

Annual Report 2016

Západoslovenská energetika, a.s.



CONTENTS

01 Introduction of the Západoslovenská energetika, a.s. Group	4
02 Strategy and Innovations	12
03 Economy	14
04 Human Resources	18
05 Occupational Health and Safety	20
06 Environmental Protection	20
07 Corporate Social Responsibility	20
08 Independent Auditor's Report	23
Annexes	33
Separate Financial Statements and Independent Auditor's Report - 31 December 2016 and 2015	
Consolidated Financial Statements and Independent Auditor's Report - 31 December 2016 and 2015	

01 Introduction of the Západoslovenská energetika, a.s. Group

Profile and Structure of the Západoslovenská energetika, a.s. Group

The Západoslovenská energetika, a.s. Group (hereinafter the "ZSE Group") is a leading electricity group in Slovakia whose parent company is Západoslovenská energetika, a.s.

The ZSE Group comprises the parent company, Západoslovenská energetika, a.s., and its subsidiaries: Západoslovenská distribučná, a.s., ZSE Energia, a.s., ZSE Development, s.r.o., ZSE Energy Solutions, s.r.o., ZSE MVE, s. r. o. and ZSE Business Services, s. r. o. ZSE Energia CZ, s.r.o., which is the wholly owned subsidiary of ZSE Energia, a.s. also belongs to the ZSE Group.

Západoslovenská energetika, a.s. is also the sole founder of Nadácia ZSE (ZSE Foundation).

ZSE Group has no branch abroad.

The parent company, Západoslovenská energetika, a.s., Company ID: 35 823 551, with its seat at Čulenova 6, 816 47 Bratislava (hereinafter the "Company"), was established on 15 October 2001 and incorporated in the Commercial Register on 1 November 2001. The Company is registered with the Commercial Register of the Bratislava I District Court, Section: Sa, File No.: 2852/B.

The mission of the ZSE Group is to carry out electricity and gas supplies and electricity distribution and to provide comprehensive energy-related services to all categories of customers – households, SMEs and strategic enterprises in the Slovak economy. Services are provided in the long-term and reliably, at affordable prices, in an environmentally-friendly manner and in accordance with the EU regulations. The ZSE Group provides services related to electricity distribution and electricity and gas supplies primarily in the region of western Slovakia. Apart from two small water power plants, the ZSE Group has no other facilities for electricity generation in its portfolio. Certain aspects of the relationship between the ZSE Group and its customers with respect to electricity distribution, and electricity and gas supplies, including the pricing of services provided to certain groups of customers, are subject to price and factual regulation by the Regulatory Office for Network Industries (RONI). Electricity distribution is subject to regulation, price or factual, to the largest extent.

Company Bodies

The structure of statutory and supervisory bodies of ZSE in 2016 was as follows:

Statutory Body

Board of Directors	
As at 31 December 2016	
Chairman	Jochen Kley (end of office on 1 June 2016) Jochen Kley (start of office on 1 June 2016)
Vice-Chairman	Ing. Peter Adamec PhD. (end of office on 16 November 2016) Ing. Peter Adamec PhD. (start of office on 16 November 2016)
Members	Ing. Ján Rusnák (end of office on 16 November 2016) Ing. Pavol Viskupič (start of office on 16 November 2016)
	Marian Rusko (start of office on 1 July 2013)
	Mgr. Juraj Krajcár (start of office on 5 December 2013)

Supervisory Body

Supervisory Board	
As at 31 December 2016	
Chairman	Ing. Ľubomír Streicher (end of office on 16 November 2016) Ing. Eva Milučká (start of office as a Member on 16 November 2016 and as the Chairman on 8 December 2016)
Vice-Chairman	Lars Lagerkvist (end of office on 5 December 2016) Markus Kaune (start of office as a Member on 5 December 2016 and as the Vice-Chairman on 8 December 2016)
Members	Ing. Peter Hanulík (end of office on 16 November 2016)
	Ing. Marek Hargaš (end of office on 16 November 2016)
	Ing. Boris Hradecký (end of office on 16 November 2016)
	JUDr. Libor Samec (end of office on 16 November 2016)
	Robert Polakovič (start of office on 21 November 2012)
	Silvia Šmátralová (start of office on 8 November 2014)
	Ing. Martin Mislovič (start of office on 17 December 2014)
	Ing. Lucia Veselská (start of office on 16 November 2016)
	Ing. Erna Dohnáliková (start of office on 16 November 2016)
	Ing. Ján Rusnák (start of office on 16 November 2016)
	Mgr. Tomáš Galbavý (start of office on 16 November 2016)

Audit Committee

The Audit Committee was established by a decision of the Company's General Meeting dated 12 December 2014. The Audit Committee has three members elected and dismissed by the Company's General Meeting.

Shareholders' Structure

The shareholders' structure in Západoslovenská energetika, a.s. as at 31 December 2016 was as follows:

Shareholders' Structure			
As at 31 December 2016	Absolute amount in € thousand	Equity share in the share capital in %	Voting right
Slovak Republic represented by the Ministry of Economy of the Slovak Republic	100,454	51%	51
E.ON Slovensko, a.s.	76,818	39%	39
E.ON Beteiligungen GmbH	19,697	10%	10

Corporate Governance Declaration

The methods and principles of corporate governance are comprised in the Articles of Association of the Company. The Articles of Association are available in the Collection of Documents of the relevant court - District Court Bratislava I and on the website of the Company www.skupinazse.sk, section Investors - Corporate Affairs.

The Organizational Manual of the Company sets out the principles of the Company's organisation and internal management of the Company and is the basic and supreme organisational and managing document on the top level in the Company except for the Articles of Association of the Company.

The corporate governance model of the Company includes also internal managing documents which contains orders of the Board of Directors, orders of a member of the Board of Directors, orders of the Chief Executive Officer, orders of a director of a division, directives, manuals and procedures.

Key Internal Control and Risk Management Systems Related to Financial Statements

The Company has the internal control and risk management system in place, related to financial statements. This system consists of various instruments, processes and activities which have been used in accounting and preparing the separate and consolidated financial statements (jointly only as "financial statement") of the Company.

The activities within accounting and preparing financial statements are divided in individual functional steps. Automatic and manual controls are a part of every of these steps. The defined procedures ensure that all accounting transactions and preparation of the Company's financial statements are recorded and processed in line with the accrual principle and documented in a complete, timely and precise manner.

The Company has introduced and has been using internal managing documentation which includes several directives and procedures. These documents focus mainly on the way of accounting in the Company, accounting procedures, signature rules, chart of accounts, account classification, inventory of assets and liabilities, activation and disposal of assets, impairment provisions, reserves, preparation of financial statements, consolidation and calculation of direct and indirect taxes. Internal managing documentation is a binding document for all employees and represents the application of main accounting principles and accounting methods applied by the Company. The Company follows the amendments to laws, new and amended accounting standards and other relevant documents that have impact on the accounting and financial statements and, if needed, updates internal managing documentation in a relevant way.

The Company has been using an accounting information system which contains automatic control mechanisms set prior. Efficiency of these automatic controls within the accounting information system and other key applications is strengthened by other manual checks. Access rights and their extent are limited depending on the need and only for dedicated employees.

The preparation of the Company's financial statements requires for further qualitative and quantitative indicators and other information. Furthermore, in order to assess the correctness of this information, relevant organisation units have been using procedures to assess completeness of this information on a regular basis.

The basic elements of the internal control and risk management system in relation to the financial statements are: approving, review procedures, segregation of duties, four-eye principle, master data and access rights management, and specific requirements for risk management in many key areas and processes such as accounting, financial reporting, communication, planning and controlling and risk management.

Internal controls are an integral part of the Company's accounting procedures. Internal managing documentation defines uniform requirements for reporting and accounting procedures for the entire ZSE Group. Adhering to these rules give sufficient certainty to prevent errors or fraud which may cause material misstatement in the Company's financial statements.

The Company's organisational unit in charge of accounting and taxes carries out, among other things, implementation, administration and setting of accounting information systems and ensures compliance of accounting, financial statements and tax calculations with the Slovak and European laws. Within this unit, individual accounting transactions and financial statements of the Company are subject to review by managers.

The Company's organisation structure includes Controlling. Controlling processes create a part of internal control mechanism and risk management of the Company. Controlling ensures continuous control of accounting and financial statements.

The role and competences of Internal Audit, Audit Committee, Board of Directors, Supervisory Board and General Meeting of the Company in relation to internal control environment and risk management and to financial statements are presented below.

The organisational structure of the Company also includes the Department of Internal Audit whose role is to:

- make assessments of adequacy and effectiveness of the system of internal supervision, financial, operational and information systems, corporate governance processes and the quality of tasks assigned and performed;
- make identification and assessment of operational risks of the Company by using the adequate methodology;
- be responsible for planning and conducting audit of IT systems, their functionalities and equipment including diverse and global environment of information technologies, operation systems and applications;
- conduct audit of information systems and IT infrastructure safety;
- be responsible for risk assessment and the conducting of investigations based on risk assessment;
- investigate crucial suspicions of embezzlement and fraud within companies of the Group;
- bear responsibility for making and updating of the documentation with the Business Compliance Programme;
- conduct the activities relating to verification of the breach of the Ethical Code.

Results of its activities have been regularly assessed and proposals for improvements applied to individual areas of the governance of the Company. Efficiency of internal control and risk managements systems in the Company have been monitored by the Audit Committee too.

