# Stredoslovenská energetika - Distribúcia, a.s.

## Independent Auditors' Report and Financial Statements for the year ended 31 December 2016

## Prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union

Translation note:
This version of the accompanying Financial Statements 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 the financial statements takes precedence over this translation.

## Stredoslovenská energetika – Distribúcia, a.s.

Financial statements as at 31 December 2016 prepared in accordance with International Financial Reporting Standards (IFSR) as adopted by European Union were prepared and authorised for issue on 16 January 2017.

Ing. František Čupr, MBA
Chairman of the Board of Directors

Ing. Branislav Kadáš
Member of the Board of Directors

## Index to Financial Statements

KPMG Slovensko spol. s r.o.
Dvořákovo nábrežie 10
P.O. Box 7
820 04 Bratislava 24
Slovakia

Telephone +421 (0)2 59 98 41 11
Fax +421 (0)2 59 98 42 22
Internet www.kpmg.sk

Translation of the Auditors' Report originally prepared in Slovak language

# Independent Auditors' Report

To the Shareholder, Supervisory Board and Board of Directors of Stredoslovenská energetika - Distribúcia, a. s.

## Report on the Audit of the Financial Statements

*Opinion*

We have audited the financial statements of Stredoslovenská energetika – Distribúcia, a. s. ("the Company"), which comprise the statement of financial position as at 31 December 2016, the income statement and statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

*Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section. We are independent of the Company in accordance with the ethical requirements of the Act No. 423/2015 Coll. on statutory audit and on amendments to Act No. 431/2002 Coll. on accounting as amended ("the Act on Statutory Audit") including the Code of Ethics for an Auditor that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Responsibilities of the Statutory Body for the Financial Statements*

The statutory body is responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the statutory body determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

*Auditors' Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 ISAs 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 financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the statutory body.

- Conclude on the appropriateness of the statutory body's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

## Report on Other Legal and Regulatory Requirements

*Reporting on Information in the Annual Report*

The statutory body is responsible for the information in the Annual Report prepared in accordance with the Act No. 431/2002 Coll. on Accounting as amended ("the Act on Accounting"). Our opinion on the financial statements, mentioned above, does not cover other information in the Annual Report.

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

The Annual Report was not available to us as of the date of this auditors' report.

When we obtain the Annual Report of the Company, we will consider whether it includes the disclosures required by the Act on Accounting, and, based on the work undertaken in the course of the audit of the financial statements, we will express an opinion as to whether:

- the information given in the Annual Report for the year 2016 is consistent with the financial statements prepared for the same financial year; and

- the Annual Report contains information according to the Act on Accounting.

In addition, we will report whether we have identified any material misstatement in the Annual Report in light of the knowledge and understanding of the Company and its environment that we have acquired during the course of the audit of the financial statements.

15 March 2017
Bratislava, Slovak Republic

Slovenská komora audítorov SKAU Č. licencie 96 KPMG Slovensko spol. s r.o.

Auditing company:
KPMG Slovensko spol. s r.o.
License SKAU No. 96

Responsible auditor:
Ing. Ľuboš Vančo
License SKAU No. 745

*(All amounts are in thousand EUR unless stated otherwise)* 1

## Statement of Financial Position

| | Note | As at 31 December 2016 | 2015 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 6 | 778 344 | 791 146 |
| Intangible assets | 7 | 16 792 | 15 622 |
| | | **795 136** | **806 768** |
| **Current assets** | | | |
| Inventory | | 1 878 | 2 338 |
| Trade and other receivables | 9 | 27 267 | 22 051 |
| Income tax receivables | | 6 988 | - |
| Receivables due from parent company (Cash Pooling) | | 27 206 | 65 189 |
| Accrued income | 10 | 73 168 | 76 702 |
| Cash and cash equivalents | 11 | 12 | 12 |
| | | **136 519** | **166 292** |
| **Total assets** | | **931 655** | **973 060** |
| **EQUITY** | | | |
| **Equity** | | | |
| Share capital | 12 | 499 835 | 499 835 |
| Legal reserve fund | 12 | 99 967 | 99 967 |
| In-kind contribution from parent company | | 3 401 | 3 401 |
| Actuarial loss from long-term employees benefits | | (1 457) | (690) |
| Retained earnings | | 104 103 | 130 187 |
| **Total equity** | | **705 849** | **732 700** |
| **LIABILITIES** | | | |
| **Non-current liabilites** | | | |
| Non-current liabilities to parent company (loans) | 15 | 17 610 | 21 785 |
| Deferred tax liability | 16 | 88 085 | 94 753 |
| Non-current provisions | 17 | 8 464 | 7 976 |
| Deferred income | 13 | 44 860 | 39 065 |
| | | **159 019** | **163 579** |
| **Current liabilities** | | | |
| Trade and other payables | 14 | 61 851 | 65 424 |
| Income tax payable | | - | 4 546 |
| Liabilities to parent company (loans) | 15 | 4 238 | 6 363 |
| Current provisions | 17 | 698 | 448 |
| | | **66 787** | **76 781** |
| **Total liabilities** | | **225 806** | **240 360** |
| **Total equity and liabilities** | | **931 655** | **973 060** |

*(All amounts are in thousand EUR unless stated otherwise)*

## Income Statement

| | Note | Year ended 31 December 2016 | 2015 |
|---|---|---|---|
| Revenue | 18 | 426 579 | 449 222 |
| Purchases of electricity, system and other related fees | 20 | (286 872) | (255 360) |
| Personnel expenses | 22 | (33 590) | (33 045) |
| Depreciation and amortization and impairment losses on non-current tangible and intangible assets | 6, 7 | (64 250) | (62 176) |
| Material and goods consumption | | (4 371) | (6 905) |
| Capitalization | | 11 573 | 8 667 |
| Other operating revenues | 19 | 6 276 | 5 035 |
| Other operating expenses | 21 | (18 536) | (27 082) |
| **Operating profit** | | **36 809** | **78 356** |
| Interest income | 23 | 5 | 7 |
| Interest expense | 23 | (689) | (686) |
| Other finance expense | 23 | (4 131) | (4 777) |
| **Finance expense, net** | | **(4 815)** | **(5 456)** |
| **Profit before income tax** | | **31 994** | **72 900** |
| Income tax expense | 24 | (4 685) | (19 507) |
| **Profit for the year** | | **27 309** | **53 393** |

## Statement of Comprehensive Income

| | Note | Year ended 31 December 2016 | 2015 |
|---|---|---|---|
| **Profit for the year** | | **27 309** | **53 393** |
| Other items of comprehensive income: | | | |
| Actuarial loss | 17 | (955) | (714) |
| Deferred income tax | | 188 | 157 |
| Total other items of comprehensive income | | **(767)** | **(557)** |
| **Total comprehensive income for the year** | | **26 542** | **52 836** |

*(All amounts are in thousand EUR unless stated otherwise)*

## Statement of Changes in Equity

| | Share capital | Legal reserve fund | In-kind contribution from parent company | Retained earnings | Actuarial loss from long-term employee benefits | Total equity |
|---|---|---|---|---|---|---|
| **Balance as at 1 January 2016** | **499 835** | **99 967** | **3 401** | **130 187** | **(690)** | **732 700** |
| Profit for the year 2016 | - | - | - | 27 309 | - | 27 309 |
| Other items of comprehensive income | - | - | - | - | (767) | (767) |
| Dividends paid | - | - | - | (53 393) | - | (53 393) |
| **Balance as at 31 December 2016** | **499 835** | **99 967** | **3 401** | **104 103** | **(1 457)** | **705 849** |
| **Balance as at 1 January 2015** | **499 835** | **99 967** | **3 401** | **117 922** | **(133)** | **720 992** |
| Profit for the year 2015 | - | - | - | 53 393 | - | 53 393 |
| Other items of comprehensive income | - | - | - | - | (557) | (557) |
| Dividends paid | - | - | - | (41 128) | - | (41 128) |
| **Balance as at 31 December 2015** | **499 835** | **99 967** | **3 401** | **130 187** | **(690)** | **732 700** |

*(All amounts are in thousand EUR unless stated otherwise)*

## Statement of Cash Flows

| | Note | Year ended 31 December 2016 | 2015 |
|---|---|---|---|
| Profit before tax | | 31 994 | 72 900 |
| Adjustments for: | | | |
| Depreciation and amortisation | 6, 7 | 60 880 | 62 177 |
| Gain on disposal of property, plant and equipment | | (710) | (20) |
| Change in impairment provision for property, plant and equipment | | 3 370 | (1) |
| Change in impairment provision for receivables | 9 | 85 | 420 |
| Net movement in provisions | 17 | 1 461 | 986 |
| Interest expense net | 23 | 684 | 679 |
| Other non-cash movements | | - | (12) |
| **Operating profit before working capital changes** | | **97 764** | **137 129** |
| Changes in working capital: | | | |
| Decrease / (Increase) in trade receivables and accrued income | 9, 10 | 36 250 | (22 832) |
| Decrease / (Increase) in inventory | | 458 | (122) |
| Decrease in liabilities and deferred income | 13, 14 | (385) | (148) |
| **Cash generated from operations** | | **134 087** | **114 027** |
| **Cash flows from operating activities** | | | |
| Cash generated from operations | | 134 087 | 114 027 |
| Interest paid | 23 | (728) | (976) |
| Inerest received | 23 | 5 | 7 |
| Income tax paid | | (22 699) | (24 655) |
| **Net cash generated from operating activities** | | **110 665** | **88 403** |
| **Cash flows from investing activities** | | | |
| Purchase of non-current assets | 6, 7 | (44 717) | (32 502) |
| Reorganisation of the Group | 5 | (7 434) | (6 927) |
| Proceeds from sale of non-current assets | | 1 179 | 91 |
| **Net cash used in investing activities** | | **(50 972)** | **(39 338)** |
| **Cash flows from financing activities** | | | |
| Proceeds from loans within the Group | | 40 000 | - |
| Repayment of loans within the Group | | (46 300) | (7 931) |
| Dividends paid | 12 | (53 393) | (41 128) |
| **Net cash used in financing activities** | | **(59 693)** | **(49 059)** |
| **Net decrease (-)/increase (+) in cash and cash equivalents** | | - | 6 |
| **Cash and cash equivalents at the beginning of the year** | | 12 | 6 |
| **Cash and cash equivalents at the end of the year** | | **12** | **12** |

## 1 General information

### Trade name and registered address

Stredoslovenská energetika - Distribúcia, a.s.
Pri Rajčianke 2927/8
Žilina 010 47

Registration number (IČO) is: 36442151
Tax registration number (DIČ) is: 2022187453
Tax registration number for VAT purposes (IČ DPH) is: SK2022187453

Stredoslovenská energetika - Distribúcia, a.s. (hereafter referred to as the "Company" or "SSE-D, a.s."), was established on 22 March 2006 and was registered in the Commercial Register on 8 April 2006 (Commercial Register of the District Court Žilina, Section Sa, Insert No. 10514/L).

The Company was established with the purpose to comply with the legal requirements to unbundle the distribution business from other commercial activities of integrated electricity companies established by the European directive 2003/54 on common rules for the internal market in electricity. The directive has been transferred into Slovak legislation by the Act on energy (656/2004) issued in 2004. The Act prescribed legal unbundling of distribution activities by 30 June 2007 at the latest. The company Stredoslovenská energetika, a.s. carved out a part of its business that conducted principal distribution activities revalued items of assets and liabilities to fair value and contributed it to the Company. On 1 July 2007, the Company started to provide distribution of electricity as its core business activity.

### Main business activities of the Company

- Distribution of electricity
- Consultancy services in energy sector
- Engineering and relating technical consultancy
- Rental of energy devices
- Realisation of constructions and their changes
- Projects and construction of electrical devices
- Repairs, revision and testing of selected technical electrical devices in extent of S, O (OU, R, M) – E1-A
- Assembly of selected gauges
- Assembly and repairs of gauges and regulative technology

The Company is one of the three biggest distribution companies in electricity industry in Slovakia and operates within Zilina, Trencin and Banska Bystrica regions. The main business activity of the Company is electricity distribution to the all customers connected to the distribution system of SSE-D, a.s. in segments:

- Residential customers at NN level,
- Commercial customers at NN level,
- Commercial customers at VN level,
- Commercial customers at VVN level

The main activity of the Company is distribution of electricity invoiced to the final customers mostly by the trader of electricity (the parent company Stredoslovenská energetika, a.s. or other traders), mainly in the form of an integrated contract (the price for electricity is invoiced to the final customer together with the distribution fee).

