Stredoslovenská energetika, a.s.

Independent Auditors’ Report and
Consolidated 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 consolidated 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 consolidated financial statements takes precedence over this translation.

Stredoslovenská energetika, a.s.

Consolidated Financial Statements for the year ended 31 December 2016 prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union have been prepared and authorised for issue on 16 January 2017.

....

Mgr. Petr Sekanina
Chairman of the Board of Directors

....

Mgr. Ing. Márius Hričovský, Dr. oec.
Vice chairman of the Board of Directors

Index to the Consolidated 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 Shareholders, Supervisory Board and Board of Directors of Stredoslovenská energetika, a. s.

Report on the Audit of the Consolidated Financial Statements

Opinion

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

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated 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 Consolidated Financial Statements* section. We are independent of the Group 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 consolidated 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 Consolidated Financial Statements

The statutory body is responsible for the preparation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the statutory body is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters

KPMG Slovensko spol. s r.o., a Slovak limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Obchodný register Okresného súdu Bratislava I, oddiel Sro, vložka č. 4864/B
Commercial register of District court Bratislava I, section Sro, file No. 4864/B

IČO/Registration number: 31 348 238
Evidenčné číslo licencie audítora: 96
Licence number of statutory auditor: 96

related to going concern and using the going concern basis of accounting unless the statutory body either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 consolidated 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 consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Report on Other Legal and Regulatory Requirements

Reporting on Information in the Consolidated Annual Report

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

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

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

When we obtain the consolidated Annual Report, 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 consolidated financial statements, we will express an opinion as to whether:

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

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

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

17 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)

Consolidated Statement of Financial Position

	Note	As at 31 December 2016	2015
ASSETS			
Non-current assets			
Property, plant and equipment	5	524 440	483 145
Intangible assets	6	18 933	19 892
Investments in joint ventures	8	1 931	1 615
		545 304	**504 652**
Current assets			
Inventories		1 952	2 321
Trade and other receivables	9	85 329	78 857
Accrued income	10	73 168	76 702
Income tax receivable		8 503	-
Current financial assets	8	14	23
Cash and cash equivalents	11	21 651	52 511
Assets held for sale	12	-	23 611
		190 617	**234 025**
Total assets		**735 921**	**738 677**
EQUITY			
Equity			
Share capital	13	116 754	116 754
Legal reserve fund	13	26 493	26 493
Other funds	13	2 321	2 319
Actuarial (loss)/gain from long-term employee benefits	13	(595)	196
Retained earnings	13	355 256	345 744
Total equity		**500 229**	**491 506**
LIABILITIES			
Non-current liabilities			
Non-current bank loans	16	24 810	24 485
Non-current provisions for liabilities	18	10 046	9 407
Non-current portion of deferred income	14	52 970	47 584
Deferred tax liability	17	27 317	20 729
		115 143	**102 205**
Current liabilities			
Trade and other payables	15	110 491	111 176
Income tax payable		-	10 187
Current bank loans	16	9 275	8 838
Current provisions for liabilities	18	783	798
Liabilities related to the assets held for sale	12	-	13 967
		120 549	**144 966**
Total liabilities		**235 692**	**247 171**
Total equity and liabilities		**735 921**	**738 677**

(All amounts are in thousand EUR unless stated otherwise)

Consolidated Income Statement

	Note	Year ended 31 December 2016	2015
Revenues	19	881 578	923 118
Purchase of electricity, gas, distribution and related fees	20	(695 786)	(682 926)
Personnel expenses	21	(44 135)	(45 829)
Depreciation, amortization and impairment provision	5, 6	(35 208)	(30 340)
Capitalization		11 573	8 667
Material and merchandise consumed		(5 125)	(6 946)
Other operating income	23	11 829	12 325
Other operating expense	22	(25 082)	(29 619)
Operating profit		**99 644**	**148 450**
Interest income	24	65	75
Interest expense	24	(1 397)	(1 626)
Other financial income / (expenses), net	24	(57)	383
Financial expenses, net		**(1 389)**	**(1 168)**
Share of profit of joint ventures	8	316	127
Profit before tax		98 571	147 409
Income tax expense	25	(23 367)	(36 688)
Profit for the year		**75 204**	**110 721**

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December 2016	2015
Profit for the year		**75 204**	**110 721**
Other items of comprehensive income:			
Actuarial loss from long-term employee benefits	18	(982)	(871)
Deferred tax		191	192
Total other items of comprehensive income		(791)	(679)
Comprehensive income for the year		**74 413**	**110 042**

(All amounts are in thousand EUR unless stated otherwise)

Consolidated Statement of Changes in Equity

	Share capital	Legal reserve fund	Other reserves	Retained earnings	Actuarial (loss)/gain from long-term employee benefits	Total equity
Balance at 1 January 2016	**116 754**	**26 493**	**2 319**	**345 744**	**196**	**491 506**
Profit for the year 2016	-	-	-	75 204	-	75 204
Other items of comprehensive income	-	-	-	-	(791)	(791)
Dividends	-	-	-	(65 646)	-	(65 646)
Other	-	-	2	(46)	-	(44)
Balance at 31 December 2016	**116 754**	**26 493**	**2 321**	**355 256**	**(595)**	**500 229**
Balance at 1 January 2015	**116 754**	**26 493**	**2 323**	**286 810**	**875**	**433 255**
Profit for the year 2015	-	-	-	110 721	-	110 721
Other items of comprehensive income	-	-	-	-	(679)	(679)
Dividends	-	-	-	(51 791)	-	(51 791)
Other	-	-	(4)	4	-	-
Balance at 31 December 2015	**116 754**	**26 493**	**2 319**	**345 744**	**196**	**491 506**

(All amounts are in thousand EUR unless stated otherwise)

Consolidated Statement of Cash Flows

	Note	Year ended 31 December 2016	2015
Profit before income tax		98 571	147 409
Adjustment for:			
Depreciation and amortization	5, 6	35 389	31 211
Changes in impairment provision for property, plant and equipment	5	(181)	(871)
Gain on disposal of property, plant and equipment	23	(1 276)	(2 690)
Interest expense (net)	24	1 332	1 551
Share of profit of joint ventures	8	(316)	(127)
Change in impairment provision for receivables	9	1 410	1 641
Change in provisions	18	1 665	1 513
Other non-cash movements		89	(11)
Profit from operations before changes in working capital		**136 683**	**179 626**
Changes in working capital:			
Increase in trade and other receivables and accrued revenue		(4 383)	(42 027)
Decrease / (increase) in inventories		277	(152)
(Decrease) / increase in trade and other payables and deferred revenues		(4 564)	2 574
Cash generated from operations		**128 013**	**140 021**

(All amounts are in thousand EUR unless stated otherwise)

	Note	Year ended 31 December 2016	2015
Cash flows from operating activities			
Cash generated from operations		128 013	140 021
Income tax paid		(37 292)	(27 878)
Net cash generated from operating activities		**90 721**	**112 143**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(45 055)	(33 185)
Dividends received	24	-	346
Proceeds from sale of property, plant and equipment		1 720	5 589
Proceeds from financial assets		9	9
Interest received	24	65	75
Net cash used in investing activities		**(43 261)**	**(27 166)**
Cash flows from financing activities			
Repayments of borrowings		(11 238)	(12 963)
Interest paid	24	(1 436)	(1 916)
Dividends paid	13	(65 646)	(51 791)
Net cash used in financing activities		**(78 320)**	**(66 670)**
Net (decrease)/ increase in cash and cash equivalents		**(30 860)**	**18 307**
Cash and cash equivalents at the beginning of the year	11	**52 511**	**34 204**
Cash and cash equivalents at the end of the year	11	**21 651**	**52 511**

(All amounts are in thousand EUR unless stated otherwise)

1 General Information

Trade name and registered seat of the Company

Registered seat of the company Stredoslovenská energetika a.s. (hereinafter referred to as “the Company”,“the SSE”) is:

Pri Rajčianke 8591/4B
010 47 Žilina
Slovak Republic

Identification number (IČO) of the Company is: 36403008
Tax identification number (DIČ) of the Company is: 2020106682
Identification number for VAT (IČ DPH) of the Company is: SK2020106682

SSE in its current legal form as a joint stock company was established on 17 December 2001 and incorporated in the Commercial Register on 1 January 2002 (Commercial Register of the District Court Žilina in Žilina Section Sa, Insert No. 10328/L).

Throughout these consolidated financial statements SSE together with its subsidiaries is referred to as “Group”.

Following subsidiaries are part of the SSE Group as at 31 December 2016:

Name	Country of incorporation	Percentage of shareholding in the ordinary share capital
Stredoslovenská energetika – Distribúcia, a.s.	Slovakia	100%
Elektroenergetické montáže, a.s.	Slovakia	100%
SSE – Metrológia, s.r.o.	Slovakia	100%
Stredoslovenská energetika – Project Development, s. r.o.	Slovakia	100%
SSE – Solar, s.r.o.	Slovakia	100%
SSE – CZ, s.r.o.	Czech Republic	100%

Certain Group’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 Group’s relationships with its customers including the pricing of electricity and services provided to certain customers of the Group.

Following are the principal activities of the Group:
- Purchase and supply of electricity;
- Distribution of electricity in Central Slovakia;
- Purchase and supply of gas
- Construction and maintenance of distribution network and related assets;
- Production of electricity;
- Meters calibration;
- Provision of power engineering services.

(i) Additional information about the Company as the entity preparing the consolidated financial statements

The Company is one of the successors of Stredoslovenské energetické závody, a state owned entity. As at 31 December 2001, this state enterprise was wound up without liquidation based on the resolution No. 686/2001 of the Slovak government. The following day, its assets and liabilities were transferred to the National Property Fund ("FNM SR") of the Slovak Republic in accordance with the privatization project.

The assets and liabilities were valued at historic carrying amounts as reported by Stredoslovenské energetické závody as at 31 December 2001.

On 31 October 2002, the National Property Fund of the Slovak Republic sold 49% of the total share capital of SSE to E.D.F. INTERNATIONAL ("EDFI"), France.

On 1 July 2007, the electricity distribution business had been transferred into the subsidiary Stredoslovenská energetika – Distribúcia, a.s. („SSE-D") in accordance with the Slovak and European legislation ("unbundling of part of the company").

On 27 November 2013, EDFI and Energetický a průmyslový holding, a. s. ("EPH") completed a transaction, subject of which was a transfer of the 49% minority shareholding and managerial control in the Company from EDFI to EPH Financing II, a.s.

On 26 May 2014, the companies EPH Financing II a.s. (dissolved company) and EP Energy a.s. (successor company) agreed on a project of a merger based on which the share capital of the dissolved company was transferred to the successor company. Decisive date of the transaction was 1 January 2014. The company EPH Financing II a.s. was deleted from the Commercial register on 25 August 2014.

