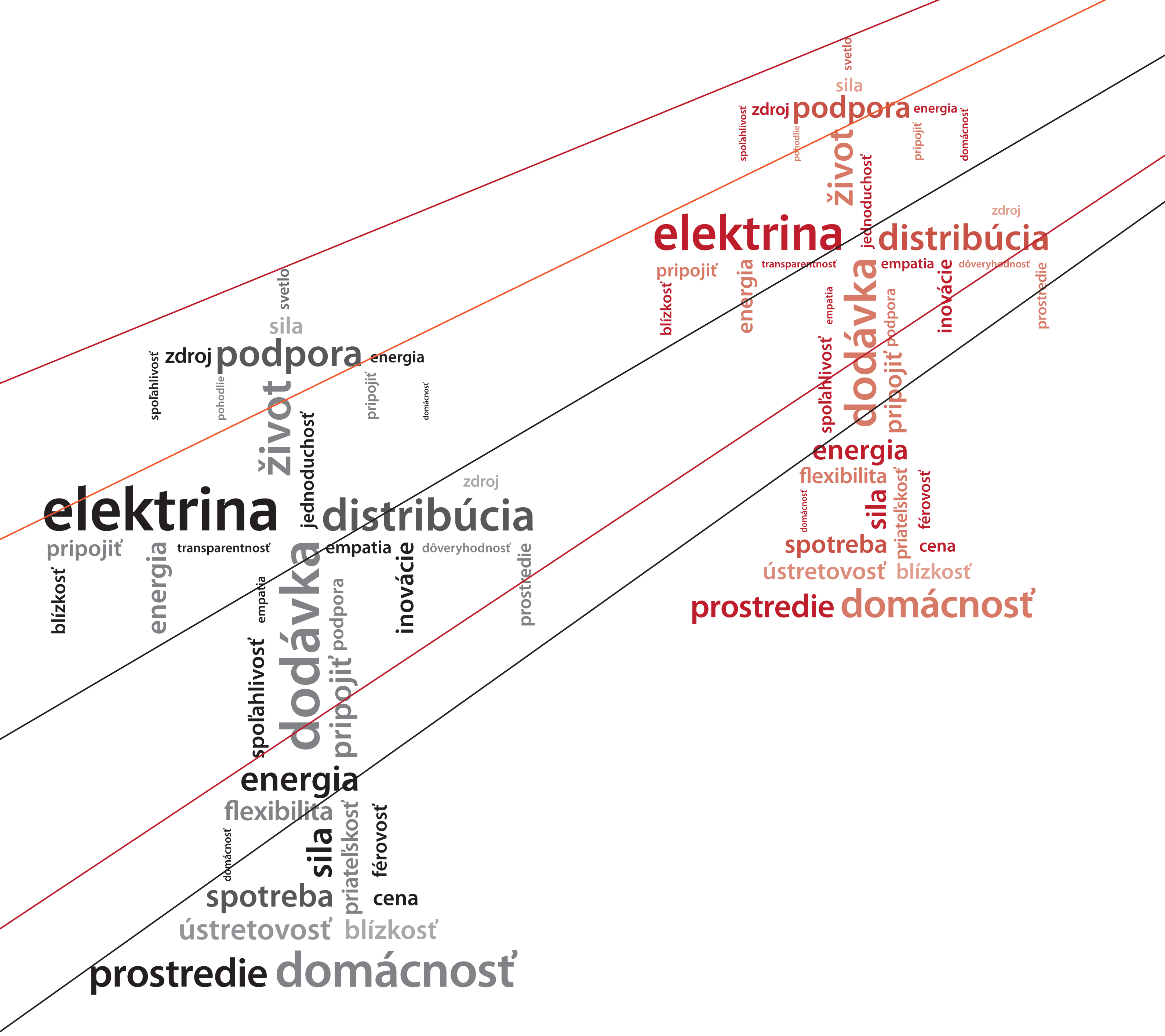


Annual Report for 2016

Západoslovenská distribučná, a. s.

