Západoslovenská energetika, a.s.

Consolidated 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of Západoslovenská energetika, a.s. and its subsidiaries (together the "Group") as at 31 December 2016 and 31 December 2015, and its consolidated financial performance and its consolidated 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

Consolidated financial statements of Západoslovenská energetika, a.s. comprise the following:

- the consolidated statements of financial position as at 31 December 2016 and 31 December 2015;
- the consolidated statements of profit or loss and other comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated 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 Consolidated 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 Group 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 consolidated 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 Group 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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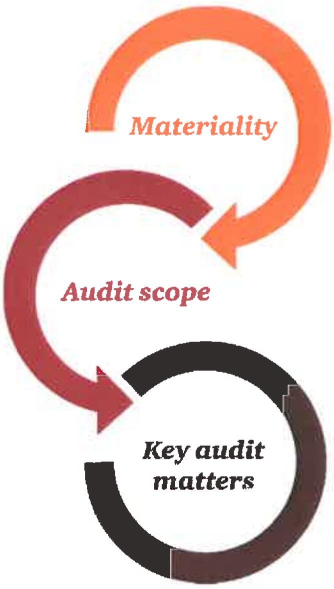
Our audit approach



Overview

Overall group materiality is EUR 6,100 thousand (2015: EUR 5,850 thousand) which represents 5% of consolidated profit before tax.

We conducted audit work at all of the four reporting units consolidated in the Group's financial statements:

- Západoslovenská energetika, a.s.
- Západoslovenská distribučná, a.s.
- ZSE Energia, a.s.
- ZSE Development, s.r.o.

The Group estimates its revenue and receivables from sale of electricity to retail and certain other customers because the amount of electricity consumed by these customers is measured over a period of several months after the end of the reporting period. This matter required our significant attention during the audit.

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the 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 consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole 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 consolidated financial statements as a whole.

Overall group materiality	EUR 6,100 thousand (2015: EUR 5,850 thousand)
How we determined it	5% of consolidated profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because the performance of the Group is most commonly measured by users based on the group's profitability. We chose 5% which is within the range of acceptable quantitative materiality thresholds set out in our firm's internal guidance.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
Estimated revenue from sale of electricity	
As explained in Notes 2 and 5 to the financial statements, management estimated revenue from its retail and certain other customers, because measurement of the amount consumed is performed only after the reporting period. The estimate is complex and is calculated by a bespoke software with inputs both from management and an external data provider.	When the bespoke software for estimating electricity consumption was developed, we tested the software's design by comparing its projections against actually measured electricity consumption. We have tested how management made the estimate and the **data** on which the estimate is based including reconciliation of the input parameters to source information provided by management and an independent data provider. We have evaluated whether the **method** of measurement used by management is appropriate with conclusion that management selected appropriate measurement basis for the measurement and the estimate is reasonable in the context of IFRS. We have tested whether the **assumptions** used are reasonable in light of the measurement objectives of IFRS. We assessed reasonableness of the resulting estimate by considering the level of network transmission losses that are determined by the difference between the volumes of electricity purchased and sold. We have tested operating effectiveness of controls over process how management made the estimate together with substantive procedures. We determined that any subsequent software changes are subject to internal control processes, including testing by a specialist independent from the software developer. We have evaluated based on our procedures whether management appropriately applied the requirements of IFRS in recognizing the accounting estimate in the consolidated financial statements. Our work did not result in any adjustment to management's estimate of revenue and corresponding receivables.

Reporting on other information in the consolidated annual report

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

Our opinion on the consolidated financial statements does not cover the other information. When the consolidated 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 consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the consolidated 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 consolidated annual report with the consolidated financial statements, and whether the consolidated annual report has been prepared in accordance with the Accounting Act.

Our appointment as independent auditors

We were first appointed as auditors of the Group 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 a public interest entity.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when 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 consolidated financial statements.

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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 consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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 consolidated 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.

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Mgr. Juraj Tučný, FCCA
UDVA licence No. 1059

Bratislava, 27 March 2017

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In thousands of EUR	Note	31 December 2016	31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	6	748,203	718,792
Intangible assets	7	12,150	12,058
Equity method investments	8	1,127	1,663
Deferred income tax asset	15	8,947	1,665
Other non-current assets		740	3,272
Total non-current assets		**771,167**	**737,450**
Current assets			
Inventories	9	7,830	9,646
Trade and other receivables	10	104,273	92,755
Current income tax refund receivable		-	1,986
Cash and cash equivalents	11	80,724	34,464
Total current assets		**192,827**	**138,851**
TOTAL ASSETS		**963,994**	**876,301**
EQUITY			
Share capital	12	196,969	196,969
Legal reserve fund	13	39,421	39,421
Retained earnings		(233,268)	(275,425)
TOTAL EQUITY		**3,122**	**(39,035)**
LIABILITIES			
Non-current liabilities			
Issued bonds	14	628,828	628,187
Deferred income tax liabilities	15	29,520	27,276
Post-employment defined benefit obligations	16	9,507	10,638
Other long term employee benefits	17	2,404	2,018
Deferred connection fees and customer contributions	18	82,660	79,562
Total non-current liabilities		**752,919**	**747,681**
Current liabilities			
Accrued interest on issued bonds payable within one year	14	4,114	4,114
Trade and other payables	19	191,524	158,133
Deferred connection fees and customer contributions	18	5,551	5,408
Current income tax liabilities		6,764	-
Total current liabilities		**207,953**	**167,655**
TOTAL LIABILITIES		**960,872**	**915,336**
TOTAL LIABILITIES AND EQUITY		**963,994**	**876,301**

