

Západoslovenská energetika, a.s.

**Consolidated Financial Statements
and Independent Auditor's Report
31 December 2017 and 2016**

February 2018

Translation note:

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

Independent Auditor's Report

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

Report on the audit of the consolidated financial statements

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 2017 and 31 December 2016, 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 consolidated statements of financial position as at 31 December 2017 and 31 December 2016;
- 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.

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

The firm's ID No. (IČO): 35 739 347.

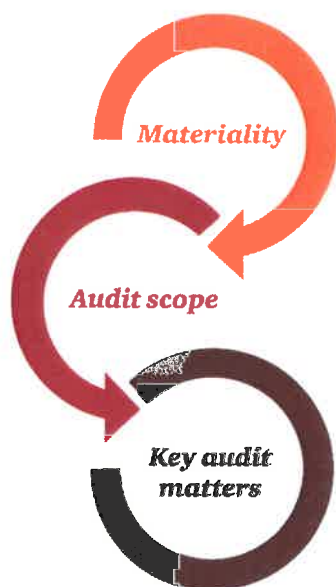
Tax Identification No. of PricewaterhouseCoopers Slovensko, s.r.o. (DIČ): 2020270021.

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 6,500 thousand (2016: EUR 6,100 thousand) which represents 5% of consolidated profit before tax.

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

- Západoslovenská energetika, a.s.
- Západoslovenská distribučná, a.s.
- ZSE Energia, a.s.

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

As part of designing our audit, we determined materiality and assessed 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 6,500 thousand (2016: EUR 6,100 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.	We have tested design of the bespoke application for estimating electricity consumption 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. For details refer to Note 5 of Notes to the Consolidated Financial Statements.	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 application 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.

In addition, our updated report will either state that we have nothing to report in respect of the above or describe any material misstatements identified by us in the consolidated annual report based on our knowledge of the reporting entity and its circumstances, which we obtained during our audit.

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

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.

Report on other legal and regulatory requirements

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.



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

Bratislava, 6 February 2018



Mgr. Juraj Tučný, FCCA
UDVA licence No. 1059

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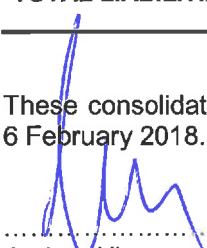
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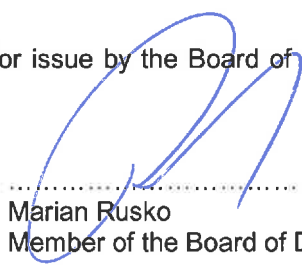
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Západoslovenská energetika, a.s.
Consolidated Statements of Financial Position

<i>In thousands of EUR</i>	Note	31 December 2017	31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	6	780,798	748,203
Intangible assets	7	13,138	12,150
Equity method investments	8	558	1,127
Deferred income tax asset	15	12,499	8,947
Other non-current assets		703	740
Total non-current assets		807,696	771,167
Current assets			
Inventories	9	10,777	7,830
Trade and other receivables	10	108,043	104,273
Cash and cash equivalents	11	95,438	80,724
Total current assets		214,258	192,827
TOTAL ASSETS		1,021,954	963,994
EQUITY			
Share capital	12	196,969	196,969
Legal reserve fund	13	39,421	39,421
Retained loss		(186,164)	(233,268)
TOTAL EQUITY		50,226	3,122
LIABILITIES			
Non-current liabilities			
Issued bonds	14	314,396	628,828
Deferred income tax liabilities	15	30,306	29,520
Post-employment defined benefit obligations	16	9,752	9,507
Other long term employee benefits	17	2,408	2,404
Deferred connection fees and customer contributions	18	95,464	82,660
Total non-current liabilities		452,326	752,919
Current liabilities			
Issued bonds and accrued interest on issued bonds payable within one year	14	319,114	4,114
Trade and other payables	19	187,689	191,524
Deferred connection fees and customer contributions	18	6,420	5,551
Current income tax liabilities		6,179	6,764
Total current liabilities		519,402	207,953
TOTAL LIABILITIES		971,728	960,872
TOTAL LIABILITIES AND EQUITY		1,021,954	963,994

These consolidated financial statements have been approved for issue by the Board of Directors on 6 February 2018.


 Jochen Kley
 Chairman of the Board of Directors and CEO


 Marian Rusko
 Member of the Board of Directors

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

<i>In thousands of EUR</i>	Note	2017	2016
Revenue from electricity and other related revenue	20	966,088	919,449
Revenue from natural gas		98,909	81,257
Purchases of electricity and related fees	21	(683,147)	(640,932)
Natural gas purchased		(90,119)	(74,566)
Employee benefits	22	(63,550)	(60,213)
Depreciation of property, plant and equipment	6	(44,830)	(44,960)
Amortization of intangible assets	7	(4,263)	(3,830)
Other operating expenses	23	(53,044)	(56,509)
Share of profit of equity method investments	8	762	235
Other operating income	24	6,506	7,415
Own work capitalised		17,644	18,361
Profit from operations		150,956	145,707
Finance income / (costs)			
Interest income		84	89
Interest and similar expense	25	(21,106)	(23,795)
Finance costs, net		(21,022)	(23,706)
Profit before tax		129,934	122,001
Income tax expense	15	(32,373)	(23,379)
Profit for the year		97,561	98,622
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	11	1,398
Deferred tax on actuarial remeasurements of post-employment defined benefit obligations	15	(3)	(294)
Total other comprehensive income for the year		8	1,104
Total comprehensive income for the year		97,569	99,726