On 1 August 2014, according to the Act No. 197/2014 the shareholding held by the National Property Fund of the Slovak Republic (51%) was transferred to the Ministry of Economy of the Slovak Republic.

Activities of the Company 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 the pricing of electricity and services provided to certain customers of the Company. Price of the electricity (the commodity) is regulated for households and small businesses with the annual consumption of up to 30 MWh. The price of electricity for wholesale customers is not regulated. Distribution fees are fully regulated for all customers. The Company engages also in purchase and sale of gas. A detailed breakdown of revenues is disclosed in the Note 19.

The structure of the Company's shareholders as at 31 December 2016 and as at 31 December 2015 was as follows:

	Absolute amount in thousands of EUR	**Ownership interest %**	**Voting rights %**
Ministry of Economy of the Slovak Republic	59 545	51%	51%
EP Energy, a.s.	57 209	49%	49%
Total	**116 754**	**100%**	**100%**

Ministry of Economy of the Slovak Republic, based in Mierová 19, 827 15 Bratislava owns 51 % shareholding in the registered capital of the Company since 1 August 2014.

EP Energy, a.s. („investor“, „EPE“) based in Pařížská 130/26, Josefov, 110 00, Prague 1, Czech Republic, IČO: 29 259 428, incorporated in the Commercial Register of the City Court in Prague, section B, file No. 21733, Czech Republic owns a 49 % shareholding in the registered capital of the Company. EP Energy, a. s. is a part of consolidated group EP Infrastructure, a.s. („EPIF“) based in Pařížská 130/26, Josefov, 110 00, Prague 1, Czech Republic, IČO: 02 413 507, which is a part of consolidated group EPH based in Pařížská 130/26, Josefov, 110 00 Prague 1., Czech Republic, IČO: 28 356 250.
The Company as well as the Group is included in the consolidated financial statements of EPE. These are included in the consolidated financial statements of EPIF holding, which is included in the consolidated financial statements of EPH holding.

EPH holding's consolidated financial statements are prepared by EPH with its seat noted above. These consolidated financial statements are available at the registered office of EPH Pařížská 130/26, Josefov, 110 00 Prague 1, Czech Republic. The address of the registration court maintaining the Commercial Register in which these consolidated financial statements are deposited is City Court in Prague, Slezská 2000/9, 120 00 Prague, Czech Republic.

As part of the sale of 49% of shares to EPH Financing II, a.s., the National Property Fund of the Slovak Republic, Ministry of Economy of the Slovak Republic, EPH Financing II, a. s. and EPH have entered into a shareholders' agreement which sets out the areas of responsibility and decision making for the Board of Directors and for the Supervisory Board of the Company.

The Chairman and two members of the Board of Directors are nominated by the investor. The Ministry of Economy of the Slovak Republic is represented by the Vice Chairman and one member of the Board of Directors. One Vice Chairman of the Supervisory Board is nominated by the investor. Ministry of Economy of the Slovak Republic is represented by the Chairman and four members of the Supervisory Board. The employees of the Company are represented by three members of the Supervisory Board.

Competencies of the Board of Directors (BoD) in addition to legally defined competencies include the following:
- manages the Company on a daily basis and can approve and commit the Company to transactions other than those that are within the competency of the Supervisory Board as described below;
- submits to the General Meeting for its approval the ordinary and extraordinary separate financial statements and the consolidated financial statements and proposal for the profit distribution or loss settlement;
- produces “Related Parties Agreements Report” and provides the copy of this report to Supervisory Board within 180 days from the end of accounting period;
- submits the Strategic Business Plan – further development of SSE Group and significant projects of SSE Group for period of the next 3 financial years to the Supervisory Board and General Meeting for approval;
- submits to the Supervisory Board the Annual budget, business plan of SSE Group and Individual annual budget and business plan of the Company for the review and comments.
- submits proposals of decisions concerning the subsidiaries, that are subject to prior consent of the General Meeting, to the General Meeting of SSE for approval;
- submits to General Meeting proposals for appointment, removal or replacement of the auditors of the Company.

Competencies of the Supervisory Board:
- The Supervisory Board is the supreme controlling body of the Company;
- The Supervisory Board reviews and may submit to General Meeting reports concerning:
  - proposals of Board of Directors regarding to Annual budget and business plan;
  - proposals of Board of Directors regarding the Individual annual budget and business plan of the Company;
  - announcements of financial transaction, which the Company made with related parties of companies in the Group (except SSE-D).

The Supervisory Board makes decisions about:

- reducing the number of employees of the Group, which would lead to redundancies equal to or higher than five percent (5 %) of all employees of the Group;
- the Strategic Business Plan for a three year period of further development and significant projects;
- any use of property, plant and equipment (except for assets of SSE-D), if the value of transaction or total value of related transactions exceeds five percent (5 %) of net assets stated in last audited financial statements of the Company (except for establishing of pledge for the purpose of financing);
- investment projects of the Company in the case the value of one investing project exceeds EUR 4 million (€ 4 000 000) (even if the capital expenditures arise during more than one year);

According to the Articles of Association of the Company, BoD prepares on an annual basis the Strategic Business Plan. The Strategic Business Plan is presented for a three-year period that sets the further development and significant projects of the SSE Group. The Strategic Business plan is submitted to the Supervisory Board for approval and subsequently to the General Meeting for approval.

Information on unlimited liability

The Company and any of its subsidiaries are not a shareholder with unlimited liability in other entities.

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

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

Publication of the consolidated financial statements for the previous accounting period

The Group's consolidated financial statements including the auditors' report on the financial statements as at 31 December 2015 were filed and published in the Register of Financial Statements on 29 June 2016. The Group's consolidated annual report with the supplement to the auditor's report on the audit of consistency as at 31 December 2015 was filed in the Register of Financial Statements on 30 June 2016.

Appointment of the auditor

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

(All amounts are in thousand EUR unless stated otherwise)

Information about the Group's bodies

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

	Board of Directors	Supervisory board
Chairman:	Mgr. Petr Sekanina (since 28 June 2016)	Mgr. Karol Haťapka (since 21.12.2016)
	Mgr. Martin Fedor (until 27 June 2016)	Ing. Ján Voštenák (until 20.12.2016)
Vice Chairman:	Mgr. Ing. Márius Hričovský, Dr. Oec.	Ing. Jozef Antošík
Members:	Mgr. Ing. Pavol Kolenčík (since 21 December 2016)	Ing. Igor Pištík
	Ing. Pavol Mertus (until 20 December 2016)	Ing. Miroslav Martoník
	Ing. Jiří Feist	Mgr. Juraj Kadaši
	Ing. Petr Tomášek (since 28 June 2016)	Ing. Ján Voštenák (since 21.12.2016)
	Mgr. Richard Flimel (until 27 June 2016)	Ing. Ivan Ivanič (since 21.12.2016)
		Ing. Branislav Sidor (since 21.12.2016)
		Ing. Tibor Lehotský (until 20.12.2016)
		Ing. Eduard Rada (until 20.12.2016)
		Ing. Pavol Čerňan (until 20.12.2016)
		JUDr. Vladimír Urblík (until 20.12.2016)

Number of employees of the Group
On average, the Group employed 1 621 employees during 2016 (2015: 1 616), 15 of which were management (2015: 15).

(ii) Additional information about the subsidiaries

SSE – Metrológia, s.r.o. was established on 3 April 2003 and incorporated in the Commercial Register on 17 April 2003 as a limited liability company fully owned by the Company. On 1 January 2004, SSE transferred to SSE – Metrológia, s.r.o. part of its business relating to calibration of electricity metering equipment.

Elektroenergetické montáže, a.s. was established on 2 July 2003 and incorporated in the Commercial Register on 12 August 2003 as a company fully owned by the Company. On 1 September 2004, SSE transferred to Elektroenergetické montáže a.s. part of its business relating to the construction of electricity distribution structures.

SSE - CZ s.r.o. was established on 13 October 2005 and incorporated in the Commercial Register of the Czech Republic on 12 December 2005 as a limited liability company fully owned by the Company. SSE - CZ trades with electricity and provides purchase and sale of electricity between the Company and foreign partners.

Stredoslovenská energetika – Distribúcia, a.s. was established on 22 March 2006 and incorporated in the Commercial Register on 8 April 2006 as a joint-stock company fully owned by the Company. The company engages in distribution of electricity in the region of Central Slovakia since 1 July 2007 when it was unbundled from the Company. The requirement to legally unbundle the distribution business from other commercial activities of integrated electricity companies has been established by the European directive 2003/54 on common rules for internal market with electricity. The directive has been transposed into Slovak legislation by the Act on Energy No. 656/2004 issued in 2004.

Stredoslovenská energetika – Project Development, s.r.o. („SSE-PD“) was established on 3 June 2008 and incorporated in the Commercial Register on 11 June 2008 as a company fully owned by the Company. The company SSE-PD was established with purpose to build and operate a power plant in central Slovakia.

SSE – Solar, s.r.o. - was established on 29 March 2010 and incorporated in the Commercial Register on 2 April 2010. The company SSE-Solar, s.r.o. was established with purpose to build and operate photovoltaic power stations.

Subsidiaries mentioned above do not have subsidiaries of their own.

Neither the Company, nor its subsidiaries are shareholders with unlimited liability in other accounting entities.

2 Summary of significant accounting policies

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

2.1. Basis for preparation

Legal reason for preparing the financial statements:
The Group’s consolidated financial statements at 31 December 2016 have been prepared as ordinary consolidated financial statements under § 22 of the Slovak Act No. 431/ 2002 Coll. (“Act on Accounting”) for the accounting period from 1 January 2016 to 31 December 2016.

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

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

The consolidated financial statements have been prepared under the historical cost measurement basis except for the equity method applied to interests in joint ventures.

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

The Board of Directors may propose to the Company’s shareholders to amend the consolidated financial statements until their approval by the General Meeting. If, after the consolidated financial statements are approved, management identifies that comparative information would not be consistent with the current period information, the IFRS EU allows entities to restate comparative information in the accounting period in which the relevant facts are identified.

The preparation of these consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies on complex 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 consolidated financial statements are prepared in thousands of euro (“EUR”) unless stated otherwise.

(All amounts are in thousand EUR unless stated otherwise)

Change in presentation

A segment of the Group's 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 Group 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).

The Group also changed the costs of purchase intermediation, sale of electricity and gas classification from the line Other operating expenses to Purchase of electricity, distribution and related fees.