ZÁPADOSLOVENSKÁ DISTRIBUČNÁ

Content:

01 Profile of Západoslovenská distribučná, a.s.

Company Bodies

The structure of statutory and supervisory bodies of Západoslovenská distribučná, a.s. in 2016 was as follows:

Statutory Body

Board of Directors	
As at 31 December 2016	
Chairman	Ing. Andrej Juris (start of office on 20 September 2015)
Vice-Chairman	Ing. Ľuboš Majdán (end of office on 16 October2016)
Members	Ing. Tomáš Turek, Ph.D. (start of office on 1 May 2014)
	Ing. Marian Kapec (end of office on 21 March 2016) Ing. Marian Kapec (start of office on 21 March 2016))
	Ing. Peter Palmaj (end of office on 16 October 2016)

Supervisory Body

Supervisory Board	
As at 31 December 2016	
Chairman	Mgr. Andrej Glézl , PhD. LL.M (start of office as a Member of the Supervisory Board on 16 October 2012, elected the Chairman of the Supervisory Board on 18 December 2012)
Vice-Chairman	Marian Rusko (start of office as a Member of the Supervisory Board on 1 February 2014, elected the Vice-Chairman of the Supervisory Board on 2 April 2014)
Members	MUDr. Ján Zvonár, CSc. (start of office on 16 October 2012)
	Ing. Miroslav Struž (start of office on 16 October 2012)
	Ing. Kamil Panák (start of office on 16 October 2012)
	Ing. Petr Ivánek (start of office on 16 October 2012)
	Robert Polakovič (start of office on 2 July 2014)
	Silvia Šmátralová (start of office on 2 July 2014)
	Milan Sobolčiak (start of office on 2 July 2014)

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

Shareholders' Structure			
As at 31 December 2016	Absolute amount in €	Equity share in the share capital	Voting rights
Západoslovenská energetika, a.s.	33,227,119	100%	100%

Scope of Business

Information on the Company and Its Scope of Business

Západoslovenská distribučná, a.s. (hereinafter the "Company"), Company ID: 36 361 518, with its seat at Čulenova 6, 816 47 Bratislava, was established on 20 April 2006 and incorporated in the Commercial Register on 20 May 2006. The Company is registered with the Commercial Register of the Bratislava I District Court, Section: Sa, File No.: 3879/B.

The Company was established by a Memorandum of Association on 20 April 2006, made in the form of Notary Deed N 137/2006, Nz 15077/2006 in accordance with the relevant provisions of Act No. 513/1991 Coll., Commercial Code. The Company was established with a view to complying with the legal requirements to unbundle electricity distribution from other businesses of the companies providing integrated services in the electricity sector, as stipulated by EU Directive 2003/54/EC concerning common rules for the internal market in electricity, which was transposed into Slovak legislation by means of Act No. 656/2004 Coll. on Energy and on Amendments to Some Acts. The Energy Act stipulated the date of 1 July 2007 as the latest date for unbundling the distribution system operations. Západoslovenská energetika, a.s. separated a part of the business performing the key distribution activities and contributed it into Západoslovenská distribučná, a.s.

The core business of the Company is electricity distribution.

The company doesn´t have any expenses on research and development.

The company did not acquire any own shares, temporary certificates, any business shares or ownership interest, temporary certificates or business shares of the parent entity.

The company has no branch abroad.

Risks and Uncertainties

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

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

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

02 Economy

In 2016, Západoslovenská distribučná, a.s., generated comprehensive income of € 63,521 thousand, with sales totaling € 475,130 thousand and costs totaling € 418, 069 thousand. The Company's key figures according to the International Financial Reporting Standards as adopted by the European Union:

Key figures as at 31 December		
In thousands of EUR	2016	2015
Non-currentassets	981,522	979,193
Current assets	64,034	32,352
Total assets	**1,045,556**	**1,011,545**
Equity	160,801	135,607
Non-current liabilities	791,873	794,366
Current liabilities	92,882	81,572
Total equity and liabilities	**1,045,556**	**1,011,545**
Sales	475,130	454,116
EBIT (profit from operating activities)	**99,104**	**82,167**
EBITDA	169,229	155,981
Revenues	495,855	474,402
Expenses	418,069	414,084
Profit before tax	77,786	60,318
Net profit	**62,789**	**44,369**
Other comprehensive income	732	304
Total comprehensive income	**63,521**	**44,673**
Cash outflows for investing activities	**64,035**	**74,367**
Full-time equivalent of employees (FTE)	**1,283**	**1,247**