The Company has a legal obligation to connect producers of energy from renewable resources and combined production of electricity and heat (OZE/KVET) after all conditions set by ÚRSO have been met. The Company has a legal obligation to buy electricity from connected resources to cover losses and provide them financial support in accordance with Act no. 309/2009 Coll. The amount of additional charge is stated and approved by ÚRSO. The excess of purchased electricity over the amount of electricity necessary to cover the distributional losses is sold by a company authorised to purchase it on the market at market prices.

Since 1 January 2015, the Company authorised its parent company Stredoslovenská energetika, a.s to buy electricity from the producers OZE/KVET and accept responsibility for any variance that might occur. Since 1 January 2015, the Company buys electricity to cover losses up to the limit of distribution losses from the parent company.

The structure of the Company's shareholders as at 31 December 2016 as follows:

| | **Absolute amount in thousand of EUR** | **Ownership interest %** | **Voting rights %** |
|---|---|---|---|
| Stredoslovenská energetika, a.s. | 499 835 | 100 | 100 |
| **Total** | **499 835** | **100** | **100** |

The Company is a subsidiary of Stredoslovenská energetika, a.s., which holds a 100 % shareholding in its registered capital. Stredoslovenská energetika, a.s. prepares the consolidated financial statements and it is the immediate consolidating company.

The Company Stredoslovenská energetika, a.s. is a subsidiary of EP Energy, a.s. based in Pařížská 130/26, Josefov, 110 00, Praha 1, Czech Republic, IČO: 29 259 428, registered in the Commercial Register of the Regional Court in Praha, Slezská 2000/9, 120 00 Praha, Czech Republic, which owns a 49% shareholding in the registered capital of the parent company and has managerial control.
EPH Financing II, a.s., based in Praha 8, Pobřežní 297/14, PSČ 186 00, Czech Republic, IČO: 24 788 376, owned 49% shareholding in the registered capital of the parent Company until 26 May 2014.

Ministry of Economy of the Slovak republic based in Mierová 19, 827 15 Bratislava owns a 51% shareholding in registered capital of the parent company since 1 August 2014.
The National Property Fund of the Slovak Republic, based in Bratislava, Trnavská cesta 100, 821 01 Bratislava, IČO: 17 333 768, registered in the Commercial Register of the District Court Bratislava I, Section Po, file 30/B), owned a 51% shareholding in registered capital of parent company until 1 August 2014.

The Company's operations are governed by the terms of its license granted under the Energy Law ("the Energy License"). The Regulatory Office of Network Industries of the Slovak Republic ("URSO") regulates certain aspects of the Company's relationships with its customers including pricing.

The consolidated financial statements of Stredoslovenská energetika, a.s. are available at the registered address of the parent company in Žilina, Pri Rajčianke 8591/4B and is filed in the Commercial Register of the District Court Žilina. These consolidated financial statements are included in the consolidated financial statements of Energetický a průmyslový holding, a.s. („EPH"). EPH holding's consolidated financial statements are prepared by EPH based in Pařížská 130/26, Josefov, 110 00 Praha 1, Czech Republic, IČO: 28 356 250. These consolidated financial statements are available at the registered office of EPH Pařížská 26, 110 00 Praha 1, Czech Republic. The address of the registration court maintaining the Commercial Register in which these consolidated financial statements are deposited is Municipal court in Praha, Slezská 2000/9, 120 00 Praha, Czech Republic.

### Unlimited liability

The Company is not a shareholder with unlimited liability in other entities.

*(All amounts are in thousand EUR unless stated otherwise)*

### Date of approval of the financial statements for the previous accounting period

The General Meeting approved the Company's financial statements for the previous accounting period ended 31 December 2015 on 27 June 2016.

### Publication of the Financial Statements for the preceding accounting period

The Financial Statements of the Company as at 31 December 2015 and the Auditors´ Report on the audit of the Financial Statements were filed and published in Register of Financial Statements on 27 June 2016. The annual report with the supplement to the auditors' report on the audit of consistency as at 31 December 2015 was filed in Register of Financial Statements on 5 August 2016.

### Appointment of the auditor

The Company's General Meeting approved KPMG Slovensko spol. s r.o. as the auditor of the financial statements for the year ended 31 December 2016 on 27 June 2016.

### The Company's bodies

The members of the Company's statutory bodies during the year ended 31 December 2016 were as follows:

| | **Board of Directors** | **Supervisory Board** |
|---|---|---|
| Chairman: | Ing. František Čupr, MBA | Ing. Pavol Mertus (since 21.12.2016)<br>Ing. Ján Majerský, PhD (until 20.12.2016) |
| Vice chairman: | Ing. Jozef Vido | Mgr. Tomaš David, MBA |
| Members: | Ing. Branislav Kadáš<br>Ing. Roman Filipoiu<br>Petr Kozojed | Ing. Igor Pištík<br>Ing. Miroslav Martoník<br>Ing. Dušan Majer<br>Ing. Marcela Kumštárová (since 21.12.2016)<br>Ing. Vladimír Macášek (since 21.12.2016)<br>Ing. Drahomír Múdry (since 21.12.2016)<br>PaedDr. Jozef Bojčík, MPH (since 21.12.2016)<br>Ing. Martin Vanderka (until 20.12.2016)<br>Ing. Ľubomír Czaja (until 20.12.2016)<br>Mgr. Miroslav Meluš (until 20.12.2016)<br>Ing. Ivan Sýkora (until 20.12.2016) |

### Average number of employees

In 2016, the average number of employees of the Company was 1 276 (2015: 1 216), 9 of which were managers (2015: 9).

## 2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

### 2.1. Basis for preparation

Legal reason for the preparing the financial statements:

The Company's financial statements at 31 December 2016 have been prepared as ordinary financial statements under § 17 Sec. 6 of the Slovak Act No. 431/ 2002 Coll. ("the Act on Accounting") for the accounting period from 1 January 2016 to 31 December 2016.

The Act on Accounting requires the Company to prepare financial statements for the year ended 31 December 2016 in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("IFRS EU").

These financial statements have been prepared in accordance with IFRS as adopted by the EU. The Company applies all IFRS EU issued by International Accounting Standards Board ("IASB") and interpretations issued by International Financial Reporting Interpretation Committee ("IFRIC") as adopted by EU, which were in force as at 31 December 2016.

The financial statements have been prepared under the historical cost measurement basis.

The financial statements were prepared on accrual basis and under the going concern principle.

The Board of Directors of the Company can propose to the shareholder of the Company to amend the financial statements until their approval by the General Assembly. If, after the approval of financial statements, the management identifies that comparative information is not consistent with the current period, the IFRS EU allows changing comparative information when relevant facts are obtained.

The preparation of the financial statements in conformity with IFRS EU requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies on non-standard transactions. The areas involving higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

These financial statements are prepared in thousand euro ("EUR"), unless stated otherwise.

**Change in presentation**

A segment of property, plant and equipment are self-constructed assets, therefore, these internal conversion costs are capitalized. The capitalized internal costs include personnel expenses, operating expenses, depreciation and consumption of raw material related to the investing activity. Due to the presentation of the volume of capitalized internal costs, the Company changed the way of their presentation – the total amount of internal costs have been left in the relating cost category and a new line "Capitalization" (representing the amount of costs capitalized to property, plant and equipment) has been added. The change in presentation caused an increase in the balance of revenue and expense accounts (gross basis of presentation).

*(All amounts are in thousand EUR unless stated otherwise)*

The following table summarizes the adjustments relating to the Income statement:

| | Year ended 31 December 2015 | | |
|---|---|---|---|
| | **Original balance before change in presentation** | **Effect of the change** | **Balance after change in presentation** |
| Capitalization | - | 8 667 | 8 667 |
| Personnel expenses | (27 454) | (5 591) | (33 045) |
| Consumption of raw material and merchandise | (6 262) | (643) | (6 905) |
| Other operating expenses | (24 649) | (2 433) | (27 082) |

**New standards and interpretations not yet adopted**

Standards and interpretations that have been approved by EU, but are not effective as at 31 December 2016 and have not been applied in preparing of these financial statements.

- IFRS 9 Financial Instruments (2014) (Effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively with some exemptions. The restatement of prior periods is not required and is permitted only if information is available without the use of hindsight. Early application is permitted): This Standard replaces IAS 39 Financial Instruments: Recognition and Measurement, except for the exceptions under IAS 39 for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities, which continues to apply. Entities have an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting.

  Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL) – are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different. A financial asset are measured at amortized cost if the following two conditions are met: the assets is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and, its contractual terms give rise to specific dates of cash flows that are solely payments of principal and interest on the principal outstanding. In addition, for a non-trading equity instrument, a company may elect to irrevocably present subsequent changes in fair value (including foreign exchange gains and losses) in OCI. These are not reclassified to profit or loss under any circumstances.

  For debt instruments measured at FVOCI, interest revenue, expected credit losses and foreign exchange gains and losses are recognised in profit or loss in the same manner as for amortised cost assets. Other gains and losses are recognised in OCI and are reclassified to profit or loss on derecognition.
  The impairment model in IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ model, which means that event causing a loss will no longer need to occur before an impairment allowance is recognised.

  IFRS 9 includes a new general hedge accounting model, which aligns hedge accounting more closely with risk management. The types of hedging relationships – fair value, cash flow and foreign operation net investment – remain unchanged, but additional judgment will be required.

  The standard contains new requirements to achieve, continue and discontinue hedge accounting and allows additional exposures to be designated as hedged items.
  Extensive additional disclosures regarding the company’s risk management and hedging activities are required.

The Company (non-bank) does not expect IFRS 9 (2014) to have significant impact on the financial statements. The classification and measurement of the Company's financial instruments are not expected to change under IFRS 9 because of the nature of the Company's operations and the types of financial instruments that it holds. However the company believes that impairment losses are likely to increase and become more volatile for assets in the scope of expected credit loss impairment model. The company has not yet finalised the impairment detection methodologies that it will apply under IFRS 9.

- IFRS 15 Revenue from contracts with customers (Effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted): The new Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Entities will adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:
  - over time, in a manner that depicts the company's performance; or
  - at a point in time, when control of the goods or services is transferred to the customer.

  IFRS 15 also establishes the principles that the company shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

  Although it has not yet fully completed its initial assessment of the potential impact of IFRS 15 on the Company's financial statements, management does not expect that the new Standard, when initially applied, will have significant impact on the Company's financial statements. The timing and measurement of the Company's revenues are not expected to change under IFRS 15 because of the nature of the Company's operations and the types of revenues it earns.

- IFRS 16 Leases (Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the company also applies IFRS 15.). IFRS 16 supersedes IAS 17 Leases and related interpretations. The Standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.

  Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

  The new Standard introduces a number of limited scope exceptions for lessees which include:
  - leases with a lease term of 12 months or less and containing no purchase options, and
  - leases where the underlying asset has a low value ('small-ticket' leases).

  Lessor accounting shall remain largely unaffected by the introduction of the new Standard and the distinction between operating and finance leases will be retained.

  The Company does not expect that the new Standard, when initially applied, will have significant impact on the financial statements because most of the operating lease contracts concluded will expire before the effectiveness of this standard.

- Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture.
  The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:

- a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while
- a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The Company does not expect that the amendments, when initially applied, will have significant impact on the presentation of the Company's financial statements.

- Annual improvements
Annual improvements introduce two amendments to two standards and consequential amendments to other standards and interpretations that result in accounting changes for presentation, recognition or measurement purposes. The most of amendments are applicable for accounting period beginning on or after 1 January 2017 and 1 January 2018; to be applied retrospectively.

The Company does not expect, that these amendments will have significant impact on the financial statements.

## 2.2. Foreign currency transactions and translation

### (i) Functional and presentation currency

Items included in the financial statements are presented in EUR which is the currency of the primary economic environment in which the company operates (“the functional currency”).

### (ii) Transactions and balances in the Statement of Financial position

Transactions denominated in foreign currency are translated to Euro as at the date of the accounting transaction by the reference exchange rate determined and declared by the European Central Bank (“ECB”) or National Bank of Slovakia (“NBS”) as at the date preceding the date of the accounting transaction.