Governance Methods and Bodies of the Company

The shareholders exercise their rights by means of the General Meeting in accordance with the regulation contained in the Commercial Code and the Articles of Association of the Company as follows:

General Meeting

1. The General Meeting is the supreme body of the Company. It shall take decisions on the issues relating to the activities of the Company which the Articles of Association, Commercial Code or a specific act place within its authority.
2. A shareholder may exercise its rights in the General Meeting in person or in representation under the written power of attorney.
3. The General Meeting shall be convened by the Board of Directors unless the Articles of Association or Commercial Code provide otherwise. The Board of Directors shall be obliged to convene an ordinary General Meeting within 2 months of the tax return submission. The Board of Directors shall be obliged to convene an extraordinary General Meeting especially due to reasons under Article III(3) of the Articles of Association. The Supervisory Board shall convene an extraordinary General Meeting due to reasons under Article XX(2) of the Articles of Association.
4. The Board of Directors shall convene the General Meeting by an invitation to the General Meeting that must be delivered to all shareholders in the form of a registered mail directly to the address specified in the list of shareholders at least 30 days prior to the General Meeting. The invitation to the General Meeting must contain all formalities laid down by applicable laws including information that documents which will be discussed at the General Meeting will be available to shareholders for viewing in the seat of the Company no later than 3 calendar days prior to the meeting of the General Meeting. The invitation to the General Meeting with documents which will be discussed at the meeting shall be sent by the Board of Directors no later than 30 days prior to the General Meeting also to every member of the Supervisory Board to the address specified by him/her, or to the address specified as permanent residence in the Extract from the Companies' Register of the Company.
5. The General Meeting is usually held in the Company's seat, however, it may be organised in a different place too. The General Meeting is attended by the members of the Board of Directors, the Supervisory Board and/or other persons.
6. The number of votes of a shareholder is determined by the nominal value of their shares. One vote is attributed to every EUR 33.19.
7. The General Meeting shall take decisions with the two-thirds majority of votes of all the shareholders. Any decision made by the General Meeting on any alterations of the rights associated with a certain type of the shares shall require the approval of two-thirds votes of shareholders. For this reason, the shareholders, being the owners of such shares, simultaneously, at first, shall vote for changes in the rights and then it is the General Meeting of all the shareholders.
8. The General Meeting shall make decisions on the following corporate affairs:
 - a) Change of the Articles of Association;
 - b) Decisions concerning any increase and decrease in the share capital, empowering the Board of Directors to raise the capital stock in accordance with the Commercial Code and the issuance of bonds;
 - c) Decisions concerning the revocation of the business entity by splitting, merging or transformation to a different form of business partnership or cooperative;
 - d) Decisions concerning the revocation of the business entity by liquidation, appointment of the liquidator, setting the remuneration for the liquidator;
 - e) Election and removal of members of the Supervisory Board, except for the members of the Supervisory Board elected and removed by employees;
 - f) Election and removal of the members of the Board of Directors and designation of the Board Chairman and Vice-Chairman;
 - g) Approval of proper, extraordinary or consolidated financial statements, decisions concerning profit distribution or loss coverage, including the fixing of directors' fees;
 - h) Approval of the Annual Report;
 - i) Approval of the principles and techniques of negotiations held by the Supervisory Board of the Company;
 - j) Approval of the agreement on performance of responsibilities of board members and their rewarding based upon proposals made by the Board of Directors and the Supervisory Board;

- k) Decisions concerning the changes in rights attributed to the different types of shares;
- l) Decisions concerning the approval of the Company Transfer Agreement or the Partial Company Transfer Agreement;
- m) Decisions concerning the changes in the form of shares;
- n) Decisions concerning the approval of transfer of the Company assets, the market value of which exceeds 20% of the Company turnover in the immediate prior accounting period or the sale of which refers to 20% of Company employees;
- o) Decisions concerning the beginning or termination of trading with the Company stock at the stock exchange;
- p) Decisions concerning the emission of shares, options or other securities or financial instruments that provide the rights for shares or other equity stake in the Company, or right for their underwriting, or decisions allowing the Company to equity stakes in the Company;
- q) Approval of the share transfer in accordance with the Articles of Association;
- r) Appointment and removal of a decision making person;
- s) Approval of proposals rejected by the Supervisory Board in accordance with the Articles of Association;
- t) Decision concerning other matters that are subject to the performance of the General Meeting as stated by law or the Articles of Association;
- u) Prior approval with the matters relating to Západoslovenská distribučná, a.s. and ZSE Energia, a.s. specified in more detail in the Articles of Association;
- w) Prior approval with any changes/amendments/supplements in the Agreement on Innovation, whose full wording was approved by the General Meeting on May 30, 2014;
- (x) Election and removal of members of the audit commission of the Company, approval of the agreement on performance of individual functions by audit commission members and their remuneration and approval of the negotiation order for the audit commission of the Company.

Rights and Duties of Shareholders

1. A Company shareholder may be Slovak or foreign legal or natural person.
2. By making the entry of the Company or of an increase in the registered capital in the Companies Register a share underwriter shall obtain the rights of a shareholder as a partner of the joint stock company corresponding to the shares underwritten.
3. Fundamental rights of a shareholder shall include the right to participate in Company's management activities, in profit sharing and liquidation balance following the dissolution of the Company with liquidation. The right to participate in corporate governance shall be exercised by a shareholder through their participation and voting at the General Meeting.
4. The rights and obligations of the shareholders are defined in detail in the Articles of Association and the Commercial Code.

The Board of Directors

1. The Board of Directors is a statutory body of the Company. It shall act on behalf of the Company in relation to the third persons. The Board shall manage the Company's operations and take decisions in all the matters associated with the Company unless applicable laws or the Articles of Association place them within the authority of other bodies of the Company.
2. The Board of the Company consists of five (5) members. The members of the Board of Directors are elected and removed by the General Meeting, whereas the Chairman and Vice-Chairman of the Board of Directors are elected too. The term of office of the members of the Board of Directors shall be four (4) years; the term of office is renewable. Any member of the Board of Directors shall have the right to give up his/her position; however, he/she shall be obliged to report such act to the Board of Directors and Supervisory Board in writing. A member of the Board of Directors of the Company may not be a member of the Board of Directors of the subsidiary Západoslovenská distribučná, a.s. The performance of the office of the member of the Board of Directors may not be delegated.
3. If the number of members of the Board of Directors is not less than half, the Board of Directors shall have the right to appoint alternates until the time of the nearest General Meeting of the Company. The Board of Directors has a quorum if the absolute majority of its members are present at the meeting. The Board of Directors shall adopt resolutions by absolute majority of votes of the members present at the meeting. Neither Chairman nor Vice-Chairman shall have the casting vote in case of a tie. The members of the Supervisory Board may vote by this form of communication or by a written declaration if they are not present in person at a venue where the majority of members are gathered, whereas such venue shall be considered as a venue of the meeting. The resolutions of the Board of Directors may be adopted, in addition to meetings of the Board of Directors, by members of the Board of Directors, out of the meeting of the Board of Directors ("per rollam resolution").

4. E.ON, a shareholder of the Company, shall be obliged to exercise all its rights in order to make sure that the Board of Directors of the Company will not adopt any resolution if not a single member nominated by the Ministry of Economy of the Slovak Republic (only the "Ministry") as a shareholder of the Company is present at the relevant meeting. If a member nominated by the Ministry is absent from two consecutive, regularly convened meetings of the Board of Directors, the above stated shall not apply to the second of these meetings.

Structure and activities of the Board of Directors

In 2016 the Board of Directors of the Company had the following structure:

Structure of the Board of Directors	
Chairman of the Board of Directors:	Jochen Kley
Vice-chairman of the Board of Directors:	Ing. Peter Adamec, PhD.
Members of the Board of Directors:	Ing. Ján Rusnák (to 16 November 2016)
	Ing. Pavol Viskupič (from 16 November 2016)
	Mgr. Juraj Krajčár
	Marian Rusko

The activities of the Board of Directors were performed in line with the Articles of Association and Commercial Code; in 2016 the Board of Directors held meetings regularly and in line with Articles of Association, and in line with Article XVIII(7) of the Articles of Association the Board of Directors adopted several resolutions out of the meeting of the Board of Directors ("per rollam resolutions") in 2016.

Supervisory Board

1. The Supervisory Board is the supervisory body of the Company which oversees the activities of the Board of Directors and business activities of the Company. Resolutions and duties charged with the Board of Directors by the Supervisory Board were performed, and regularly reviewed and assessed at the meetings of the Supervisory Board. The activities of the Supervisory Board are explained in detail in Article XX of the Articles of Association.
2. The Supervisory Board of the Company has nine (9) members. Two thirds of members of the Supervisory Board shall be elected and removed by the General Meeting of the Company and one third by the Company's employees. The term of office of the members of the Supervisory Board shall be three (3) years. The term of office is renewable. The Chairman and Vice-chairman of the Supervisory Board of the Company shall be elected and removed by the members of the Supervisory Board; the persons concerned shall also vote. The office of the Chairman and Vice-chairman of the Supervisory Board shall commence on the day of their election and end upon their removal by the Supervisory Board. Neither Chairman nor Vice-Chairman shall have the casting vote in case of a tie. Performance of the office of the member of the Supervisory Board of the Company may not be delegated.
3. The meeting of the Supervisory Board of the Company shall be convened by a written invitation sent to every member of the Supervisory Board to the address specified by him/her or to the address of the seat of the Company no later than 15 days prior to every meeting. The invitation must include date, time, venue and the agenda of the meeting.
4. The Supervisory Board has a quorum if the absolute majority of its members are present at the meeting. The Supervisory Board shall adopt resolutions by absolute majority of votes of all members of the Supervisory Board. The members of the Supervisory Board may participate in the meetings of the Supervisory Board in any form of communication during which all participants hear one another. The members of the Supervisory Board may vote by this form of communication or by a written declaration if they are not present in person at a venue where the majority of members are gathered, whereas such venue shall be considered as a venue of the meeting. The resolutions of the Supervisory Board may be adopted, in addition to meetings of the Supervisory Board, by members of the Supervisory Board out of the meeting of the Supervisory Board ("per rollam resolution").

5. The Slovak Republic, as a shareholder of the Company, shall be obliged to exercise all its rights in order to make sure that the Supervisory Board of the Company will not adopt any resolution if not a single member nominated by E.ON is present at the relevant meeting. If a member of the Supervisory Board of the Company nominated by E.ON Slovensko, a.s. is absent from two consecutive, regularly convened meetings of the Supervisory Board, the above stated shall not apply to the second of these meetings.

In 2016 the Supervisory Board of the Company held four regular meetings in line with the Articles of Association; in line with Article XXII(8) of the Articles of Association the Supervisory Board of the Company adopted a resolution out of the meeting of the Supervisory Board ("per rollam resolutions") in 2016.