Západoslovenská energetika, a.s.
Consolidated Statements of Changes in Equity

<i>In thousands of EUR</i>	Share capital	Legal reserve fund	Accumulated deficit	Total equity
Balance at 1 January 2016	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
Profit for the year	-	-	97,561	97,561
Other comprehensive income for the year	-	-	8	8
Total comprehensive income for 2017	-	-	97,569	97,569
Dividends declared and paid (Note 12)	-	-	(50,465)	(50,465)
Balance at 31 December 2017	196,969	39,421	(186,164)	50,226

Západoslovenská energetika, a.s.
Consolidated Statements of Cash Flows

<i>In thousands of EUR</i>	Note	2017	2016
Cash flows from operating activities			
Profit before tax		129,934	122,001
Adjustments for non-cash items:			
- Depreciation of property, plant and equipment	6	44,830	44,960
- Loss on disposal of property, plant and equipment	6	295	224
- Amortisation of intangible assets	7	4,263	3,830
- Interest income		(84)	(89)
- Interest and similar expense		21,106	23,795
- Share of profit of equity method investments		(762)	(235)
- Other non-cash items		54	(36)
Cash generated from operations before changes in working capital		199,636	194,450
Changes in working capital:			
- Inventories		(2,947)	1,816
- Trade and other receivables		(3,458)	(11,518)
- Trade and other payables		(5,215)	32,564
- Provisions for liabilities and charges and deferred income		(6,043)	(6,069)
Cash generated from operations before interest and taxes		181,973	211,243
Interest income received		84	89
Interest expense paid		(20,100)	(20,394)
Income tax paid	33	(35,727)	(19,961)
Net cash from operating activities		126,230	170,977
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(62,510)	(68,843)
Dividend income received from equity method investees		450	235
Proceeds from sale of property, plant and equipment and intangible assets		469	929
Proceeds from reduction of other capital funds of an associate		540	537
Other investing cash flows		-	(5)
Net cash used in investing activities		(61,051)	(67,147)
Cash flows from financing activities			
Dividends paid	12	(50,465)	(57,570)
Net cash used in financing activities		(50,465)	(57,570)
Net change in cash and cash equivalents		14,714	46,260
Cash and cash equivalents at the beginning of the year		80,591	34,331
Cash and cash equivalents at the end of the year	11	95,305	80,591

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 2017 and 2016 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: SK2020285256.

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 2017 and 31 December 2016. 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 1,811 staff on average during 2017, of which 36 were management (2016: 1,793 employees on average, of which 38 were management).

2 Significant Accounting Policies

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

2 Significant Accounting Policies (continued)

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

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

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

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

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

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

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

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

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

2 Significant Accounting Policies (continued)

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

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

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

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

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

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

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

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

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

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

2 Significant Accounting Policies (continued)

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

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

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

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

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

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

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

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

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

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

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

2 Significant Accounting Policies (continued)

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

Current income tax also includes a special levy on profits in regulated industries at a rate of 8.712% per annum on profits from regulated activities. From 2017 new methodology for calculating of the special levy applies, where the basis for the special levy is calculated as profit before tax * (revenues from regulated activities/total revenues). In 2016 the special levy applied to profits over EUR 3 million from regulated activities at a rate of 4.356% p.a. The rate of special levy used for the calculation for 2017 and 2018 is 8.712% p.a., then for the years 2019 - 2020 the rate 6.54% p.a. applies and 4.356% will apply from 2021. The levy is a deductible expense for the purposes of applying the standard corporate income tax rate.

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 one to seven monthly salaries to each employee upon retirement, depending on the number of years worked for the Company and (b) an obligation to pay work and life anniversary long service bonuses. These obligations are recognised as liabilities estimated annually by independent actuaries using the Projected Unit Credit Method. The present value of the defined benefit obligation is determined (a) by discounting the estimated future cash outflows using interest rates of high quality corporate bonds, which have terms to maturity approximating the terms of the related liability and (b) then attributing the calculated present value to the periods of service based on the plan's benefit formula.

2 Significant Accounting Policies (continued)

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

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

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

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

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

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

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

Leases. The Group is a lessee.

(i) Operating lease

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

(ii) Financial lease

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

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

2 Significant Accounting Policies (continued)

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

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

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

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

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

Revenue recognition. Revenue comprises the fair value of the consideration received or receivable for the sale of 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 2017. 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 2017 for all twelve billing cycles will be completed in December 2018. 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.

Revenue from sale of gas. Revenue from the sale of gas is recognised when the gas is delivered to the customer. Consumption to wholesale customers is metered and billed on a monthly basis. The consumption of retail customers in the households' segment is metered and billed on an annual basis and the Company split its household customer base to twelve billing cycles. The billing of gas supplied in 2017 for all twelve billing cycles will be completed in December 2018.