Financial assets and liabilities denominated in a foreign currency are translated to Euro at the reporting date according to the reference exchange rate determined and declared by the European Central Bank or the National Bank of Slovakia as at the reporting date, and are recorded with an impact on profit or loss.

Non-financial assets and liabilities, advance payments made and advance payments received denominated in foreign currencies are translated to euro as at the date of the accounting transaction by the reference exchange rate determined and declared by the ECB or the NBS as at the date preceding the date of accounting transaction.

## 2.3. Property, plant and equipment

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

### (i) Acquisition Cost

Acquisition cost includes expenditure that is directly attributable to the acquisition of the item. Borrowing costs are capitalized if they meet criteria of IAS 23 as a part of acquisition cost, in the other case borrowing costs are expensed as incurred.

*(All amounts are in thousand EUR unless stated otherwise)*

Self-constructed non-current assets are valued at their conversion cost. Conversion cost includes all direct costs incurred during production or other activities and indirect costs related to production or other activities.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the Income Statement during the financial period in which they are incurred.

### (ii) Depreciation

The depreciation of property, plant and equipment starts in the month when the property, plant and equipment is available for use. Property, plant and equipment is depreciated in line with the approved depreciation plan using the straight-line method. Monthly depreciation charge is determined as the depreciable basis divided by the estimated useful life of the item of property, plant and equipment. The depreciable basis is the acquisition cost less the expected residual value of the asset at the time of disposal.

The estimated useful lives of individual groups of assets were in 2016 and 2015 as follows:

| | **2016** | **2015** |
|---|---|---|
| Buildings, halls and structures | 10 – 70 years | 10 – 100 years |
| Distribution network, equipment and vehicles | 4 – 45 years | 4 – 45 years |
| Other non-current tangible assets | 5 – 15 years | 5 – 15 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Land and assets under construction are not depreciated.

The residual value of an asset is the estimated amount that the Company would currently obtain from disposal of the asset less the estimated costs of disposal, if the assets were already of the age and in the conditions expected at the end of their useful life. The residual value of an asset is zero or its scrap value if the Company expects to use the asset until the end of its physical life.

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.5).

Assets, that are retired or otherwise disposed of are derecognised from the Statement of Financial Position, along with the corresponding accumulated depreciation and accumulated impairment losses. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in operating profit/loss.

## 2.4. Non-current intangible assets

Non-current intangible assets are initially measured at acquisition cost. Non-current intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the Company, and the acquisition cost of the asset can be measured reliably. After initial recognition, the non-current intangible assets are measured at acquisition cost less accumulated amortization and any accumulated impairment losses. Borrowing costs, which fulfil IAS 23 criteria are capitalized as a part of acquisition cost, otherwise are not capitalized and are expensed as incurred. The Company does not have non-current intangible assets with indefinite useful lives. Non-current intangible assets are amortised over their estimated useful lives, which does not exceed 20 years.

The amortization of an intangible asset starts in the month when the intangible asset is put in use. Intangible assets are depreciated in line with the approved depreciation plan using the straight-line method. Monthly depreciation charge is determined as the depreciable basis divided by the estimated useful life of the intangible asset. The depreciable basis is the acquisition cost less the expected residual value of the asset at the time of disposal.
Residual value of intangible assets is assumed to be zero unless:

- there is a commitment by a third party to purchase the asset at the end of its useful life, or
- there is an active market for the asset and residual value can be determined by the reference to that market and it is probable that such a market will exist at the end of the asset's useful life.

Costs associated with maintaining computer software programmes are recognized as an expense as incurred.

Subsequent expenditure which enhances or extends the performance of computer software programs beyond their original specifications and meets criteria for recognizing it as an intangible asset according to IAS 38 is recognized as a technical improvement and added to the original cost of the software. Each item of Intangible assets, which value is in comparison to the total value of the item significant, is amortised separately. The Company divides the value of the original item proportionally to its significant parts and amortises each such part separately.

### 2.5. Impairment of non-financial assets

Assets that have an indefinite useful life and non-current intangible assets not yet in use are not subject to amortization and are tested for impairment annually. Non-financial assets, except for deferred tax asset and inventory are reviewed for impairment at each reporting date whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If an indicator of impairment exists, the asset's recoverable amount is estimated. An impairment loss is recognized in the Income statement for the amount by which the asset's or cash generating unit's ("CGU") carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use, depending on which one is higher.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are individually identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that were impaired are reviewed for possible reversal of the impairment at each reporting date.

### 2.6. Financial assets

The Company initially recognises loans, receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Company has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Financial assets and liabilities are offset and the net amount presented in the Statement of Financial Position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Company classifies its financial assets in the following categories: at fair value through profit or loss, available-for-sale financial assets and loans and receivables. The classification depends on the purpose for which the investments were acquired, whether they are quoted in an active market and on management intentions.

The Company owns the following financial assets:

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise trade and other receivables, cash and cash equivalents and receivables from parent company from cash pooling.

### 2.7. Financial liabilities

Financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument. When a financial liability is recognised initially, the Company measures it at its fair value net of transaction costs that are directly attributable to the origination of the financial liability. After initial recognition, the Company measures all financial liabilities at amortised cost using the effective interest method.

Financial liability (or a part of a financial liability) is derecognised from the Company’s Statement of Financial Position when, and only when it is extinguished - i.e. when the obligation specified in the contract is discharged, cancelled or expires.

The Company has the following non-derivative financial liabilities: loans and borrowings and trade and other payables.

### 2.8. Leases

IAS 17 defines a lease as being an agreement whereby the lessor conveys to the lessee in return for a payment, or series of payments, the right to use the asset for an agreed period of time.

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 (net of any incentives received from the lessor) are charged to the Income Statement on a straight-line basis over the period of the lease.

The Company has no finance leases.

### 2.9. Inventory

Inventories are measured at the lower of cost and net realizable value. The cost of inventory is based on the weighted average principle. The cost includes all purchase-related costs for example duty and freight, discounts and rebates. Net realizable value is the estimated selling price less estimated costs necessary to make the sale.

### 2.10. Trade and other receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, net of any allowance for impairment. Revenue recognition policy is described in the Note 2.19.

An allowance for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all the amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy or financial reorganization, default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the allowance is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted by the effective interest rate.

Impairment of trade receivables is recognized through an allowance account. Impairment losses and their reversals, if any, are recognized in the Income Statement within other operating expenses. Trade receivables that cannot be collected are written off. Trade receivables that were written off and are subsequently repaid by the debtors are recognized in the Income Statement within other operating revenue.

### 2.11. Cash and cash equivalents

Cash and cash equivalents include 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 administrated by the parent company based on “Agreement about providing the service of cash pooling” is recognized as receivable due from the parent company not as cash or cash equivalents.

### 2.12. Share capital

Ordinary shares are classified as share capital.

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

### 2.13. Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date. Management regularly evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided 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, the 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 that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Current and deferred tax is recognized in the Income statement except to the extent that it relates to items recognised directly in equity or the Statement of comprehensive income.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

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

### 2.14. Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the Income Statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

### 2.15. Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are not recognized for future operating losses. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

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 recognized 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 recognized as interest expense.

### 2.16. Contingent liabilities

Contingent liabilities are not recognized in the Statement of Financial Position. They are disclosed in the Notes to the Financial Statements, if the outflow of resources embodying the economic benefits is not probable.

They are not disclosed in Notes to the Financial Statements if the possibility of an outflow of resources embodying the economic benefits is remote.

### 2.17. Trade payables and other payables

Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost using effective interest method.

### 2.18. Employee benefits

The Company has both defined benefit and defined contribution plans.

*(All amounts are in thousand EUR unless stated otherwise)*

### Pension plans

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive upon retirement, usually dependent on one or more factors such as age, years of service and compensation.

A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate company or to the Government and will have no legal or constructive obligations to pay further contributions if the funds do not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

### Unfunded defined benefit pension plan

According to the Corporate Collective Agreement for the years 2017 – 2019 the Company is obliged, based on the number of years in service, to pay its employees upon retirement or disability the following multiples of their average monthly salary:

| | Average salary multiple |
|---|---|
| up to 10 years | 2 |
| 11 - 15 | 4 |
| 16 - 20 | 5 |
| 21 - 25 | 6 |
| over 25 | 7 |

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

### Other benefits

The Company also pays the following life and work jubilee benefits:

- one additional monthly salary on 25th annual work anniversary;
- a single payment from 40% to 110% of employee’s monthly salary depending on the number of years worked for the Company when the employee reaches the age of 50 years.

The Company had created expectations on the part of its employees that it will continue to provide the benefits and it is the management’s judgement that it is not probable that the Company will cease to provide them.

The liability recognised in the Statement of Financial Position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date.

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

Actuarial gain and loss arising from experience adjustments and changes in actuarial assumptions are immediately recognized in period when incurred. Pension liabilities in Statement of Comprehensive Income and life and work jubilee benefits in the Income Statement. Past-service costs are recognised immediately in the Income Statement.

**Defined contribution pension plans**

The Company contributes to the government and private defined contribution pension plans.

The Company makes contributions to the government health, retirement benefit, accidental and guarantee insurance and unemployment schemes at the statutory rates in force during the year, based on gross salary payments.

Throughout the year, the Company made contributions amounting to 35.2% (2015: 35.2%) of gross salaries up to a monthly salary ceiling, which is defined by the relevant law to maximum of EUR 4 290 (2015: maximum of EUR 4 120) depending on the type of scheme, together with contributions made by employees of a further 13.4% (2015: 13.4%). The cost of these payments is charged to the Income Statement in the same period as the related salary cost.

In addition, with respect to employees who have chosen to participate in a supplementary pension scheme, the Company makes contributions to the supplementary scheme, between 2% and 6% from the total of monthly tariff wage maximum to EUR 1 400 annually (2015: EUR 1 400).

**Termination benefits**

Termination benefits are payable whenever an employee's employment is terminated by the employer before the normal retirement date upon agreement between the employer and employee resulting from redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either: (a) terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or (b) provide termination benefits as a result of an offer made to encourage voluntary redundancy. Present value of termination benefit does not significantly differ from carrying amount as the influence of discounting is not significant.

**Profit sharing and bonus plans**

Liability for any employee benefits in the form of profit sharing and bonus plans is recognized as other payables when there is no realistic alternative but to settle the liability and at least one of the following conditions is met:

- there is a formal plan and the amounts to be paid are determinable before the financial statements are authorised for issue; or
- the past practice created a valid expectation of employees that they will receive a profit sharing or other bonus and the amount can be determined before the financial statements are authorised for issue.

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

## 2.19. Revenue recognition

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

The Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Company and specific criteria will be met for each of the Company's activities as described below.

The amount of revenue is not considered to be reliably measurable until all conditions related to sale are met. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue from delivery and distribution of electricity is recognized when the electricity is delivered to the customer. Consumption of wholesale customers is metered and billed on monthly basis. Billing cycle of retail customers (households and small businesses) is metered and billed on an annual basis.

For calculation of the total consumption of the retail customers the Company uses the methodology of the energy consumption estimate, which is once a year settled based on consumption metering.

The Company used methodology for the estimate of network losses that is consistent with the methodology used during year 2015. The calculation of network losses is derived from actual metering as well as from the estimate of supply at the low voltage level based on past experience.

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

Interest income is recognized in the period when it is earned on a time proportion basis using the effective interest rate method.

Revenues from connection fees from customers for connection to the distribution network and subsequent access to the delivery of distribution services are recorded as deferred income and are released to revenues over the useful life of connections.

Assets acquired by withholding (e.g. transformer stations) free of charge and inventory surpluses are recorded in accordance with the existing legislation, initially recorded at fair value as deferred income. Subsequently, an amount equal to the annual accounting depreciation of these assets is recognised in the revenues of the current period.

Fees for relocations of energy devices are treated similarly to transformer station withheld, meaning the value of such fees is recorded as deferred income, while the amount equal to the annual accounting depreciation for these assets is recognized in the revenues of the current period.

### 2.20. Dividend distribution

Dividend distribution to the Company’s shareholder is recognised as a liability in the Company’s financial statements in the period in which the dividends are approved by the Company’s shareholder.

## 3 Financial risk management

### 3.1. Financial Risk Factors

The Company is exposed to a variety of financial risks due to its business activities: market risk (including foreign exchange risk, price risk, interest rate risk), operational risk, credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. The Company does not use derivative financial instruments to hedge risk exposures.