Audit Committee

1. Without prejudice to responsibilities of the members of the Board of Directors and the Supervisory Board of the Company, the Audit Committee is a body of the Company in charge of the following activities:
 - a) monitors the drawing-up of the financial statements (individual and consolidated) and compliance with special regulations;
 - b) monitors the efficiency of internal audits and risk management systems in the Company;
 - c) monitors the audit of the individual and consolidated financial statements;
 - d) verifies and oversees the independence of the auditor; in particular services provided by the auditor under the special regulation;
 - e) recommends the auditor for the Company;
 - f) sets him/her deadlines for presenting a declaration on honour on his/her independence.

The Audit Committee has three (3) members elected and removed by the General Meeting on a proposal from the Board of Directors or shareholders of the Company.

Information pursuant to Section 20(7) of the Act No 431/2002 Z. z. on Accounting as amended:

- a) The registered capital of the Company of EUR 196,969,174.86 is composed of 5,934,594 pieces of booked ordinary shares of the nominal value of EUR 33.19 per share. Shares are not publicly negotiable. The whole amount of registered capital of the Company was issued and paid in full. The Company has no subscribed registered capital which would not be listed in the Companies Register..
- b) The Company's shares are freely transferrable.
- c) The following companies own qualified share in the registered capital: (at least 10 % share):
 - Slovak Republic represented by the Ministry of Economy of the Slovak Republic - 51% share in the registered capital of the Company;
 - E.ON Slovensko, a.s. - 39% share in the registered capital of the Company;
 - E.ON Beteiligungen GmbH - 10% share in the registered capital of the Company.
- d) There are no persons exercising special control rights among the owners of the bonds.
- e) The Articles of Association do not contain any provisions on restrictions of voting rights.
- f) The Company is not familiar with any agreements among the owners of the bonds of the Company that might lead to any restrictions as regards the transferability of the bonds or restriction of voting rights.
- g) The rules governing the appointment and removal of the members of the Board of Directors as a statutory body of the Company and changes to the Articles of Association:

Members of the Board of Directors as a statutory body of the Company shall be elected and removed by the General Meeting of the Company. The General Meeting may anytime remove any member of the Board of Directors of the Company. Also, the General Meeting shall also appoint the Chairman or Vice-Chairman of the Board of Directors of the Company. The term of office of the members of the Board of Directors of the Company shall be four (4) years.

The General Meeting shall make decisions concerning the amendment of the Articles of Association by two-third majority of votes of all shareholders. The full wording of the proposed amendments of the Articles of Association shall be available to shareholders for viewing at the Company's seat within a period of time required for the convocation of the General Meeting,

as stated in the Articles of Association. A Notarial Deed must be established about the resolution of the General Meeting to amend the Articles of Association. If the General Meeting adopts a resolution the consequence of which will be the amendment of the Articles of Association such resolution shall be considered the amendment of the Articles of Association provided that it was adopted in a manner which is by law or the Articles of Association required for the adoption of the resolution about the amendment of the Articles of Association. Following such amendment the Board of Directors shall be obliged to make without undue delay the full wording of the Articles of Association for the completeness and correctness shall be fully responsible.

- h) Powers of the statutory body - the Board of Directors - are presented in the Commercial Code and the Articles of Association.

The Company's Board of Directors shall exercise the right to act on behalf of the Company, represent the Company in relation to the third persons. The Board shall govern the activities performed by the Company and take decisions in all the relevant matters unless applicable laws or Articles of Association place them within the authority of other bodies of the Company.

The Company's Board of Directors is mainly in charge of the following:

- (i) Performing the commercial management of the Company and ensuring all its operational and organisational rights and duties;
- (ii) Exercising the employment rights and duties;
- (iii) Convening the General Meeting;
- (iv) Outlining the Strategy Plan of the Company and submitting the plan for approval to the Supervisory Board of the Company;
- (v) Implementing the resolutions of the General Meeting;
- (vi) Keeping the prescribed accounting and other records, accounting books and other documents relevant for the Company;
- (vii) Submitting for approval of the General Meeting:
 - Proposals for amendments of by-laws;
 - Proposals for increasing and decreasing the fixed assets and issuance of bonds;
 - Proper, extraordinary and consolidated annual closing of account books, proposal for breaking down the earned profit, including the setting of the size and manner of the paying out of the bonuses, in the event of showing the loss, proposal for its balancing
 - Proposal for dissolving the Company or alteration of its legal form;
 - Proposal of the remuneration for performing the function of a board member
 - proposals related to the decisions concerning the matters of Západoslovenská distribučná, a.s. and ZSE Energia, a.s. where the relevant decision taken by the General Meeting of Západoslovenská distribučná, a.s. or the General Meeting of ZSE Energia, a.s. shall require the prior approval of the General Meeting of the Company to be made in accordance with relevant provisions of the applicable Articles of Association of the Company.

The Company's Board shall have no right to make decision on the issuance of shares or share re-acquisition.

- i) The Company shall have no agreements concluded that are binding to amend its conditions in relation to a potential offer for takeover.
- j) There shall be no agreements on reimbursement concluded between the Company and the body members of its bodies, once their service term comes to an end. Reimbursement to Company's employees whose employment contract is terminated is subject to the Labour Code, collective agreement and in-house employment directives.

02 Strategy and Innovations

Energy in Europe and our strategy

Electricity market in 2016 experienced more turbulent times than in the previous years. Uncertainty on the markets, political development and unexpected events led to sharp price fluctuations, especially as the year was approaching its end. The average power electricity price on the spot market in Slovakia was approx. 31.47 EUR/MWh; however the price almost doubled in some hours of the last quarter. The front year price was 28.90 EUR/MWh on average, but in the end of the year it was hit by fluctuations of even up to 10%. The price of power electricity in Slovakia is linked mainly to prices on EEX in Germany and PXE in the Czech Republic. Recently, the continuing integration of national European markets has been becoming more significant.

Within the European context, considerable progress was made in completing the Energy Union in 2016. Vice-president of the European Commission Maroš Ševčovič has submitted so far the biggest and the most crucial energy package, breaking the vision of the Energy Union into specific legislative initiatives. The Energy Union has confirmed its position among the EU top priorities within the new agenda adopted at summit in Bratislava, since its implementation, while meeting environmental targets, will lead to a fundamental modernisation of the EU economy. The ratification of the Paris Agreement on Climate Action was an important event with far-reaching consequences not only on energy business. It was adopted in 2016 in a record time, which is partially down to the Slovak Presidency too.

All these events are a clear validation of global development towards lower emissions, higher energy efficiency, connected markets and necessary transition to modern technology and innovation use. We, in ZSE, are fully aware of these trends, and our ambition is not only to adapt to such development but to actively shape it too.

Therefore in context with our strategy, we want to bring new value-added solutions and products, while keeping our position of a stable and reliable distributor and supplier of energy.

Our traditional business

In terms of electricity distribution, Západoslovenská distribučná continued in being a reliable distributor; the volume of distributed electricity in 2016 was more than 9.3 TWh supplied to more than 1.1 mil. supply points. On a year-on-year basis, both these indicators went up in 2016.

In terms of supply, ZSE Energia continued to be a stable supplier in 2016; it supplied more than 5.7 TWh of electricity and almost 2.1 TWh of gas. Both these volumes prove that the fall in electricity supply has stopped and the importance of ZSE Energia as a gas supplies is on the rise.

In addition to traditional business, ZSE Energia saw also successes in non-commodity services launched already 2015. In 2016, the number of customers with this type of products kept increasing. Among the most popular product are assistance services.

Innovations

Keeping in mind the active approach to technology development, ZSE Group in year 2016 carried out innovative activities both internally and externally. In terms of internal processes we have adopted several improvements, increasing their degree of digitisation too.

The most tangible innovation externally are mainly activities related to e-mobility in Slovakia, and activities which will lead to innovative smart solutions for households and municipalities.

Speaking about e-mobility, the ZSE Group we have been engaged we have been engaged in several activities – either its own initiatives or initiatives which are a part of international projects. In 2016, the ZSE Group managed to get the grant within the Connecting Europe Facility (CEF), supported by the European Commission, for another international project EAST-E. Currently, ZSE is implementing two international e-mobility projects – FAST-E and EAST-E. Our aim within these projects is to develop 29 fast-charging stations for electric vehicles on the main European corridors crossing the Slovak Republic and 5 medium-fast charging stations in the intermodal points.

In 2016, we continued to develop services for various customer groups, including smart home solutions, higher energy efficiency for businesses and smart transport. ZSE also continued in cooperating with Slovak cities on the Smart City concept. Such global projects require for necessary partnerships between several entities whose services and products form synergies, with ZSE as a natural key player.

ZSE Group did not incur any expenses in the area of research and development.

Expectations for year 2017

One of the most important factors affecting energy in Europe is the EU policy. This area will be affected especially by the implementation of the legislative package of the Energy Union in 2017. Also, new European legislation for clean and smart transport is expected, including activities leading to smarter infrastructure solutions, especially in the cities. The ZSE Group strategy fully reflects all these trends, nevertheless it will keep flexibility in its responses to even less predictable changes in geopolitical or macroeconomic development so that it remains a stable partner for energy solutions to its customers.

Risks and Uncertainties

ZSE Group will continue to be in charge of developing new projects and innovative solutions that will reflect the strategic direction of the ZSE Group facing the challenges resulting from the macro-economic and market changes.

The significant events occurred after the end of 2016 requiring recognition or disclosure in the Annual report

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.

03 Economy

Selected Data from the Separate Financial Statements

In 2016, the parent company Západoslovenská energetika generated a profit of EUR 50,860 thousand and incurred costs totaling EUR 66,309 thousand.