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

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

In thousands of EUR	Note	2016	2015
Revenue from electrity and other revenue	20	**920,029**	**931,725**
Revenue from natural gas		**81,257**	**77,299**
Purchases of electricity and related fees	21	(641,512)	(663,482)
Natural gas purchased		(74,566)	(74,273)
Employee benefits	22	(60,213)	(57,475)
Depreciation of property, plant and equipment	6	(44,960)	(42,068)
Amortization of intangible assets	7	(3,830)	(4,963)
Other operating expenses	23	(56,509)	(53,480)
Share of profit of equity method investments	8	235	745
Other operating income	24	7,415	7,489
Own work capitalised		18,361	17,838
Profit from operations		**145,707**	**139,355**
Finance income / (costs)			
Interest income		89	277
Interest and similar expense	25	(23,795)	(22,303)
Finance costs, net		**(23,706)**	**(22,026)**
Profit before tax		**122,001**	**117,329**
Income tax expense	15	(23,379)	(29,258)
Profit for the year		**98,622**	**88,071**
Other comprehensive income			
Items that will not be subsequently reclassified to profit or loss			
Actuarial remeasurements of post-employment defined benefit obligations	16	1,398	520
Deferred tax on actuarial remeasurements of post-employment defined benefit obligations	15	(294)	(114)
Total other comprehensive income for the year		**1,104**	**406**
Total comprehensive income for the year		**99,726**	**88,477**

In thousands of EUR	Share capital	Legal reserve fund	Accumulated deficit	Total equity
Balance at 1 January 2015*	**196,969**	**39,421**	**(302,944)**	**(66,554)**
Profit for the year	-	-	88,071	**88,071**
Other comprehensive income for the year	-	-	406	**406**
Total comprehensive income for 2015	-	-	**88,477**	**88,477**
Dividends declared and paid (Note 12)	-	-	(60,958)	**(60,958)**
Balance at 31 December 2015	**196,969**	**39,421**	**(275,425)**	**(39,035)**
Profit for the year	-	-	98,622	**98,622**
Other comprehensive income for the year	-	-	1,104	**1,104**
Total comprehensive income for 2016	-	-	**99,726**	**99,726**
Dividends declared and paid (Note 12)	-	-	(57,570)	**(57,570)**
Other	-	-	1	**1**
Balance at 31 December 2016	**196,969**	**39,421**	**(233,268)**	**3,122**

* As explained in Note 3, the previously separately reported Other Reserves of EUR 915 thousand were transferred to Retained Earnings/(Accumulated Deficit) with retrospective effect.

In thousands of EUR	Note	2016	2015
Cash flows from operating activities			
Profit before tax		122,001	117,329
Adjustments for non-cash items:			
- Depreciation of property, plant and equipment	6	44,960	42,068
- Gain on disposal of property, plant and equipment	6	224	(394)
- Amortisation of intangible assets	7	3,830	4,963
- Interest income		(89)	(277)
- Interest and similar expense		23,795	22,303
- Share of profit of equity method investments		(235)	(745)
- Other non-cash items		(36)	(214)
Cash generated from operations before changes in working capital		194,450	185,033
Changes in working capital:			
- Inventories		1,816	656
- Trade and other receivables		(11,518)	(753)
- Trade and other payables		32,564	5,811
- Provisions for liabilities and charges and deferred income		(6,069)	(5 914)
Cash generated from operations before interest and taxes		**211,243**	**184,833**
Interest income received		89	277
Interest expense paid		(20,394)	(20,841)
Income tax paid	32	(19,961)	(21,356)
Net cash from operating activities		**170,977**	**142,913**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(68,843)	(81,227)
Dividend income received from equity method investees		235	745
Proceeds from sale of property, plant and equipment and intangible assets		929	954
Proceeds from reduction of other capital funds of an associate		537	-
Other investing cash flows		(5)	(7)
Net cash used in investing activities		**(67,147)**	**(79,535)**
Cash flows from financing activities			
Dividends paid	12	(57,570)	(60,958)
Net cash used in financing activities		**(57,570)**	**(60,958)**
Net change in cash and cash equivalents		**46,260**	**2,420**
Cash and cash equivalents at the beginning of the year		34,331	31,911
Cash and cash equivalents at the end of the year	11	**80,591**	**34,331**

1 Introduction

These consolidated 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") and its subsidiaries (the "Group").

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 Group provides electricity distribution and supply services primarily in the Western Slovakia region. At the end of 2011, the Group's supply business commenced offering gas to large industrial customers and since April 2012 to SMEs and households in addition to electricity. The Group also operates two small hydroelectric plants and is engaged in some ancillary activities such as small-scale electricity network construction and maintenance related projects for third parties.

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

The Group'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 consolidated 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 12.

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.

Number of employees. The Group employed 1,793 staff on average during 2016, of which 36 were management (2015: 1,767 employees on average, of which 34 were management).

2 Significant Accounting Policies

Basis of preparation. These consolidated 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 consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 3).

2 Significant Accounting Policies (continued)

The Board of Directors may propose to the Company's shareholders to amend the consolidated financial statements until their approval by the general shareholders meeting. However, § 16, points 9 to 11 of the Accounting Act 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.

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

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated upon consolidation; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

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 Group 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.

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:

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

2 Significant Accounting Policies (continued)

The residual value of an asset is the estimated amount that the Group 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.

Capitalisation of borrowing costs. General and specific borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets. The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale. Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred on the specific borrowings less any investment income on the temporary investment of these borrowings are capitalised.

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

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

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 selling expenses.

2 Significant Accounting Policies (continued)

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 Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy or financial reorganisation, default or delinquency in payments (more than 1 month overdue) are considered objective evidence that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced 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.

Provision for loss contracts. Provision for loss contracts represents contracts for delivery or supply of a commodity that is readily convertible to cash, and which are not held for own use, as evidenced by an open market exposure, which was subsequently closed at a loss. These contracts have all three of the following characteristics: (a) the contract's value changes in response to the change in market price of commodity, which is not specific to a party to the contract; (b) it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and (c) it is settled at a future date. The liability is carried at fair value through profit or loss.

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

Income taxes. Income taxes have been provided for in the consolidated 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 consolidated financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

Current income tax also includes a special levy on profits in regulated industries at a rate of 4.356% per annum on profits above EUR 3 million. The levy was originally intended to expire in 2016, but in November 2016, the Slovak parliament enacted a special levy rate of 8.712 % p.a. for years 2017 – 2018, 6.54% p.a. for years 2019 – 2020 and 4.356% p.a. applicable from 2021. The levy is a deductible expense for the purposes of applying the standard corporate income tax rate of 22% (a reduced 21% standard tax rate enacted in November 2016 with effect from 2017).

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.