The adjustments made to the consolidated income statement are summarized at the following table:

	Year ended 31 December 2015		
	Before the chage of presentation	**Effect of presentation**	**After the change of presentation**
Purchase of electricity, gas distribution and related charges	(682 207)	(719)	(682 926)
Personal expenses	(40 238)	(5 591)	(45 829)
Capitalization	-	8 667	8 667
Material and merchandise consumption	(6 303)	(643)	(6 946)
Other operating expenses	(27 905)	(1 714)	(29 619)

New standards and interpretations not yet adopted

Standards, interpretations and amendments to published standards that are not yet effective for the financial year ended 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 that the IAS 39 exception for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply, and 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 is 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 on specified dates to 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 a loss event 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 an entity’s risk management and hedging activities are required.

The Group does not expect IFRS 9 (2014) to have material impact on the financial statements. The classification and measurement of the Group’s financial instruments are not expected to change under IFRS 9 because of the nature of the Group’s operations and the types of financial instruments that it holds. However the Group believes that impairment losses are likely to increase and become more volatile for assets in the scope of expected credit loss impairment model. The Group has not yet finalised the impairment 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) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:
  - over time, in a manner that depicts the entity’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 an entity 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 Group’s financial statements, management does not expect that the new Standard, when initially applied, will have material impact on the Group’s financial statements. The timing and measurement of the Entity’s revenues are not expected to change under IFRS 15 because of the nature of the Group’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 entity 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.

Most of the contracts entered into operating lease shall expire before the application of this standard. For this reason, it is impossible to estimate the impact of the first application of the standard on its financial statements.

- 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 Group expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Group.

- Annual Improvements to IFRSs

  The improvements introduce two amendments to two standards and consequential amendments to other standards and interpretations. These amendments are applicable to annual periods beginning on or after 1 January 2017 and 1 January 2018, with earlier adoption permitted.

None of these amendments are expected to have a significant impact on the financial statements of the Group.

2.2. Subsidiaries and joint ventures

(i) Subsidiaries

Subsidiaries are all entities including structured entities over which the Group has the power to govern because it (i) has a right to control relevant activities of the entity that have significant influence on its profitability and revenues, (ii) is exposed or has the right to variable returns of the entity and (iii) has the ability to use its powers to affect the return on investment in the entity. The existence and effect of substantive rights, including potential voting rights should be considered when assessing whether the Group has power over another entity. For a right to be substantive the holder of a right needs to have a practical ability to exercise the right in time when relevant decisions on entity's activities are made. The Group may have right over the entity even though it owns less than half of the voting rights. In such a case, the Group assesses the size of the voting rights of other investors in comparison with its own rights. The Group also assesses the structure of ownership of the other investor's voting rights in order to determine whether the Group has de-facto decision-making power over the entity. Protecting rights of other investors, such as those that relate to substantive changes in the activities of the entity, or those which are applicable only in exceptional circumstances, shall not prevent the Group to control another entity.

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are recognized in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and its settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree’s employees (acquiree’s awards), then all or a portion of the amount of the acquirer’s replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree’s awards and the extent to which the replacement awards relate to pre-combination service.

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Intercompany transactions, balances and unrealised gains from transactions among the companies within the Group are eliminated. Unrealised losses are also eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Accounting methods of subsidiaries were changed only if necessary to ensure the consistency with the Group.

(ii) Interests in equity-accounted investees

The Group’s interests in equity-accounted investees comprise interests in associates and joint ventures.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and the joint ventures are accounted for using the equity method. They are initially recognized at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group’s share of the profit or loss and other comprehensive income of equity-accounted investees, until the date on which significant influence or joint control ceases.

Scope of consolidation

As at 31 December 2016, 9 entities were included into the consolidation (2015: 9 entities), out of which 7 entities (2015: 7 entities) were consolidated using full consolidation method and 2 entities (2015: 2 entities) using equity method. All entities prepared their financial statements as at 31 December 2016. These entities are presented in Note 1 (Subsidiaries) and Note 8 (Joint ventures).

2.3. Foreign currency transactions and translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are presented in EUR using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in thousands of Euro (thousand EUR) which is the functional and presentation currency of each group entity except for SSE-CZ, s.r.o., whose functional currency is Czech Koruna (CZK).

(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 the 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 ECB or the NBS 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.

2.4. Property, plant and equipment

All property, plant and equipment is measured at cost less accumulated depreciation less accumulated impairment losses.

(i) Acquisition cost

Acquisition cost includes expenditures that are directly attributable to the acquisition of assets. Borrowing costs are capitalized if they meet criteria of IAS 23 as a part of acquisition cost, otherwise they are expensed as incurred.

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 expenditure 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 costs 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 Consolidated Income Statement during the financial period in which they are incurred.

The most significant part of property, plant and equipment is represented by the distribution network. The network includes mainly power lines, pylons and switching stations.

(ii) Depreciation

The depreciation of property, plant and equipment starts in the month when it 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 of an asset is determined as the ratio between its depreciable amount and estimated useful life. The depreciable amount is the acquisition cost decreased by expected residual value at the time of asset's disposal.

(All amounts are in thousand EUR unless stated otherwise)

The estimated useful lives of individual groups of assets in 2016 and 2015 is following:

	2016	**2015**
Buildings, halls and constructions	10-70 years	10 – 100 years
Machines, equipment and vehicles	4-45 years	4 – 45 years
Other non-current 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 Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the conditions expected at the end of its useful life. The residual value of an asset is null or equals to its scrap value if the Group 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 Group 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 2.6).

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

2.5. Intangible assets

Intangible assets are initially measured at cost. Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the Group and the cost of the asset can be measured reliably. After initial recognition the intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Borrowing costs are capitalized as a part of acquisition cost, if they meet criteria of IAS 23, otherwise they are expensed as incurred. The Group does not have intangible assets with indefinite useful lives. Intangible assets are amortized on the straight-line basis over their useful lives not exceeding a period of 20 years.

The amortization of an intangible asset starts in the month when the intangible asset is put in use. Intangible assets are amortized in line with the approved amortization plan using the straight-line method. Monthly amortization charge of an asset is determined as the ratio between its depreciable amount and estimated useful life. The amortizable amount is the acquisition cost decreased by expected residual value at the time of asset's disposal.

The 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 programs are recognized as an expense as incurred.

Subsequent expenditure, which enhance or extend the performance of computer software programs beyond their original specifications and meet criteria for recognition as intangible assets according to IAS 38 are recognized as capital improvements and are added to the original cost of the software. Each part of an item of intangible asset which value is in comparison to the total value of the asset material, is amortized separately. The Group divides the value originally allocated to the intangible asset item to significant parts proportionally to every part and amortize the parts separately.

2.6. Impairment of non-financial assets

Assets that have an indefinite useful life and 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 whenever events or changes in circumstances indicate that the carrying amount is higher than recoverable amount. If an indicator of impairment exists, the asset's recoverable amount is estimated. An impairment loss is recognized in the Consolidated Income Statement for the amount by which the asset's or cash generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the asset's fair value less costs to sell or value in use, depending on which one is higher.

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

2.7. Financial assets

The Group initially recognizes loans, receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through Consolidated income statement) are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group 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 Consolidated Statement of Financial Position when and only when the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Group classifies its financial assets in the following categories: at fair value through profit or loss, held-to-maturity investments, 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 Group holds 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 recognized initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables comprise trade receivables and other receivables.

Cash and cash equivalents are defined in the Note 2.13.

2.8. Financial liabilities

Financial liabilities (including liabilities carried at fair value through Consolidated profit or loss) are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. At initial recognition, the Group 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 Group measures all financial liabilities at amortized cost using the effective interest method.

Financial liability (or a part of a financial liability) is derecognized from the Group's Consolidated 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 Group has the following non-derivative financial liabilities: loans and borrowings, bank overdrafts and trade and other payables.

2.9. Leases

IAS 17 defines a lease as 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 of property, plant and equipment in which a significant portion of the risks and rewards of the ownership are retained by the lessor are classified as operating lease. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Consolidated Income Statement on a straight-line basis over the period of the lease.

The Group has no financial leases.

2.10. Inventory

Inventory is stated at the lower of its acquisition cost and net realizable value. The inventory is recognized at acquisition cost that is determined using the weighted average cost method. The acquisition costs include all costs associated with the acquisition of the inventories such as customs duties or transportation costs, net of discounts and rebates. Net realizable value is the estimated selling price in the ordinary course of business, less applicable selling costs.

2.11. Construction contracts

Contract costs are recognized when incurred.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognized over the period of the contract. When it is probable that total contract costs will exceed total expected revenue, the expected loss is recognized as an expense immediately.

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that have been agreed with the customer and under assumption that can be reliably measured.

The Group uses the 'percentage-of-completion method' to determine the appropriate amount to recognize in a given period. The stage of completion is measured by reference to the contract costs incurred up to the reporting date as a percentage of total estimated costs for each contract separately.

The Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognized profits (less recognized losses) exceed progress billings. Progress billings not yet paid by customers and retentions are included within 'trade and other receivables'.

The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognized profits (less recognized losses).

2.12. 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 impairment provision. Revenue recognition policy is described in the Note 2.21.

Impairment provision to trade receivables is established when there is objective evidence that the Group 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 impairment provision 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 are recognized in the Consolidated 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 Consolidated Income Statement within Other operating income.

2.13. 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.

Bank overdrafts that are payable on demand are part of the cash management of the Group and are included in cash and cash equivalents for the purposes of the Consolidated Cash Flow Statement.

2.14. Share capital

Ordinary shares are classified as share capital.

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

2.15. 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 periodically evaluates positions 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 calculated using the balance sheet liability method based on temporary differences arising between the tax basis 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 that is not a business combination if at the time of the transaction, neither accounting nor taxable profit or loss is affected.

Current and deferred tax is recognized in the Consolidated Income Statement except when it relates to items recognized directly in equity or in Consolidated Statement of Comprehensive Income.

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.

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.

Deferred income tax is calculated on temporary differences arising from investments in subsidiaries and joint ventures except for cases where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Dividend income is not subject to income taxes in the Slovak Republic.

The Group offsets deferred tax assets and deferred tax liabilities where the Group has a legally enforceable right to offset tax assets against tax liabilities and these relate to income taxes collected by the same tax authority.

2.16. 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 Consolidated Income Statement over the period of the borrowings using the effective interest method.

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

2.17. Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events and 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 Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized 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 of resources will be required in the 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.

(All amounts are in thousand EUR unless stated otherwise)

2.18. Contingent liabilities

Contingent liabilities are not recognized in the Consolidated Statement of Financial Position. They are disclosed in the notes to the financial statements, if an outflow of resources embodying the economic benefits is not probable. They are not disclosed in the notes to the financial statements if the possibility of an outflow of resources embodying the economic benefits is remote.

2.19. Trade and other payables

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

2.20. Employee benefits

The Group has both defined benefit and defined contribution plans.