The Company's key figures according to the International Financial Reporting Standards as adopted by the European Union:

Key Figures as at 31 December		
€ thousand	2016	2015
Non-current assets	967,416	969,974
Current assets	88,435	53,415
Total assets	1,055,851	1,023,389
Equity	334,705	341,144
Non-current liabilities	631,718	631,467
Current liabilities	89,428	50,778
Total equity and liabilities	1,055,851	1,023,389
Revenues	39,000	43,991
EBIT (profit from operations)	53,923	60,468
EBITDA	58,024	64,138
Total income	118,125	123,927
Total expenses	66,309	63,955
Profit before tax	51,816	59,972
Profit for the year	50,860	57,944
Other comprehensive income	270	46
Total comprehensive income for the year	51,130	57,990
Capital expenditures	3,650	5,453
Average number of employees	303	309

Distribution of the 2015 Profit

The General Meeting of Západoslovenská energetika, a.s. held on 27 May 2016 approved the proposal for the distribution of the 2015 profit of EUR 57,935 thousand. In October 2016 the Company's shareholders were paid dividends from the 2015 profit in the total amount of EUR 57,570 thousand. Also, the amount of EUR 365 thousand from the 2015 profit were earmarked as a contribution to the social fund from profit. In 2016, the dividend per share amounted to EUR 9.70 (2015: EUR 10.27 per share).

Decision on the 2016 Profit Distribution

At its meeting on 27 March 2017 the Board of Directors of Západoslovenská energetika, a.s., acknowledged, and recommended to the Supervisory Board of Západoslovenská energetika, a.s. to discuss, the following proposal for the distribution of the Company's profit for 2016:

Proposal for Distribution of ZSE's 2016 Profit	
Submitted to the Board of Directors of ZSE on 27 March 2017	€ thousand
Profit/loss for the year	50,860
Contribution to the social fund	395
Dividends	50,465
Total distribution of profit	50,860

Selected Data from the Consolidated Financial Statements

In 2016, the ZSE Group generated a profit of EUR 98,622 thousand and incurred costs totaling EUR 905,385 thousand.

The ZSE Group's key figures according to the International Financial Reporting Standards as adopted by the European Union:

Key figures about the ZSE Group as at 31 December		
€ thousand	2016	2015
Non-current assets	771,167	737,450
Current assets	192,827	138,851
Total assets	963,994	876,301
Equity	3,122	(39,035)
Non-current liabilities	752,919	747,681
Current liabilities	207,953	167,655
Total equity and liabilities	963,994	876,301
Revenues	1,001,286	1,009,024
EBIT (profit from operations)	145,707	139,355
EBITDA	194,497	186,386
Total income	1,027,386	1,035,373
Total expenses	905,385	918,044
Profit before tax	122,001	117,329
Profit for the year	98,622	88,071
Other comprehensive income	1,104	406
Total comprehensive income for the year	99,726	88,477
Average number of employees	1,793	1,767

Structure of Electricity Sources and Use

Structure of Electricity Distribution

In GWh	As at 31 December 2016	Share (%)	As at 31 December 2015	Share (%)
Wholesale	5,645	60.39	5,548	60.55
Retail - businesses	1,397	14.95	1,367	14.92
Retail - households	2,305	24.66	2,247	24.53

Structure of Electricity Supplies

In GWh	As at 31 December 2016	Share (%)	As at 31 December 2015	Share (%)
Volume of electricity supplied including losses (GWh)	6,212	100.00	6,314	100.00
Of which: supplies to households (GWh)	1,885	30.00	1,875	30.00
Of which: supplies excluding households (GWh)	4,327	70.00	4,439	70.00

Useful electricity supply (GWh)

Year	Total
2016	6,212
2015	6,314

Electricity distribution (GWh)

Year	Total	Of which: wholesale	Of which: retail
2016	9,347	5,645	3,702
2015	9,162	5,548	3,614

Information on sales in monetary and GWh terms from electricity distribution:

Indicators of Západoslovenská distribučná, a.s.

As at 31 December	2016	2015
Volume of electricity distributed (GWh)	9,347	9,162
Revenues from electricity distribution (€'000)	464,474	447,714
Number of supply points	1,119,364	1,106,517

Information on sales in monetary and GWh terms from electricity supply to customers:

Indicators of ZSE Energia, a.s.

As at 31 December	2016	2015
Volume of electricity sold (GWh)	6,212	6,314
Revenues from the sale of electricity (€ thousand)*	662,638	714,334
Volume of electricity purchased (GWh)	6,212	6,314
Volume of electricity generated (GWh)	-	-
Number of supply points	926,938	936,326

Information on sales in monetary terms for the ZSE Group:

Indicators of the ZSE Group		
As at 31 December	2016	2015
Volume of electricity sold (GWh)	6,212	6,314
Volume of electricity distributed (GWh)	9,347	9,162
Revenues from the sale and distribution of electricity (€ thousand)*	907,814	921,227
Volume of electricity purchased (GWh)	6,207	6,309
Volume of electricity generated (GWh)	5	5

Information on sales in monetary terms from gas supply to customers:

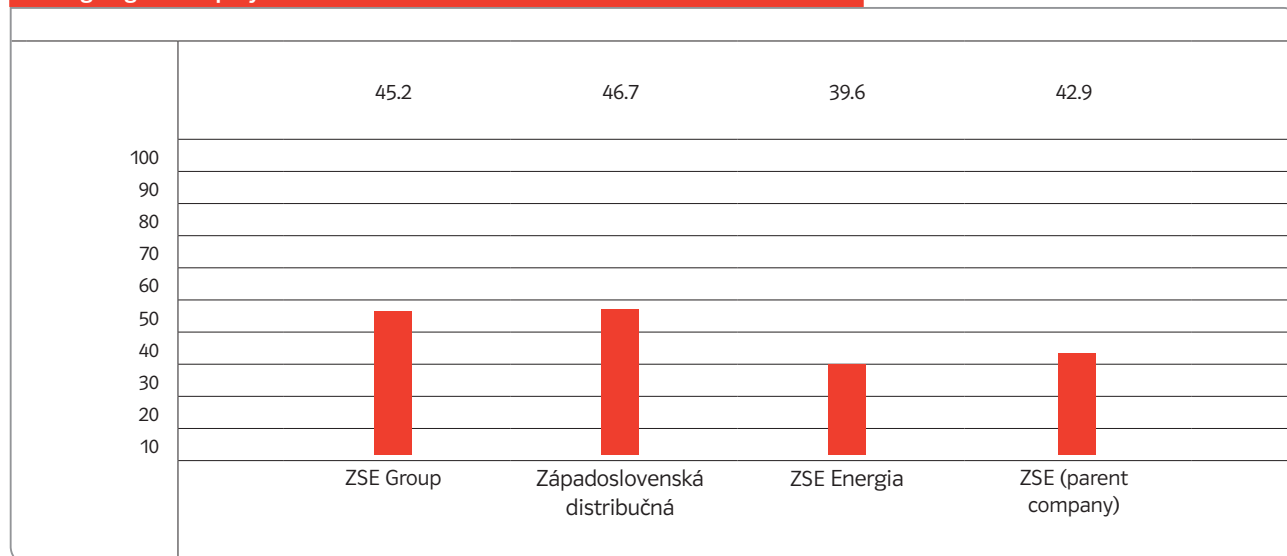
Indicators of ZSE Energia, a.s.		
As at 31 December	2016	2015
Revenues from the sale of gas (€ thousand)*	81,282	77,373
Volume of gas supplied (GWh)	2,084	1,901
Number of supply points	56,346	50,953

* Sales include distribution charges from distribution system operators outside the ZSE Group