The special levy on profits is chargeable on profits determined in accordance with Slovak GAAP and hence, a deferred tax in relation to special levy arises only where there is a temporary difference between Slovak GAAP and IFRS carrying values of assets and liabilities. Such deferred taxes arose for the first time in 2016 when the Slovak parliament enacted a law making the levy applicable indefinitely as explained above.

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 Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Post-employment and other long term employee benefits. The Group contributes to state and private defined contribution pension and social benefit plans under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are expensed when incurred.

As agreed with the trade unions, the Group 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.

2 Significant Accounting Policies (continued)

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 Group does not distinguish current and non-current portions of defined benefit obligations and presents the estimate as a whole within non-current liabilities.

Deferred income. Over time, the Group received contributions for the construction of the electricity distribution network, in particular for the new municipal connections and networks. The Group's customers contributed towards the cost of their connection.

Customer contributions are recognised at their fair value where there is a reasonable assurance that the contribution will be received. Customer contributions relating to the acquisition of property, plant and equipment are deferred and subsequently recognised as other operating income over the life of acquired depreciable asset.

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.

Offsetting. Financial assets and liabilities are offset and the net amount reported in the consolidated 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. The Group is a lessee.

(i) Operating lease

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.

(ii) Financial lease

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of the ownership of the asset are classified as financial leases. Financial leases are recognized at the inception of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in borrowings. The interest costs are charged to the Statement of Comprehensive Income over the lease period using the effective interest rate method applied to the balance of lease obligation for each period. Property, plant and equipment acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

2 Significant Accounting Policies (continued)

Construction contracts. The Group has an ancillary business related to construction of energy assets for third parties. When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. Contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

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

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

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

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

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

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

Revenue from sale and distribution of electricity. Revenue from the sale and distribution of electricity is recognised when the electricity is delivered to the customer. Consumption of wholesale customers is metered and billed on a monthly basis. The consumption of retail customers in the segment of small businesses was metered during December 2016. The consumption of retail customers in the households' segment is metered and billed on an annual basis and the Group split its household customer base to twelve billing cycles. The billing of electricity supplied in 2016 for all twelve billing cycles will be completed in December 2017. The Group uses the Enersim demand profile data for estimating the delivered but unbilled accrued revenue. Network losses are included in the cost of purchased electricity.

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

Connection fees. ZSE receives a contribution from their customers to connect them to the electricity network – connection fees. Revenue from such contributions is recognised as deferred income and is released to profit or loss over the useful life of the related assets (approximately over 20 years).

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.

2 Significant Accounting Policies (continued)

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.

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

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

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 Group in preparing its consolidated statement of profit or loss and other comprehensive income.

3 Adoption of New or Revised Standards and Interpretations

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

- 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).
- 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 Group 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 corrections and other changes in the presentation did not have a material impact on the entity's consolidated financial statements. Refer also to Note16 and Note 17.

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 Group 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 Group is currently assessing other aspects of the new standard and its impact on the Group's consolidated 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 Group 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 Group is currently assessing the impact of the new standard on its financial statements. This standard has not yet been endorsed by the EU.

Disclosure Initiative - Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). This amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Group will introduce the required disclosures in its 2017 financial statements.

The following standards, interpretations and amendments are not expected to have any material impact on the Group's consolidated 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.

4 New Accounting Pronouncements (continued)

- 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 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

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

The Group uses a bespoke customer information system Enersim to estimate the unbilled deliveries based on assumed customer demand profiles. This accounting estimate is based on:

(a) the estimated volume delivered and distributed to households in technical units (MWh) between the date of the last meter reading and the end of the reporting period;

(b) the consumption estimate utilising the time patterns of consumption of various customer profiles observed on a sample basis;

(c) the estimated losses in the distribution network; and

(d) the unit price in EUR/MWh, that will be applied to billing the electricity delivery and distribution. Refer to Note 20.

The Group also engaged an independent expert to estimate network losses. Should the estimate of total network losses be lower by 0.1 %, representing approximately 10 GWh of electricity (2015: 10 GWh), with other parameters unchanged, the revenues for commodity and distribution services would increase by EUR 913 thousand (2015: EUR 916 thousand).

5 Critical Accounting Estimates and Judgements in Applying Accounting Policies (continued)

Estimated useful life of electricity distribution network. The estimation of the useful lives of network assets is a matter of judgment based on past experience with similar items. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets.

Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. The following primary factors are considered: (a) the expected usage of the assets; (b) the expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) the technical obsolescence, if any.

If the estimated useful life of network assets had been shorter by 10% than management's estimates at 31 December 2016, the Group would have recognised an additional depreciation of network assets of EUR 4,496 thousand (2015: EUR 4,649 thousand).

6 Property, Plant and Equipment

Movements in the carrying amount of property, plant and equipment were as follows during 2016:

In thousands of EUR	Land	Network buildings	Power lines	Switching stations and network equipment	Other assets*	Capital work in progress	Total
Cost at 1 January 2016	20,970	95,997	602,060	336,118	115,520	40,011	1,210,676
Accumulated depreciation and impairment losses	-	(43,243)	(228,843)	(152,933)	(66,865)	-	(491,884)
Carrying amount at 1 January 2016	20,970	52,754	373,217	183,185	48,655	40,011	718,792
Additions	-	-	-	-	-	74,093	74,093
Capitalised borrowing costs**	-	-	-	-	-	1,431	1,431
Transfers	327	5,105	38,020	20,775	5,227	(69,454)	-
Depreciation charge	-	(3,288)	(16,717)	(18,121)	(6,834)	-	(44,960)
Disposals	(31)	(465)	(2)	(595)	(60)	-	(1,153)
Cost at 31 December 2016	**21,266**	**100,793**	**637,688**	**353,252**	**110,958**	**46,081**	**1,270,038**
Accumulated depreciation and impairment losses	-	**(46,687)**	**(243,170)**	**(168,008)**	**(63,970)**	-	**(521,835)**
Carrying amount at 31 December 2016	**21,266**	**54,106**	**394,518**	**185,244**	**46,988**	**46,081**	**748,203**

* Other assets comprise machinery, non-network and administrative buildings, vehicles and other assets.