Information on sales in monetary terms from electricity distribution:

Indicators		
As at 31. 12.	2016	2015
Volume of electricity distributed (GWh)	9 347	9 161
Sales from electricity distribution (€'000)	464 474	447 714
Number of supply points	1 119 364	1 106 517

Loans

Západoslovenská distribučná, a.s. did not draw bank loans but it had an intercompany loan amounting to € 630,000 thousand.

Distribution of the 2015 Profit

The Company's sole shareholder acting in the authority of the General Meeting approved in its resolution dated 15 June 2016 the distribution of the 2015 accounting profit amounting to € 69,255 thousand and the pay-out of dividends in the amount of € 38,328 thousand.

Cash outflows for investing activities

Capital expenditures amounted to 64,035 ths. EUR in 2016.

Major Constructions of Západoslovenská distribučná, a.s. in Terms of Volume.	
In thousands of EUR	2016
VVN_Podunajské Biskupice,TR PB_T404 SEPS	521
VVN_reconstruction V8771, Križovany-Kráľová	1,538
VVN_reconstruction Križov-GA-N.Zámky,E4,2016	1,920
VVN_Kráľová nad Váhom,TR 110/22 kV	2,719
VVN_Ovsište, reconstruction Rz 110/22 kV	3,958
VVN_reconstruction PB-Slovnaft	5,392

Planned major constructions in 2017 in termsofvolume:

Major Constructions of Západoslovenská distribučná, a.s. in Terms of Volume	
In thousands of EUR	2016
VVN_PP Nitra sever, reconstrucion V8820 2017	1,200
VVN_reconstruction PB-Slovnaft (2. phase)	1,700
VVN_Nitra, reconstruction	2,300
VVN_Nitra PP sever, R8130 - reconstruction	2,600
VVN_ES Hurbanovo, reconstruction TR 110/22kV,RIS 2017	3,000
VVN_- reconstruction Križov-GA-Nové Zámky 2017	4,000

Decision on the 2016 Profit Distribution

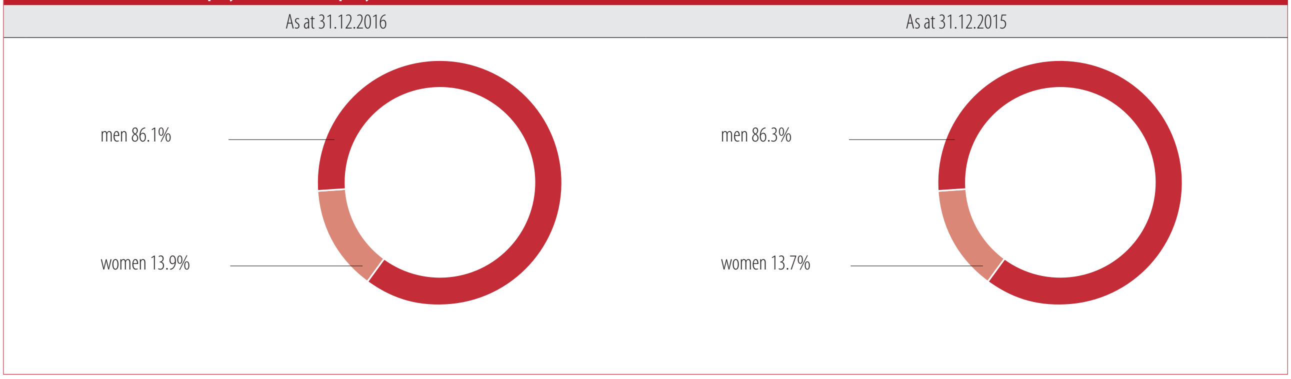
At its meeting on 4 April 2017 the Board of Directors of Západoslovenská distribučná, a.s., acknowledged, and recommended to the Supervisory Board of Západoslovenská distribučná, a.s. to discuss, the following proposal for the distribution of the Company's profit for 2016.