2 Significant Accounting Policies (continued)

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 2017, but did not have any material impact on the Group:

- Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The new disclosures are included in Note 29.
- Recognition of Deferred Tax Assets for Unrealised Losses – Amendment to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Amendments to IFRS 12 included in Annual Improvements to IFRSs 2014-2016 Cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017).

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).

Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVTPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVTPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

Based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2017 and on the basis of the facts and circumstances, magnitude, volumes, methodology that exist at that date, the management of the Group is expecting an impact as of 1 January 2018 in the areas of impairment provisions against trade and other receivables and cash in banks. The expected impact is not material.

No significant changes are expected for financial liabilities, other than changes in the fair value of financial liabilities designated at FVTPL that are attributable to changes in the instrument's credit risk, which will be presented in other comprehensive income.

4 New Accounting Pronouncements (continued)

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

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.

In accordance with the transition provisions in IFRS 15 the Group has elected simplified transition method with the effect of transition to be recognised as at 1 January 2018 in the consolidated financial statements for the year-ending 31 December 2018 which will be the first year when the Group will apply IFRS 15.

The Group plans to apply the practical expedient available for simplified transition method. The Group applies IFRS 15 retrospectively only to contracts that are not completed at the date of initial application (1 January 2018).

The adoption of IFRS 15 will result in changes in accounting policies and adjustments to be recognised in the consolidated financial statements. Based on the analysis of the Group's revenue streams for the year ended 31 December 2017, individual contracts' terms and on the basis of the facts and circumstances that exist at that date, in view of simplified transition method application, the management of the Group is expecting a non-significant impact on its consolidated financial statements from the adoption of the new standard on 1 January 2018, in particular from capitalization of commissions paid to external agents selling the Group's products as contract assets.

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.

IFRIC 23 "Uncertainty over Income Tax Treatments"* (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments.

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

- 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).
- Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018)
- Amendments to IFRS 2, Share-based Payment* (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).

4 New Accounting Pronouncements (continued)

- 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 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).
- IFRS 17, Insurance Contracts* (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021).
- Prepayment Features with Negative Compensation – Amendments to IFRS 9* (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28* (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 cycle – Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23* (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).

* 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 application Enersim to estimate the unbilled deliveries based on assumed customer demand profiles. This accounting estimate is based on:

- (a) the estimated volume delivered and distributed to households in technical units (MWh) between the date of the last meter reading and the end of the reporting period;
- (b) the consumption estimate utilising the time patterns of consumption of various customer profiles observed on a sample basis;
- (c) the estimated losses in the distribution network; and
- (d) the unit price in EUR/MWh, that will be applied to billing the electricity delivery and distribution. Refer to Note 20.

The Group also engaged an independent expert to estimate network losses. Should the estimate of total network losses be lower by 0.1%, representing approximately 10 GWh of electricity (2016: 10 GWh), with other parameters unchanged, the revenues for commodity and distribution services would increase by EUR 850 thousand (2016: EUR 913 thousand).

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

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

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

If the estimated useful life of network assets had been shorter by 10% than management's estimates at 31 December 2017, the Group would have recognised an additional depreciation of network assets of EUR 4,483 thousand (2016: EUR 4,496 thousand).

6 Property, Plant and Equipment

Movements in the carrying amount of property, plant and equipment were as follows during 2017:

<i>In thousands of EUR</i>	Land	Network buildings	Power lines	Switching stations and network equipment	Other assets*	Capital work in progress	Total
Cost at 1 January 2017	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 1 January 2017	21,266	54,106	394,518	185,244	46,988	46,081	748,203
Additions	-	-	-	-	-	76,959	76,959
Capitalised borrowing costs**	-	-	-	-	-	1,563	1,563
Transfers	349	3,434	39,322	25,287	4,342	(72,734)	-
Depreciation charge	-	(3,303)	(16,528)	(18,589)	(6,410)	-	(44,830)
Disposals	(7)	(2)	(3)	(366)	(173)	(546)	(1,097)
Cost at 31 December 2017	21,608	103,370	675,338	375,380	108,835	51,323	1,335,854
Accumulated depreciation and impairment losses	-	(49,135)	(258,029)	(183,804)	(64,088)	-	(555,056)
Carrying amount at 31 December 2017	21,608	54,235	417,309	191,576	44,747	51,323	780,798

* 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 2017.

6 Property, Plant and Equipment (continued)

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:

<i>In thousands of EUR</i>	2017	2016
Net book value of disposals	1,097	1,153
Gain/(Loss) on disposal of property, plant and equipment (Note 24)	(295)	(224)
Other non-cash movements	(333)	-
Proceeds from disposals	469	929

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

<i>In thousands of EUR</i>	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 3.59% p.a. for 2016.

The Group holds insurance against damages caused by natural disasters up to EUR 558,022 thousand for buildings and up to amount of EUR 582,272 thousand for machinery, equipment, fixtures, fittings and other assets (2016: EUR 550,080 thousand and 571,549 thousand, respectively).

6 Property, Plant and Equipment (continued)

At 31 December 2017 the Group holds power lines and switching stations and network equipment acquired through finance lease (where the Group is the lessee) with cost of EUR 5,552 thousand, accumulated depreciation of EUR 380 thousand and carrying amount of EUR 5,172 thousand (2016: cost of EUR 4,639 thousand, accumulated depreciation of EUR 232 thousand and carrying amount of EUR 4,406 thousand).