** Capitalisation rate of borrowing costs was approximately 3.59 % p.a. for 2016.

6 Property, Plant and Equipment (continued)

In management's judgement the electricity distribution network does not fall in the scope of IFRIC 12, *Service Conscession Arrangements*, and it is thus not presented as an intangible asset because (a) the Group is able to sell or pledge the infrastructure assets and (b) the arrangement with the regulator and the Slovak government is not the typical 'build-operate-transfer' concession, but rather a privatisation, which the Information Note 2 to IFRIC 12 indicates falls in the scope of IAS 16, *Property, plant and equipment*. The Group did not pledge any property, plant or equipment as collateral for its borrowings or other financial liabilities at the end of the current and comparative reporting period.

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

In thousands of EUR	2016	2015
Net book value of disposals	1,153	560
Gain/ (Loss) on disposal of property, plant and equipment (Note 24)	(224)	394
Proceeds from disposals	**929**	**954**

Movements in the carrying amount of property, plant and equipment were as follows during 2015:

In thousands of EUR	Land	Network buildings	Power lines	Switching stations and network equipment	Other assets*	Capital work in progress	Total
Cost at 1 January 2015	20,243	70,011	566,307	315,346	136,300	38,547	1,146,754
Accumulated depreciation and impairment losses	-	(22,581)	(214,088)	(150,679)	(69,862)	(2)	(457,212)
Carrying amount at 1 January 2015	20,243	47,430	352,219	164,667	66,438	38,545	689,542
Additions	-	-	-	-	-	72,937	72,937
Capitalised borrowing costs**	-	-	-	-	-	957	957
Transfers	1,105	9,255	37,424	22,539	2,640	(72,963)	-
Depreciation charge	-	(1,232)	(16,426)	(3,990)	(20,420)	-	(42,068)
Disposals	(427)	(60)	-	(31)	(42)	-	(560)
Other	49	(2,639)	-	-	43	328	(2,219)
Impairment (charge) / reversal (Note 23)	-	-	-	-	(4)	207	203
Cost at 31 December 2015	**20,970**	**95,997**	**602,060**	**336,118**	**115,520**	**40,011**	**1,210,676**
Accumulated depreciation and impairment losses	**-**	**(43,243)**	**(228,843)**	**(152,933)**	**(66,865)**	**-**	**(491,884)**
Carrying amount at 31 December 2015	**20,970**	**52,754**	**373,217**	**183,185**	**48,655**	**40,011**	**718,792**

* Other assets comprise machinery, non-network and administrative buildings, vehicles and other assets.

** Capitalisation rate of borrowing costs was 3.59 % p.a. for 2015.

The Group holds insurance against damages caused by natural disasters up to EUR 550,080 thousand for buildings and up to amount of EUR 571,549 thousand for machinery, equipment, fixtures, fittings and other assets (2015: EUR 548,974 thousand and 553,772 thousand, respectively).

6 Property, Plant and Equipment (continued)

At 31 December 2016 the Group holds power lines acquired through finance lease (where the Group is the lessee) with cost of EUR 4,639 thousand, accumulated depreciation of EUR 232 thousand and carrying amount of EUR 4,406 thousand (2015: cost of EUR 3,068 thousand, accumulated depreciation of EUR 122 thousand and carrying amount of EUR 2,946 thousand).

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

In thousands of EUR	2016	2015
Equipment, vehicles and other assets – optical lines and related technology	8,178	8,188
Total carrying value of assets leased out under operating leases	8,178	8,188

Rental income is presented in Note 24. 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).

7 Intangible Assets

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

In thousands of EUR	Software and similar assets	Assets not yet available for use	Total
Cost at 1 January 2015	43,989	2,829	46,818
Accumulated amortisation and impairment losses	(35,944)	-	(35,944)
Carrying amount at 1 January 2015	**8,045**	**2,829**	**10,874**
Additions	-	5,946	5,946
Transfers	5,012	(5,014)	(2)
Amortisation charge	(4,963)	-	(4,963)
Other	180	23	203
Cost at 31 December 2015	49,177	3,784	52,961
Accumulated amortisation including impairment charge	(40,903)	-	(40,903)
Carrying amount at 31 December 2015	**8,274**	**3,784**	**12,058**
Additions	-	3,922	3,922
Transfers	4,150	(4,150)	-
Amortisation charge	(3,830)	-	(3,830)
Cost at 31 December 2016	53,313	3,556	56,869
Accumulated amortisation and impairment losses	(44,719)	-	(44,719)
Carrying amount at 31 December 2016	**8,594**	**3,556**	**12,150**

Assets not yet available for use primarily include software upgrades and improvement of functionality of the customer and the graphical information system.

8 Equity Method Investments

In thousands of EUR	2016	2015
Energotel, a.s. - 20% investment in joint venture	525	525
E.ON Business Services Slovakia, spol. s r.o. – 49% investment in an associate	569	1,105
SPX, s.r.o.	33	33
Total equity method investments	**1,127**	**1,663**

9 Inventories

In thousands of EUR	2016	2015
Natural gas	6,708	8,329
Materials and spare parts	1,122	1,317
Total inventories	**7,830**	**9,646**

The inventory items are shown after provision for slow-moving materials and spare parts of EUR 9 thousand (2015: EUR 17 thousand).

Natural gas is held in an underground gas storage facility controlled by a related party under significant influence of the Slovak government.

10 Trade and Other Receivables

In thousands of EUR	2016	2015
Trade receivables	132,472	121,944
Less impairment provision for trade receivables	(29,692)	(29,805)
Trade receivables, net	**102,780**	**92,139**
Commodity contracts at FVTPL	715	-
Amounts due from customers for contract work	-	217
Prepayments	778	399
Total trade and other receivables	**104,273**	**92,755**

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

In thousands of EUR	2016	2015
Provision for impairment at 1 January	**29,805**	**31,312**
Impairment loss expense (Note 23)	281	987
Amounts written off during the year as uncollectible	(394)	(2,494)
Provision for impairment at 31 December	**29,692**	**29,805**

10 Trade and Other Receivables (continued)

The credit quality of trade receivables and amounts due from customers for contract work is as follows:

In thousands of EUR	2016 Amounts due from customers for contract work	2016 Trade receivables	2015 Amounts due from customers for contract work	2015 Trade receivables
Neither past due nor impaired				
- collected by 31 January after the reporting period	-	91,217	217	82,698
- not collected by 31 January after the reporting period and not overdue	-	2,003	-	4,236
- amounts that became overdue after the reporting period	-	6,276	-	920
Total neither past due nor impaired	-	99,496	217	87,854
Individually impaired				
1 to 30 days past due	-	3,400	-	4,182
31 to 60 days past due	-	574	-	598
61 to 90 days past due	-	370	-	311
91 to 120 days past due	-	204	-	284
121 to 180 days past due	-	359	-	422
181 to 360 days past due	-	796	-	1,106
Over 360 days past due	-	27,273	-	27,187
Total individually impaired before provision for impairment	-	32,976	-	34,090
Less provision for impairment	-	(29,692)	-	(29,805)
Total trade receivables and amounts due from customers for contract work, net of provision	**-**	**102,780**	**217**	**92,139**

The Group has a concentration of credit risk towards related parties of the Slovak government. Refer to Note 32.