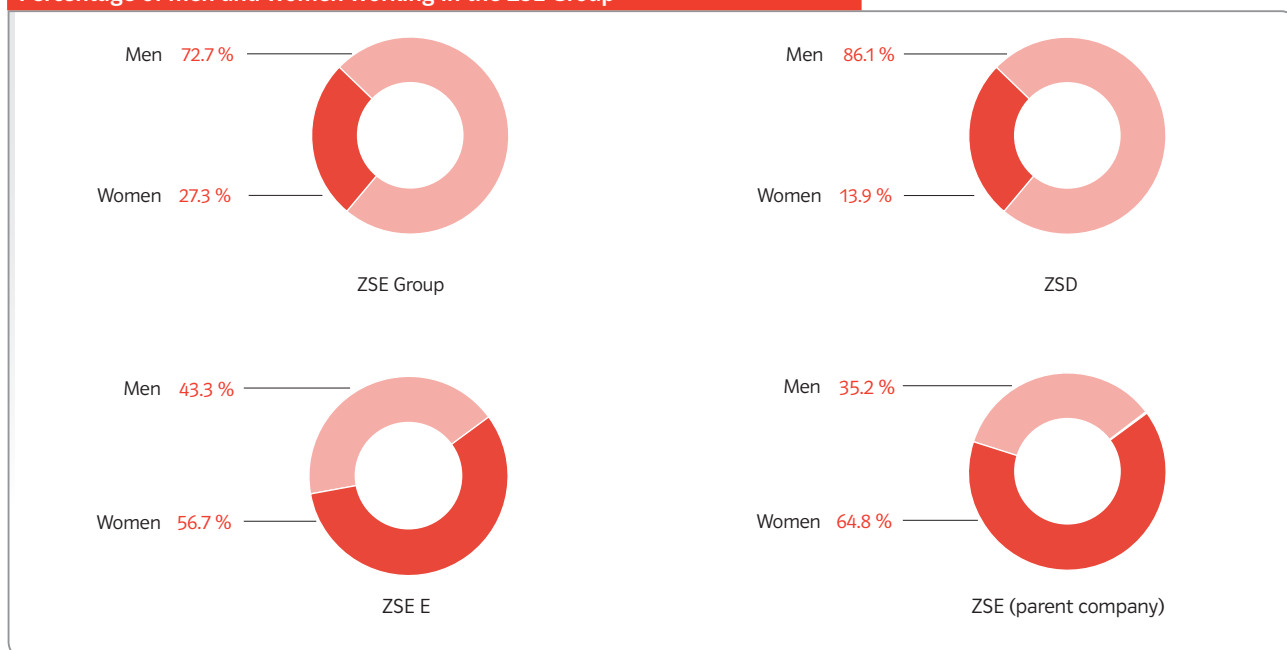
04 Human Resources

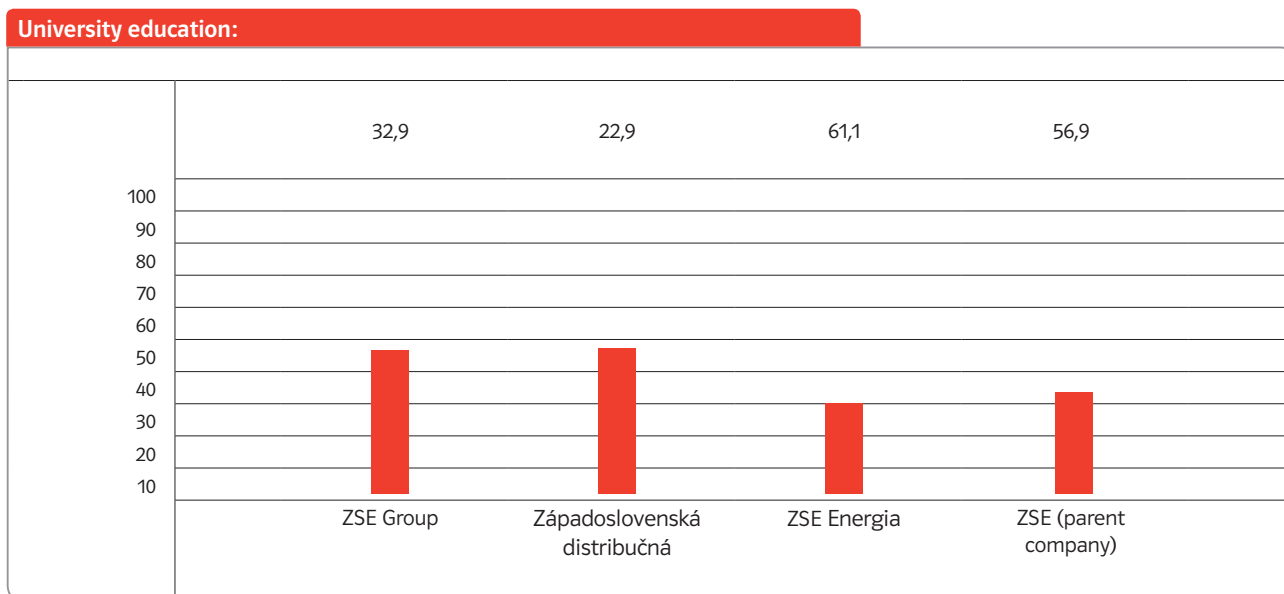
In 2016, the ZSE Group had 1,793 employees on average (excl. members of the Board of Directors and Supervisory Board who worked on the basis of the agreement on performance of work). On average, Západoslovenská distribučná had 1,283 employees, ZSE Energia 194 employees, ZSE Energy Solutions 5 employees, ZSE MVE 8 employees and the parent company ZSE 303 employees. The share of women went up by 2.2 % on a year-on-year basis, especially as a result of shifting employees from E.ON Business Services Slovakia, spol. s.r.o.

Average age of employees



Percentage of men and women working in the ZSE Group





Remuneration and employee benefits: In line with the commitments resulting from the Collective Agreement, the companies of the ZSE Group raised the wage, consisting of the basic and variable part, by 2.11% on average.

Employees were remunerated based on their performance which directly affected the sum of the variable part of the wage and extraordinary bonuses.

All employees received the contribution from the Social Fund for recovery of labour force. Above standard preventive medical check-ups were also provided to the employees.

Also this year, the employer continued in contributing to the supplementary pension savings scheme of the employees. Every employee was entitled to 5 days of holidays beyond the Labour Code.

Training: In 2016, **921** training activities were carried out in the ZSE Group. Average costs per one employee were EUR 628.5 and one employee spent 6.3 days on average in the training.

The biggest part of these activities concerned trainings required by law. In case of other trainings, the bigger emphasis was placed on individual approach to development needs of the employees. As compared to previous years, several trainings were provided to the entire teams. We started developing communications skills of metering service technicians.

Within the "Talent Pool" programme, eight new members were chosen who will undertake a 2-year intensive development programme of talented employees of ZSD and ZSEE.

In ZSE we give room to students of secondary schools and universities. University students can participate in the scholarship programme where they work for the Company in their last years at school with a prospect of taking up a specific work position. Talented graduates of universities can participate in the so-called Trainee Programme, during which the Company trains successors for key positions through a systematic development and job rotations.

We offer also several projects for students of secondary schools. Traditionally, ZSE Open is the biggest event. As a part of this event, students and pedagogues of secondary schools of electrical engineering have an opportunity to spend one day in our Company. The development and competition projects Best Idea and 4E.ON continued. We supported 15 projects focusing on business ideas aimed at conserving nature and saving energy and 15 projects focusing on the development of interactive education aids for secondary schools.

Elektrárňa Piešťany also offered its educational projects to students of primary schools. We also organised a correspondence competition Finding Energy subtitled Tesla vs Edison, in which 120 students from more than 100 primary schools got engaged.

05 Occupational Health and Safety

In terms of occupational health and safety, we paid close attention to the working and social conditions of its employees. Through various activities we successfully raised awareness of employees with respect to occupational health and safety, healthy lifestyle, fitness and flexibility enhancement. A sum of EUR 653,616 was spent on personal and protective work equipment and tools, obligatory training courses on occupational health and safety, and preventive medical check-ups for all companies of the ZSE Group.

The TRIF comb. indicator – a number of incidents incurred by the employees of ZSE Group and of contractors per 1 million hours of work for the monitored period – is reported in the ZSE Group. In 2016, the TRIF comb. was 1.7. In 2016, four registered work accidents of the ZSE Group employees were reported and two registered work accidents of contractors were reported.

In 2016, employees of contractors worked 503,119 hours at the sites or facilities of the ZSE Group.

Within the recertification audit in 2016, the Company showed improvement of the established System of Integrated Management (SIM) and managed to keep international certificates ISO 14001 and OHSAS 18001. The re-certification agency identified SIM strengths and improvements and came to the conclusion that SIM is in line with the requirements of ISO 14001 and OHSAS 18001 standards, applicable laws and achieves continuous improvement. The audit led to recommendations of the certification agency to continue with the certification.

06 Environmental Protection

Environmental protection is one of top priorities of ZSE. With the aim of protecting and improving quality of environment, we take preventive measures in all business activities we perform.

By implementing specific environmental projects, we take a proactive approach to protecting avifauna, avoiding soil and water contamination and adopting measures aimed at reducing noise in the vicinity of its operations.

In 2016, the companies of the ZSE Group invested EUR 1,658 thousand in environmental constructions and repairs. A sum of approx. EUR 408 thousand was dedicated to the environmental operation and maintenance of the facilities and repairs of the objects, including waste disposal. Specifically, sewage systems were upgraded in the operated objects and new parking areas were developed. All these activities were carried out in order to reduce the risk of polluting underground water and soil.

With the aim of eliminating the risk of death of protected species of birds as they land on electric line masts, more than 600 middle-voltage line masts were equipped with console cases. Also, in 2016 we started installing flight route deflectors in the MV line in the Komárno area. This initiative is a part of the LIFE Energy in Countryside project, in which we closely cooperate with the "Raptor Protection of Slovakia" organisation.

By thorough separation of waste generated when repairing energy facilities and constructions, 887 tons of scrap were delivered for recycling. Special attention was paid to the maintenance of equipment containing SF₆ gas, which is classified as a fluorinated greenhouse gas. Gas leaks are consistently monitored and recorded.

07 Corporate Social Responsibility

The ZSE Group is among the corporate social responsibility leaders in Slovakia and its principles are in the middle of our daily business decisions and strategy. Corporate social responsibility directly effects loyalty and satisfaction of employees. It includes our actions not only in energy sector but also approach to local communities and environment. In ZSE we consider important to encourage people to be active and make the world a better place for living.

Our activities are oriented on education and training, innovations, environment and community development.

Education

We want to contribute to better education in Slovakia. Good education is an instrument which would enable responsible decision-making. By supporting educational projects, schools will promote creative and critical thinking.

In 2016 we continued to develop the **Green School** programme partnership. The Green School is an educational programme designed for kindergartens, primary and secondary schools which wish to change themselves and their environment. The aim of the programme is to support school communities where their members can test both the magic and pitfalls of cooperation. Pupils with the help of their teachers and parents solve real needs of their schools and environment, thus contributing to positive change. The issue of environment requires not only words but actions too. The programme therefore promotes the implementation of long-term and practical initiatives with real positive impact on schools and environment.

The schools engaged may get a Green School certificate which is granted based on the rate of pupils' involvement, development of their independence, implementation of quality environmental activities and success in methodology which accompanies schools and leads them to practical solutions. Schools get practical support also through personal consultants and exchange of experience with other schools. A network of people is created, inspiring to change.

The main coordinator of the programme is ŽIVICA – a centre of environmental and ethical education. People in ŽIVICA believe that a school may offer much more than formal education. Živica supports schools through various inspiring and experience workshops, materials and information service. The Green School programme has been in place in Slovakia since 2004. In the school year 2015/2016, 286 schools were engaged in the programme. Out of this number 159 schools got the certificate. In the school year 2016/2017, 314 schools are engaged in the programme.

Inspiration to the change of education can be found here: <http://www.zelenaskola.sk/> and here: <http://www.zivica.sk/>

We have been a partner to the **Socrates Institute** for some years. The Socrates Institute is accredited training for university graduates. It is a one-year study consisting of ten interactive workshops.

The institute aims to create conditions for development of personalities, young people who are willing to work on themselves, bear responsibility for what they do and pursue their vision. The Socrates Institute is opened to student or graduates of any field, so scientists, lawyers, economists, doctors, journalist or artists study together.

Innovations

Innovations help improve quality of our life, make our life easier and contribute to sustainable development. We, in ZSE, believe that we are able to change something in our environment if we join our forces. That's why we have chosen **Impact Hub** as a key partner in support for innovation.

Impact Hub is an international co-working platform aimed at supporting innovative ideas for the benefit of society. Experts, organisations, teams and individuals pursue a common objective – creating better conditions for development of social business on local markets and worldwide. A unique ecosystem of sources and inspiration supports beneficial projects and development of sustainable future on a practical and long-term basis.