The property, plant and equipment disclosed in movement table above include carrying value of assets leased out under operating leases as follows:

<i>In thousands of EUR</i>	2017	2016
Equipment, vehicles and other assets – optical lines and related technology	8,727	8,178
Total carrying value of assets leased out under operating leases	8,727	8,178

Rental income is presented in Note 24. Future rental income due within one year from non-cancellable operating leases is EUR 224 thousand (2016: EUR 268 thousand), amount due from two to five years is EUR 0 thousand (2016: EUR 0 thousand) and the amount due after five years is EUR 0 thousand (2016: EUR 0 thousand).

7 Intangible Assets

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

<i>In thousands of EUR</i>	Software and similar assets	Assets not yet available for use	Total
Cost at 1 January 2016	49,177	3,784	52,961
Accumulated amortisation and impairment losses	(40,903)	-	(40,903)
Carrying amount at 1 January 2016	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 including impairment charge	(44,719)	-	(44,719)
Carrying amount at 31 December 2016	8,594	3,556	12,150
Additions	-	5,251	5,251
Transfers	4,215	(4,215)	-
Amortisation charge	(4,263)	-	(4,263)
Cost at 31 December 2017	57,529	4,592	62,121
Accumulated amortisation and impairment losses	(48,983)	-	(48,983)
Carrying amount at 31 December 2017	8,546	4,592	13,138

7 Intangible Assets (continued)

Assets not yet available for use primarily include software upgrades and improvement of functionality of the customer and the graphical information system. Software and similar assets disclosed in table above include individual projects, which are partially purchased and partially developed by own employees therefore it is not possible to separate the disclosed amounts to those two categories.

8 Equity Method Investments

<i>In thousands of EUR</i>	2017	2016
Energotel, a.s. - 20% investment in joint venture	525	525
E.ON Business Services Slovakia, spol. s r.o. in liquidation – 49% investment in an associate	-	569
SPX, s.r.o.	33	33
Total equity method investments	558	1,127

Disposals during the year 2017 represent completion of the liquidation of the associated company E.ON Business Services Slovakia spol. s r. o. in liquidation on 30 November 2017.

9 Inventories

<i>In thousands of EUR</i>	2017	2016
Natural gas	9,677	6,708
Materials and spare parts	1,100	1,122
Total inventories	10,777	7,830

The inventory items are shown after provision for slow-moving materials and spare parts of EUR 10 thousand (2016: EUR 9 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

<i>In thousands of EUR</i>	2017	2016
Trade receivables	131,330	132,472
Less impairment provision for trade receivables	(29,232)	(29,692)
Trade receivables, net	102,098	102,780
Commodity contracts at FVTPL	3,384	715
Excise tax receivables	30	-
Prepayments	2,531	778
Total trade and other receivables	108,043	104,273

10 Trade and Other Receivables (continued)

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

<i>In thousands of EUR</i>	2017	2016
Provision for impairment at 1 January	29,692	29,805
Impairment loss expense (Note 23)	1,183	281
Amounts written off during the year as uncollectible	(1,643)	(394)
Provision for impairment at 31 December	29,232	29,692

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

<i>In thousands of EUR</i>	2017	2016
	Trade receivables	Trade receivables
Total neither past due nor impaired	96,790	99,496
<i>Individually impaired</i>		
1 to 30 days past due	6,118	3,400
31 to 60 days past due	592	574
61 to 90 days past due	433	370
91 to 120 days past due	229	204
121 to 180 days past due	597	359
181 to 360 days past due	676	796
Over 360 days past due	25,895	27,273
Total individually impaired before provision for impairment	34,540	32,976
Less provision for impairment	(29,232)	(29,692)
Total trade receivables and amounts due from customers for contract work, net of provision	102,098	102,780

The Group has internal credit risk processes that include the assignment of individual credit rating to its customers based on the mix of external financial information as well as their payment discipline. Out of the receivables neither past due nor impaired as of 31 December 2017, approximately 89% is of considered of high credit quality by the Group based on the rating assigned (2016: from the receivables neither past due nor impaired were as at 31 January 2017 EUR 91,217 thousand collected, EUR 2,003 thousand not collected and not overdue and EUR 6,276 thousand became overdue). The Group has a concentration of credit risk towards related parties of the Slovak Government. Refer to Note 33.

11 Cash and Cash Equivalents

<i>In thousands of EUR</i>	2017	2016
Current accounts with banks	95,438	80,724
Total cash and cash equivalents in the statement of financial position	95,438	80,724
Less restricted cash balances	(133)	(133)
Total cash and cash equivalents in the statement of cash flows	95,305	80,591

The Group has a concentration of cash and cash equivalents balances towards six banks (2016: six banks).

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

<i>In thousands of EUR</i>	2017	2016
<i>Neither past due nor impaired</i>		
Credit rating A1 by Moody's	101	1,034
Credit rating A2 by Moody's	54,031	65,094
Credit rating A3 by Moody's	39,598	-
Credit rating Baa1 by Moody's	975	14,214
Credit rating A- by Fitch	233	-
Credit rating BBB+ by Fitch	-	332
Unrated	500	50
Total cash and cash equivalents	95,438	80,724

As at 31 December 2017, the Group has agreements with banks about revolving credit facilities amounting to EUR 75,000 thousand (2016: EUR 75,000 thousand). As at 31 December 2017 the Group has drawn EUR 0 thousand from these facilities (2016: EUR 0 thousand).