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 Group pays fixed contributions into a separate entity 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 Group is obliged, based on the number of years in service, to pay its employees upon retirement or in the case of disability the following multiples of their average monthly salary:

	Multiple of average monthly salary
Up to 10 years	2
11-15	4
16-20	5
21-25	6
Over 25 years	7

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

Other defined benefits

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

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

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

The liability recognised in the Consolidated 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 Group 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 the period when incurred. Pension liabilities are recognized in the Consolidated Statement of Comprehensive Income and life and work jubilee benefits in the Consolidated Income Statement. Past-service costs are recognised immediately in the Consolidated Income Statement.

Defined contribution pension plans

The Group makes contributions to government and private contribution pension plans.

The Group makes contributions to the health, sickness, retirement, accident and guarantee insurance and unemployment schemes at the statutory rates in force during the year based on gross salary payments.

Throughout the year, the Group made contributions amounting to 35.2% (2015: 35.2%) of gross salaries up to a monthly assessment base, which is defined by the relevant law to maximum of EUR 4 290 depending on the type of scheme (2015: max. to EUR 4 120), together with contributions made by employees of a further 13.4% (2015: 13.4%). The cost of these payments is charged to the Consolidated 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 Group makes contributions to the supplementary scheme, between 2% and 6% from the total of monthly tariff wages maximum to EUR 1 400 (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 the employee resulting from redundancy in exchange for these benefits. The Group 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 impact of discounting is not significant.

2.21. 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 Group’s activities. Revenue is recognized net of value-added tax, excise duties, estimated returns, rebates and discounts.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and specific criteria as described below were met.

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

Revenue from sale of electricity and distribution services is recognized when the electricity is delivered and distribution services rendered to the customer. Consumption of wholesale customers is metered and billed on a monthly basis. Consumption of retail customers (households and small businesses with yearly consumption up to 30 MWh) is metered and billed on an annual basis.

Revenue from sale of gas is recognized when the gas is delivered to the customer. Consumption of wholesale customers is metered and billed on a monthly basis. Consumption of retail customers (households and small business with yearly consumption up to 100 MWh) is metered and billed on an annual basis.

Revenue from unbilled electricity is an accounting estimate which is based on the estimate of the electricity supply in technical units (GWh) at low voltage level and its price. The estimate of the electricity supply at this voltage level is mainly based on the estimate of yearly consumption at the offtake point and the value of relevant typical supply profile for a rate to which the offtake point is included.

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.

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

Interest income is recognized in the period when it is earned on a time proportion basis using the effective interest 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 obtained by withholding (transformer stations) free of charge are recorded in accordance with 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 relocation of energy devices are treated similarly to the withheld transformer stations, meaning the value of such fees is recorded as deferred revenues, while the amount equal to the annual accounting depreciation for these assets is recognised in the revenues for the current period.

2.22. Dividend distribution

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

2.23. Assets held for sale

Assets and group of assets held for sale (including non-current and current assets) are classified as assets held for sale in the Statement of Financial Position, if the Group plans on using their carrying value primarily for sale (including loss of control over the subsidiary, which owns the particular assets) within twelve months from periods end. The assets are classified as held for sale, if they meet all of the following requirements: (a) assets are available for immediate sale in their current condition; (b) management of the Company approved and actively began with searching of a buyer (c) assets are actively presented on the market in adequate values; (d) sale is expected to happen no later than in one year (e) it is improbable, that significant changes happen in sales plan or the plan will be cancelled.

Assets and group of assets for disposal classified as held for sale in the Statement of Financial Position for current accounting period do not influence classification and disclosure of these items in the Statement of Financial Position for preceding accounting period.

Assets and group of assets for disposal classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Once classified as held-for-sale, assets are no longer amortised or depreciated.

Liabilities directly related to assets and group of assets for disposal classified as held for sale are classified and presented in the Statement of Financial Position separately.

3. Financial risk management

3.1. Financial risk factors

The Group’s activities are exposing it to a variety of financial risks: market risk (including foreign exchange risk, price risk, interest rate risk), operational risk, credit risk and liquidity risk. The Group’s overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group’s financial performance.

Financial risk management is carried out by a central treasury department under policies approved by the Board of Directors. The central treasury department identifies, evaluates and hedges financial risks in cooperation with the Group’s operating units. The Board of Directors and management of the Group provide 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 Group is not exposed to foreign exchange risk as expenses and revenues in foreign currency are not significant for the Group.

(b) Price risk

Supply of electricity and natural gas

The Group is exposed to price risk, which may result in loss due to changes in commodity price, if there is an open position (excess or lack of) commodities for the period. Price risk management objective is to prevent the Group suffered a greater loss than was allowed within the approved limits. The Group´s risk committee approves the price limits and also provides risk management policy. Price risk is managed by the financial indicators: VaR (Value at Risk), Risk Capital (maximum possible losses) and indicator VaR days, i.e. number of days when the risk capital can be spent in a scenario with a given probability.

The Group segments its customers based on the supplied volume of electricity. The Group secures itself against price changes and losses from customer agreements by contractual conditions, which are set differently according to probability of customer loss for each customer segment.

Sales prices for end customers are based on market prices at which the Group is able to procure the commodity on market at the time of sale. The Group monitors the price changes from the sale to the purchase and minimizes potential losses arising from changes in market prices of commodities by early purchase. This loss / profit, with a financial Value at Risk (VaR) consists of Risk Capital. The current value of the Risk Capital is regularly evaluated and when approaching the limit values, measures are undertaken to ensure the set limit will not be axceeded.

The sales price of electricity for households and small businesses is subject to price regulation by URSO. Based on its own price proposal, URSO approves the maximum price for the supply of electricity and gas, usually for the next calendar year.

Group purchases electricity based on individual contracts with the conditional sale to a selected customer (back-to-back) and thereby minimize the risks arising from open positions in this segment. For ordinary customers the Group purchases electricity continuously over a period of one to two years before the delivery start.

Distribution service

Significant part of distribution services provided by the Group is subject to price regulation by URSO. URSO has set regulatory framework for years 2012 – 2016. URSO sets price decrees for distribution services provided by the Group generally for the period of one calendar year ahead and these are mandatory for the Group's invoicing. The allowed return is derived from Regulated Asset Base ("RAB") and rate of return. Despite this, circumstances outside of the control of the Group might occur that will result in a change of the price decree during a calendar year and therefore have a negative or a positive impact on the Group's results. It is not possible to quantify the level of such risk in advance. In the case of the occurrence, Group's management do enter into negotiations with URSO, in order to reduce the negative impact within the Group to the minimum level.

(c) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to risk of cash flow fluctuation. Borrowings issued at fixed rates expose the Group to fair value changes. According to the set principles, the Group should keep the level of the fixed interest rate borrowings at least at the level of 50 % (2015: 50 %).

The Group 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 Group calculates the impact of a defined interest rate changes on the Consolidated Income Statement. The scenarios are run only for liabilities that bear the most significant interest rates.

At 31 December 2016, if interest rates on EUR-denominated borrowings had been 50 basis points higher/lower (at 31 December 2015: 50 basis points) with all other variables held constant, post-tax profit for the year ended 31 December 2016 would have been lower/higher by EUR 2 thousand (2015: EUR 5 thousand) mainly as a result of higher/lower interest expense on floating rate borrowings.

As 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 amortized costs. For more details see Note 16.

(ii) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group'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 risk arises from all of the Group's operations.

The Group'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 Group standards is supported by a program of periodic reviews undertaken by Internal Audit. The results of Internal Audit review are discussed with senior management of the Group.

(iii) Credit risk

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions as well as credit exposures to wholesale and retail customers including outstanding receivables and future committed transactions. As for the banks and financial institutions, the Group has relationships only with those ones that have high independent rating assessment. If wholesale customers are independently rated these ratings are used.

(All amounts are in thousand EUR unless stated otherwise)

Otherwise, if there is no independent rating, assessment of credit quality of the customer is performed, taking into account its financial position, past experience and other factors.

The key commodity of the Group is electricity, which is invoiced to the customers usually together with distribution and other services related to electricity in form of an integrated contract.

The Group also invoices distribution and related services to the suppliers of electricity (traders) operating within the Group's distribution area, as well as to final customers who have signed an individual contract relating to the distribution of electricity and access to the distribution system.

The Group implemented an individual assessment of major customer’s credit risk based on its own valuation model. The input information of the model are e.g. rating of external credit risk rating companies, payment discipline of the customer, performance indicators derived from their financial statements, available information on a customer’s indebtedness. This group of customers include those with highest purchases of electricity supply and distribution. Payment conditions are set-up according to the results of the model. In addition, prepayments are used to mitigate the risk.

The Group is managing risk of non-payment of wholes customers, small entrepreneurs and households via advance payments system. Customers with a higher risk of insolvency pay higher prepayments.

As far as the trade receivables are concerned, the Group does not have a significant concentration of credit risk mainly due to a large number of diverse customers. The Group uses a system of reminders, which may culminate in a supply restriction, disconnection from the distribution network, which is the most commonly used way to enforce compliance with payment discipline for all categories of customers.

The table below shows the balances of due from banks at the reporting date:

		As at 31 December	
Counterparty	**Rating****	**2016**	**2015**
Banks *			
Všeobecná úverová banka, a.s	A2	8 843	16 400
UniCredit Bank, a.s.	Baa1	707	9 637
Tatra banka, a.s.	Baa1	754	361
ČSOB, a.s., Bratislava	Baa1	2 465	24 324
Slovenská sporiteľňa, a.s.	BBB+	8 604	1 106
Komerční banka, a.s.	A2	228	583
Prima banka Slovensko, a.s.	n/a	35	84
Other	n/a	15	16
Total		**21 651**	**52 511**

* The amount of cash and short-term deposits at banks as at 31 December 2016 was EUR 21 651 thousand (2015: EUR 52 511 thousand). As at 31 December 2016, the Group has had an overdraft facility agreed with the banks on the current accounts in the amount of EUR 20 000 thousand (2015: EUR 20 000 thousand). As at 31 December 2016, the Group can freely dispose with cash and cash equivalents.

** The Group uses independent ratings Moody’s, Standard & Poor’s, Fitch.

(All amounts are in thousand EUR unless stated otherwise)

Exposure to credit risk

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

Financial assets	Note	Carrying amount as at 31 December 2016	2015
CO_2 emission quotas	8	14	23
Other investments	8	1 931	1 615
Trade and other receivables	9	85 329	78 857
Accrued income	10	73 168	76 702
Cash and cash equivalents	11	21 651	52 511
		182 093	**209 708**

(iv) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping open credit lines.

The Group manages liquidity risk by utilizing bank overdrafts, which should cover an immediate shortage of cash. The Group regularly monitors its liquidity position and uses overdrafts only in exceptional cases. The Group also uses the advantages of commercial terms between the Group and its suppliers to secure sufficient financing funds to cover its needs. The maturity of supplier's invoices is on average between 14 to 90 days.