Risk management is carried out by a central finance department (provided by the parent company Stredoslovenská energetika, a.s.) in accordance with principles approved by the Board of Directors. The central finance department identifies, evaluates and hedges financial risks in cooperation with the Company's operating units. The Board of Directors provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and use of non-derivative financial instruments.

### (i) Market risk

### (a) Foreign exchange risk

The Company is not exposed to foreign exchange risk as expenses and revenues in foreign currency are not significant for the Company.

### (b) Price risk

Significant part of distribution services provided by the Company is subject to price regulation by URSO. Based on the accepted Regulatory policy, the extent and way of the price regulation for years 2012 – 2016 have been set. URSO sets price decrees for distribution services provided by the Company generally for the period of one calendar year ahead and these are mandatory for the Company's invoicing. The allowed return is derived from Regulated Asset Base ("RAB") and rate of return set by URSO. Despite this, circumstances outside the control of the Company may occur, that will result into change of the price decree during a calendar year and therefore have a negative or a positive impact on the Company's results. It is not possible to quantify the level of such risk in advance. Management of the Company enters in to the discussion with URSO in the case of a change of the price decree with the aim to minimize the negative impact on the Company.

### (c) Cash flow and fair value interest rate risk

The Company's interest rate risk arises from long-term borrowings. Borrowings with variable interest rate expose the Company to variability in cash flows. According to the set principles the Company should keep the level of the fixed interest rate borrowings at least at the level of 50 % (2015: 50 %).

The Company regularly analyses its interest rate exposure. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Company calculates the impact on profit or loss of a defined interest rate change. The scenarios are run only for liabilities that bear significant interest rates.

At 31 December 2016, if interest rates on EUR-denominated borrowings had been higher/lower by 50 basis points (at 31 December 2015: 50) and with all other variables held constant, post-tax profit, for the year ending as at 31 December 2016, would have been lower/higher by EUR 2 thousand (2015: EUR 8 thousand), mainly as a result of higher/lower interest expense on floating rate borrowings.

At 31 December 2016 and 31 December 2015 all borrowings denominated in EUR are interest-bearing with fixed and floating interest rates and are recorded at amortised costs. For more details see Note 15.

*(All amounts are in thousand EUR unless stated otherwise)*

### (ii) Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Company's operations.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management.

Compliance with Company standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the senior management of the Company.

### (iii) Credit risk

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, receivables from cash-pooling from parent company, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. As for the banks and financial institutions, the Company has relationships only with those ones that have high independent rating assessment. If wholesale customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assessment of the credit quality of the customer is performed, taking into account its financial position, past experience and other factors.

Key service of the Company is distribution of electricity, which is invoiced to the customers usually by the trader of electricity (the parent company Stredoslovenská energetika, a.s. or other trader), mainly in a form of integrated contract, i.e. the price for electricity is invoiced to the final customer together with the distribution fee.

The Company manages the credit risk of customers via prepayment system. Customers with the higher default risk pay higher prepayments.

As far as the trade and cash pooling receivables are concerned, the Company has a significant concentration of credit risk mainly due to the close cooperation with the parent company Stredoslovenská energetika, a.s. and a small number of customers (traders and direct customers). The Company has a significant concentration of credit risk from the parent company (2016: 56% of trade receivables, 2015: 81 % of trade receivables). However, historically, no significant losses occurred that were related to credit risk from the parent company.

The table below shows the balances due from banks and cash in hand at the reporting date:

| **Counterparty** | **Rating1** | **2016** | **2015** |
|---|---|---|---|
| Banks | | | |
| UniCredit Bank, a.s. | Baa2 | 8 | 7 |
| Cash | - | 4 | 5 |
| **Total** | | **12** | **12** |

Funds managed by the parent company Stredoslovenská energetika, a.s. based on "Agreement about providing the service of cash pooling" as at 31 December 2016 represent the amount of EUR 27 206 thousand (31 December 2015: EUR 65 189 thousand) and they are classified as a receivable from the parent company.

*(All amounts are in thousand EUR unless stated otherwise)*

The loan principal obtained from the parent company as at 31 December 2016 was in the amount of EUR 21 785 thousand (31 December 2015: EUR 27 923 thousand). For more details see Note 15.

[1]The Company uses the independent ratings of Moody's, Standard & Poor's, Fitch.

**Exposure to credit risk**

The carrying amount of financial assets represents maximum credit exposure, which was as at 31 December 2016 and as at 31 December 2015 as follows:

| | | Balance as at 31 December | |
|---|---|---|---|
| **Financial instrument** | **Note** | **2016** | **2015** |
| Trade receivables (before impairment provision) | 9 | 28 970 | 23 936 |
| Receivable from parent company (cash pooling) | | 27 206 | 65 189 |
| Accrued income | 10 | 73 168 | 76 702 |
| Cash and cash equivalents | 11 | 12 | 12 |
| **Total** | | **129 356** | **165 839** |

## (iv) Liquidity risk

A prudent liquidity risk management means sustaining a sufficient amount of cash and tradeable securities, availability of cash by undrawn credit lines and possibility to close market positions. Due to the dynamic nature of the activities, the Company tries to sustain the flexibility of the financing through the financing from the parent company.

The Company has concluded an agreement about cash-pooling with the parent company Stredoslovenská energetika, a.s., which is used to manage liquidity risk and which should cover an immediate shortage of cash. The cash-pooling is available on demand. The Company regularly monitors its liquidity position.

As at 31 December 2016, the Company had concluded an agreement about on a credit limit with the parent company Stredoslovenská energetika, a.s. in the amount of EUR 150 000 thousand (31 December 2015: EUR 150 000 thousand).

The Company also uses the advantages of commercial terms between the Company and its suppliers to secure sufficient financing funds to cover its needs. The maturity of supplier's invoices is usually between 14 to 90 days.

Expected cash flows are prepared as follows:

- expected future cash inflows from main operations of the Company;
- expected future cash outflows securing operations of the Company and leading to settlement of all liabilities of the Company, including tax payables.

A cash flow forecast is prepared monthly. It identifies the immediate need for cash and, if funds are available, it enables the Company to make short-term deposits and other investments.

The table below analyses the Company's short term financial liabilities according to relevant maturity groups based on the remaining period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. The difference between the carrying and estimated value of liabilities represent future expected interests.

*(All amounts are in thousand EUR unless stated otherwise)*

| | Carrying value | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| **As at 31 December 2016** | | | | | | |
| Borrowings from the parent company (principal incl. future interest charges) | 21 848 | 4 734 | 4 233 | 9 448 | 5 114 | 23 529 |
| Trade and other payables (excl. Liabilities not in scope of IFRS 7) | 59 756 | 59 756 | - | - | - | 59 756 |
| **Total** | **81 604** | **64 490** | **4 233** | **9 448** | **5 114** | **83 285** |
| **As at 31 December 2015** | | | | | | |
| Borrowings from the parent company (principal incl. future interest charges) | 28 148 | 6 858 | 4 733 | 11 035 | 7 756 | 30 382 |
| Trade and other payables (excl. Liabilities not in scope of IFRS 7) | 67 729 | 67 729 | - | - | - | 67 729 |
| **Total** | **95 877** | **74 587** | **4 733** | **11 035** | **7 756** | **98 111** |

### 3.2. Capital risk management

Management considers equity being capital. The Company’s objective when managing capital is to safeguard the Company’s ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Company’s management manages shareholders’ capital reported under IFRS EU amounting to, as at 31 December 2016, EUR 705 849 thousand (31 December 2015: 732 700 thousand).

Consistent with other companies within the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt divided by total liabilities and equity. Debt is calculated as total borrowings (including current and non-current borrowings’ as presented in the Statement of Financial Position).

During 2016, the Company’s strategy, which was unchanged from 2015, was to maintain the gearing ratio below 60% limit stated in the Company’s loan agreements.

### 3.3. Fair value estimation

Fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. Different methods, such as discounted estimated future cash flow, are used for determining fair value of other financial instruments.

Fair value of currency forward contracts is determined using quoted forward exchange rates at the reporting date.

The carrying amount of trade receivables decreased by an impairment provision and payables is assumed to approximate their fair values. Fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

## 4 Critical accounting estimates and judgements

### Use of estimates and judgements

The preparation of the financial statements in conformity with IFRS as adopted by EU requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and related assumptions are based on historical experience and other miscellaneous factors deemed appropriate under the circumstances. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements, assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment stated below.

### (i) Estimated useful life of assets

Management estimates useful life of non-current tangible and intangible assets based on cooperation with internal and external experts. If the revised estimated useful life of non-current tangible and intangible assets was shorter by 10% than management's estimate at 31 December 2016, the Company would have recognized an additional depreciation of property, plant and equipment and non-current intangible assets charged to the Income Statement of EUR 6 878 thousand (2015: EUR 6 654 thousand).

### (ii) Estimate of billed electricity distribution

Revenue generating from customers whose energy consumption is not metered at the end of the accounting period, particularly customers with low-voltage electricity, must be estimated for delivered electricity at the reporting date.

The Company developed a model allowing it to estimate revenue with satisfactory degree of accuracy and subsequently ensure that the risk of a significant error associated with estimated distributed quantities sold and the resulting revenues can be considered as not significant.

The average historical differences between the estimates of billed electricity distribution and the actual results are below 1% on an average (2015: below 1%).

*(All amounts are in thousand EUR unless stated otherwise)*

## 5 Reorganisation of the Group

In order to meet URSO requirements, the reorganisation of the SSE Group, was performed as at 1 January 2015. A part of the parent company Stredoslovenská energetika, a.s. was contributed to the Company as at 1 January 2015. Transferred part of the company represents selected activities and employees of the Distribution and mechanisation division. The fair value of transferred part of the company is represented mainly by intangible assets and property, plant and equipment, receivables, trade and employment liabilities, which are related to the transferred part of the company, amounted to EUR 7 096 thousand as at 1 January 2015. This transaction was made upon a decision of the Board of Directors of the Company held on 17 December 2014 and the agreement on transfer of activities concluded with Stredoslovenská energetika, a.s. on 17 December 2014.

As at 1 January 2015, assets and liabilities related to transferred part of the company were revalued by an independent expert to their fair value using an assets method.

Transaction's impact influenced revenues, expenses and profit or loss of the Company for the year 2015.

Details of acquired assets and liabilities are as follows:

| | **Fair value of assets and liabilities determined by an expert** | **Original net book value of assets and liabilities** |
|---|---|---|
| **ASSETS** | | |
| Property, pland and equipment | 6 927 | 6 106 |
| Assets in off balance sheet records | 8 | - |
| Trade and other receivables | 362 | 362 |
| **Total** | **7 297** | **6 468** |
| **LIABILITIES** | | |
| Non-current provisions for liabilities and fees | 57 | 57 |
| Trade and other liabilities | 144 | 144 |
| **Total** | **201** | **201** |
| **Assets and liabilities – total** | **7 096** | **6 267** |

Reorganisation of the SSE Group continued as at 31 December 2015 when part of the parent company Stredoslovenská energetika, a.s. was contributed to the Company. Transferred part of the company represents activities and employees of IT department. The fair value of transferred part of the company, represented by property, plant and equipment and intangible assets, receivables, trade and employment liabilities, which are related to the transferred part of the company amounted to EUR 8 557 thousand as at 31 December 2015. This transaction was made upon a decision of the Board of Directors on 25 November 2015 and based on the agreement on transfer of activities concluded with the parent company on 26 November 2015.

Assets and liabilities related to transferred activities were revalued by an independent expert to their fair values using the assets method as at 31 December 2015.