Proposal for profit distribution as of 31. 12. 2016	
In thousands of EUR	
Net Profit	**62 789 000**
A/ contribution to reserve fund (10%)	6 278 900
B/ contribution to social fund	1 215 620
C/ dividends	55 294 480
Total distribution of profit	**62 789 000**

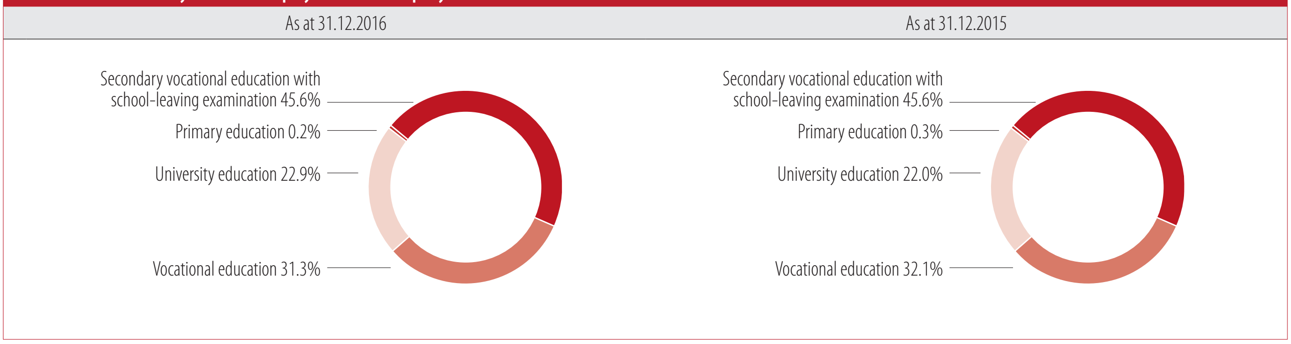
03 Human Resources

In 2016, ZSD had 1,283 employees on average(excl. members of the Board of Directors and Supervisory Board who worked on the basis of the agreement on performance of work).The average age of employee was 46.7 years. During 2016, the share of women went up by 0.2% as compared to the last year; the share of employees with university education went up by 0.9% on a year-on-year basis.

Share of female/male employees in the Company in %



The share of university educated employees in the company



Remuneration and employee benefits: In line with the commitments resulting from the Collective Agreement, the Company ensured the average rise of the wages, consisting of the basic and variable part, by 2.11% on average.

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

All employees received the contribution from the Social Fund for recovery of labour force. Above standard preventive medical check-ups were also provided to the employees.
The employer continued in contributing to the supplementary pension savings scheme of the employees. Every employee was entitled to 5 days of holidays beyond the Labour Code.

Training: In 2016, **693** training activities were carried outin the Company. Average costs per one employee were EUR 535 and one employee spent 6.8 days on average in the training.
The biggest part of these activities concerned trainings required by law. In case of other trainings, the bigger emphasis was placed on individual approach to development needs of the employees. We started developing communications skills of metering service technicians who are in contact with customers.
Within the "Talent Pool" programme, six new members were chosen who will undertake a 2-year intensive development programme of talented employees of ZSD.

ZSD gives room to students of secondary schools and universities. University students can participate in the scholarship programme, with a prospect of taking up a specific work position.
Talented graduates of universities can participate in the so-called Trainee Programme, during which the Company trains successors for key positions through a systematic development and job rotations.

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

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

04 Occupational Health and Safety

In terms of occupational health and safety, we paid close attention to the working and social conditions of its employees. Through various activities we successfully raised awareness of employees with respect to occupational health and safety, healthy lifestyle, fitness and flexibility enhancement. A sum of EUR 625,409 was spent on personal and protective work equipment and tools, obligatory training courses on occupational health and safety, and preventive medical check-ups.