The Group monitors movements of financial resources on its bank accounts on a regular basis.

Expected cash flow is prepared as follows:

- expected future cash inflows from main operations of the Group;
- expected future cash outflows securing operations of the Group and leading to settlement of all liabilities of the Group 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 Group to make term deposits and other investments.

The management monitors on the basis of expected cash flows rolling forecasts of the Group's liquidity reserve which comprises undrawn credit line (Note 16) and cash and cash equivalents (Note 11).

(All amounts are in thousand EUR unless stated otherwise)

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

	Carrying amount	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
As at 31 December 2016						
Bank loans (principal incl. future interest charges)	34 085	10 321	6 893	14 507	5 114	36 835
Trade and other payables (excluding liabilities not in scope of IFRS 7)	107 950	107 950	-	-	-	107 950
Total	**142 035**	**118 271**	**6 893**	**14 507**	**5 114**	**144 785**
As at 31 December 2015						
Bank loans (principal incl. future interest charges)	33 323	9 841	7 574	11 035	7 756	36 206
Liabilities related to assets held for sale *	12 000	13 296	-	-	-	13 296
Trade and other payables (excluding liabilities not in scope of IFRS 7)	108 488	108 488	-	-	-	108 488
Total	**153 811**	**131 625**	**7 574**	**11 035**	**7 756**	**157 990**

* Amount of liabilities related to assets held for sale in interval "Less than 1 year" represents principal and related interest. For more information see Note 12.

3.2. Capital risk management

Management considers equity being capital. The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group's management manages shareholders' capital reported under IFRS as adopted by the EU amounting to EUR 500 229 thousand as at 31 December 2016 (2015: EUR 491 506 thousand).

Consistent with other companies within the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt divided by total liabilities and equity. Total debt is calculated as total of bank loans and current liabilities as presented in the Consolidated Statement of Financial Position.

In 2015 as well as in 2016, the Group's strategy was to maintain the gearing ratio below 60% limit stated in the Group's loan agreements.

During 2016 and 2015, the Group complied with all externally imposed capital requirements (mainly bank covenants) on the level required by its creditors.

3.3. Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price and the spot ask price for the financial liabilities.

The fair value of financial instruments that are not traded in an active market (for example over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques such as expected discounted cash flows are used to determine fair value for the remaining financial instruments.

The carrying amount of trade receivables and payables, less any impairment provisions, approximates their fair values. The 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 Group for similar financial instruments.

4 Critical accounting estimates and judgements

Use of estimates and judgments

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

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

Information about critical judgements, assumptions and estimation uncertainties that most significantly influence the amounts reported in the financial statements are stated below.

(i) Estimated useful life of assets

Management estimates useful life of property, plant and equipment and intangible assets based on the cooperation with internal and external experts. If the revised estimated useful life of non-current assets was shorter by 10% than management's estimate at 31 December 2016, the Group would have recognized an additional depreciation of assets consisting of the distribution network charged to the Consolidated Income Statement of EUR 3 422 thousand (2015: EUR 3 197 thousand).

(ii) Impairment provision for receivables

A specific impairment provision is calculated for individual receivables with indicators of impairment. Impairment provision is calculated in the amount of 100% of the value of individual receivables from companies in bankruptcy, restructuring and receivables subject to court proceedings. A general provision is calculated based on overdue receivables for other receivables.

Impairment provision is released or used only when a receivable provided for is written-off, collected or if reasons for creation of impairment provision cease to exist.

(iii) Estimate of unbilled electricity

Revenues generated from customers whose energy consumption is not metered at the reporting date, particularly customers supplied at a low-voltage electricity level, must be estimated for delivered but not billed electricity at the reporting date.

The Group developed a model allowing it to estimate revenue with a satisfactory level of accuracy. The model will also ensure that risk of a significant variance between the supplied quantity and the estimated revenues can be considered as not significant.

The historical average differences between the estimates of unbilled electricity and the actual results are in average below 1% (2015: below 1%).

(All amounts are in thousand EUR unless stated otherwise)

5 Property, plant and equipment

	Land	Buildings, halls and constructions	Machinery, equipment, vehicles and other assets	Tangible assets not yet in use including advances	Total
At 1 January 2015					
Cost	7 991	472 391	364 580	36 246	881 208
Accumulated depreciation and impairment charges	(76)	(213 586)	(200 297)	(1 395)	(415 354)
Net book value	**7 915**	**258 805**	**164 283**	**34 851**	**465 854**
Year ended 31 December 2015					
Opening net book value	7 915	258 805	164 283	34 851	465 854
Additions	34	33 639	5 990	4 989	44 652
Transfers	5	18 276	13 387	(31 668)	-
Disposals	(141)	(598)	(101)	(10)	(850)
Depreciation charge	-	(14 680)	(12 702)	-	(27 382)
Release/(creation) of impairment provisions	-	181	694	(4)	871
Closing net book value	**7 813**	**295 623**	**171 551**	**8 158**	**483 145**
At 31 December 2015					
Cost	7 889	523 043	381 297	8 488	920 717
Accumulated depreciation and impairment charges	(76)	(227 420)	(209 746)	(330)	(437 572)
Net book value	**7 813**	**295 623**	**171 551**	**8 158**	**483 145**
At 1 January 2016					
Cost	7 889	523 043	381 297	8 488	920 717
Accumulated depreciation and impairment charges	(76)	(227 420)	(209 746)	(330)	(437 572)
Net book value	**7 813**	**295 623**	**171 551**	**8 158**	**483 145**
Year ended 31 December 2016					
Opening net book value	7 813	295 623	171 551	8 158	483 145
Additions	432	27 662	8 581	12 544	49 219
Transfers	14	2 861	2 711	(5 586)	-
Transfer from assets held for (Note 12)	437	5 160	17 929	-	23 526
Disposals	(37)	(396)	(96)	(221)	(750)
Depreciation charge	-	(15 783)	(15 098)	-	(30 881)
Release/(creation) of impairment provisions	-	(504)	694	(9)	181
Closing net book value	**8 659**	**314 623**	**186 272**	**14 886**	**524 440**
At 31 December 2016					
Cost	8 735	558 798	413 187	15 225	995 945
Accumulated depreciation and impairment charges	(76)	(244 175)	(226 915)	(339)	(471 505)
Net book value	**8 659**	**314 623**	**186 272**	**14 886**	**524 440**

Buildings, halls and constructions include mainly distribution network, administrative offices, sales offices, warehouses and garages.

(All amounts are in thousand EUR unless stated otherwise)

Machines, equipment and vehicles include mainly switching stations, hardware, servers, telephone exchanges, remote control equipment, system failure detectors, air conditions, assembling and personal vehicles and others.

The additions are represented mainly by construction and technical enhancement of distribution networks and acquisition of IT technologies.

For information on property, plant and equipment acquired by free of charge (withheld assets, relocations of energy devices) and contributions for acquisition of property, plant and equipment refer to Note 14.

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

The impairment provisions represent an impairment loss due mainly to the idle gas power plant and idle buildings (recreation facilities, flats and other idle assets). As at 31 December 2016, the impairment provisions to the gas power station was in the amount of EUR 17 152 thousand (2015: EUR 18 029 thousand) and to other assets in the amount of EUR 943 thousand (2015: EUR 307 thousand).

Type and amount of insurance of property, plant and equipment

The Group has insured its property, plant and equipment except for electric distribution networks against the following risks:

	Insured amount as at 31 December	
	2016	**2015**
Insurance against natural disaster	**887 006**	**885 389**
Buildings, halls and structures	281 070	281 122
Machines, devices and equipment	597 977	596 649
Other non-current movable assets	2 194	2 194
Other (damage liability)	5 765	5 424
Insurance in case of robbery and burglary	**3 028**	**1 628**
Insurance of machinery	**19 093**	**19 093**

(All amounts are in thousand EUR unless stated otherwise)

6 Intangible assets

	Computer software	Other intangible assets	Intangible assets not yet in use including advances	Total
At 1 January 2015				
Cost	48 227	477	554	49 258
Accumulated depreciation and impairment charges	(28 110)	(463)	-	(28 573)
Net book value	**20 117**	**14**	**554**	**20 685**
Year ended 31 December 2015				
Opening net book value	20 117	14	554	20 685
Additions	2 375	24	637	3 036
Transfers	517	1	(518)	-
Amortization charge	(3 827)	(2)	-	(3 829)
Closing net book value	**19 182**	**37**	**673**	**19 892**
At 31 December 2015				
Cost	51 085	502	673	52 260
Accumulated depreciation and impairment charges	(31 903)	(465)	-	(32 368)
Net book value	**19 182**	**37**	**673**	**19 892**
At 1 January 2016				
Cost	51 085	502	673	52 260
Accumulated depreciation and impairment charges	(31 903)	(465)	-	(32 368)
Net book value	**19 182**	**37**	**673**	**19 892**
Year ended 31 December 2016				
Opening net book value	19 182	37	673	19 892
Additions	2 898	25	626	3 549
Transfers	153	12	(165)	-
Amortization charge	(4 506)	(2)	-	(4 508)
Closing net book value	**17 727**	**72**	**1 134**	**18 933**
At 31 December 2016				
Cost	52 253	405	1 134	53 792
Accumulated depreciation and impairment charges	(34 526)	(333)	-	(34 859)
Net book value	**17 727**	**72**	**1 134**	**18 933**

The computer software consists mainly from SAP ERP, SAP ISU/CRM, ECM, trading software and a graphical information system.

The additions are represented mainly by implementation of a new system for managing customer relationships SAP ISU/CRM, upgrades of software (SAP ERP, GIS, ECM).