*(All amounts are in thousand EUR unless stated otherwise)*

Details of acquired assets and transferred liabilities are as follows:

| | **Fair value of assets and liabilities determined by an expert** | **Original net book value of assets and liabilities** |
|---|---|---|
| **ASSETS** | | |
| Property, plant and equipment | 4 154 | 4 314 |
| Non-current intangible assets | 3 280 | 5 615 |
| Assets in off balance sheet records | 2 563 | - |
| Trade and other receivables | 1 026 | 1 026 |
| **Total** | **11 023** | **10 955** |
| | | |
| **LIABILITIES** | | |
| Non-current provisions for liabilities and fees | 403 | 403 |
| Trade and other liabilities | 2 063 | 2 063 |
| **Total** | **2 466** | **2 466** |
| | | |
| **Assets and liabilities - total** | **8 557** | **8 489** |

Total of acquired assets and total of transferred liabilities as at 1 January 2015 and 31 December 2015 as well as impact of the aforementioned transactions are as follows:

| | **Fair value of assets and liabilities determined by an expert** | **Original net book value of assets and liabilities** |
|---|---|---|
| **ASSETS** | | |
| Property, plant and equipment | 11 081 | 10 421 |
| Non-current intangible assets | 3 280 | 5 615 |
| Assets in off balance sheet records | 2 571 | - |
| Trade and other receivables | 1 388 | 1 388 |
| **Total** | **18 320** | **17 424** |
| | | |
| **LIABILITIES** | | |
| Non-current provisions for liabilities and fees | 460 | 460 |
| Trade and other liabilities | 2 207 | 2 207 |
| **Total** | **2 667** | **2 667** |
| | | |
| **Assets and liabilities - total** | **15 653** | **14 757** |

Net cash outflow for acquisition of assets and liabilities was EUR 15 653 thousand, out of which EUR 8 557 thousand as at 31 December 2015 was unpaid (Note 14).

*(All amounts are in thousand EUR unless stated otherwise)*

## 6 Property, plant and equipment

The movement of property, plant and equipment from 1 January 2015 to 31 December 2016 is presented below:

| | Land | Buildings | Machinery, equipment and other assets | Tangible assets not yet in use including advances | Total |
|---|---|---|---|---|---|
| **As at 1 January 2015** | | | | | |
| Acquisition cost | 12 039 | 848 192 | 287 062 | 36 736 | 1 184 029 |
| Accumulated depreciation and | - | (300 355) | (87 634) | (1 067) | (389 056) |
| **Net book value** | **12 039** | **547 837** | **199 428** | **35 669** | **794 973** |
| **Year ended 31 December 2015** | | | | | |
| Opening balance | 12 039 | 547 837 | 199 428 | 35 669 | 794 973 |
| Additions | 367 | 33 858 | 5 902 | 4 773 | 44 900 |
| Reorganisation of the Group | - | 548 | 10 533 | - | 11 081 |
| Transfers from assets not yet in use | 5 | 18 362 | 13 011 | (31 378) | - |
| Disposals | (30) | (42) | (189) | (8) | (269) |
| Depreciation charge | - | (44 812) | (14 728) | - | (59 540) |
| Reversal of impairment provision | - | 1 | - | - | 1 |
| **Closing net book value** | **12 381** | **555 752** | **213 957** | **9 056** | **791 146** |
| **As at 31 December 2015** | | | | | |
| Acquisition cost | 12 381 | 897 950 | 313 388 | 9 056 | 1 232 775 |
| Accumulated depreciation and impairment charges | - | (342 198) | (99 431) | - | (441 629) |
| **Net book value** | **12 381** | **555 752** | **213 957** | **9 056** | **791 146** |
| **As at 1 January 2016** | | | | | |
| Acquisition cost | 12 381 | 897 950 | 313 388 | 9 056 | 1 232 775 |
| Accumulated depreciation and impairment charges | - | (342 198) | (99 431) | - | (441 629) |
| **Net book value** | **12 381** | **555 752** | **213 957** | **9 056** | **791 146** |
| **Year ended 31 December 2016** | | | | | |
| Opening balance | 12 381 | 555 752 | 213 957 | 9 056 | 791 146 |
| Additions | 439 | 27 452 | 8 147 | 12 482 | 48 520 |
| Transfers from assets not yet in use | 14 | 2 861 | 2 075 | (4 950) | - |
| Disposals | (41) | (407) | (106) | (221) | (775) |
| Depreciation charge | - | (42 054) | (15 123) | - | (57 177) |
| Creation of impairmet provision | - | (3 370) | - | - | (3 370) |
| **Closing net book value** | **12 793** | **540 234** | **208 950** | **16 367** | **778 344** |
| **As at 31 December 2016** | | | | | |
| Acquisition cost | 12 793 | 923 306 | 320 935 | 16 367 | 1 273 401 |
| Accumulated depreciation and impairment charges | - | (383 072) | (111 985) | - | (495 057) |
| **Net book value** | **12 793** | **540 234** | **208 950** | **16 367** | **778 344** |

At 31 December 2016, no property, plant and equipment was pledged in favour of a creditor. The Company has no contracts in respect of pledged assets and long term leases of the non-current assets.

A part of the impairment provisions is related to unused buildings. At 31 December 2016, the value of the impairment for unused distribution network amounted to EUR 3 386 thousand (31 December 2015: EUR 16 thousand).

There are no restrictions of ownership relating to property, plant and equipment. No property, plant and equipment is pledged.

Buildings, machines, equipment and vehicles include mainly network, switching stations, transformers, administrative buildings and equipment, vehicles and machinery, hardware, servers, telephone exchanges, remote control equipment, electrometers, metering equipment, system failure detectors and electrical and hand tools and machines.

The Company leases vehicles, personal computers, printers, land, machinery and telephone circuits (operating leasing). Furthermore, the Company leases non-current tangible assets to third parties.

Relocation of energy devices, assets obtained by withholding (transformer stations, power lines), assets obtained free of charge and inventory surplus are recorded in accordance with the existing legislation, initially recorded at fair value as deferred income. Subsequently, an amount equal to the annual accounting depreciation of these assets is recognised in the revenues of the current period (Note 13, point b).

Interest expense meeting the criteria of IAS 23 in the amount of EUR 39 thousand (2015: EUR 290 thousand) was capitalized, otherwise was expensed in the current period.

**Type and amount of insurance of property, plant and equipment**

Property, plant and equipment, except for power lines, are insured against damages caused by natural disaster up to EUR 745 340 thousand (2015: EUR 745 340 thousand), theft up to EUR 664 thousand (2015: EUR 664 thousand).

Machinery is insured up to EUR 19 093 thousand (2015: EUR 19 093 thousand).

*(All amounts are in thousand EUR unless stated otherwise)*

## 7 Intangible assets

| | Computer software | Intangible assets not yet in use including advances | Other intangible assets | Total |
|---|---|---|---|---|
| **As at 1 January 2015** | | | | |
| Acquisition cost | 25 840 | 87 | 14 | 25 941 |
| Accumulated amortization | (12 356) | - | (3) | (12 359) |
| **Net book value** | **13 484** | **87** | **11** | **13 582** |
| **Year ended 31 December 2015** | | | | |
| Opening balance | 13 484 | 87 | 11 | 13 582 |
| Additions | 796 | 577 | 24 | 1 397 |
| Reorganisation of the Group | 3 280 | - | - | 3 280 |
| Transfers from assets not yet in use | 50 | (51) | 1 | - |
| Amortization charge | (2 636) | - | (1) | (2 637) |
| **Closing net book value** | **14 974** | **613** | **35** | **15 622** |
| **As at 31 December 2015** | | | | |
| Acquisition cost | 29 966 | 613 | 39 | 30 618 |
| Accumulated amortization | (14 992) | - | (4) | (14 996) |
| **Net book value** | **14 974** | **613** | **35** | **15 622** |
| **As at 1 January 2016** | | | | |
| Acquisition cost | 29 966 | 613 | 39 | 30 618 |
| Accumulated amortization | (14 992) | - | (4) | (14 996) |
| **Net book value** | **14 974** | **613** | **35** | **15 622** |
| **Year ended 31 December 2016** | | | | |
| Opening balance | 14 974 | 613 | 35 | 15 622 |
| Additions | 4 222 | 626 | 25 | 4 873 |
| Transfers from assets not yet in use | 92 | (105) | 13 | - |
| Amortization charge | (3 701) | - | (2) | (3 703) |
| **Closing net book value** | **15 587** | **1 134** | **71** | **16 792** |
| **As at 31 December 2016** | | | | |
| Acquisition cost | 34 280 | 1 134 | 77 | 35 491 |
| Accumulated amortization | (18 693) | - | (6) | (18 699) |
| **Net book value** | **15 587** | **1 134** | **71** | **16 792** |

Software consists mainly of customer information system (SAP ISU/CRM), information system for service administration (EAM), graphic information system (GIS) and operating information system (RIS). The additions are represented mainly by upgrades of software (SAP, RIS, GIS).

There are no restrictions of ownership relating to intangible assets and no intangible assets are pledged.

*(All amounts are in thousand EUR unless stated otherwise)*

## 8 Financial instruments by category

The reconciliation of classes of financial instruments with measurement categories under IAS 39 is as follows:

| As at 31 December 2016 | Loans and receivables | Total |
|---|---|---|
| **Assets as per the Statement of financial position** | | |
| Trade and other receivables (before impairment provision) (Note 9) | 28 970 | 28 970 |
| Receivables from parent company (cash pooling) | 27 206 | 27 206 |
| Cash and cash equivalents (Note 11) | 12 | 12 |
| **Total** | **56 188** | **56 188** |

| As at 31 December 2015 | Loans and receivables | Total |
|---|---|---|
| **Assets as per the Statement of financial position** | | |
| Trade and other receivables (before impairment provision) (Note 9) | 23 936 | 23 936 |
| Receivables from parent company (cash pooling) | 65 189 | 65 189 |
| Cash and cash equivalents (Note 11) | 12 | 12 |
| **Total** | **89 137** | **89 137** |

| As at 31 December 2016 | Other financial liabilities - at carrying value | Total |
|---|---|---|
| **Liabilities as per the Statement of financial position** | | |
| Liabilities to the parent company (Note 15) | 21 848 | 21 848 |
| Trade and other liabilities (Note 14) | 61 851 | 61 851 |
| **Total** | **83 699** | **83 699** |

| As at 31 December 2015 | Other financial liabilities - at carrying value | Total |
|---|---|---|
| **Liabilities as per the Statement of financial position** | | |
| Liabilities to the parent company (Note 15) | 28 148 | 28 148 |
| Trade and other liabilities (Note 14) | 65 424 | 65 424 |
| **Total** | **93 572** | **93 572** |

*(All amounts are in thousand EUR unless stated otherwise)*

## 9 Trade and other receivables

| | As at 31 December | |
|---|---:|---:|
| | **2016** | **2015** |
| Current receivables and prepayments made: | | |
| Neither past due nor impaired trade receivables | 25 981 | 21 013 |
| Past due, but not impaired trade receivables | 58 | 141 |
| Individually impaired trade receivables | 2 931 | 2 782 |
| Trade receivables (before impairment provision) | **28 970** | **23 936** |
| Less: Impairment provision of receivables | (2 602) | (2 551) |
| Trade receivables - net | **26 368** | **21 385** |
| Other receivables and assets | 899 | 666 |
| **Trade receivables and other receivables** | **27 267** | **22 051** |

The structure of the trade receivables that are neither past due, nor impaired is following:

| | As at 31 December | |
|---|---:|---:|
| | **2016** | **2015** |
| Very high voltage | 664 | 774 |
| High voltage | 674 | 718 |
| Integrated invoices | 5 514 | 6 336 |
| Producers EE (MPDS - payment to NJF) | 98 | 80 |
| TPS - Compensation of purchase of green energy from OKTE | 8 760 | 8 679 |
| SSE - repurchase, purchase of EE | 8 599 | 2 227 |
| Other customers | 1 672 | 2 199 |
| **Neither past due nor impaired trade receivables** | **25 981** | **21 013** |

The ageing structure of trade receivables is as follows:

| | As at 31 December | |
|---|---:|---:|
| | **2016** | **2015** |
| Receivables due | 25 981 | 21 013 |
| Receivables overdue | 2 989 | 2 923 |
| **Total** | **28 970** | **23 936** |

As at 31 December 2016, individually impaired trade receivables amounted to gross EUR 2 931 thousand (2015: EUR 2 782 thousand). The related impairment provision amounted to EUR 2 602 thousand as at 31 December 2016 (2015: EUR 2 551 thousand). The individually impaired receivables mainly relate to wholesale and retail customers, which are in unexpectedly difficult economic situations. It is expected, that a portion of individually impaired trade receivables overdue will be recovered.