In 2016, four registered work accidents were reported in Západoslovenská distribučná, a. s. No occupational disease was reported in the monitored period.

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

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

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

05 Environmental Protection

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

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

In 2016, we invested the sum of EUR 1,597 thousand to make the operation of its facilities more friendly to environment. Furthermore, additional investments were made into enhancing the environmentally-friendly operations as part of the upgrading of the distribution network in constructions with material and equipment with a minimum negative impact on environment. Costs of environmentally-friendly operation and maintenance of facilities including waste disposal amounted to EUR 316 thousand. Environmentally-friendly measures adopted at electric station transformers led to the lower risk of the contamination of underground water sources.

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

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

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06 Corporate Social Responsibility

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

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

Education

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

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

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

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

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

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

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

Innovations

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

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

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

Environment

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

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

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

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

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

Community Development

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

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

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

ZSE Foundation

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

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

Elektráŕňa Piešťany

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

07 Independent Auditor’s Report and Financial Statements

Index to the Financial Statements

The accompanying notes 1 to 33 are an integral part of these financial statements.

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Independent Auditor's Report

To the Shareholder, Supervisory Board, and Board of Directors
of Západoslovenská distribučná, a.s.:

Our opinion

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

What we have audited

The Company's financial statements comprise:

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

Basis for opinion

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

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

Independence

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

Reporting on other information in the annual report

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

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

PricewaterhouseCoopers Slovensko, s.r.o., Karadžičova 2, Bratislava, 815 32, Slovak Republic
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The company's ID (IČO) No. 35739347.
Tax Identification No. of PricewaterhouseCoopers Slovensko, s.r.o. (DIČ) 2020270021.
VAT Reg. No. of PricewaterhouseCoopers Slovensko, s.r.o. (IČ DPH) SK2020270021.
Spoločnosť je zapísaná v Obchodnom registri Okresného súdu Bratislava 1, pod vložkou č. 16611/B, oddiel: Sro.
The company is registered in the Commercial Register of Bratislava 1 District Court, ref. No. 16611/B, Section: Sro.

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

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

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

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

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

Management's responsibilities for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

As part of our audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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

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

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

Slovenská komora auditorov
SKAU
č. licencie 161
PricewaterhouseCoopers Slovensko, s.r.o.

Mgr. Juraj Tučný, FCCA
UDVA licence No. 1059

Bratislava, 4 April 2017, except for Reporting on other information in the annual report, for which the date of our report is 20 April 2017.

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

Statement of Financial Position

Statement of Financial Position			
In thousands of EUR	Note	31 December 2016	31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	6	974,811	971,784
Intangible assets	7	6,711	7,409
Total non-current assets		**981,522**	**979,193**
Current assets			
Inventories	9	1,068	1,243
Trade and other receivables	10	31,300	26,225
Current income tax refund receivable		-	3,255
Cash and cash equivalents	12	1,849	1,629
Receivables from Cash Pooling	11	29,817	-
Total current assets		**64,034**	**32,352**
TOTAL ASSETS		**1,045,556**	**1,011,545**
EQUITY			
Share capital	13	33,227	33,227
Legal reserve fund	14	58,319	53,889
Retained earnings		69,255	48,491
TOTAL EQUITY		**160,801**	**135,607**
LIABILITIES			
Non-current liabilities			
Borrowings received	8	630,000	630,000
Deferred income tax liabilities	15	91,606	98,252
Post-employment defined benefit obligations	16	7,736	8,445
Other long term employee benefits	17	1,988	1,656
Deferred connection fees and customer contributions	18	60,543	56,013
Total non-current liabilities		**791,873**	**794,366**
Current liabilities			
Borrowings received	8	4,833	4,833
Trade and other payables	19	78,786	61,792
Deferred connection fees and customer contributions	18	3,873	3,730
Liabilities from Cash Pooling	11	-	11,217
Income tax liabilities		5,390	-
Total current liabilities		**92,882**	**81,572**
TOTAL LIABILITIES		**884,755**	**875,938**
TOTAL LIABILITIES AND EQUITY		**1,045,556**	**1,011,545**

These financial statements have been approved for issue by the Board of Directors on 4 April 2017.