12 Share Capital

The Company issued and has outstanding 5,934,594 ordinary shares (2016: 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 50,465 thousand or EUR 8.50 per share (2016: dividends of EUR 57,570 thousand or EUR 9.70 per share). Slovak legislation identifies distributable reserves as retained earnings reported in the separate financial statements of the Company which amount to EUR 118,434 thousand (2016: EUR 98,315 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:

<i>In thousands of EUR</i>	2017	2016
Issued bonds – non-current	314,396	628,828
Issued bonds – current	315,000	-
Accrued interest payable within one year and transaction costs	4,114	4,114
Issued bonds – current and accrued interest payable within one year	319,114	4,114
Amortised cost of the bonds	633,510	632,942

15 Income Taxes

Income tax expense comprises the following:

<i>In thousands of EUR</i>	2017	2016
Current tax at standard rate of 21% (2016: 22%)	29,683	24,804
Income tax related to prior periods	(2)	121
Special levy on profits from regulated activities	5,461	3,786
Deferred tax	(2,769)	(5,332)
Income tax expense/(credit) for the year	32,373	23,379

In 2017, the applicable standard income tax rate was 21% (2016: 22%). From 2017 new methodology for calculating of the special levy applies, where the basis for the special levy is calculated as profit before tax per Slovak GAAP * (revenues from regulated activities/total revenues). In 2016 the special levy applied to profits over EUR 3 million from regulated activities at a rate of 4.356% p.a. The rate of special levy used for the calculation for 2017 and 2018 is 8.712% p.a., then for the years 2019 - 2020 the rate 6.54% p.a. applies and 4.356% will apply from 2021.

15 Income Taxes (continued)

The levy is a deductible expense for the purposes of applying the standard corporate income tax rate.

	2017	2016
Standard income tax rate for the year	21.000%	22.000%
Special levy rate	8.712%	4.356%
Effect of deductibility of special levy from standard rate*	(2.381)%	(1.100)%
Tax rate applicable on profits generated by regulated industry operations	27.331%	25.256%

* the effect is calculated as special levy rate in %*((1- income tax rate in %)/(1+ special levy rate in%)-1)

The Group includes activities or subsidiaries taxed at the standard tax rate of 21% or at the 27.331% rate applicable to regulated industry operations. The applicable tax rate of 24.667% (2016: 24.095%) 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 changes in the special levy rate and 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:

<i>In thousands of EUR</i>	2017	2016
Profit before tax	129,934	122,001
Theoretical tax charge at applicable tax rate of 24.667% (2016: 24.095%)	32,051	29,396
Non-deductible expenses /(non-taxable income) for which deferred tax was not recognised		
- income from equity method investees not subject to standard tax	(162)	(52)
- expenses not deductible for standard tax but deductible for special levy purposes	(525)	982
Income tax related to prior periods	(2)	121
Effect of the first EUR 3 million exempt from special levy (for two consolidated entities)	-	(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	905	(6,730)
Other	106	838
Income tax expense for the period	32,373	23,379

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 2017, that will become current tax in 2018, will be settled in 2019 upon filing the 2018 tax return. The corporate tax advance payments are calculated based on prior year taxes and are thus unrelated to deferred tax balances or the current tax expense expected for subsequent years.

Deferred income tax assets and liabilities are not offset.

15 Income Taxes (continued)

Deferred taxes are attributable to the following temporary differences:

<i>In thousands of EUR</i>	2017	2016
Differences between tax base and carrying value of property, plant and equipment	42,466	36,362
Differences between tax base and carrying value of property, plant and equipment (deferred tax related to special levy)	(644)	(653)
Post-employment defined benefit obligation	(1,450)	(1,198)
Other long term employee benefits	(332)	(251)
Other liabilities	(8,091)	(3,521)
Provision for impairment of trade receivables	(291)	(166)
Other	(1,352)	(1,053)
Total net deferred tax liability	30,306	29,520

<i>In thousands of EUR</i>	2017	2016
Differences between tax base and carrying value of property, plant and equipment	39	44
Differences between tax base and carrying value of property, plant and equipment (deferred tax related to special levy)	5,181	6,077
Post-employment defined benefit obligation	125	91
Other long term employee benefits	33	22
Other liabilities	6,144	1,726
Provision for impairment of trade receivables	790	708
Other	187	279
Total net deferred tax asset	12,499	8,947

The movements in deferred taxes for temporary differences were recognised in profit or loss except for EUR (3) thousand (2016: EUR (294) thousand) for actuarial remeasurements of post-employment defined benefit obligation, which was recognised in other comprehensive income.