*(All amounts are in thousand EUR unless stated otherwise)*

The ageing structure of these receivables is as follows:

| | As at 31 December | |
|---|---:|---:|
| | **2016** | **2015** |
| 1 to 90 days | 351 | 216 |
| 91 to 181 days | 51 | 147 |
| 181 to 360 days | 137 | 298 |
| Over 361 days | 2 392 | 2 121 |
| **Individually impaired trade receivables** | **2 931** | **2 782** |

The movements in the impairment provision to trade receivables are recognized in the Income Statement in Other operating expenses. Movements are presented below:

| | As at 31 December | |
|---|---:|---:|
| | **2016** | **2015** |
| At the beginning of the year | 2 551 | 2 149 |
| Creation of impairment provision | 349 | 421 |
| Use of impairment provision | (34) | (18) |
| Reversal of unused impairment provision | (264) | (1) |
| **At the end of the year** | **2 602** | **2 551** |

The reversal of impairment provision was caused by subsequent collection of certain receivables that were originally provided for or written-off. Impairment provision is calculated in the amount of 100% of the value of individual receivables from companies in bankruptcy and receivables subject to court proceedings. Impairment provision for other receivables is calculated based on ageing analysis of individual receivables.

The carrying amounts of trade and other receivables as at 31 December 2016 and 31 December 2015 are not substantially different from their fair value. The maximum exposure to credit risk equals to the carrying amount of receivables. The Company does not hold any significant collateral as security of the receivables.

No receivables have been pledged as collateral. The Company's rights over the receivables are not restricted.

## 10 Accrued income

The Company has an obligation to connect renewable sources of electricity when they meet requirements set by ÚRSO and bear all cost related to support of OZE/KVET (electricity from renewable sources / highly efficient generation of electricity and heat), which represent electricity purchase from OZE/ KVET, accept responsibility for variance and make additional charge in the amount approved by URSO. These expenses are covered in the tariff for operating the network ("TPS"). In 2015 (2015: for the year 2014), the Company incurred a loss as a difference between expenses related to purchase of electricity from renewable resources and support of electricity produced from domestic coal and revenues from TPS. Based on an URSO decision from December 2016 (2015: from December 2015), the Company recorded accrued income in the Statement on Financial Position of URSO approved compensation of a 2015 loss (2015: for the year 2014) that is included in the TPS for 2017 (2015: in the year 2016) in the amount of EUR 73 168 thousand (2015: EUR 76 702 thousand).

*(All amounts are in thousand EUR unless stated otherwise)*

## 11 Cash and cash equivalents

During 2007, the Company and the parent company signed a contract on cash pooling services. According to this contract, available financial resources are managed by the parent company. In the case of a need for additional financial resources, these resources are available on demand for use from the parent company's cash pool. Except for this agreement, bank account balances are fully available for the Company's use.

As at 31 December 2016, the Company records a receivable from Stredoslovenká energetika, a.s. in the amount of EUR 27 206 thousand (as at 31 December 2015 of EUR 65 189 thousand). The interest rate of this receivable equals to 0.01% p.a., in case of a credit balance. In case of a debit balance, O/N LIBOR + 0.4% p.a. is applied and is repayable upon request.

| | **As at 31 December** | |
|---|---|---|
| | **2016** | **2015** |
| Cash at bank and in hand | 12 | 12 |
| **Total** | **12** | **12** |

As at 31 December 2016 and 31 December 2015, cash and cash equivalents were fully available for the Company's use.

For the purposes of the cash flow statement, the cash and cash equivalents comprise the following:

| | **As at 31 December** | |
|---|---|---|
| | **2016** | **2015** |
| Cash and bank balances and deposits with original maturities of less than three months | 12 | 12 |
| **Total** | **12** | **12** |

The carrying amounts of cash and cash equivalents as at 31 December 2016 and as at 31 December 2015 are not substantially different from their fair value. The maximum exposure to credit risk equals the carrying amount of cash and cash equivalents.

## 12 Equity

In 2016 and 2015, no changes relating to the equity of the Company occurred. The Company has no subscribed share capital that has not been registered in the Commercial Register.

The Company's registered share capital consists of 15 058 shares (2015: 15 058 shares) at a nominal value of EUR 33 194 each (as at 31 December 2015 of EUR 33 194).

All shares are associated with the same voting rights for shareholders. All authorized shares are issued and fully paid in.

The Commercial Code defines that the Company is obliged to create legal reserve fund in the amount of 10% of its share capital at the time of the incorporation of the Company. This amount is increased annually by at least 10% from net profit, until the Legal reserve fund reaches 20% of the share capital. Use of this fund is restricted under the Commercial Code only to cover losses of the Company and it is not a distributable reserve. The legal reserve fund amounted to EUR 99 967 thousand as at 31 December 2016 (as at 31 December 2015 of EUR 99 967 thousand) and has reached its required amount.

*(All amounts are in thousand EUR unless stated otherwise)*

The General Meeting of the Company held on 27 June 2016 approved separate financial statements of the Company and decided about dividend payments to shareholders for the year 2015 in the amount of EUR 53 393 thousand (2014: EUR 41 128 thousand).

As at the date of the financial statement preparation, the Board of Directors of the Company has not presented any proposal about the 2016 accounting profit distribution.

## 13 Deferred income

| | **As at 31 December** | |
|---|---|---|
| | **2016** | **2015** |
| Connection fees (a) | 23 373 | 22 096 |
| Relocation of energy devices (b) | 19 207 | 14 942 |
| Withheld assets ( b ) | 571 | 858 |
| Other | 1 709 | 1 169 |
| **Deferred income - long term** | **44 860** | **39 065** |

(a) Connection fees represent mainly fees from customers for connection to the distribution network and subsequent access to the delivery of distribution services. Revenues in the form of such contributions are recorded as deferred income and are released to revenues over the useful life of connections.

(b) Relocation of energy devices, assets obtained by withholding (transformer stations, power lines) free of charge, inventory surplus are recorded in accordance with the existing legislation, initially recorded at fair value as deferred income. Subsequently, an amount equal to the annual accounting depreciation of these assets is recognised in the revenues of the current period.

## 14 Trade and other payables

| | **As at 31 December** | |
|---|---|---|
| | **2016** | **2015** |
| Trade payables | 44 784 | 38 041 |
| Deferred income - short term (Note 13) | 2 095 | 2 241 |
| Payables to employees | 1 332 | 1 198 |
| Social security | 863 | 824 |
| Accrued personnel expenses | 4 112 | 5 560 |
| Social fund | 197 | 256 |
| VAT payabe | 5 626 | 5 391 |
| Payable from transfer of a part of the company | - | 8 557 |
| Other payables | 2 842 | 3 356 |
| **Total** | **61 851** | **65 424** |

The fair value of trade and other payables is not significantly different from their carrying amount.
No payables are secured by a lien or other collateral.

*(All amounts are in thousand EUR unless stated otherwise)*

The structure of payables by the remaining period to maturity is as follows:

| | As at 31 December 2016 | 2015 |
|---|---|---|
| Payables not due | 61 802 | 65 187 |
| Overdue payables | 49 | 237 |
| **Total** | **61 851** | **65 424** |

The carrying value of payables is denominated in the following currencies:

| | As at 31 December 2016 | 2015 |
|---|---|---|
| EUR | 61 831 | 65 403 |
| CZK | 20 | 19 |
| GBP | - | 2 |
| **Total** | **61 851** | **65 424** |

### Social fund

Contributions to and drawing of the social fund during the accounting period are shown in the following table:

| | As at 31 December 2016 | 2015 |
|---|---|---|
| Opening balance at 1 January | 256 | 115 |
| Creation expensed | 402 | 413 |
| Drawing | (461) | (286) |
| Reorganisation of the group | - | 14 |
| Closing balance at 31 December | **197** | **256** |

According to the Act on the Social Fund, part of the social fund must be created against expenses and part can be created from retained earnings. According to the Act on the Social Fund, the social fund is used to satisfy social, health, recreation, and other needs of employees.

## 15 Liabilities to the parent company

| | As at 31 December 2016 | 2015 |
|---|---|---|
| **Non-current** | | |
| Long-term part of loans | 17 610 | 21 785 |
| **Current** | | |
| Short-term part of loans | 4 238 | 6 363 |
| **Total** | **21 848** | **28 148** |

Fair value of loans as at 31 December 2016 does not significantly differ from their carrying amount as the impact from discounting is not significant.

*(All amounts are in thousand EUR unless stated otherwise)*

**Loans granted by the parent company**

As part of the unbundling on 1 July 2007, the Company took over loans from Stredoslovenská energetika, a.s. in the amount of EUR 56 324 thousand, while Stredoslovenská energetika, a.s. still remains the original debtor towards bank institutions. The debtor (the Company) has accepted to repay to the creditor (Stredoslovenská energetika, a.s.) the amount of outstanding borrowings, including related fees, in the same extent as Stredoslovenská energetika, a.s. will be liable to pay repayments and fees originated after 1 July 2007 to the banks in accordance with original borrowing contracts.

The Company draw the Investment loan SLSP 179/AUCC/13 in the amount of EUR 25 000 thousand as at 30 September 2013. The original debtor towards SLSP is Stredoslovenská energetika, a.s.. The debtor (the Company) has accepted to repay to the creditor (Stredoslovenská energetika, a.s.) the amount of outstanding borrowings, including related fees, in the same extent as Stredoslovenská energetika, a.s. will be liable to pay repayments and fees to the SLSP.

Structure of bank loans received from financial institutions through Stredoslovenská energetika, a.s. is as follows:

| | | | | | **As at 31 December** | |
|---|---|---|---|---|---|---|
| **Type of the loan** | **Bank and code** | **Currency** | **Interest rate % p.a.** | **Final maturity** | **2016** | **2015** |
| Investment loan | VÚB 52/ZU/2006 | EUR | Fixed 3.88% + 0.3% | 30.6.2019 | 1 295 | 1 730 |
| Investment loan | VÚB 85/ZU/2007 | EUR | Fixed 4.80 % | 1.12.2019 | 2 625 | 3 500 |
| Investment loan | TB 2634/2007 | EUR | Fixed 4.84 % | 29.12.2017 | 365 | 730 |
| Investment loan | TB 2113/2006 | EUR | 3M EURIBOR + 0.30 % | 31.12.2016 | - | 713 |
| Investment loan | ČSOB 0460/06/10050 | EUR | Fixed 4.06% | 14.9.2016 | - | 1 250 |
| Investment loan | SLSP 179/AUCC/13 | EUR | Fixed 2.25% | 30.6.2023 | 17 500 | 20 000 |
| **Total amount of loans** | | **-** | **-** | **-** | **21 785** | **27 923** |

The investment loan VÚB 85/ZU/2007 is guaranteed by a bill of exchange of Stredoslovenská energetika, a.s. Accrued interest to the investment loans represents the amount of EUR 63 thousand as at 31 December 2016 (31 December 2015: 225 thousand EUR).

*(All amounts are in thousand EUR unless stated otherwise)*

Maturity of loans is as follows:

| | As at 31 December | |
|---|---|---|
| **Maturity** | **2016** | **2015** |
| Short-term part of bank loans | 4 238 | 6 363 |
| Long-term part of bank loans | | |
| 1 to 5 years | 12 610 | 14 285 |
| Over 5 years | 5 000 | 7 500 |
| **Total** | **21 848** | **28 148** |

The Company had as at 31 December 2016 to its disposal a credit line from the parent company Stredoslovenská energetika, a.s. up to the amount of EUR 150 000 thousand (2015: EUR 150 000 thousand). During the year 2016 the Company drew and repaid a loan amounting to EUR 40 000 thousand.

## 16 Deferred income tax

Deferred income taxes are calculated on temporary differences under the balance sheet liability method. For calculation of deferred tax for 2015, tax rate of 22% was used. The corporate income tax rate was changed to 21% with effectiveness from 1 January 2017. For this reason the deferred tax was as at 31 December 2016 calculated using the tax rate of 21%.

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

| | As at 31 December | |
|---|---|---|
| | **2016** | **2015** |
| **Deferred tax asset** | | |
| - Deferred tax asset to be recovered after more than 12 months | 1 743 | 1 552 |
| - Deferred tax asset to be recovered within 12 months | 1 084 | 1 591 |
| | **2 827** | **3 143** |
| **Deferred tax liability** | | |
| - Deferred tax liability to be settled after more than 12 months | (90 912) | (97 896) |
| | **(90 912)** | **(97 896)** |
| **Net deferred tax liability** | **(88 085)** | **(94 753)** |

*(All amounts are in thousand EUR unless stated otherwise)*

The movements in the deferred tax assets and liabilities during the year were as follows:

| | **As at 1 January 2016** | **(Charged)/ credited to the Income Statement** | **Recognized in equity** | **As at 31 December 2016** |
|---|---|---|---|---|
| Non-current assets* | (97 896) | 6 984 | - | (90 912) |
| Provision for employee benefits and bonuses | 2 758 | (520) | 188 | 2 426 |
| Other provisions | 385 | 16 | - | 401 |
| | **(94 753)** | **6 480** | **188** | **(88 085)** |

| | **As at 1 January 2015** | **(Charged)/ credited to the Income Statement** | **Recognized in equity** | **As at 31 December 2015** |
|---|---|---|---|---|
| Non-current assets* | (101 196) | 3 300 | - | (97 896) |
| Provision for employee benefits and bonuses | 1 985 | 615 | 158 | 2 758 |
| Other provisions | 257 | 128 | - | 385 |
| | **(98 954)** | **4 043** | **158** | **(94 753)** |

* Includes difference between carrying value and tax base of non-current tangible and intangible assets.