ZSE and Impact Hub have been working together on the issues such as sustainability, energy efficiency and environment-friendly technologies. Within this context we want to concentrate on start-ups focusing on innovative approaches to this issue.

Environment

Environmental responsibility is among our top priorities. For more than 20 years environmentalists and we have been jointly working on the harmony between the landscape and industry on this territory which is also a part of the distribution area of ZSE. We jointly protect birds against the crashes into the lines. Installation of the so-called flight route deflectors minimises the risk of crashing into the lines even in bad weather.

In addition to these activities we developed a 3D project – *We give Home to Raptors*. In this project we have been cooperating with the non-governmental organisation **Raptor Protection of Slovakia**.

Several activities were completed within this project in 2016. We installed nesting half-boxes and imitations of nests and regularly checked them out. Up to one third of artificial nests were successfully occupied by several raptors and owls, mainly kestrels and long-eared owls. In the locations with installed nests, the number of kestrels and long-eared owls increased.

In West Slovakia, we monitored the nest population of imperial eagle, saker falcon, red-footed falcon, white-tailed eagle and other species. For example, 19 pairs of imperial eagle nested in Slovakia, of which 13 pairs raised 25 young birds in 2016. In 2015 only 18 young birds were raised.

In 2016, the Return of the Eagle campaign continued. Its aim is to bring information about eagles and engage the public in the initiative to improve conditions for precious raptors and their return to nature. Outings for the public were organised within this campaign.

Community Development

In ZSE we consider important to encourage people to be active and make the world a better place for living. Our aim is to support initiatives and projects which motivate the community to be active.

In cooperation with **Scouting Slovakia** we organised the 13th year of De-cursing Castles project, aimed at saving castle ruins through volunteering. Scouts-volunteers worked on cleaning and maintaining castle areas, repairing and installing information boards and other conservation works.

We strive to influence our environment by partnerships but also through effort and engagement of employees involved in the **Employee Grant Scheme**. They – as volunteers – selflessly helped directly in schools, community centres or other organizations with trimming courts and gardens, cleaning parks and public spaces, beautifying interiors and in other various activities.

ZSE Foundation

Our company established the ZSE Foundation, wishing to create environment which is inspiring and innovative. We see support for public activities as investment and we expected that the invested effort and sources get back, bringing real change. In schools, local communities, society.

In 2016, the ZSE Foundation announced the open grant programme **Making Regions Move**, with the intention of supporting community and cultural life in the West Slovakia municipalities. The programme supported local cultural, social, sport and other events, connecting local communities and contributing to the local life, improving personal relationships, mobilizing communities and connecting generations. The sum of EUR 120,000 was allocated to the Making Regions Move programme and 158 projects were completed.

Elektrárňa Piešťany

The former municipal power plant, listed in the list of national cultural sights, was renovated and put into operation in 2014. Since then, it has been a venue for education, culture and social activities. The visitors have an opportunity to get answers to questions in science and technology, meet important scientists and their inventions and through interactive installations and expositions get more information about electrical, magnetic, solar and hydro power. Energy of creative people and artists is presented through discussions, expositions, concerts and less traditional forms of theatre art.

08 Independent Auditor's Report



Independent Auditor's Report

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

Our opinion

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

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

What we have audited

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

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

Basis for opinion

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

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

Independence

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

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

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The firm's ID No. (IČO): 35 739 347.

Tax Identification No. of PricewaterhouseCoopers Slovensko, s.r.o. (DIČ): 2020270021.

VAT Reg. No. of PricewaterhouseCoopers Slovensko, s.r.o. (IČ DPH): SK2020270021.

Spoločnosť je zapísaná v Obchodnom registri Okresného súdu Bratislava I, pod Vložkou č.: 16611/B, Oddiel: Sro.

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



Materiality

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

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

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

Reporting on other information in the annual report

Management is responsible for separate annual report prepared in accordance with the Slovak Act on Accounting No. 431/2002 as amended (the "Accounting Act"). The separate annual report comprises (a) the separate financial statements and (b) other information.

Our opinion on the separate financial statements does not cover the other information.

In connection with our audit of the separate financial statements, our responsibility is to read the annual report and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the annual report, we considered whether it includes the disclosures required by the Accounting Act.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the annual report for the year ended 31 December 2016 is consistent with the separate financial statements; and
- the annual report has been prepared in accordance with the Accounting Act.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the annual report. We have nothing to report in this respect.



Our appointment as independent auditors

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.


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

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

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


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




Mgr. Juraj Tučný, FCCA
UDVA licence No. 1059

Bratislava, 27 March 2017, except for Reporting on other information in the consolidated annual report, for which the date of our report is 19 April 2017.



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



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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The firm's ID No. (IČO): 35 739 347.

Tax Identification No. of PricewaterhouseCoopers Slovensko, s.r.o. (DIČ): 2020270021.

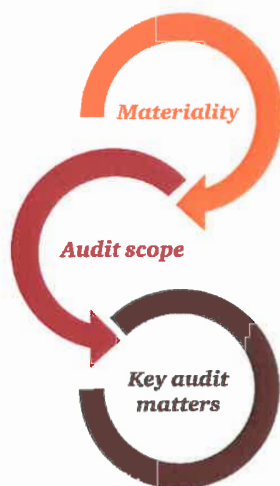
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The firm is registered in the Commercial Register of Bratislava I District Court, Ref. No.: 16611/B, Section: Sro.



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.	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.
The estimate is complex and is calculated by a bespoke software with inputs both from management and an external data provider.	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.

Our opinion on the consolidated financial statements does not cover the other information.



In connection with our audit of the consolidated financial statements, our responsibility is to read the consolidated annual report and, in doing so, 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 considered whether it includes the disclosures required by the Accounting Act.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the consolidated annual report for the year ended 31 December 2016 is consistent with the consolidated financial statements; and
- the consolidated annual report has been prepared in accordance with the Accounting Act.

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the consolidated annual report. We have nothing to report in this respect.

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.



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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Tučný

Mgr. Juraj Tučný, FCCA
UDVA licence No. 1059

Bratislava, 27 March 2017, except for Reporting on other information in the consolidated annual report, for which the date of our report is 19 April 2017.

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

Annexes

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

Consolidated Financial Statements and Independent Auditor's Report – 31 December 2016 and 2015

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

Contents

Independent Auditor's Report	2
Separate Financial Statements	6
Separate Statements of Financial Position	6
Separate Statements of Profit or Loss and Other Comprehensive Income	7
Separate Statements of Changes in Equity	8
Separate Statements of Cash Flows	9
Notes to the Separate Financial Statements	10
1 Introduction	10
2 Significant Accounting Policies	10
3 Adoption of New or Revised Standards and Interpretations	16
4 New Accounting Pronouncements	16
5 Property, Plant and Equipment	18
6 Intangible Assets	19
7 Investment Properties	20
8 Investments in Subsidiaries, Associates and Joint Ventures	21
9 Loans Provided	22
10 Inventories	22
11 Trade and Other Receivables	22
12 Cash and Cash Equivalents	23
13 Share Capital	24
14 Legal Reserve Fund	24
15 Issued Bonds	25
16 Income Taxes	25
17 Post-Employment Defined Benefit Obligations	26
18 Other Long Term Employee Benefits	27
19 Trade and Other Payables	27
20 Receivables and Liabilities from Cash Pooling	28
21 Revenues	28
22 Raw Materials, Energy and Other Consumption	28
23 Employee Benefits	29
24 Other Operating Expenses	29
25 Dividend Income	30
26 Other Operating Income	30
27 Interest and Similar Expenses	30
28 Interest Income	30
29 Sale of Part of the Business	31
30 Segment Reporting	31
31 Financial Risk Management	33
32 Management of Capital	35
33 Offsetting Financial Assets and Financial Liabilities	36
34 Fair Value Disclosures	37
35 Presentation of Financial Instruments by Measurement Category	38
36 Contingencies and Commitments	38
37 Balances and Transactions with Related Parties	38
38 Events after the End of the Reporting Period	40



Independent Auditor's Report

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

Our opinion

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

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

What we have audited

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

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

Basis for opinion

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

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

Independence

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

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

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The firm's ID No. (IČO): 35 739 347.

Tax Identification No. of PricewaterhouseCoopers Slovensko, s.r.o. (DIČ): 2020270021.

VAT Reg. No. of PricewaterhouseCoopers Slovensko, s.r.o. (IČ DPH): SK2020270021.

Spoločnosť je zapísaná v Obchodnom registri Okresného súdu Bratislava I, pod Vložkou č.: 16611/B, Oddiel: Sro.

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



Materiality

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

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

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

Reporting on other information in the annual report

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

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

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

Our appointment as independent auditors

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



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

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

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

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

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

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

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

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



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

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

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

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

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

Bratislava, 27 March 2017



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

Separate Statements of Financial Position

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

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

Jochen Kley
Chairman of the Board of Directors and CEO



Marian Rusko
Member of the Board of Directors



Separate Statements of Profit or Loss and Other Comprehensive Income

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

Separate Statements of Changes in Equity

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

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

Separate Statements of Cash Flows

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

Notes to the Separate Financial Statements – 31 December 2016 and 2015

1 Introduction

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

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

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

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

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

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

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

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

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

2 Significant Accounting Policies

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

The Board of Directors may propose to the Company's shareholders to amend the separate financial statements until their approval by the general shareholders meeting. However, § 16, points 9 to 11 of the Accounting Act No 431/2002 prohibit reopening an entity's accounting records after the financial statements are approved by the general shareholders' meeting. If, after the financial statements are approved, management identifies that comparative information would not be consistent with the current period information, the Accounting Act allows entities to restate comparative information in the reporting period in which the relevant facts are identified.

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

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

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

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

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

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Costs of minor repairs and day-to-day maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

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

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

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

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

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

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

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

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

Costs associated with maintaining computer software programs are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognised as intangible assets when the following criteria are met: (a) it is technically feasible to complete the software product so that it will be available for use; (b) management intends to complete the software product and use or sell it; (c) there is an ability to use or sell the software product; (d) it can be demonstrated how the software product will generate probable future economic benefits; (e) adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and (f) the expenditure attributable to the software product during its development can be reliably measured.