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 one to seven monthly salaries to each employee upon retirement depending on the number of years worked for the Company. The movements in the present value of defined benefit obligation are:

	2017	2016
Present value of unfunded post-employment defined benefit obligations at the beginning of the year	9,507	10,638
Current service cost	518	391
Interest cost	94	187
Past service costs due to changes in the defined benefit plan rules	(70)	14
Total expense (Note 22)	542	592
<i>Actuarial remeasurements:</i>		
- attributable to changes in financial assumptions	(173)	1,196
- attributable to changes in demographic assumptions	140	(2,828)
- attributable to experience adjustments	22	234
Total actuarial remeasurements recognised in other comprehensive income	(11)	(1,398)
Benefits paid during the year	(286)	(325)
Present value of unfunded post-employment defined benefit obligations at the end of the year	9,752	9,507

The principal actuarial assumptions were as follows:

	2017	2016
Number of employees at 31 December	1,854	1,805
Staff turnover	4.55% p.a.	4.55% p.a.
Expected salary increases short-term	5.00% p.a.	2.50% p.a.
Expected salary increases long-term	4.00% p.a.	3.00% p.a.
Discount rate	1.30% p.a.	1.10% 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 1,400 (2016: EUR 1,700) payment to each employee at the age of 50, subject to 5 year service vesting condition (2016: 10 year). In addition, the Group pays regular long term work anniversary bonuses in general every 10 years in amounts between EUR 400 to EUR 1,250 (2016: 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

<i>In thousands of EUR</i>	2017	2016
Non-current		
Customer contributions	31,533	30,990
Connection fees	63,931	51,670
Total non-current deferred income	95,464	82,660
Current		
Customer contributions	1,678	1,678
Connection fees	4,742	3,873
Total current deferred income	6,420	5,551

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

<i>In thousands of EUR</i>	2017	2016
Trade payables	18,893	76,504
Other accrued liabilities	66,367	15,594
Commodity contracts at FVTPL	9,050	6,392
Payables from leasing	3,006	3,135
Other financial liabilities	2,984	5,793
Total financial instruments within trade and other payables	100,300	107,418
Deferred electricity and distribution fees	42,988	36,962
Employee benefits payable	2,418	2,288
Social security on employee benefits	1,613	1,861
Accrued staff costs	9,645	9,064
Advance payments	22,088	20,051
Value added tax payable	5,068	5,864
Other payables	3,569	7,895
Excise duty payable	-	121
Total trade and other payables	187,689	191,524

The Group had overdue trade payables of EUR 106 thousand (2016: EUR 192 thousand). None of the payables are overdue more than 30 days at 31 December 2017.

20 Revenue from Electricity and Other Related Revenue

Revenue from electricity comprises the following:

<i>In thousands of EUR</i>	2017	2016
Sales of electricity to industrial and commercial customers	191,734	188,761
Sales of electricity to residential customers	80,563	90,234
Total sales of electricity	272,297	278,995
Distribution fees for electricity to industrial and commercial customers	470,768	429,909
Distribution fees for electricity to residential customers	199,383	188,764
Revenues for reserved capacity	11,127	10,146
Total distribution fees	681,278	628,819
Revenues for connection work and testing fees	4,684	3,981
Other revenue	7,829	7,654
Total revenue from electricity and other revenue	966,088	919,449

Comparative amounts were reclassified to conform to the presentation in the current period. In particular EUR 580 thousand was reclassified from other purchases of electricity and related fees to other revenues. 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

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:

<i>In thousands of EUR</i>	2017	2016
Purchase of electricity from: Slovenské elektrárne ("SE")	73,502	114,688
Purchase of electricity from other domestic producers and traders	110,600	97,916
Purchase of electricity on the spot market	64,639	35,429
Total electricity purchases	248,741	248,033
Electricity transmission fees, system access and ancillary service charges and tariff for system operation and system services and renewable sources feed-in tariffs	434,406	392,899
Total purchases of electricity and related fees	683,147	640,932

21 Purchases of Electricity and Related Fees (continued)

Comparative amounts were reclassified to conform to the presentation in the current period. In particular EUR 137,769 thousand was reclassified from purchase of electricity from other domestic producers and traders to electricity transmission fees, system access and ancillary service charges and tariff for system operation and system services as such classification better reflects the nature of the costs. Further, EUR 580 thousand was reclassified from purchases of electricity and related fees to other revenues. 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

<i>In thousands of EUR</i>	2017	2016
Wages and salaries	42,193	39,855
Defined contribution pension costs	7,545	7,065
Post-employment defined benefit plan expense (Note 16)	542	592
Other long-term employee benefit plans – current service and interest cost (Note 17)	(34)	(108)
Actuarial remeasurements of other long-term employee benefit plans (Note 17)	39	256
Other social costs	13,265	12,553
Total employee benefits expense	63,550	60,213

23 Other Operating Expenses

<i>In thousands of EUR</i>	2017	2016
Information technology and software maintenance costs	12,196	10,258
Repairs and maintenance costs	6,273	8,847
Operating lease expense	3,718	3,710
Postal and telecommunication services	2,415	2,652
Call centre services	2,528	2,667
Security services	1,366	1,197
Advertising services	1,234	1,249
Travel expenses	976	997
Statutory audit	264	257
Other services	7,426	9,026
Personal leasing and external dealers commission	2,164	2,632
Advisory services	1,024	1,571
Marketing	1,130	1,276
Operation and maintenance of telecommunication network	668	678
Facility management expenses	982	1,013
Impairment loss on trade and other receivables (Note 10)	1,183	281
Property and motor vehicle tax	607	603
Gifts	554	529
Insurance	625	598
Other operating expenses	5,711	6,468
Total other operating expenses	53,044	56,509