As at 31 December 2016 and 31 December 2015, the Company had no deductible temporary differences to which deferred tax asset was recognised.

*(All amounts are in thousand EUR unless stated otherwise)*

## 17 Provisions for liabilities and charges

| | Pensions and other long term employee benefits (a) | Termination benefits (b) | Other | Total |
|---|---|---|---|---|
| **As at 1 January 2016** | 7 255 | 1 163 | 6 | 8 424 |
| Creation of provision | 1 461 | - | - | 1 461 |
| Use of provision | (593) | (127) | (3) | (723) |
| **As at 31 December 2016** | **8 123** | **1 036** | **3** | **9 162** |

| | Pensions and other long term employee (a) | Termination benefits (b) | Other | Total |
|---|---|---|---|---|
| **As at 1 January 2015** | 5 911 | 1 344 | 105 | 7 360 |
| Creation of provision | 1 194 | - | - | 1 194 |
| Use of provision | (310) | (72) | - | (382) |
| Reversal of unused provision | - | (109) | (99) | (208) |
| Reorganisation of Group | 460 | - | - | 460 |
| **As at 31 December 2015** | **7 255** | **1 163** | **6** | **8 424** |

| **Analysis of total provision** | **As at 31 December 2016** | **2015** |
|---|---|---|
| Non-current | 8 464 | 7 976 |
| Current | 698 | 448 |
| **Total** | **9 162** | **8 424** |

### (a) Pension and other long term benefits

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

### (i) Post employment benefits

| | **As at 31 December 2016** | **2015** |
|---|---|---|
| Present value of unfunded retirement obligations | 7 048 | 6 148 |
| **Liability in the Statement of Financial Position** | **7 048** | **6 148** |

Present value of unfunded retirement obligations as at 31 December 2016 was EUR 7 048 thousand (in 2015: EUR 6 148 thousand).

*(All amounts are in thousand EUR unless stated otherwise)*

The amounts recognised in the Income Statement:

| | 2016 | 2015 |
|---|---|---|
| Current service cost | 323 | 267 |
| Interest expense | 71 | 95 |
| **Total charge included in personnel expenses** | **394** | **362** |

Movements in the present value of defined benefit obligation are:

| | As at 31 December 2016 | 2015 |
|---|---|---|
| Present value of unfunded retirement obligations at beginning of the year | 6 148 | 4 819 |
| Reorganisation of the Group | - | 380 |
| Current service cost | 323 | 267 |
| Interest expense | 71 | 95 |
| Paid | (449) | (127) |
| Actuarial loss | 955 | 714 |
| **Present value of unfunded retirement obligations at the end of the year** | **7 048** | **6 148** |

### (ii) Other long-term benefits (jubilees and loyalties)

| | As at 31 December 2016 | 2015 |
|---|---|---|
| Present value of unfunded obligations | 1 075 | 1 107 |
| **Liability in the Statement of Financial Position** | **1 075** | **1 107** |

Present value of unfunded obligations as at 31 December 2016 was EUR 1 075 thousand (in 2015: EUR 1 107 thousand).

The amounts recognised in the Income Statement:

| | 2016 | 2015 |
|---|---|---|
| Current service cost | 72 | 64 |
| Actuarial loss | 35 | 47 |
| Interest expense | 5 | 7 |
| **Total charge included in personnel expenses** | **112** | **118** |

*(All amounts are in thousand EUR unless stated otherwise)*

Movements in the present value of defined benefit obligation are:

| | As at 31 December | |
|---|---|---|
| | **2016** | **2015** |
| Present value of unfunded obligations at the beginning og the year | 1 107 | 1 092 |
| Reorganisation of the Group | - | 80 |
| Current service cost | 72 | 64 |
| Interest expense | 5 | 7 |
| Paid | (144) | (183) |
| Actuarial loss | 35 | 47 |
| **Present value of unfunded obligations at the end of the year** | **1 075** | **1 107** |

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

| | |
|---|---|
| Number of employees as at 31 December 2016 | 1 274 |
| Percentage of employees, who will terminate their employment with the Company prior to retirement (withdraval rate) | Approximately 1.91 % p.a., depending on the age and sex |
| Expected salary increases - long-term | 1.90% p. a. |
| - short-term | 1.20% p. a. |
| Discount rate | 0.00 – 1.92% p. a. (2017 - 2060) |

| | |
|---|---|
| Number of employees as at 31 December 2015 | 1 271 |
| Percentage of employees, who will terminate their employment with the Company prior to retirement (withdraval rate) | Approximately 1.88 % p.a., depending on the age and sex |
| Expected salary increases - long-term | 1.70% p. a. |
| - short-term | 0.70% p. a. |
| Discount rate | 0.00 – 2.55% p. a. (2016 - 2059) |

If the actual discount rate would differed by 1% from estimated discount rate, the carrying amount of pension obligations would be an estimated EUR 891 thousand lower or EUR 1 065 thousand higher (2015: EUR 657 thousand lower or EUR 767 thousand higher).

### (b) Termination benefits

The termination benefits represent an estimate of the payment to employees as a result of the approved and communicated restructuring process which is expected to be completed by 2018 (2015: by 2018). It is expected that the payments in accordance with relevant detailed plan accompanying the restructuring process will be made as follows:

| | As at 31 December | |
|---|---|---|
| | **2016** | **2015** |
| Expected payment in 2016 | - | 442 |
| Expected payment in 2017 | 695 | 380 |
| Expected payment in 2018 | 341 | 341 |
| | **1 036** | **1 163** |

*(All amounts are in thousand EUR unless stated otherwise)*

## 18 Revenues

Revenues for services based on the segments include the following:

| **Voltage level** | **VHV** | | **HV** | | **LVE** | | **LVC** | | **Unassigned** | | **Total** | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** | **2016** | **2015** | **2016** | **2015** | **2016** | **2015** | **2016** | **2015** |
| Revenues - distribution | 25 015 | 25 867 | 93 531 | 92 346 | 56 222 | 54 512 | 79 110 | 78 695 | - | - | 253 878 | 251 420 |
| Revenues - connection fees | 53 | 34 | 287 | 267 | 113 | 108 | 244 | 239 | - | - | 697 | 648 |
| Compensation for purchases from OZE/KVET | - | - | - | - | - | - | - | - | 169 041 | 156 541 | 169 041 | 156 541 |
| TPS Revenues - ÚRSO correction (Note 10) | - | - | - | - | - | - | - | - | (3 535) | 35 174 | (3 535) | 35 174 |
| Contractual power supply for Stredoslovenská energetika, a.s. | - | - | - | - | - | - | - | - | 3 026 | 4 201 | 3 026 | 4 201 |
| Revenues from SLA contracts | | | | | | | | | 2 651 | 278 | 2 651 | 278 |
| Other | - | - | - | - | - | - | - | - | 821 | 960 | 821 | 960 |
| **Total** | **25 068** | **25 901** | **93 818** | **92 613** | **56 335** | **54 620** | **79 354** | **78 934** | **172 004** | **197 154** | **426 579** | **449 222** |

The Company divides the revenues by voltage levels as follows:

a) VHV – very high voltage
b) HV – high voltage
c) LVE – low voltage - entrepreneurs
d) LVC – low voltage – households

Revenues from the electricity distribution are regulated by the URSO through binding decisions that define the distribution fees over a specified period and for specific groups of customers based on their tariffs.
Compensation of electricity purchase from OZE/KVET is from the company OKTE, a.s. (2015: from the Company OKTE, a.s.) based on TPS (Note 10) set by URSO.
.

*(All amounts are in thousand EUR unless stated otherwise)*

Distribution fees are billed to suppliers of electricity based on consumption at the distribution points of their customers and to customers with an individual distribution contract.

The Company receives from customers contributions for their connection to the electricity distribution network. Revenues in the form of such contributions are recorded as deferred income and are released into revenues over the average useful life of distribution networks.

All revenues were generated in the Slovak Republic.

## 19 Other operating revenues

Overview of other operating revenues from operating activities are presented in the following table:

| | **2016** | **2015** |
|---|---|---|
| Income from rented property plant and equipment | 1 505 | 1 388 |
| Release of deferred income (Note 13 (b)) | 1 396 | 1 593 |
| Gain on disposal of property plant and equipment | 710 | 20 |
| Income from insurance claims | 648 | 617 |
| Other | 2 017 | 1 417 |
| **Total** | **6 276** | **5 035** |

## 20 Purchases of electricity, system and other related fees

The following items were included into the purchases of electricity and related fees:

| | **2016** | **2015** |
|---|---|---|
| Purchase of electricity: | | |
| Variance settlement | 7 854 | 10 912 |
| Supplies from SEPS | 34 647 | 37 528 |
| Purchase of electricity from renewable resources and related supplementary payment | 244 371 | 206 920 |
| **Total** | **286 872** | **255 360** |

*(All amounts are in thousand EUR unless stated otherwise)*

## 21 Other operating expenses

The overview of other operating expenses is presented in the following table:

| | **2016** | **2015** |
|---|---|---|
| Operating leasing, rent | 3 460 | 5 121 |
| IT services | 3 250 | 8 444 |
| Repair and maintenance | 1 912 | 2 048 |
| Forest cutting | 1 416 | 1 564 |
| Metering of consumed electricity and inspection of the distribution points | 1 254 | 357 |
| SLA services | 716 | 805 |
| Security services | 698 | 726 |
| Consultancy costs | 638 | 1 390 |
| Fees and other taxes | 542 | 513 |
| Postage and telecommunication | 412 | 353 |
| Insurance costs | 407 | 391 |
| Metrological services | 238 | 320 |
| Waste disposal and cleaning | 235 | 228 |
| Service of energy assets | 174 | 235 |
| Creation of provision for impairment of receivables | 85 | 420 |
| Reversal of provision for lawsuits | - | (99) |
| Other operating expenses | 3 099 | 4 266 |
| **Total** | **18 536** | **27 082** |

Expenses relating to audit were as follows:

| **Audit fee** | **2016** | **2015** |
|---|---|---|
| Audit of the financial statements | 41 | 55 |
| **Spolu** | **41** | **55** |

## 22 Personnel expenses

| | **2016** | **2015** |
|---|---|---|
| Wages and salaries | 23 059 | 22 915 |
| Other personnel expenses | 2 145 | 1 697 |
| Pension costs – defined contribution plans | 7 880 | 7 953 |
| Retirement and other long-term employee benefits | 506 | 480 |
| **Total** | **33 590** | **33 045** |

*(All amounts are in thousand EUR unless stated otherwise)*

## 23 Finance expense, net

The structure of financial income and expense is shown in the table below:

| | 2016 | 2015 |
|---|---|---|
| Interest income | | |
| related to cash pooling | (5) | (7) |
| Interest expense | | |
| related to loans from the parent company | 689 | 686 |
| Commitment fee | 4 128 | 4 773 |
| Other financial expenses | 3 | 4 |
| **Finance expense, net** | **4 815** | **5 456** |

## 24 Income tax expense

Reconciliation from the theoretical to the reported income tax charge is presented in following table:

| | Year ended 31 December | |
|---|---|---|
| | **2016** | **2015** |
| Profit before tax | 31 994 | 72 900 |
| Theoretical income tax related to current period at 22% | 7 039 | 16 038 |
| - Non-deductible expenses | 1 015 | 1 209 |
| - Special levy in regulated sectors including its effect on the tax | 941 | 2 290 |
| - Effect of the change of tax rate from 22 to 21 % | (4 216) | - |
| - Others | (94) | (30) |
| | **4 685** | **19 507** |
| Total tax expense recognized | | |
| The tax charge or the period comprises: | | |
| - Deferred tax income | (6 480) | (4 043) |
| - Tax charge in respect of current period from continuing operations | 11 165 | 23 550 |
| | **4 685** | **19 507** |

The income tax rate for 2016 is 22% (2015: 22%). Effective from 1 January 2017, the 2016 amendment to the Income Tax Act decreases the tax rate of corporate income tax to 21%. The effective income tax rate of the Company for the year 2016 is 14.64% (2015: 26.76%). Decrease of the effective tax rate was caused mainly by the effect of recalculation of deferred income tax, as the corporate income tax rate changed from 22% to 21%.