(All amounts are in thousand EUR unless stated otherwise)

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

7 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	Held-to-maturity	Total
Assets as per Consolidated Statement of Financial Position			
Emission quotas (Note 8)	-	14	14
Other investments (Note 8)	-	1 931	1 931
Trade receivables (before impairment provision) (Note 9)	106 659	-	106 659
Cash and cash equivalents (Note 11)	21 651	-	21 651
Total	**128 310**	**1 945**	**130 255**

As at 31 December 2015	Loans and receivables	Held-to-maturity	Total
Assets as per Consolidated Statement of Financial Position			
Emission quotas (Note 8)	-	23	23
Other investments (Note 8)	-	1 615	1 615
Trade receivables (before impairment provision) (Note 9)	99 466	-	99 466
Cash and cash equivalents (Note 11)	52 511	-	52 511
Assets held for sale (Note 12)	23	-	23
Total	**152 000**	**1 638**	**153 638**

As at 31 December 2016	Other financial liabilities – carrying amount	Total
Liabilities as per Consolidated Statement of Financial Position		
Trade and other payables (Note 15)	110 491	110 491
Bank loans (Note 16)	34 085	34 085
Total	**144 576**	**144 576**

(All amounts are in thousand EUR unless stated otherwise)

As at 31 December 2015	**Other financial liabilities – carrying amount**	**Total**
Liabilities as per Consolidated Statement of Financial Position		
Trade and other payables (Note 15)	111 176	111 176
Bank loans (Note 16)	33 323	33 323
Liabilities related to assets held for sale (SSE-Solar loan)	12 000	12 000
Total	**156 499**	**156 499**

8 Financial assets

(i) Emission quotas

	As at 31 December 2016	**2015**
At the beginning of the year	23	32
Additions	402	99
Disposals	(411)	(108)
At the end of the year	**14**	**23**
Less non-current portion of held-to-maturity financial assets	-	-
Current portion of held-to-maturity financial assets	**14**	**23**

(ii) Investments in joint ventures

	As at 31 December 2016	**2015**
At the beginning of the year	1 615	1 488
Share on profit of joint ventures	316	127
At the end of the year	**1 931**	**1 615**

Increase of EUR 316 thousand in 2016 (2015: EUR 127 thousand) represents share on profit of joint ventures (revaluation by the equity method).

SSE owns a shareholding in the registered capital of the following companies:

Company name	**Registration Country**	**Interest in %**	**Activities**	**As at 31 December 2016**	**As at 31 December 2015**
Energotel, a.s.	Slovak Republic	20,00%	Data and telecommunication activities	1 884	1 572
SPX, s.r.o.	Slovak Republic	33,30%	Advisory in power engineering	47	43
Investments in joint ventures				**1 931**	**1 615**

(All amounts are in thousand EUR unless stated otherwise)

The Group together with other investors has a joint control over financial and operating activities of these companies based on the shareholder's agreement.

Information on the financial performance of significant joint ventures is as follows:

Energotel, a.s.	**As at 31 December**	
	2016	**2015**
Assets		
Non-current assets	5 313	5 023
Current assets	9 502	8 579
Total	**14 815**	**13 602**
Liabillities		
Non-current liabilities	34	68
Current liabilities	5 359	5 674
Total	**5 393**	**5 742**
Net assets	**9 422**	**7 860**

Energotel, a.s.	**Year ended 31 December**	
	2016	**2015**
Operating revenues	13 365	13 742
Operating costs	11 342	10 710
Financial revenues, net	(1)	3
Profit before tax	**2 022**	**3 035**
Income tax	460	687
Profit for the period	**1 562**	**2 348**
Other comprehensive income	-	-
Comprehensive income for the period	**1 562**	**2 348**

(All amounts are in thousand EUR unless stated otherwise)

9 Trade and other receivables

	As at 31 December 2016	2015
Current receivables and advance payments made:		
Neither past due nor impaired trade receivables	80 318	73 829
Past due but not impaired trade receivables	1 629	1 158
Individually impaired trade receivables	24 712	24 479
Trade receivables (before impairment provision)	**106 659**	**99 466**
Less: Impairment provision to receivables	(23 584)	(23 264)
Trade receivables – net	**83 075**	**76 202**
Other receivables	2 254	2 655
Trade receivables and other receivables	**85 329**	**78 857**

The structure of trade receivables according to ageing is as follows:

	As at 31 December 2016	2015
Receivables due	80 318	73 829
Receivables overdue	26 341	25 637
Total	**106 659**	**99 466**

The analysis of trade receivables that are neither past due nor impaired by their credit quality is as follows:

	As at 31 December 2016	2015
Retail – households	1 015	885
Retail – small businesses	16 149	16 225
Wholesale – large business	27 444	17 465
Traders with electricity	11 150	13 118
Regulators of energy and gas industry	19 626	21 773
Electricity producers	98	80
Other customers	4 836	4 283
Neither past due nor impaired trade receivables	**80 318**	**73 829**

As at 31 December 2016, the Group had impaired trade receivables in a gross amount of EUR 24 712 thousand (2015: EUR 24 479 thousand). An impairment provision to these receivables was created as at 31 December 2016 in the total amount of EUR 23 584 thousand (2015: EUR 23 264 thousand). Impaired receivables relate to both wholesale and retail customers who came into unexpectedly difficult economic situation. It is expected that part of these receivables will be repaid.

(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	1 864	1 863
91 to 180 days	518	642
181 to 360 days	932	1 231
Over 361 days	21 398	20 743
Total individually impaired receivables	**24 712**	**24 479**

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

	As at 31 December	
	2016	**2015**
At the beginning of the year	23 264	22 403
Creation of impairment provision	1 799	2 019
Reversal of unused impairment provision	(389)	(378)
Use of impairment provision	(1 090)	(780)
At the end of the year	**23 584**	**23 264**

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 against companies in bankruptcy and receivables subject to court proceedings. Impairment provision for other receivables is calculated based on an ageing analysis of individual receivables and the type of the customer.

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	As at 31 December	
	2016	**2015**
EUR	85 307	78 741
CZK	22	116
Total	**85 329**	**78 857**

The group is not exposed to concentrations of credit risk because it has a big number of customers. The Group does not hold any significant collateral as a security for the receivables.

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

(All amounts are in thousand EUR unless stated otherwise)

10 Accrued income

The Group has an obligation to connect the renewable energy sources should they meet requirements set by URSO and bear all expenses related to supporting production of electricity from renewable energy sources and combined heat and power production ("OZE/KVET") that represent: purchase of electricity from OZE/KVET, taking responsibility for variance and payment of additional charge in the amount approved by URSO. These expenses are covered in the tariff for system operation (TPS). In 2015 (2015: year 2014), the Group incurred a loss as a difference between expenses related to purchase of electricity from renewable sources and support of electricity produced from domestic coal and revenues from TPS. Based on a decision of URSO from December 2016 (2015: from December 2015), the Group recorded accrued income in the Consolidated Statement on Financial Position in the amount of URSO approved compensation of a 2015 loss (2015: for the year 2014) that enters the TPS for 2017 (2015: in year 2016) in the amount of EUR 73 168 thousand (2015: EUR 76 702 thousand).

11 Cash and cash equivalents

	As at 31 December	
	2016	**2015**
Cash at bank and in hand	11 012	12 600
Short-term bank deposits	10 639	39 911
Total	**21 651**	**52 511**

The effective interest rate on short term bank deposits is 0.03% (2015: 0.09%) and these deposits had an average maturity of 2 days (in 2015: 2 days).

At 31 December 2016, cash and cash equivalents were fully available for the Group's use.

For the purposes of the Consolidated Statement of Cash Flows, the cash and cash equivalents comprise of the following:

	As at 31 December	
	2016	**2015**
Cash and bank balances and deposits with original maturities of less than three months	21 651	52 511
Cash and bank balances and deposits with original maturities from three to six months	-	-
Total	**21 651**	**52 511**

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 is equal to the carrying amount of cash and cash equivalents.

The analysis by credit quality is reported in Note 3.1. (iii).

(All amounts are in thousand EUR unless stated otherwise)

12 Assets held for sale and liabilities related to assets held for sale

	As at 31 December	
	2016	**2015**
Assets held for sale		
Non-current assets	-	23 526
Trade receivables and other receivables	-	23
Inventories	-	62
Total	**-**	**23 611**
Liabilities related to assets held for sale		
Non-current bank loans	-	9 600
Deferred tax liability	-	1 967
Current bank loans	-	2 400
Total	**-**	**13 967**

As at 31 December 2016, assets and liabilities of the subsidiary SSE-Solar, s.r.o. no longer met the criteria to be classified as held for sale and liabilities related to assets held for sale and they have been re-classified into their original categories of assets and liabilities.

As at 31 December 2015 the following assets and categories of assets and liabilities were classified as assets held for sale related liability:

- Assets and liabilities of the subsidiary SSE-Solar, s.r.o. The carrying amount of assets and liabilities represents EUR 11 611 thousand (excluding deferred tax).
- Deferred tax related to these assets and liabilities in the amount of EUR 1 967 thousand.

Assets and related liabilities held for sale are recognized at their original carrying amount that is lower than their fair value less costs to sell.

(All amounts are in thousand EUR unless stated otherwise)

13 Equity

No changes in share capital of the Company occurred during 2015 and 2016. The Company does not have any equity subscribed but not recorded in the Commercial Register.

The total authorized number of ordinary shares of the Company as at 31 December 2016 is 3 516 682 (2015: 3 516 682) with a par value of EUR 33.2 per share. All authorized shares are issued and fully paid in.

As at 31 December 2016, the total number of 1 793 508 shares (51%) is owned by the Ministry of Economy of the Slovak Republic and 1 723 174 shares (49%) are owned by EP Energy, a.s., Czech Republic.

Legal reserve fund is mandatorily created from the Company's profit in accordance with the Slovak Commercial Code. The Commercial Code defines that a joint stock companies are obliged to create a legal reserve fund in the amount of 10% of their share capital at the time of the incorporation of the Company. This amount must be increased annually by at least 10% from net profit until the Legal reserve fund reaches 20% of the share capital. The 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 of the Company as at 31 December 2016 amounted to EUR 26 493 thousand (2015: EUR 26 493 thousand) and reached the required amount.

The General Meeting held on 27 June 2016 approved the consolidated and the individual financial statements of the Company for the previous period and at the same time decided to pay dividends to the shareholders for 2015 in the amount of EUR 65 646 thousand (2015: EUR 51 791 thousand). Dividend per share represents EUR 18,67.

The retained earnings of the Group at 31 December 2016 amounted to EUR 355 256 thousand (2015: EUR 345 744 thousand).

The Board of Directors has not proposed the distribution of the 2016 profit of the Company as at the date of a preparation of the financial statements.

14 Non-current portion of deferred income

	As at 31 December	
	2016	**2015**
Capital expenditure grants (a)	3 169	3 331
Withheld property (b)	2 626	3 050
Connection fees (c)	25 344	24 150
Relocation of energy devices (d)	20 122	15 866
Assets surplus found during a physical count (e)	1 709	1 187
Total	**52 970**	**47 584**

(a) Capital expenditure grants are paid primarily by customers for capital expenditures made in their interest as well as distribution network assets transferred to the Group by its customers free of charge. The grants are non-refundable and are recognized in other operating income based upon depreciable lives of related assets.

(b) Assets obtained by withholding (transformer stations, wirings) free of charge 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 recognized in the revenues of the current accounting period.

(All amounts are in thousand EUR unless stated otherwise)

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

(d) Fees for relocation of energy devices are accounted for similarly as withheld assets as described in (b) so as collected fees for energy devices relocation are accounted for as deferred income and are released to revenues in the amount equal to annual accounting depreciation of these assets.