24 Other Operating Income

<i>In thousands of EUR</i>	2017	2016
Customer contributions to their connection costs	1,678	1,678
Operating lease income (Note 6)	1,208	1,311
Gain/(loss) on disposal of fixed assets (Note 6)	(295)	(224)
Income from contractual penalties	452	661
Income from unauthorized consumption of electricity	285	249
Fees for payment reminders	1,303	1,632
Other	1,875	2,108
Total other operating income	6,506	7,415

25 Interest and Similar Expense

<i>In thousands of EUR</i>	2017	2016
Interest expense on bonds	21,656	21,656
Amortisation of bonds transaction costs	667	677
Other interest expense	346	2,893
Total interest and similar expense	21,106	23,795
Less capitalised borrowing costs (Note 6)	(1,563)	(1,431)

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

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

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

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

26 Segment Reporting (continued)

As a result of regulation of the distribution business and partial regulation of the supply business approximately 94% (2016: 94%) of the Group's EBITDA and 94% (2016: 93%) of the Group's EBIT 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., ZSE MVE, s. r. o. and ZSE Business Services, 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, trading activities and generates also some external revenues from projecting and engineering activities in investment construction for third parties.

Reportable segments information for 2017 is as follows:

<i>In thousands of EUR</i>	Distribution	Supply	Other	Eliminations and consolidation adjustments	Total
Revenue from external customers	310,639	753,071	1,287	-	1,064,997
Inter-segment revenues	191,546	27,536	38,768	(257,850)	-
Total segment revenues	502,185	780,607	40,055	(257,850)	1,064,997
Purchases of electricity and related fees	(243,355)	(652,915)	(3,330)	216,453	(683 147)
Purchases of natural gas	-	(90,183)	-	64	(90,119)
Employee benefits expense	(42,198)	(8,336)	(13,028)	12	(63,550)
Other operating expenses	(61,044)	(17,140)	(20,149)	45,289	(53,044)
Share of profit of equity method investees	-	-	67,175	(66,413)	762
Other operating income	1,917	2,112	5,096	(2,619)	6,506
Own work capitalized	17,815	-	-	(171)	17,644
Earnings before interest, taxes, depreciation and amortization (EBITDA)	175,320	14,145	75,819	(65,235)	200,049
Depreciation of property, plant and equipment	(65,503)	(12)	(3,644)	24,329	(44,830)
Amortization of intangible assets	(2,627)	(1,314)	(394)	72	(4 263)
Earnings before interest and taxes (EBIT)	107,190	12,819	71,781	(40,834)	150,956
Capital expenditures	74,812	2,029	4,648	(548)	80,941

26 Segment Reporting (continued)

Reportable segments information for 2016 is as follows:

<i>In thousands of EUR</i>	Distribution	Supply	Other	Eliminations and consolidation adjustments	Total
Revenue from external customers	275,875	723,197	1,634	-	1,000,706
Inter-segment revenues	199,255	24,547	38,558	(262,360)	-
Total segment revenues	475,130	747,744	40,192	(262,360)	1,000,706
Purchases of electricity and related fees	(223,656)	(634,564)	(3,015)	220,303	(640,932)
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)	(22,193)	45,672	(56,509)
Share of profit of equity method investees	-	-	51,190	(50,955)	235
Other operating income	1,948	2,672	5,269	(2,474)	7,415
Own work capitalized	18,443	-	-	(82)	18,361
Earnings before interest, taxes, depreciation and amortization (EBITDA)	169,229	16,501	58,581	(49,814)	194,497
Depreciation of property, plant and equipment	(67,487)	(7)	(3,679)	26,213	(44,960)
Amortization of intangible assets	(2,638)	(770)	(494)	72	(3,830)
Earnings before interest and taxes (EBIT)	99,104	15,724	54,408	(23,529)	145,707
Capital expenditures	71,980	2,087	4,854	(585)	78,336

26 Segment Reporting (continued)

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

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

<i>In thousands of EUR</i>	2017	2016
Total EBIT for all operating segments	150,956	145,707
Interest income	84	89
Interest and similar expense	(21,106)	(23,795)
Profit before tax	129,934	122,001

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

<i>In thousands of EUR</i>	2017	2016
Total capital expenditures for all operating segments	80,941	78,336
Assets acquired but not paid for	(27,518)	(17,575)
Payments for assets acquired in prior periods	9,087	8,082
Payments for purchases of property, plant and equipment and intangible assets	62,510	68,843

27 Financial Risk Management

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

Foreign exchange risk. The Group operates in the domestic market, and its sales, purchases and short-term deposits are denominated in EUR. Management does not consider foreign exchange risk as a significant exposure for the Group's operations as it has only an immaterial volume of transactions in currency other than EUR.

A reasonably possible change in spot exchange rate of EUR against foreign currencies as of the end of the reporting period, would not have any impact on the Group's profit or loss for the year.

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

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

27 Financial Risk Management (continued)

Commodity price risk. In 2017, 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 \pm 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. The Group's strategy is to secure the financing at least 6 months before the existing debt becomes due. The process of refinancing of the bonds maturing in October 2018 has already been launched.

