 Balances and Transactions with Related Parties (continued)**

Key management personnel comprises (a) members of the Board of Directors, (b) members of the supervisory board and (c) divisional directors. Key management personnel remuneration comprised:

<i>In thousands of EUR</i>	<b>2016</b>	<b>2015</b>
<i>Board of directors and other key management personnel</i>		
Salaries and other short-term employee benefits	782	773
Defined contribution pension costs	57	56
<b>Total remuneration of board of directors and other key management personnel</b>	<b>839</b>	<b>829</b>
<i>Supervisory board</i>		
Salaries and other short-term employee benefits	163	124
Defined contribution pension costs	24	21
<b>Total remuneration of supervisory board</b>	<b>187</b>	<b>145</b>

### **38 Events after the End of the Reporting Period**

After 31 December 2016, no significant events have occurred that would require recognition or disclosure in these separate financial statements.

Management authorised these financial statements for issue on 27 March 2017:



Jochen Kley  
Chairman of the Board of Directors and CEO



Marian Rusko  
Member of the Board of Directors