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

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

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

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

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

Trade receivables. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, net of provision for impairment.

A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy or financial reorganisation, default or delinquency in payments (more than 1 month overdue) are considered objective evidence that the trade receivable is impaired.

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced using an allowance account, and the amount of the loss is expensed within "other operating expenses".

When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against impairment losses within "other operating expenses".

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

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

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

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

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

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

Issued bonds, loans and other borrowings. Issued bonds, loans and other borrowings are recognised initially at fair value, net of transaction costs incurred. Issued bonds, loans and other borrowings are carried at amortised cost using the effective interest method. The liabilities are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

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

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

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

Deferred income tax is recognised using the balance sheet liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination and the transaction, when initially recorded, affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the respective reporting period and apply to the period when the related deferred income tax asset will be realised, or the deferred income tax liability will be settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

As agreed with the trade unions, the Company also has (a) a post-employment defined benefit obligation to pay sevenmonthly salaries to each employee upon retirement and (b) an obligation to pay work and life anniversary long service bonuses. These obligations are recognised as liabilities estimated annually by independent actuaries using the Projected Unit Credit Method. The present value of the defined benefit obligation is determined (a) by discounting the estimated future cash outflows using interest rates of high quality corporate bonds, which have terms to maturity approximating the terms of the related liability and (b) then attributing the calculated present value to the periods of service based on the plan's benefit formula.

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

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

Trade payables. Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within less than one year, or within the entity's operating cycle. All other accounts payable are presented as non-current liabilities.

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

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

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

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

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

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

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

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

discounts.

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

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

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

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

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

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

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

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

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

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

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

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

3 Adoption of New or Revised Standards and Interpretations

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

- Annual Improvements to IFRSs 2012 (issued on 12 December 2013 and effective in the EU for annual periods beginning on or after 1 February 2015).
- Defined Benefit Plans: Employee Contributions - Amendments to IAS 19 (issued on 21 November 2013 and effective in the EU for annual periods beginning on or after 1 February 2015).
- Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Agriculture: Bearer plants - Amendments to IAS 16 and IAS 41 (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016).
- Equity Method in Separate Financial Statements - Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016).
- Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).
- Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods on or after 1 January 2016).
- Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016). As a result of this amendment, the Company reassessed presentation of its financial statements, including that it no longer separately reports current portion of post-employment and other long term defined benefit obligations in the statement of financial position and accumulated actuarial remeasurements in the statement of changes in equity due to inherent uncertainty of the estimate and immateriality of such amounts. These changes in presentation did not have a material impact on the entity's separate financial statements. Refer also to Note 17 and 18.

4 New Accounting Pronouncements

Certain new standards, interpretations and amendments have been issued that are mandatory for annual periods beginning on or after 1 January 2017, and which the entity has not early adopted:

IFRS 9, Financial Instruments: Classification and Measurement (issued in July 2014 and effective for annual periods beginning on or after 1 January 2018). The entity expects that impairment provisions for trade receivables will increase upon adoption of IFRS 9 because the standard introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. Under the new rules the Company will have to record an immediate loss equal to lifetime expected loss on initial recognition of its trade receivables that are not overdue and are not credit impaired. A reasonable estimate of this increase in provisions cannot be made because it is impossible to reliably forecast what forward looking information, including macro-economic forecasts and probabilities assigned to alternative macro-economic outlooks, will prevail at 1 January 2018, when the effects of adopting the standard will be recognised against opening balance of retained earnings. The Company is currently assessing other aspects of the new standard and its impact on the Company's separate financial statements.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014, amended on 12 April 2016 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Company is currently assessing the impact of the new standard on its financial statements.

IFRS 16, Leases (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the statement of profit or loss and other comprehensive income. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to

account for those two types of leases differently. The Company is currently assessing the impact of the new standard on its financial statements. This standard has not yet been endorsed by the EU.

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

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

- IFRS 14, Regulatory Deferral Accounts (issued in January 2014 and effective outside the European Union for annual periods beginning on or after 1 January 2016). This standard will not be adopted by the European Union.
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB). The EU endorsement is postponed until after the IASB determines the effective date of this amendment.
- Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12* (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Amendments to IFRS 2, Share-based Payment* (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4* (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).
- Annual Improvements to IFRSs 2014-2016 Cycle* (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017 for amendments to IFRS 12, and on or after 1 January 2018 for amendments to IFRS 1 and IAS 28).
- IFRIC 22 - Foreign Currency Transactions and Advance Consideration* (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Transfers of Investment Property - Amendments to IAS 40* (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

* These new standards, amendments and interpretations have not been endorsed by the European Union yet.

5 Property, Plant and Equipment

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

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

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

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

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

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

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

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

6 Intangible Assets

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

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

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

7 Investment Properties

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

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

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

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

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

8 Investments in Subsidiaries, Associates and Joint Ventures

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

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

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

* Ownership interest and voting rights held.

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

9 Loans Provided

An overview of loans provided is as follows:

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

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

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

10 Inventories

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

11 Trade and Other Receivables

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

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

Movements in the impairment provision for trade receivables		
In thousands of EUR	2016	2015
Provision for impairment at 1 January	81	99
Impairment loss expense	6	(11)
Amounts written off during the year as uncollectible	-	(7)
Provision for impairment at 31 December	87	81

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

The credit quality of trade receivables is as follows:

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

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

12 Cash and Cash Equivalents

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

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

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

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

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

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

13 Share Capital

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

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

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

14 Legal Reserve Fund

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

15 Issued Bonds

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

Amortised cost carrying value of the bonds is as follows:

Amortised cost carrying value of the bonds		
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

16 Income Taxes

Income tax expense comprises the following:

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

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

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

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

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

Deferred taxes are attributable to the following temporary differences:

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

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

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

17 Post-Employment Defined Benefit Obligations

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

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

The principal actuarial assumptions were as follows:

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

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

18 Other Long Term Employee Benefits

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

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

19 Trade and Other Payables

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

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

20 Receivables and Liabilities from Cash Pooling

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

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

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

21 Revenues

Revenues comprise the following:

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

22 Raw Materials, Energy and Other Consumption

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

Raw Materials, Energy and Other Consumption		
In thousands of EUR	2016	2015
Fuel consumption	1,449	2,073
Energy consumption	1,052	1,038
Consumption of other materials and spare parts	514	278
Total raw materials, energy and other consumption	3,015	3,389

23 Employee Benefits

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

24 Other Operating Expenses

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

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

25 Dividend Income

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

26 Other Operating Income

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

27 Interest and Similar Expenses

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

28 Interest Income

Interest Income		
In thousands of EUR	2016	2015
Interests income from loans to Západoslovenská distribučná, a.s.	22,617	22,617
Other interest income	86	146
Total interest income	22,703	22,763

29 Sale of Part of the Business

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

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

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

30 Segment Reporting

The operating segments are those used by the Board of Directors to manage the business of the Company and its subsidiaries (together the „Group“), allocate resources and make strategic decisions. The segments are therefore reported for the Group as a whole; management does not review component financial information of the Company standing alone. The Group identifies its segments according to the nature of products and services provided by each segment. The Group's operating segments are (i) electricity distribution, (ii) electricity and gas supply and (iii) other activities as described below. The Group's activities are concentrated in Slovakia.

The main indicators used by the Board of Directors in their decision making are earnings before interest, taxes, depreciation and amortisation (EBITDA) and capital expenditures. The Board of Directors separately monitor the operating results of the segments to take decisions on how to allocate the resources, to evaluate the effects of the allocation and to evaluate performance. Segment income and costs are measured in a manner consistent with that in the consolidated statement of profit or loss and other comprehensive income. The Group does not analyse assets and liabilities by operating segments.

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

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

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

As a result of regulation of the distribution business and partial regulation of the supply business approximately 93% (2015: 94%) of the Group's EBITDA were generated from sales to customers who are subject to the price regulation.

Other. Segment Other includes activities provided by the Company together with its subsidiaries ZSE Energy Solutions, s.r.o. and ZSE MVE, s. r. o. Board of Directors does not assess activities and results of the Company separately but within segment Other. Segment Other provides mainly headquarter type functions, as central services, accounting, controlling, HR and other services, to both supply and distribution businesses. The segment realizes also electricity production in two small hydroelectric plants and generates also some external revenues from projecting and engineering activities in investment construction for third parties.

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

Reportable segments information for 2016					
In thousands of EUR	Distribution	Supply	Other	Eliminations	Total Group
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 amortisation (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:

Reportable segments information for 2015					
In thousands of EUR	Distribution	Supply	Other	Eliminations	Total Group
Revenue from external customers	255,701	750,312	3,011	-	1,009,024
Inter-segment revenues	198,415	43,099	43,407	(284,921)	-
Total segment revenues	454,116	793,411	46,418	(284,921)	1,009,024
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, depreciation and amortisation (EBITDA)	155,981	17,510	13,440	(545)	186,386
Capital expenditures	76,783	4,141	5,032	(6,856)	79,100

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

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

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

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

Reconciliation of capital expenditures for all operating segments		
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

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

31 Financial Risk Management

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

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

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

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

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

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

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

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

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

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

Liquidity risk. Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Prudent liquidity risk management implies maintaining sufficient cash balances, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Company aims to maintain flexibility in funding by keeping committed credit lines available. In addition, the Company relies on liquidity of financial markets and its ability to refinance its outstanding bonds in the medium term.