(e) Assets that are evidenced on the letters of ownership of the Group and were not recognized in the Group's accounting records. The value of such assets is recorded similarly to withheld assets free of charge (described in note (b) above), i.e. their value is recorded in deferred income and released to revenues in the amount equal to annual accounting depreciation of these assets.

15 Trade and other payables

	As at 31 December	
	2016	**2015**
Trade payables – current	86 263	85 345
Current portion of deferred income	2 541	2 688
Payables to employees	1 703	1 556
Social security	1 111	1 061
Accrued personnel expenses	6 000	7 677
Social fund	269	338
VAT – payable	8 723	7 942
Payment to the National nuclear fund	2 233	3 121
Other payables	1 648	1 448
Total	**110 491**	**111 176**

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.

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

	As at 31 December	
	2016	**2015**
Payables not due	110 407	110 838
Overdue payables	84	338
Total	**110 491**	**111 176**

(All amounts are in thousand EUR unless stated otherwise)

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

	As at 31 December	
	2016	**2015**
EUR	110 461	111 126
CZK	30	48
GBP	-	2
Total	**110 491**	**111 176**

Social fund

Contribution 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	338	163
Contribution	525	565
Drawing	(594)	(390)
Closing balance at 31 December	**269**	**338**

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.

16 Bank loans

	As at 31 December	
	2016	**2015**
Long term portion of bank loans	24 810	24 485
Non-current	**24 810**	**24 485**
Short term portion of bank loans	9 275	8 838
Current	**9 275**	**8 838**

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

(All amounts are in thousand EUR unless stated otherwise)

The maturity of bank loans is as follows:

	As at 31 December	
Maturity	**2016**	**2015**
Short term portion of bank loans	9 275	8 838
Long term portion of bank loans		
1-5 years	19 810	16 985
Over 5 years	5 000	7 500
Total	**34 085**	**33 323**

The Group has the following un-drawn credit facilities:

	As at 31 December	
Maturity	**2016**	**2015**
Floating rate		
- Available within one year	20 000	20 000
Total	**20 000**	**20 000**

As at 31 December 2016, the Group has had an overdraft facility agreed with VÚB on its current account in the amount of EUR 20 000 thousand (2015: EUR 20 000 thousand). Overdraft is contracted until 30 July 2017 (2015: until 30 July 2016).

Loan agreements with Všeobecná úverová banka, Slovenská sporiteľňa, ČSOB and Komerční banka include specific financial covenants related to limits on indebtedness, liquidity, profitability, cash receipts, interest cover, and debt to operating profit ratios calculated on the basis of the consolidated financial statements of the Group. The Group complied with all of these covenants at the reporting date.

Structure of bank loans as at 31 December 2016 and 2015 is as follows:

Bank/Creditor	**Type**	**Currency**	**2016**	**2015**	**Interest rate % p.a.**	**Final Maturity**	**Form of security**	**Due within 12 months in thousand EUR**	**Due after 12 months in thousand EUR**
Všeobecná úverová banka, a.s.	Investment	EUR	1 295	1 730	Fixed 3.88 % + 0.3%	30 June 2019	-	435	860
Všeobecná úverová banka, a.s.	Investment	EUR	2 625	3 500	Fixed 4.80 %	01 December 2019	Bianco bill of exchange	875	1 750
Tatra banka, a.s.	Investment	EUR	-	713	3M EURIBOR + 0.30 %	31 December 2016	-	-	-
Tatra banka, a.s.	Investment	EUR	365	730	Fixed 4.84%	29 December 2017	-	365	-
Tatra banka, a.s.*	Investment	EUR	9 600	-	Fixed 3.55 %	31 December 2020	-	2 400	7 200
ČSOB, a.s.	Investment	EUR	-	1 250	Fixed 4.06 %	14 September 2016	-	-	-
KBB, a.s.	Investment	EUR	2 700	5 400	Fixed 5.16 %	29 December 2017	-	2 700	-
Slovenská sporiteľňa, a.s.	Investment	EUR	17 500	20 000	Fixed 2.25%	30 June 2023	-	2 500	15 000
Total	**X**	**X**	**34 085**	**33 323**	**X**	**X**	**X**	**9 275**	**24 810**

* In 2015, the loan was classified as a liability related to assets held for sale (Note 12.)

(All amounts are in thousand EUR unless stated otherwise)

17 Deferred income tax

Deferred income taxes are calculated on temporary differences under the balance sheet liability method using the basic tax rate of 22% for the year ended 31 December 2015. Effective from 1 January 2017, the basic tax rate was changed to 21%, therefore the rate of 21% is used for the calculation of deferred taxes as at 31 December 2016.

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 assets:		
- Deferred tax asset to be recovered after more than 12 months	3 337	2 856
- Deferred tax asset to be recovered within 12 months	2 221	3 244
	5 558	**6 100**
Deferred tax liability		
- Deferred tax liability to be paid after more than 12 months	(32 875)	(26 815)
- Deferred tax liability to be paid within 12 months	-	(14)
	(32 875)	**(26 829)**
Net deferred tax liability	**(27 317)**	**(20 729)**

(All amounts are in thousand EUR unless stated otherwise)

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

	At 1 January 2016	(Charged)/ credited to Consolidated Income Statement	Recorded to equity	Transfer from liabilities related to assets held for sale	At 31 December 2016
Difference in depreciation*	(26 815)	(4 090)	-	(1 967)	(32 872)
Pension liability and bonuses to employees	2 977	(277)	144	-	2 844
Impairment provisions to trade receivables	1 353	67	-	-	1 420
TPS, OZE liabilities, unbilled supplies	1 317	(389)	-	-	928
Other	439	(76)	-	-	363
Total	**(20 729)**	**(4 765)**	**144**	**(1 967)**	**(27 317)**

	At 1 January 2015	(Charged)/ credited to Consolidated Income Statement	Recorded to equity	Transfer to liabilities related to assets held for sale	At 31 December 2015
Difference in depreciation*	(22 760)	(4 195)	-	140	(26 815)
Pension liability and bonuses to employees	2 534	251	192	-	2 977
Impairment provisions to trade receivables	1 284	69	-	-	1 353
TPS, OZE liabilities, unbilled supplies	926	391	-	-	1 317
Other	420	19	-	-	439
Total	**(17 596)**	**(3 465)**	**192**	**140**	**(20 729)**

*Difference in depreciation represents difference between carrying value and tax base of property, plant and equipment and intangible assets.

(All amounts are in thousand EUR unless stated otherwise)

18 Provisions for liabilities

	Pensions benefits (a)	Termination benefits (b)	Legal claims	Onerous contract	Other	Total
At 1 January 2016	**8 686**	**1 163**	**-**	**117**	**239**	**10 205**
Creation of provisions	1 643	-	-	-	37	1 680
Use of provisions	(624)	(127)	-	(117)	(173)	(1 041)
Reversals of unused provision	-	-	-	-	(15)	(15)
At 31 December 2016	**9 705**	**1 036**	**-**	**-**	**88**	**10 829**

	Pensions benefits (a)	Termination benefits (b)	Legal claims	Onerous contract	Other	Total
At 1 January 2015	**7 533**	**1 365**	**99**	**477**	**181**	**9 655**
Creation of provisions	1 513	-	-	177	97	1 727
Use of provisions	(360)	(93)	-	(477)	(33)	(963)
Reversals of unused provision	-	(190)	(99)	-	(6)	(214)
At 31 December 2015	**8 686**	**1 163**	**-**	**117**	**239**	**10 205**

Analysis of total provisions	**As at 31 December 2016**	**2015**
Non-current	10 046	9 407
Current	783	798
Total	**10 829**	**10 205**

(a) Pension and other long term benefits

The following amounts have been recognized 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	8 348	7 333
Liability in the Consolidated Statement of Financial Position	**8 348**	**7 333**

(All amounts are in thousand EUR unless stated otherwise)

The amounts recognised in Consolidated Income Statement are as follows:

	Year ended 31 December	
	2016	**2015**
Current service cost	411	364
Interest expense	84	122
Total charge included in personnel expenses in Consolidated Income Statement	**495**	**486**

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	7 333	6 125
Current service cost	411	364
Interest expense	84	122
Paid	(462)	(149)
Actuarial loss	982	871
Present value of unfunded retirement obligations at the end of the year	**8 348**	**7 333**

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

	As at 31 December	
	2016	**2015**
Present value of unfunded retirement obligations	1 357	1 353
Liability in Consolidated Statement of Financial Position	**1 357**	**1 353**

The amounts recognised in Consolidated Income Statement are as follows:

	Year ended 31 December	
	2016	**2015**
Current service cost	103	94
Actuarial loss	55	50
Interest expense	8	12
Total charge included in personnel expenses in Consolidated Income Statement	**166**	**156**

(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 beginning of the year	1 353	1 408
Current service cost	103	94
Interest expense	8	12
Paid	(162)	(211)
Actuarial loss	55	50
Present value of unfunded obligations at the end of the year	**1 357**	**1 353**

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

Number of employees at 31 December 2016	1 628
Percentage of employees who will terminate their employment with the Group prior to retirement (withdrawal rate)	Approximately 2.06 % p.a. for the Group differing with age and gender
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 at 31 December 2015	1 616
Percentage of employees who will terminate their employment with the Group prior to retirement (withdrawal rate)	Approximately 2.00 % p.a. for the Group differing with age and gender
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 rates differed by 1% from management's estimated discount rate, the carrying amount of pension obligations would be an estimated EUR 1 087 thousand lower or EUR 1 308 thousand higher (2015: EUR 853 thousand lower or EUR 999 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: to be completed by 2018). It is expected that the payments in accordance with relevant detailed plan accompanying the restructuring process will be made as follows:

Termination benefits	**2016**	**2015**
Expected payment in 2016	-	442
Expected payment in 2017	695	380
Expected payment in 2018	341	341
Total	**1 036**	**1 163**

(All amounts are in thousand EUR unless stated otherwise)

19 Revenues

Revenues include the following:

	2016	2015
Revenues for electricity supply and distribution:		
Large and small business	378 947	391 505
Households	177 746	179 276
Long-term contracts, spot contracts, intermediation, variances cross-border profile	91 757	97 240
Compensation for green energy purchase	190 210	166 276
TPS revenues – correction URSO (Note 10)	(3 535)	35 174
Other revenue:		
Revenues for gas sale	37 093	43 330
Revenues for construction works	5 063	6 118
Other revenue	4 297	4 199
Total	**881 578**	**923 118**

Revenues from the sale of electricity on the spot market and from settlement of variances in consumption represent especially revenues from the sale of surplus electricity purchased on the short-term market for standard customers. The surplus arises because of an unexpected short-term variance in their consumption diagrams. Moreover, they are represented by fees paid by long-term customers for variances from their planned consumption curve. These revenues are usually realized on the spot market or by the sale abroad. Revenues from the mediation represent fees for a transfer of electricity to customers who are not long-term customers of the Group. All these revenues are recognized when the electricity is delivered or in the moment of fulfilment of the contractual conditions.