The Group constructs assets for third parties. Amounts recognised in respect of contracts in progress at the end of the respective reporting period are:

In thousands of EUR	2016	2015
Costs incurred and recognised profits less recognised losses to date	-	2,122
Less progress billings	-	(1,905)
Amounts due from customers for contract work	**-**	**217**

Amounts due from customers for contract work will be invoiced upon achievement of agreed construction contract milestones.

11 Cash and Cash Equivalents

In thousands of EUR	2016	2015
Current accounts with banks	80,591	29,331
Overnight bank deposits	133	5,133
Total cash and cash equivalents in the statement of financial position	**80,724**	**34,464**
Less restricted cash balances	(133)	(133)
Total cash and cash equivalents in the statement of cash flows	**80,591**	**34,331**

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

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

In thousands of EUR	2016	2015
Neither past due nor impaired		
Credit rating A1 by Moody's	1,034	839
Credit rating A2 by Moody's	65,094	3,581
Credit rating Baa1 by Moody's	14,214	29,795
Credit rating Baa2 by Moody's	-	100
Credit rating BBB+ by Fitch	332	65
Unrated	50	84
Total cash and cash equivalents	**80,724**	**34,464**

12 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).

13 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.

14 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 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.

Amortised cost carrying value of the bonds is as follows:

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

15 Income Taxes

Income tax expense comprises the following:

In thousands of EUR	2016	2015
Current tax at standard rate of 22% (2015: 22%)	24,804	20,278
Income tax related to prior periods	121	-
Special levy on profits in excess of EUR 3,000 thousand from regulated activities	3,786	3,159
Deferred tax	(5,332)	5,821
Income tax expense/(credit) for the year	**23,379**	**29,258**

In 2016, the applicable standard income tax rate was 22% (2015: 22%). The special levy applies to profits over EUR 3 million from regulated activities at a rate of 4.356% p.a.. The levy was originally intended to expire in 2016, but in November 2016, the Slovak parliament enacted a special levy rate of 8.712 % p.a. for years 2017 – 2018, 6.54% p.a. for years 2019 – 2020 and 4.356% p.a. applicable from 2021. The levy is a deductible expense for the purposes of applying the standard corporate income tax rate of 22% (a reduced 21% standard tax rate enacted in November 2016 with effect from 2017).

15 Income Taxes (continued)

As a result, the income tax rate applicable to regulated activities is as follows:

	2016	2015
Standard income tax rate for the year	22.000%	22.000%
Special levy rate	4.356%	4.356%
Effect of deductibility of special levy from standard rate*	(1.100)%	(1.100)%
Tax rate applicable on profits generated by regulated industry operations	**25.256%**	**25.256%**

* the effect is calculated as 4.356 %*((1-22%)/(1+4.356%)-1)

The Group includes activities or subsidiaries taxed at the standard tax rate of 22% or at the 25.256% rate applicable to regulated industry operations. The applicable tax rate of 24.095% (2015: 23.833%) is used in the below effective tax reconciliation and represents a weighted average of the tax rates for regulated and unregulated industries. The applicable tax rate changed compared to prior year due to change in the mix of profits from regulated and unregulated industry operations.

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

In thousands of EUR	2016	2015
Profit before tax	**122,001**	**117,329**
Theoretical tax charge at applicable tax rate of 24.095 % (2015: 23.833%)	29,396	27,963
Non-deductible expenses /(non-taxable income) for which deferred tax was not recognised		
- income from equity method investees not subject to standard tax	(52)	(164)
- expenses not deductible for standard tax but deductible for special levy purposes	982	426
Income tax related to prior periods	121	-
Effect of the first EUR 3 million exempt from special levy (for two consolidated entities)	(196)	(196)
Effect on deferred taxes of change in standard tax rate to 21% from 1 January 2017	(980)	-
Effect on deferred taxes of extension of special levy for indefinite period	(6,730)	-
Other	838	1,229
Income tax expense for the period	**23,379**	**29,258**

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 not offset.

15 Income Taxes (continued)

Deferred taxes are attributable to the following temporary differences:

In thousands of EUR	2016	2015
Differences between tax base and carrying value of property, plant and equipment	36,362	32,259
Differences between tax base and carrying value of property, plant and equipment (deferred tax related to special levy)	(653)	-
Post-employment defined benefit obligation	(1,198)	(1,157)
Other long term employee benefits	(251)	(148)
Other liabilities	(3,521)	(3,009)
Provision for impairment of trade receivables	(166)	(416)
Other	(1,053)	(253)
Total net deferred tax liability	**29,520**	**27,276**

In thousands of EUR	2016	2015
Differences between tax base and carrying value of property, plant and equipment	44	34
Differences between tax base and carrying value of property, plant and equipment (deferred tax related to special levy)	6,077	-
Post-employment defined benefit obligation	91	102
Other long term employee benefits	22	19
Other liabilities	1,726	519
Provision for impairment of trade receivables	708	1,044
Other	279	(53)
Total net deferred tax asset	**8,947**	**1,665**

The movements in deferred taxes for temporary differences were recognised in profit or loss except for EUR (294) thousand (2015: EUR 114 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 Group 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, associates and joint ventures of the Group.

In addition, the Group is able to control the timing of the reversal of such temporary differences in respect of subsidiaries and does not intend to reverse them in the foreseeable future, e.g. through taxable dividend income from subsidiaries.