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

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

The maturity analysis 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)	4,140	1,423	-	-	-	5,563
Other accrued liabilities (Note 19)	864	1,636	420	157	222	3,299
Other financial liabilities (Note 19)	-	1,322	-	-	-	1,322
Liabilities from cash pooling (Note 20)	71,787	-	-	-	-	71,787
Issued guarantees	8,151	-	-	-	-	8,151
Total future payments, including future principal and interest payments	84,942	4,381	22,076	374,614	340,422	826,435

The maturity analysis is as follows at 31 December 2015:

The maturity analysis 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)	2,784	638	-	-	-	3,422
Other accrued liabilities (Note 19)	304	714	285	139	-	1,442
Other financial liabilities (Note 19)	50	439	-	-	-	489
Liabilities from cash pooling (Note 20)	35,854	-	-	-	-	35,854
Issued guarantees	5,589	-	-	-	-	5,589
Total future payments, including future principal and interest payments	44,581	1,791	21,941	383,652	352,800	804,765

32 Management of Capital

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

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

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

33 Offsetting Financial Assets and Financial Liabilities

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

Offsetting Financial Assets and Financial Liabilities at 31 December 2016						
In thousands of EUR	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure
	(a)	(b)	(c) = (a) - (b)	Financial instruments (d)	Cash collateral received (e)	(c) - (d) - (e)
ASSETS						
Loans provided	634,833	-	634,833	29,817	-	605,016
Receivables from cash pooling	1,288	-	1,288	1,288	-	-
TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	636,121	-	636,121	31,105	-	605,016
LIABILITIES						
Liabilities from cash pooling	71,787	-	71,787	31,105	-	40,682
TOTAL LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	71,787	-	71,787	31,105	-	40,682

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

Offsetting Financial Assets and Financial Liabilities at 31 December 2015						
In thousands of EUR	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure
	(a)	(b)	(c) = (a) - (b)	Financial instruments (d)	Cash collateral received (e)	(c) - (d) - (e)
ASSETS						
Loans provided	634,833	-	634,833	-	-	634,833
Receivables from cash pooling	12,633	-	12,633	12,633	-	-
TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	647,466	-	647,466	12,633	-	634,833
LIABILITIES						
Liabilities from cash pooling	35,854	-	35,854	12,633	-	23,221
TOTAL LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	35,854	-	35,854	12,633	-	23,221

The amount set off in the statement of financial position reported in column (b) is the lower of (i) the gross amount before offsetting reported in column (a) and (ii) the amount of the related instrument that is eligible for offsetting. Similarly, the amounts in columns (d) and (e) are limited to the exposure reported in column (c) for each individual instrument in order not to understate the ultimate net exposure.

The Company has master netting arrangements, which are enforceable in case of default. In addition, applicable legislation allows an entity to unilaterally set off trade receivables and payables that are due for payment, denominated in the same currency and outstanding with the same counterparty.

34 Fair Value Disclosures

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuation techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

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:

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

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

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

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

35 Presentation of Financial Instruments by Measurement Category

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

36 Contingencies and Commitments

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

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

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

The future aggregate minimum lease payments		
In thousands of EUR	2016	2015
No later than one year	2,812	2,658
Later than one year and no later than five years	6,737	6,187
Later than five years	1,395	666
Total	10,944	9,511

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

37 Balances and Transactions with Related Parties

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

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

The related party transactions and outstanding balances for 2016

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

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

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

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

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

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

The income tax paid was as follows:

The income tax paid

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

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

The related party transactions and outstanding balances for 2015

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

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

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

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:


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

38 Events after the End of the Reporting Period

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

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


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


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

Consolidated Financial Statements and Independent Auditor's Report – 31 December 2016 and 2015

Contents

Independent Auditor's Report	2
Consolidated Financial Statements	8
Consolidated Statements of Financial Position	8
Consolidated Statements of Profit or Loss and Other Comprehensive Income	9
Consolidated Statements of Changes in Equity	10
Consolidated Statements of Cash Flows	11
Notes to the Consolidated Financial Statements	12
1 Introduction	12
2 Significant Accounting Policies	12
3 Adoption of New or Revised Standards and Interpretations	18
4 New Accounting Pronouncements	18
5 Critical Accounting Estimates and Judgements in Applying Accounting Policies	20
6 Property, Plant and Equipment	21
7 Intangible Assets	23
8 Equity Method Investments	23
9 Inventories	23
10 Trade and Other Receivables	24
11 Cash and Cash Equivalents	26
12 Share Capital	26
13 Legal Reserve Fund	27
14 Issued Bonds	27
15 Income Taxes	27
16 Post-Employment Defined Benefit Obligations	29
17 Other Long Term Employee Benefits	30
18 Deferred Connection Fees and Customer Contributions	30
19 Trade and Other Payables	31
20 Revenue from Electricity and Other Revenue	32
21 Purchases of Electricity and Related Fees	32
22 Employee Benefits	33
23 Other Operating Expenses	33
24 Other Operating Income	34
25 Interest and Similar Expense	34
26 Segment Reporting	34
27 Financial Risk Management	36
28 Management of Capital	38
29 Fair Value Disclosures	38
30 Presentation of Financial Instruments by Measurement Category	39
31 Contingencies and Commitments	39
32 Balances and Transactions with Related Parties	40
33 Events after the End of the Reporting Period	41



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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The firm's ID No. (IČO): 35 739 347.

Tax Identification No. of PricewaterhouseCoopers Slovensko, s.r.o. (DIČ): 2020270021.

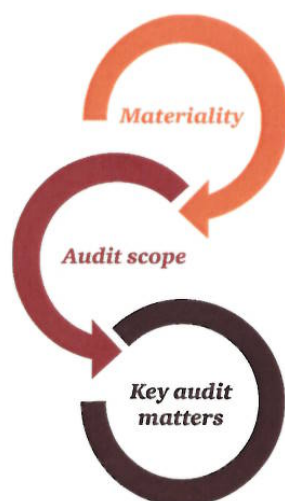
VAT Reg. No. of PricewaterhouseCoopers Slovensko, s.r.o. (IČ DPH): SK2020270021.

Spoločnosť je zapísaná v Obchodnom registri Okresného súdu Bratislava I, pod Vložkou č.: 16611/B, Oddiel: Sro.

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



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.	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.
The estimate is complex and is calculated by a bespoke software with inputs both from management and an external data provider.	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.



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.

PricewaterhouseCoopers Slovensko

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

Bratislava, 27 March 2017



Tučný

Mgr. Juraj Tučný, FCCA
UDVA licence No. 1059



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

Consolidated Statements of Financial Position

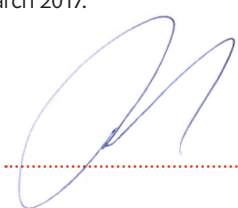
Consolidated Statements of Financial Position			
In thousands of EUR	Note	31 December 2016	31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	6	748,203	718,792
Intangible assets	7	12,150	12,058
Equity method investments	8	1,127	1,663
Deferred income tax asset	15	8,947	1,665
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
Chairman of the Board of Directors and CEO



Marian Rusko
Member of the Board of Directors



Consolidated Statements of Profit or Loss and Other Comprehensive Income

Consolidated Statements of Profit or Loss and Other Comprehensive Income			
In thousands of EUR	Note	2016	2015
Revenue from electricity 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)	(663,455)
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			
<i>Items that will not be subsequently reclassified to profit or loss</i>			
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

Consolidated Statements of Changes in Equity

Consolidated Statements of Changes in Equity				
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.

Consolidated Statements of Cash Flows

Consolidated Statements of Cash Flows			
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

Notes to the Consolidated Financial Statements – 31 December 2016 and 2015

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).

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

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.

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.

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.

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.

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 electricity, 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.

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 Note 16 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.
- 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 10GWh 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).

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:

Movements in the carrying amount of property, plant and equipment 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.

In management's judgement the electricity distribution network does not fall in the scope of IFRIC 12, Service Concession 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:

The proceeds from disposal of property, plant and equipment		
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:

Movements in the carrying amount of property, plant and equipment 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).

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:

Carrying value of assets leased out under operating leases		
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:

Movements in the carrying amount of intangible assets			
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

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

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

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:

Movements in the impairment provision for trade receivables		
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

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

Credit quality of trade receivables and amounts due from customers				
In thousands of EUR	2016		2015	
	Amounts due from customers for contract work	Trade receivables	Amounts due from customers for contract work	Trade receivables
<i>Neither past due nor impaired</i>				
- 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
<i>Individually impaired</i>				
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

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:

The credit quality of cash and cash equivalents		
In thousands of EUR	2016	2015
<i>Neither past due nor impaired</i>		
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:

Amortised cost carrying value of the bonds		
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:

Income tax expense		
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).

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

Income tax rate applicable to regulated activities		
In thousands of EUR	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 $4.356\% \times ((1-22\%)/(1+4.356\%-1))$

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.

Deferred taxes are attributable to the following temporary differences:

Deferred tax liability		
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

Deferred tax asset		
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:

The movements in the present value of defined benefit obligation		
In thousands of EUR	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
<i>Actuarial remeasurements:</i>		
- 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:

The principal actuarial assumptions		
	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

Deferred income		
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

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 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:

Revenue from Electricity and Other Revenue		
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:

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	8,659
Total purchases of electricity and related fees	641,512	663,455

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

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

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

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

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.

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:

Reportable segments information for 2016					
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:

Reportable segments information for 2015					
In thousands of EUR	Distribution	Supply	Other	Eliminations	Total
Revenue from external customers	255,701	750,312	3,011	-	1,009,024
Inter-segment revenues	198,415	43,099	43,407	(284,921)	-
Total segment revenues	454,116	793,411	46,418	(284,921)	1,009,024
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, depreciation and amortization (EBITDA)	155,981	17,510	13,440	(545)	186,386
Capital expenditures	76,783	4,141	5,032	(6,856)	79,100

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:

Reconciliation of EBITDA for all segments to profit before tax		
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 for all operating segments to payments for purchases of property, plant and equipment and intangible assets is as follows:

Reconciliation of capital expenditures for all operating segments		
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.

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.

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:

The maturity analysis 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
<i>Commodity contracts at FVTPL:</i>						
- 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:

The maturity analysis 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.

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:

Fair Value Disclosures						
In thousands of EUR	31 December 2016			31 December 2015		
	Level 1 fair value	Level 2 fair value	Carrying value	Level 1 fair value	Level 2 fair value	Carrying value
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.

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:

The future aggregate minimum lease payments		
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:

The related party transactions and outstanding balances for 2016						
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	-	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.

The income tax paid was as follows:

The income tax paid		
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:

The related party transactions and outstanding balances 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:

Key management personnel remuneration

In thousands of EUR	2016	2015
<i>Board of directors and other key management personnel</i>		
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
<i>Supervisory board</i>		
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
Chairman of the Board of Directors and CEO



Marian Rusko
Member of the Board of Directors