Ing. Andrej Juris
Chairman of the Board of Directors

Ing. Marián Kapec
Member of the Board of Directors

The accompanying notes 1 to 33 are an integral part of these financial statements.

Statement of Profit or Loss and Other Comprehensive Income

Statement of Profit or Loss and Other Comprehensive Income			
In thousands of EUR	Note	2016	2015
Revenue	20	475,130	454,116
Transmission fees payable to SEPS and charges for electricity produced from renewable sources		(57,847)	(56,841)
Purchases of electricity for losses and other purchases		(165,809)	(164,756)
Employee benefits	21	(39,965)	(37,448)
Depreciation of property, plant and equipment	6	(67,487)	(70,185)
Amortisation of intangible assets	7	(2,638)	(3,629)
Other operating expenses	22	(62,671)	(59,368)
Other operating income	23	1,948	2,056
Capitalized own expenses		18,443	18,222
Profit from operations		**99,104**	**82,167**
Finance income / (costs)			
Interest income		19	8
Interest and similar expense	24	(21,337)	(21,857)
Finance costs, net		**(21,318)**	**(21,849)**
Profit before tax		**77,786**	**60,318**
Income tax expense	15	(14,997)	(15,949)
Profit for the year		**62,789**	**44,369**
Other comprehensive income			
Items that will not be subsequently reclassified to profit or loss			
Actuarial remeasurements of post-employment defined benefit obligations	16	927	390
Deferred tax on actuarial remeasurements of post-employment defined benefit obligations	15	(195)	(86)
Total other comprehensive income for the year		**732**	**304**
Total comprehensive income for the year		**63,521**	**44,673**

The accompanying notes 1 to 33 are an integral part of these financial statements.

Statement of Changes in Equity

Statement of Changes in Equity				
In thousands of EUR	Share capital	Legal reserve fund	Retained earnings	Total equity
Balance at 1 January 2015*	**33,227**	**48,578**	**52,462**	**134,267**
Profit for the year	-	-	44,369	**44,369**
Other comprehensive income for the year	-	-	304	**304**
Total comprehensive income for 2015	**-**	**-**	**44,673**	**44,673**
Paid dividends	-	-	(42,983)	**(42,983)**
Contribution to legal reserve fund	-	5,311	(5,311)	**-**
Purchase of part of the business**	-	-	(350)	**(350)**
Balance at 31 December 2015	**33,227**	**53,889**	**48,491**	**135,607**
Profit for the year	-	-	62,789	**62,789**
Other comprehensive income for the year	-	-	732	**732**
Total comprehensive income for 2016	**-**	**-**	**63,521**	**63,521**
Dividends declared and paid (Note 13)	-	-	(38,328)	**(38,328)**
Contribution to legal reserve fund	-	4,430	(4,430)	**-**
Other	-	-	1	**1**
Balance at 31 December 2016	**33,227**	**58,319**	**69,255**	**160,801**

*) As explained in Note 3, the previously separately reported Other Reserves of EUR 1,025 thousand were transferred to Retained Earnings with retrospective effect.
**) Business combination under common control. Refer to Note 2 and Note 32

The accompanying notes 1 to 33 are an integral part of these financial statements.