16 Post-Employment Defined Benefit Obligations

As agreed with the trade unions, the Group 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:

	2016	2015
Present value of unfunded post-employment defined benefit obligations at the beginning of the year	**10,638**	**10,206**
Current service cost	391	670
Interest cost	187	199
Past service costs due to changes in the defined benefit plan rules	14	-
Total expense (Note 22)	592	869
Actuarial remeasurements:		
- attributable to changes in financial assumptions	1,196	(140)
- attributable to changes in demographic assumptions	(2,828)	-
- attributable to experience adjustments	234	(380)
Total actuarial remeasurements recognised in other comprehensive income	(1,398)	(520)
Benefits paid during the year	(325)	(366)
Other changes	-	449
Present value of unfunded post-employment defined benefit obligations at the end of the year	**9,507**	**10,638**

The principal actuarial assumptions were as follows:

	2016	2015
Number of employees at 31 December	1,805	1,802
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.

17 Other Long Term Employee Benefits

The Group 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 Group 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.

18 Deferred Connection Fees and Customer Contributions

In thousands of EUR	2016	2015
Non-current		
Customer contributions	30,990	32,410
Connection fees	51,670	47,152
Total non-current deferred income	**82,660**	**79,562**
Current		
Customer contributions	1,678	1,678
Connection fees	3,873	3,730
Total current deferred income	**5,551**	**5,408**

Customer contributions are paid primarily for capital expenditures made on behalf of customers and include access network assets transferred to the Group by its customers free of charge. The contributions are non-refundable and are recognised as other operating income over the useful lives of the related assets.

Connection fees are paid by customers to connect them to the electricity network. The fees are recognised as deferred income and are released to revenues over the useful lives of related assets of approximately 20 years.

19 Trade and Other Payables

In thousands of EUR	2016	2015
Trade payables	76,504	52,657
Trade finance liability	-	12,196
Other accrued liabilities	15,594	10,081
Commodity contracts at FVTPL	6,392	-
Payables from leasing	3,135	2,311
Other financial liabilities	5,793	6,805
Total financial instruments within trade and other payables	**107,418**	**84,050**
Deferred electricity and distribution fees	36,962	32,023
Employee benefits payable	2,288	2,455
Social security on employee benefits	1,861	1,733
Accrued staff costs	9,064	8,797
Advance payments	20,051	19,069
Value added tax payable	5,864	3,421
Other payables	7,895	6,410
Excise duty payable	121	175
Total trade and other payables	**191,524**	**158,133**

The trade finance liability represents a reverse factoring obligation due to banks. The trade payable is derecognised and a corresponding the trade finance liability due to banks is recognised upon written acceptance by the Group of the change in the counterparty from the Group's supplier to the bank. The maturity and other terms and conditions of the amounts due remain unchanged and in the opinion of management, the obligation is therefore appropriately presented within trade and other payables rather than as a bank borrowing. The liability is due within one month after the end of the reporting period.

The Group had overdue trade payables of EUR 192 thousand (2015: EUR 893 thousand). None of the payables are overdue more than 30 days at 31 December 2016.

20 Revenue from Electricity and other revenue

Revenue from electricity comprises the following:

In thousands of EUR	2016	2015
Sales of electricity to industrial and commercial customers	188,761	198,762
Sales of electricity to residential customers	90,234	91,660
Total sales of electricity	278,995	290,422
Distribution fees for electricity to industrial and commercial customers	336,296	346,798
Distribution fees for electricity to residential customers	158,152	158,947
Tariff for system operation and system services – OKTE, a.s. a related party controlled by the Slovak government	124,225	115,237
Revenues for reserved capacity	10,146	9,823
Total distribution fees	628,819	630,805
Revenues for connection work and testing fees	3,981	3,917
Revenue from construction contracts	108	1,516
Other revenue	8,126	5,065
Total revenue from electricity and other revenue	**920,029**	**931,725**

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

21 Purchases of Electricity and Related Fees

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

In thousands of EUR	2016	2015
Purchase of electricity from: Slovenské elektrárne ("SE")	114,688	132,135
Purchase of electricity from other domestic producers and traders	235,685	236,383
Purchase of electricity on the spot market	35,429	44,638
Total electricity purchases	**385,802**	**413,156**
Electricity transmission fees, system access and ancillary service charges	245,898	241,640
Other	9,812	8,686
Total purchases of electricity and related fees	**641,512**	**663,482**

Comparative amounts were reclassified to conform to the presentation in the current period. In particular purchases of natural gas of EUR 74,273 thousand are now presented separately in the statement of profit or loss and other comprehensive income, EUR 17,006 thousand was reclassified from electricity transmission fees to purchases of electricity from other domestic producers and traders and EUR 6,348 thousand was reclassified 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.

22 Employee Benefits

In thousands of EUR	2016	2015
Wages and salaries	39,855	37,762
Defined contribution pension costs	7,065	6,872
Post-employment defined benefit plan expense (Note 16)	592	869
Other long-term employee benefit plans – current service and interest cost (Note 17)	(108)	373
Actuarial remeasurements of other long-term employee benefit plans (Note 17)	256	(114)
Other social costs	12,553	11,713
Total employee benefits expense	**60,213**	**57,475**

23 Other Operating Expenses

In thousands of EUR	2016	2015
Information technology and software maintenance costs	10,258	11,184
Repairs and maintenance costs	8,847	8,075
Operating lease expense	3,710	3,631
Postal and telecommunication services	2,652	3,375
Call centre services	2,667	2,719
Security services	1,197	1,215
Advertising services	1,249	1,116
Travel expenses	997	969
Statutory audit	257	229
Other services	9,026	5,643
Personal leasing and external dealers commission	2,632	2,636
Advisory services	1,571	1,192
Marketing	1,276	1,022
Operation and maintenance of telecommunication network	678	677
Facility management expenses	1,013	978
Impairment loss on trade and other receivables (Note 10)	281	987
Property and motor vehicle tax	603	600
Impairment of property, plant and equipment (Note 6)	-	203
Gifts	529	752
Insurance	598	498
Other operating expenses	6,468	5,779
Total other operating expenses	**56,509**	**53,480**

Comparative amounts were reclassified to conform to the presentation in the current period. In particular, employee benefits in amount EUR 60,213 thousand, depreciation in amount EUR 44,960 thousand and amortisation in amount EUR 3,830 thousand are now presented separately in the statement of profit or loss and other comprehensive income and EUR 6,348 thousand was reclassified from purchases of electricity and related fees.