In 2016, the amendment to the Act on a Special Levy extended the validity of the legislation for an indefinite period. The Act regulates the obligation of a regulated entity to pay a levy on business activities in regulated sectors. The obligation to pay a special levy applies to a regulated entity that has an authorization to carry out activities in the areas such as energy industry, insurance, pharmaceutical industry, etc.

For 2016, the base for the calculation of the levy is profit before tax for the accounting period decreased by EUR 3 000 thousand, as well as decreased by recorded entitlement to a share of the profit from another regulated person who paid the levy from the profit from which these profit shares were calculated. The rate of the levy is 0.00363 per calendar month, which amounts to 0.04356 (4.356%) per twelve months. The levy is calculated by multiplying the base with the rate. The levy is paid on a monthly basis and is subject to annual settlement.

*(All amounts are in thousand EUR unless stated otherwise)*

From 2017, there is a change in the calculation of the special levy. The base for the levy is the profit/loss reported under Slovak accounting standards multiplied by a coefficient (revenues from regulated activities to total revenues).

Special levy rates according to the 2016 amendment are applied as follows:
0.00726 per month (8.712 % p.a.) for years 2017 - 2018,
0.00545 per month (6.54 % p.a.) for years 2019 - 2020,
0.00363 per month (4.356 % p.a.) for the year 2021 and later..

## 25 Contingent assets and liabilities

### Contingent asset from Tariff for system operation

The Company is legally bound to connect producers of OZE/KVET, if they comply with requirements set by URSO, purchase the generated green electricity, which is used to cover network losses, accept responsibility for variance and pay them additional charge approved by URSO. These costs are reimbursed through the TPS.

The costs related to purchase of electricity from OZE/KVET producers exceeded revenues from TPS. The Company recognized a contingent asset for compensation of the 2016 loss in the estimated amount of EUR 137 938 thousand. Based on the current Regulatory Framework, the loss incurred will be compensated through TPS in the period t + 2, which is in 2018. Based on the decision of ÚRSO from December 2016, the Company recognized accrued income in the Statement of Financial Position (Note 10) in the amount of ÚRSO approved compensation of the 2015 loss included in the TPS for 2017.

### Taxation

Many parts of Slovak tax legislation remain untested and there is uncertainty about the interpretation that the tax authorities may apply in a number of areas. The effect of this uncertainty cannot be quantified and will only be resolved as legislative precedents are set or when the official interpretations of the authorities are available.

## 26 Commitments

### (a) Future capital expenditures

Capital expenditures contracted at the reporting date but not yet recognised in the Statement of the Financial Position are as follows:

| | 2016 | 2015 |
|---|---|---|
| Property, plant and equipment | 17 672 | 6 381 |
| Intangible assets | 1 161 | 2 803 |
| **Total** | **18 833** | **9 184** |

### (b) Operating lease commitments – Company as lessee

The Company leases various machinery and equipment under cancellable operating lease agreements. The Company is required to give 12 month notice for the termination of these agreements.

*(All amounts are in thousand EUR unless stated otherwise)*

The lease expenditure charged to the Income Statement during the year is disclosed in Note 21.

The future aggregate minimum lease payments under cancellable operating leases (i.e. the annual charge of leases with annual termination notice) are as follows:

| | **2016** | **2015** |
|---|---|---|
| Less than 1 year | 2 138 | 3 832 |
| **Total** | **2 138** | **3 832** |

## 27 Information on off-balance sheet assets and off – balance sheet liabilities

### (a) Property leased from other parties

As at 31 December 2016, a leasing company provided operating lease-back for personal vehicles (2 units), operating lease of new personal vehicles (422 units) and fleet management for 281 units owned by the Company.

The frame agreement on operating lease was concluded for a period of four years. Afterwards, the period is automatically set as indefinite if certain conditions specified in the agreement are fulfilled. The notice period is 3 months, alternatively 31 December 2017 for the operating lease-back, 1 month for the operating lease of new vehicles and 3 months for the fleet management.

Costs related to the operating lease of vehicles amounted to EUR 1 693 thousand as at 31 December 2016 (2015: EUR 3 835 thousand). As at 31 December 2016, the Company also leases land, buildings and premises, at the cost of EUR 999 thousand (2015: EUR 806 thousand), and other power and non-power assets in total amount of EUR 768 thousand (2015: EUR 480 thousand).

### (b) Property leased to other parties

As at 31 December 2016, the Company leases optical fibres, cables and other together with related hardware in the amount of EUR 481 thousand (2015: EUR 610 thousand.) and other power assets (mainly load-bearing points and distribution transformers) for EUR 1 023 thousand (2015: EUR 778 thousand). The agreement is signed for indefinite period.

## 28 Related party transaction

Related party transactions are presented as follows:

### Related parties

**a) Parent company**
Stredoslovenská energetika, a.s.

**b) Sister companies**
Elektroenergetické montáže, a.s. , Žilina
SSE – Metrológia, spol. s r.o., Žilina
SSE CZ, s.r.o., Praha
Stredoslovenská energetika - Project Development, s.r.o. , Žilina
SSE-Solar, s.r.o., Žilina

**c) Related parties through the parent company**
Energotel, a.s. Bratislava
SPX, s.r.o. Žilina

**d) Related parties through the state**
OKTE, a.s.
Slovenská elektrizačná prenosová sústava, a.s.
Zvolenská teplárenská, a. s.
Martinská teplárenská, a. s.
Slovenský vodohospodársky podnik, š.p.
ZSE Energia, a.s.
Východoslovenská energetika a.s.
Slovenský plynárenský priemysel, a.s.
ostatné (villages, water companies, state hospitals, etc.)

**e) Related parties through EPH**
EP ENERGY TRADING, a.s., organizačná zložka
SPP - distribúcia,a.s.
Slovenské elektrárne, a.s. from 1 August 2016

**f) Members of the key management of the Company or of the parent company**
Members of Board of Directors
Members of Supervisory Board
Division directors

### Transactions and outstanding balances relating to related parties

The transactions with relating parties were conducted under the usual market conditions.

*(All amounts are in thousand EUR unless stated otherwise)*

The transactions with relating parties are shown in the following table:

| **SSE Group (a,b,c)** | **2016** | **2015** |
|---|---|---|
| **Sale of goods, services and merchandise** | **162 445** | **164 350** |
| Stredoslovenská energetika, a.s.* | 162 038 | 163 927 |
| Elektroenergetické montáže, a.s. | 323 | 385 |
| Stredoslovenská energetika - Project Development, s.r.o. | 54 | 29 |
| SSE – Metrológia, spol. s r.o. | 13 | 9 |
| SSE – Solar, s r.o. | 14 | - |
| Energotel, a.s. | 3 | - |
| **Financial income** | **5** | **7** |
| Stredoslovenská energetika, a.s. | 5 | 7 |
| **Total Sales** | **162 450** | **164 357** |
| **Purchase of material** | **610** | **645** |
| Stredoslovenská energetika, a.s. | 610 | 645 |
| **Purchase of energy and other non-storable items** | **43 989** | **59 370** |
| Stredoslovenská energetika, a.s. | 39 540 | 55 000 |
| SSE - Solar, s.r.o. | 4 449 | 4 370 |
| **Purchase of property plant equipment** | **2 813** | **871** |
| Stredoslovenská energetika, a.s | 2 258 | 671 |
| Elektroenergetické montáže, a.s. | 140 | - |
| SSE-Metrológia, spol. s r.o. | 415 | 200 |
| **Purchase of services** | **3 089** | **10 187** |
| Stredoslovenská energetika, a.s. | 2 370 | 9 870 |
| SSE-Metrológia, spol. s r.o. | 202 | 293 |
| Elektroenergetické montáže, a.s. | 20 | 24 |
| Energotel, a.s. | 497 | - |
| **Financial expenses** | **4 855** | **5 749** |
| Stredoslovenská energetika, a.s. | 4 855 | 5 749 |
| **Other expenses** | **363** | **86** |
| Stredoslovenská energetika, a.s. | 363 | 86 |
| **Total purchases** | **55 719** | **76 908** |

*(All amounts are in thousand EUR unless stated otherwise)*

| **Related parties through state (d), through EPH ( e )** | **2016** | **2015** |
|---|---|---|
| Related parties through state | 187 365 | 172 091 |
| Related parties through EPH | 8 700 | 2 243 |
| **Total Sales** | **196 065** | **174 334** |
| Related parties through state | 50 541 | 51 177 |
| Related parties through EPH | 4 338 | 75 |
| **Total Purchases** | **54 879** | **51 252** |

*Company's revenues are generated via Stredoslovenská energetika, a.s., however it is not a final customer of the Company's services.

| **Related parties through key management (f)** | **2016** | **2015** |
|---|---|---|
| Sale of electricity and related fees | 1 555 | 1 585 |
| **Total Sales** | **1 555** | **1 585** |
| Purchase of electricity and related fees | 51 | 51 |
| **Total Purchase** | **51** | **51** |

*(All amounts are in thousand EUR unless stated otherwise)*

The outstanding balances resulting from transactions with related parties are presented in the table below:

| **SSE Group (a,b,c)** | **As at 31 December** | |
|---|---|---|
| | **2016** | **2015** |
| **Trade receivables:** | **10 930** | **5 693** |
| SSE-Metrológia, spol s r.o. | 4 | 3 |
| Stredoslovenská energetika, a.s. | 10 821 | 5 594 |
| Elektroenergetické montáže, a. s. | 69 | 88 |
| Stredoslovenská energetika - Project Development, | 14 | 8 |
| SSE - Solar, s.r.o. | 22 | - |
| **Other receivables within the consolidated group :** | **27 206** | **65 189** |
| Stredoslovenská energetika, a.s. | 27 206 | 65 189 |
| **Total assets** | **38 136** | **70 882** |
| **Trade payables:** | **10 203** | **19 532** |
| SSE-Metrológia, spol s r.o. | 37 | 20 |
| Stredoslovenská energetika, a.s. | 10 016 | 19 352 |
| Elektroenergetické montáže, a.s. | - | 88 |
| SSE - Solar, s.r.o. | 150 | 72 |
| Energotel, a.s. | 101 | - |
| **Loans received:** | **21 848** | **28 148** |
| Stredoslovenská energetika, a.s. | 21 848 | 28 148 |
| **Total liabilites** | **32 051** | **47 680** |

| **Related parties through state (d), through EPH (e)** | **As at 31 December** | |
|---|---|---|
| | **2016** | **2015** |
| **Trade receivables** | | |
| Related parties through state | 10 359 | 9 884 |
| Related parties through EPH | 1 431 | 157 |
| **Total assets** | **11 790** | **10 041** |
| **Trade liabilities** | | |
| Related parties through state | 4 102 | 3 487 |
| Related parties through EPH | 1 191 | 18 |
| **Total liabilities** | **5 293** | **3 505** |

*(All amounts are in thousand EUR unless stated otherwise)*

| | As at 31 December | |
|---|---|---|
| **Related parties through key management (f)** | **2016** | **2015** |
| Trade receivables | 151 | 174 |
| **Total assets** | **151** | **174** |
| Trade and other liabilities | - | 1 |
| **Total liabilities** | **-** | **1** |

### Statutory bodies and key management compensation

The structure or remuneration received by the directors, key management personnel and other members of statutory bodies is as follows:

| **Board of Directors and other key management** | **2016** | **2015** |
|---|---|---|
| Salaries and other short-term employee benefits | 439 | 420 |
| Other non-monetary income | 40 | 24 |
| **Total** | **479** | **444** |

| **Supervisory Board** | **2016** | **2015** |
|---|---|---|
| Salaries and other short-term employee benefits | 85 | 85 |
| **Total** | **85** | **85** |

## 29 Events after the reporting date

No events with a material impact on the true and fair presentation of facts subject to bookkeeping occurred after 31 December 2016.