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

27 Financial Risk Management (continued)

The table below analyses the Group's undiscounted amount of financial liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date. The maturity analysis is as follows at 31 December 2017:

<i>In thousands of EUR</i>	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	50,400	12,600	84,656
Trade payables (Note 19)	9,443	9,450	-	-	-	18,893
Other accrued liabilities (Note 19)	65,684	681	2	-	-	66,367
Gross finance lease liability	-	-	1,153	1,853	-	3,006
Other financial liabilities (Note 19)	2,984	-	-	-	-	2,984
<i>Commodity contracts at FVTPL:</i>						
- gross notional amount payable*	35,898	-	-	-	-	35,898
- gross notional amount receivable**	(30,232)	-	-	-	-	(30,232)
Total future payments, including future principal and interest payments	83,777	10,131	337,811	52,253	327,600	811,572

* 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 2016:

<i>In thousands of EUR</i>	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
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.

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 50,226 thousand at 31 December 2017 (31 December 2016: EUR 3,122 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 Debt Reconciliation

The table below sets out an analysis of our debt and the movements in our debt for each of the periods presented.

<i>In thousands of EUR</i>	Issued bonds
At 1 January 2016	632,301
Payments of interest	(21,656)
Interest expense	20,394
Capitalised interest costs (Note 6)	1,431
Transaction costs utilization	472
At 31 December 2016	632,942
Payments of interest	(21,656)
Interest expense	20,100
Capitalised interest costs (Note 6)	1,563
Transaction costs utilization	561
At 31 December 2017 (Note 14)	633,510

30 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.

30 Fair Value Disclosures (continued)

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

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

<i>In thousands of EUR</i>	31 December 2017			31 December 2016		
	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)	-	102,098	102,098	-	102,780	102,780
Cash and cash equivalents (Note 11)	-	95,438	95,438	-	80,724	80,724
TOTAL ASSETS	-	197,536	197,536	-	183,504	183,504
LIABILITIES						
Issued bonds (Note 14)	695,066	-	633,510	714,231	-	632,942
Trade payables (Note 19)	-	18,893	18,893	-	76,504	76,504
Liabilities from finance leasing (Note 19)	-	3,006	3,006	-	3,135	3,135
Other accrued liabilities (Note 19)	-	66,367	66,367	-	15,594	15,594
Other financial liabilities (Note 19)	-	2,984	2,984	-	5,793	5,793
TOTAL LIABILITIES	695,066	91,250	724,760	714,231	101,026	733,968

31 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.

32 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 2012 to 2017 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 2017, the Group had outstanding contractual commitments for purchases of property, plant and equipment of EUR 2,696 thousand (2016: EUR 8,517 thousand). Outstanding contractual commitments for purchases of intangible assets were EUR 1,775 thousand (2016: EUR 937 thousand).

32 Contingencies and Commitments (continued)

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

<i>In thousands of EUR</i>	2017	2016
No later than one year	2,580	2,834
Later than one year and no later than five years	5,818	6,806
Later than five years	857	2,406
Total	9,255	12,046

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

33 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 2017:

<i>In thousands of EUR</i>	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	32	268	294	203,205	-	996
Purchases and expenses	-	(11)	8,445	415,196	-	2,434
Receivables other than taxes	-	14	51	2,652	-	-
Payables other than taxes	-	-	2,576	28,799	-	138
Dividends declared and paid	25,737	19,681	5,047	-	-	-

* 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.

33 Balances and Transactions with Related Parties (continued)

The income tax paid was as follows:

<i>In thousands of EUR</i>	2017	2016
Current income tax expense at standard rate of 21% (2016: 22%) – refer to Note 15	29,681	24,925
Special levy on profits from regulated activities (Note 15)	5,461	3,786
Income tax refund receivable/liability at the beginning of the period	(6,764)	1,986
Income tax refund receivable/liability at the end of the reporting period	(6,179)	(6,764)
Income tax paid	(35,727)	(19,961)

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

<i>In thousands of EUR</i>	Ministry of Economy of the Slovak Republic	E.ON Slovensko, a.s.	E.ON Group**	Slovak Government*	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.

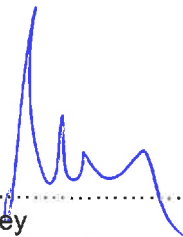
The tables with related party transactions above and on the previous page exclude individually immaterial transactions such as supplies of electricity to hospitals, schools, to the government ministries and many other government controlled or otherwise government related enterprises on normal commercial 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:

<i>In thousands of EUR</i>	2017	2016
Board of directors and other key management personnel		
Salaries and other short-term employee benefits	1,602	1,925
Defined contribution pension costs	189	155
Total remuneration of board of directors and other key management personnel	1,791	2,080
Supervisory board		
Salaries and other short-term employee benefits	281	359
Defined contribution pension costs	44	51
Total remuneration of supervisory board	325	410

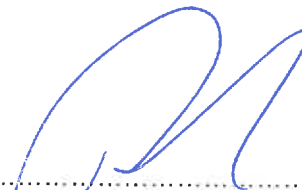
34 Events after the End of the Reporting Period

After 31 December 2017, no significant events have occurred that would require recognition or disclosure in the 2017 financial statements.

Management authorised these financial statements for issue on 6 February 2018:



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Jochen Kley
Chairman of the Board of Directors and CEO



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