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.

24 Other Operating Income

In thousands of EUR	2016	2015
Customer contributions to their connection costs	1,678	1,678
Operating lease income (Note 6)	1,311	1,684
Gain/(loss) on disposal of fixed assets (Note 6)	(224)	394
Income from contractual penalties	661	439
Income from unauthorized consumption of electricity	249	420
Fees for payment reminders	1,632	1,831
Other	2,108	1,043
Total other operating income	**7,415**	**7,489**

25 Interest and Similar Expense

In thousands of EUR	2016	2015
Interest expense on bonds	21,656	21,656
Amortisation of bonds transaction costs	677	580
Other interest expense	2,893	1,024
Less capitalised borrowing costs (Note 6)	(1,431)	(957)
Total interest and similar expense	**23,795**	**22,303**

26 Segment Reporting

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

The main indicators used by the Board of Directors in their decision making are earnings before interest, taxes, depreciation and amortisation (EBITDA) and capital 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.

26 Segment Reporting (continued)

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:

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

Reportable segments information for 2015 is as follows:

In thousands of EUR	**Distribution**	**Supply**	**Other**	**Eliminations**	**Total**
Revenue from external customers	255,701	750,312	3,011	-	**1,009,02**
Inter-segment revenues	198,415	43,099	43,407	(284,921)	**-**
Total segment revenues	454,116	793,411	46,418	(284,921)	**1,009,02**
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**
Earnings before interest, taxes,	**155,981**	**17,510**	**13,440**	**(545)**	**186,386**
Capital expenditures	**76,783**	**4,141**	**5,032**	**(6,856)**	**79,100**

26 Segment Reporting (continued)

Entity wide information. Revenue is analysed by type of product or service in Note 20. Substantially all of the Group's revenues are from customers in the Slovak Republic and all of the Group's property, plant and equipment and intangible assets are located in the Slovak Republic.

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

In thousands of EUR	2016	2015
Total EBITDA for all operating segments	**194,497**	**186,386**
Depreciation of property, plant and equipment	(44,960)	(42,068)
Amortization of intangible assets	(3,830)	(4,963)
Interest income	89	277
Interest and similar expense	(23,795)	(22,303)
Profit before tax	**122,001**	**117,329**

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

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

27 Financial Risk Management

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

Foreign exchange risk. The Group operates in the domestic market, and its sales, purchases and short-term deposits are denominated in EUR. Management does not consider foreign exchange risk as a significant exposure for the Group'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 Group's profit or loss for the year.

Equity price risk. The Group is not exposed to significant equity price risk because it does not have material financial investments in equities.

Interest rate risk. The Group 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 Group's profit or loss for the year.

27 Financial Risk Management (continued)

Commodity price risk. In 2016, the Group identified and recognised a provision for certain loss making commodity contracts. The Group does not have formal policies and processes in place for managing commodity price risks. In general, management aims to match electricity demand with corresponding purchase contracts. Should electricity price change by ± EUR 5 per MWh, the net impact on profit from revaluation of the commodity contracts, that are measured as financial instruments at fair value through profit or loss, would be negligible as the Group's net notional open amount is close to nil at the end of the reporting period.

Credit risk. The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Exposure to credit risk arises as a result of the Group's sales of energy and 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 wholesale and retail customers, including outstanding receivables and transactions made.

As for the banks and financial institutions, the Group has relationships only with those that have a high independent rating assessment. If wholesale customers are independently rated, these ratings are used. If no independent rating is available, management assesses the credit quality of customer, taking into account its financial position, past experience and other factors. The Group does not set individual risk limits for counterparties. Except as disclosed in Note 10, as for trade receivables, the Group does not have a significant concentration of credit risk mainly due to a large number of diverse customers.

The Group uses a system of reminders, which may culminate in a service disconnection, as the prevailing contract enforcement. The collection of receivables could be influenced by economic factors; management believes that there is no significant risk of loss to the Group beyond the provisions already recorded. The credit quality of outstanding balances with banks is presented in Note 11 and credit quality information about trade receivables is included in Note 10.

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 Group aims to maintain flexibility in funding by keeping committed credit lines available. In addition, the Group relies on liquidity of financial markets and its ability to refinance its outstanding bonds in the medium term.

The Group regularly monitors its liquidity position and uses overdrafts only in exceptional cases. The Group also uses the advantages of commercial terms between the Group and its suppliers to secure sufficient financing funds to cover its needs. The maturity of supplier's invoices is 20 days, on average. Expected cash flows forecast is prepared weekly as follows: (a) expected future cash inflows from main operation of the Group and (b) expected future cash outflows securing operation of the Group and leading to settlement of all liabilities of the Group, including tax payables. The cash flow forecast identifies the immediate need for cash and, if funds are available, it enables the Group to make short-term bank deposits.

27 Financial Risk Management (continued)

The table below analyses the Group'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:

In thousands of EUR	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Liabilities						
Issued bonds – principal due	-	-	-	315,000	315,000	630,000
Issued bonds – future interest payments	-	-	21,656	59,457	25,200	106,313
Trade payables (Note 19)	65,728	10,751	25	-	-	76,504
Trade finance liability (Note 19)	-	-	-	-	-	-
Other accrued liabilities (Note 19)	2,871	9,678	3,045	-	-	15,594
Gross finance lease liability	-	-	615	2,520	-	3,135
Other financial liabilities (Note 19)	5,793	-	-	-	-	5,793
Commodity contracts at FVTPL:						
- gross notional amount payable*	37,397	-	-	-	-	37,397
- gross notional amount receivable**	(31,720)	-	-	-	-	(31,720)
Total future payments, including future principal and interest payments	**80,069**	**20,429**	**25,341**	**376,977**	**340,200**	**843,016**

* The notional amounts payable include the gross pay leg of commodity contracts at FVTPL. The related non-cash commodity inflow is not included in the analysis.

** The notional amounts receivable represents the gross receivable leg of commodity contracts at FVTPL. The related non-cash commodity outflow is not included in the above liquidity analysis.