URSO regulates certain aspects of the Group’s relationships with its customers including the pricing of electricity and services provided to certain of the Group’s customers.

Revenues from distribution of electricity are regulated by USRO throughout the mandatory decisions which define distribution fees during specified period and for specified groups of customers based on their tariffs.

Distribution fees are invoiced to all customers in the region of central Slovakia who use the distribution network of SSE-D regardless of the supplier of the electricity.

The Group records revenues from compensation for purchases of OZE/KVET. The compensation is invoiced to OKTE, a.s. (2015: to OKTE, a.s.). Basis for these compensations are purchases of electricity which SSE-D is obliged to make under the current legislation. The amount of revenues directly depends on the amount of electricity purchased and a compensation fee that is regulated and approved by URSO.

(All amounts are in thousand EUR unless stated otherwise)

20 Purchase of electricity, gas distribution and related fees

The following items have been included in purchase of electricity and related fees:

	2016	2015
Purchase of electricity from:		
Long-term contracts	132 521	148 618
Mid-term contracts	34 380	11 111
Spot agreements and costs of variance settlement	43 062	75 700
Imports from abroad	32	27
Heating and gas plants	11 698	16 028
Renewable resources costs	263 902	225 934
Other (green certificates, mediation costs)	962	737
Fees paid to the operator of the transmission network (system service fees, fees for network operation, fees for access to the distribution network and other fees)	173 794	162 045
Purchase of gas and related distribution fees	35 435	42 726
Total	**695 786**	**682 926**

21 Personnel expenses

	2016	2015
Wages and salaries	30 541	32 066
Other staff costs	2 601	2 315
Social and health insurance costs – defined contribution plans	10 332	10 806
Pensions and other long-term employee benefits	661	642
Total	**44 135**	**45 829**

22 Other operating expenses

	2016	2015
IT services	3 296	3 815
Operating leasing	3 180	5 626
Repairs and maintenance	1 959	2 214
Post and telecommunication costs	1 878	1 906
Subcontractors	1 795	1 023
Forest cutting	1 416	1 564
Creation of impairment provision to receivables	1 410	1 641
Metering of consumed energy	1 254	357
Marketing costs	1 127	1 107
Audit and advisory fees	911	2 118
Security services	796	892
Taxes and other fees	668	654
Insurance costs	561	529
Reversal of provision for legal claims and assets lease	-	(99)
Other operating expense	4 831	6 272
Total	**25 082**	**29 619**

(All amounts are in thousand EUR unless stated otherwise)

Audit and advisory fees include costs related to audit of the financial statements of the Group and other services provided by the auditing company:

	2016	2015
Audit of financial statements	104	128
Other assurance services	-	67
Related audit services	-	-
Other services not related to audit		-
Total	**104**	**195**

23 Other operating income

	2016	2015
Release of deferred income (Note 14)	2 502	2 594
Revenues from rent of property	1 806	1 760
Gain from sale of property, plant and equipment	1 276	2 690
Non-commodity products	940	833
Telecommunication and IT services	834	855
Foreign exchange gains from operating transactions	19	126
Other	4 452	3 467
Total	**11 829**	**12 325**

24 Financial expenses, net

	2016	2015
Interest income		
Interest income–short-term bank deposits and current accounts	65	75
Interest expense		
Interest expense – bank loans	(1 397)	(1 626)
Foreign exchange gains/(loss)	(3)	89
Dividends income	-	346
Other financial expenses	(54)	(52)
Financial expenses, net	**(1 389)**	**(1 168)**

(All amounts are in thousand EUR unless stated otherwise)

25 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	98 571	147 409
Theoretical income tax related to current period at 22%	21 686	32 430
- Income not subject to tax	(46)	(277)
- Non-deductible expenses	1 620	1 500
- Income tax related to prior periods	55	99
- Special levy on business in the regulated sector	2 429	4 153
- Special levy tax impact	(534)	(914)
- Change of income tax rate from 22% to 21%	(1 373)	-
- Other	(470)	(303)
Income tax expense	**23 367**	**36 688**
The tax charge for the period comprises:		
- Deferred tax expense (Note 17)	4 765	3 465
- Current tax expense	18 547	33 124
- Income tax related to prior periods	55	99
	23 367	**36 688**

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 23.71% (2015: 24.89%). Decrease in 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%.

The Group has not recognized the deferred tax asset in the amount of EUR 3 602 thousand (2015: EUR 3 966 thousand) relating to impairment provision for the gas power plant as its future utilization is not probable.

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.

Since 2017, there is a change of the special levy calculation. The basis for the levy is the profit or loss reported under Slovak accounting standards multiplied by a factor (revenues from regulated activities / total revenues).

The special levy rate in accordance with the amendment of 2016 are 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 years 2021 and later.

26 Contingent assets and liabilities

Contingent asset from Tariff for system operation (TPS)

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

The costs related to purchase of electricity from OZE/KVET producers exceeded revenues from TPS. As a result, a contingent assets arises to the Group 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 URSO from December 2016, the Group recognized an accrued income in the Statement of Financial Position in the amount of URSO approved compensation of 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. Management is not aware of any circumstances that would cause any significant costs for the Group.

(All amounts are in thousand EUR unless stated otherwise)

27 Commitments

(a) Capital commitments

Capital expenditure contracted at the reporting date but not recognized in the Consolidated Statement of Financial Position is as follows:

	2016	2015
Property, plant and equipment	19 793	7 090
Intangible assets	1 324	2 678
Total	**21 117**	**9 768**

(b) Operating lease commitments – Group as lessee

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

The lease expenditure charged to the Consolidated Income Statement during the year is disclosed in Note 22.

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

	2016	2015
No later than one year	3 405	4 893
Total	**3 405**	**4 893**

(c) Purchase contracts (electricity and gas)

Agreed purchases contracts on purchase of electricity and gas as at reporting date but not recognized in the Consolidated Statement of Financial Position are as follows:

	2016	2015
Purchase contracts for year 2016	-	183 224
Purchase contracts for year 2017	118 964	20 668
Purchase contracts for year 2018	36 844	4 739
Purchase contracts for year 2019 and later	21 058	-
Total	**176 866**	**208 631**

28 Related party transactions

Parties related to the Group include:

a. the parent and ultimate parent:
- EP Energy, a.s.
- Energetický a průmyslový holding, a.s.

b. entities controlled, under common control of EPH Group, affiliated businesses and their branches
- EP ENERGY TRADING, a.s., organizačná zložka
- EP Investment Advisors, s.r.o.
- eustream, a.s.
- SPP - distribúcia, a.s.
- NAFTA, a.s.
- EP Commodities, a.s.
- Slovenské elektrárne, a.s. since 1 August 2016
- SE Predaj, s.r.o. since 1 August 2016

c. key management personnel of the companies within the Group:
- Members of the Board of Directors
- Members of the Supervisory Board
- Divisional directors

d. Slovak government-controlled entities and subjects, where the state has a significant impact:
- OKTE, a.s.
- Slovenská elektrizačná prenosová sústava, a.s.
- Železnice Slovenskej republiky
- Západoslovenská distribučná, a.s.
- ZSE Energia, a.s.
- Východoslovenská distribučná, a.s.
- Martinská teplárenská, a.s.
- others (municipalities, water utilities, public hospitals, etc.)

e. joint ventures:
- Energotel, a.s. Bratislava
- SPX, s.r.o. Žilina

Value of transactions with joint ventures in 2016 (as well as 2015) were not significant, therefore, are not disclosed.

(All amounts are in thousand EUR unless stated otherwise)

Transactions and balances with related parties

The related party transactions for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2016 are detailed below. The related party transactions were carried out under common market conditions.

At 31 December 2016, the outstanding balances with related parties were as follows:

	a	b	c
Gross amount of trade receivables	-	3 646	174
Trade and other payables	-	(17 165)	-

The income and expense items with related parties for the period ended 31 December 2016 were as follows:

	a	b	c
Sales of electricity, gas	-	38 518	2 050
Revenues from sale of services	-	1 523	-
Purchase of electricity, gas and related fees	-	(121 991)	-
Purchase of raw materials and consumables	-	-	(51)
Services	-	(225)	-

At 31 December 2015, the outstanding balances with related parties were as follows:

	a	b	c
Gross amount of trade receivables	-	3 814	201
Trade and other payables	-	(10 109)	(10)

The income and expense items with related parties for the period ended 31 December 2015 were as follows:

	a	b	c
Sales of electricity	-	49 265	1 703
Revenues from sale of services	-	-	95
Purchase of electricity, gas and related fees	-	(106 742)	-
Purchase of raw materials and consumables	-	-	-
Services	(27)	(113)	(52)

(All amounts are in thousand EUR unless stated otherwise)

The Government of the Slovak Republic has a significant influence over the Group and is therefore related party to the Group. Currently, the Government of the Slovak Republic does not provide to the general public or entities under its influence a complete list of the entities which are owned or controlled directly or indirectly by the State. Under these circumstances, the Group disclosed only information that its current internal management accounting systems allow to present in relation to operations with state-controlled entities and where Management believes such entities could be considered as state-controlled based on its best knowledge.

Transactions with government bodies and state-controlled entities are entered into in the normal course of business and priced at market rates.

The outstanding balances with state-controlled entities and government bodies were as follows:

	As at 31 December	
	2016	**2015**
Gross amount of trade receivables		
- SEPS / OKTE	17 297	19 142
- Other companies	6 812	5 238
Trade and other payables		
- SEPS / OKTE	(5 400)	(9 970)
- Other companies	(4 122)	(3 715)

The income and expenses with state-controlled entities and government bodies were as follows:

	2016	**2015**
Sales of electricity, gas and related fees		
- SEPS / OKTE	192 872	180 299
- Other companies	61 278	57 739
Purchase of electricity, gas and related fees		
- SEPS / OKTE	(190 322)	(195 703)
- Other companies	(30 195)	(30 828)

(All amounts are in thousand EUR unless stated otherwise)

Remuneration of statutory representatives and key management personnel

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

	Year ended 31 December	
Members of Boards of Directors and other key management	**2016**	**2015**
Salaries and short-term employee benefits	1 414	1 475
Other non-monetary income	75	51
Total	**1 489**	**1 526**

	Year ended 31 December	
Supervisory Board	**2016**	**2015**
Salaries and short-term employee benefits	226	226
Other non-financial income	-	1
Total	**226**	**227**

29 Events after the reporting period

No events with a material impact on the true and fair presentation of financial statements of 2016 occurred after 31 December 2016.