The maturity analysis is as follows at 31 December 2015:

In thousands of EUR	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Liabilities						
Issued bonds – principal due	-	-	-	315,000	315,000	630,000
Issued bonds – future interest payments	-	-	21,656	68,513	37,800	127,969
Trade payables (Note 19)	42,453	10,200	-	4	-	52,657
Trade finance liability (Note 19)	12,196	-	-	-	-	12,196
Other accrued liabilities (Note 19)	2,604	7,477	-	-	-	10,081
Gross finance lease liability	-	-	186	2,125	-	2,311
Other financial liabilities (Note 19)	6,805	-	-	-	-	6,805
Total future payments, including future principal and interest payments	**64,058**	**17,677**	**21,842**	**385,642**	**352,800**	**842,019**

28 Management of Capital

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders, and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. The Group manages capital reported under IFRS as equity amounting to EUR 3,122 thousand at 31 December 2016 (31 December 2015: EUR (39,035) thousand). In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders or return capital to shareholders.

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

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

29 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.

a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period:

Financial instruments carried at fair value. The provision for loss contracts represents financial instruments carried in the statement of financial position at fair value. The fair value measurement belongs to level 2 in the fair value hierarchy and the key input is the spot and forward electricity price per MWh.

29 Fair Value Disclosures (continued)

b) 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:

	31 December 2016			31 December 2015		
IN THOUSANDS OF EUR	Level 1 fair value	Level 2 fair value	Carrying value	Level 1 fair value	Level 2 fair value	Carrying value
ASSETS						
Trade receivables, net (Note 10)	-	102,780	102,780	-	92,139	92,139
Cash and cash equivalents (Note 11)	-	80,724	80,724	-	34,464	34,464
TOTAL ASSETS	**-**	**183,504**	**183,504**	**-**	**126,603**	**126,603**
LIABILITIES						
Issued bonds (Note 14)	714,231	-	632,942	696,531	-	632,301
Trade payables (Note 19)	-	76,504	76,504	-	52,657	52,657
Trade finance liability (Note 19)	-	-	-	-	12,196	12,196
Liabilities from finance leasing (Note 19)	-	3,135	3,135	-	2,311	2,311
Other accrued liabilities (Note 19)	-	15,594	15,594	-	10,081	10,081
Other financial liabilities (Note 19)	-	5,793	5,793	-	6,805	6,805
TOTAL LIABILITIES	**714,231**	**101,026**	**733,968**	**696,531**	**84,050**	**716,351**

30 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 Group's financial assets fall in the loans and receivables category. All of the Group's financial liabilities were carried at amortised cost, except loss contracts that are financial instruments held for trading, which were carried at fair value through profit or loss.

31 Contingencies and Commitments

Tax contingencies. Slovak tax law contains certain provisions that allow for more than one interpretation. Management's interpretation of the Group'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.

Legal proceedings. From time to time and in the normal course of business, claims against the Group may be received. Certain customers or their representatives contest fairness and appropriateness of decisions of the network industry regulator and an unquantifiable risk exists that, in the future, such matters may crystallise in an unfavourable manner for the Group.

31 Contingencies and Commitments (continued)

Capital expenditure commitments. At 31 December 2016, the Group had outstanding contractual commitments for purchases of property, plant and equipment of EUR 8,517 thousand (2015: EUR 8,166 thousand). Outstanding contractual commitments for purchases of intangible assets were EUR 937 thousand (2015: EUR 580 thousand).

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

In thousands of EUR	2016	2015
No later than one year	2,834	2,679
Later than one year and no later than five years	6,806	6,252
Later than five years	2,406	1,681
Total	**12,046**	**10,612**

Operating lease expense for the year is disclosed in Note 23.

32 Balances and Transactions with Related Parties

The primary related parties of the Group are (a) its shareholders which have joint control over the Group as explained in Notes 1 and 12: (i) the Slovak Government and (ii) E.ON, as well as (b) key management personnel. The Group 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, purchases of electricity 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:

In thousands of EUR	Ministry of Economy of theSlovak Republic	E.ON Slovensko, a.s.	E.ON Group**	Slovak government*	Associate (Note 8)	Joint venture (Note 8)
Revenue	-	508	704	199,277	-	1,130
Purchases and expenses	-	11	11,493	432,467	-	2,593
Receivables other than taxes	-	8	253	21,972	-	108
Payables other than taxes	-	11	4,256	27,379	1,180	324
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.

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 15. Outstanding value added tax payable is presented in Note 19. Property and motor vehicle taxes are disclosed in Note 23.

32 Balances and Transactions with Related Parties (continued)

The income tax paid was as follows:

In thousands of EUR	2016	2015
Current income tax expense at standard rate of 22% (2015: 22%) – refer to Note 15	24,925	20,278
Special levy on profits from regulated activities (Note 15)	3,786	3,159
Income tax refund receivable at the beginning of the period	1,986	4,067
Income tax refund receivable at the end of the reporting period	(6,764)	1,986
Income tax paid	**(19,961)**	**(21,356)**

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

In thousands of EUR	Ministry of Economy of the Slovak Republic	E.ON Slovensko, a.s.	E.ON Group**	Slovak government*	Associate (Note 8)	Joint venture (Note 8)
Revenue	-	513	11,928	190,792	621	1,102
Purchases and expenses	-	-	18,653	443,476	13,336	1,870
Receivables other than taxes	-	5	1,617	19,333	1	107
Payables other than taxes	-	-	310	29,417	2,683	285
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 as supplies of electricity to hospitals, schools, to 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.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:

In thousands of EUR	2016	2015
Board of directors and other key management personnel		
Salaries and other short-term employee benefits	1,925	1,728
Defined contribution pension costs	155	145
Total remuneration of board of directors and other key management personnel	**2,080**	**1,873**
Supervisory board		
Salaries and other short-term employee benefits	359	270
Defined contribution pension costs	51	41
Total remuneration of supervisory board	**410**	**311**

33 Events after the End of the Reporting Period

During February 2017 the Regulatory Office of Network Industries („RONI") has issued a new price edict and also price resolution valid from 1 January 2017 with no impact to financial year ending 31 December 2016.

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

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