Statement of Cash Flows

In thousands of EUR	Note.	2016	2015
Cash flows from operating activities			
Profit before tax	31	77,786	60,318
Adjustments for non-cash items:			
- Depreciation of property, plant and equipment	6	67,487	70,185
- (Gain)/Loss on disposal of property, plant and equipment	6	446	(112)
- Amortisation of intangible assets	7	2,638	3,629
- Impairment of assets		-	4
- Provision for inventories		(7)	15
- Interest income		(19)	(8)
- Interest and similar expense	24	21,337	21,857
- Other non-cash items		(9)	(40)
Cash generated from operations before changes in working capital		169,659	155,848
Changes in working capital:			
- Inventories		182	(97)
- Deferred revenues		(5,103)	(4,384)
- Trade and other receivables		(5,075)	(4,514)
- Trade and other payables		17,715	657
- Provisions for liabilities and charges and deferred income		400	132
- Liabilities / receivables from cash-pooling		(41,034)	9,861
Cash generated from operations before interest and taxes		**136,744**	**157,503**
Interest income received		19	8
Interest expense paid		(21,187)	(16,640)
Income tax paid	31	(13,183)	(19,502)
Net cash from operating activities		**102,393**	**121,369**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(64,035)	(74,367)
Other expenditure related to purchase of part of the business (Note 32)		-	(2,985)
Proceeds from sale of property, plant and equipment and intangible assets		190	302
Net cash used in investing activities		(63,845)	(77,050)
Dividends paid	13	(38,328)	(42,983)
Net cash used in financing activities		**(38,328)**	**(42,983)**
Net change in cash and cash equivalents		**220**	**1,336**
Cash and cash equivalents at the beginning of the year		1,629	293
Cash and cash equivalents at the end of the year	12	1,849	1,629

The accompanying notes 1 to 33 are an integral part of these financial statements.

Notes to the Financial Statements – 31 December 2016:

1. Introduction

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

The Company was incorporated and is domiciled in the Slovak Republic. The Company is a joint stock company limited by shares and was set up in accordance with Slovak legislation in its current legal form on 20 April 2006. The Company was incorporated in the Commercial Register of the District Court Bratislava I on 20 May 2006.

Principal activity. The Company provides electricity distribution and supply services primarily in the Western Slovakia region. From 1 January 2014 it has also been providing investment services, construction, repair, maintenance and operation of the distribution network. From 1 January 2015 its activities included coordination, inspection and administration of communication with customers using services of the company and addressing their requests. These activities were transferred by the Parent to the subsidiary Západoslovenská distribučná, a.s. .

Registered address and place of business. The Company's registered address is Čulenova 6, Bratislava 816 47, Slovak Republic. Its identification number (IČO) is: 36 361 518 and its tax identification number (IČ DPH) is: SK2022189048.

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

Ownership structure. Západoslovenská energetika, a.s. owns 100% of the Company's shares. Západoslovenská distribučná, a.s. is included in the consolidated financial statements of Západoslovenská energetika, a.s ("Parent company").

The Parent company is jointly controlled by E.ON and the Slovak Republic as a result of a shareholders agreement, which requires the parties to act together to direct the activities that significantly affect the returns of the parent company. The Parent company's governance structure dictates that the Parent company Strategic plan shall be approved by representatives of both E.ON and the Slovak Republic. Further, any decisions by general meeting of shareholders must be made jointly by the existing shareholders, because a qualified two thirds majority of votes is required to pass any decision, while restrictions exist for transfer of shares to parties not under control of existing shareholders(refer to Note13).

The Company is not a shareholder with unlimited liability in other accounting entities.
List of members of the Company's board of directors and of the supervisory board is publicly available from the Commercial Register operated by the Ministry of Justice of the Slovak Republic at www.orsr.sk.

Number of employees. The Company employed 1,283 staff on average during 2016, of which 16 were management (2015: 1,247 employees on average, of which 12 were management).

2. Significant Accounting Policies

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

The Board of Directors may propose to the Company's shareholders to amend the financial statements until their approval by the general shareholders meeting. However, § 16, points 9 to 11 of the Accounting Act No 431/2002 prohibit reopening an entity's accounting records after the financial statements are approved by the general shareholders' meeting.

If, after the financial statements are approved, management identifies that comparative information would not be consistent with the current period information, the Accounting Act allows entities to restate comparative information in the reporting period in which the relevant facts are identified.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Business combination under common control. Purchases of subsidiaries from parties under common control are accounted for in accordance with the acquisition method of accounting using the predecessor values method. Under this method the financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented or, if later, the date when the combining entities were first brought under common control. The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity's carrying amounts.

The predecessor entity is considered to be the highest reporting entity in which the subsidiary's IFRS financial information was consolidated. Related goodwill inherent in the predecessor entity's original acquisitions is also recorded in these financial statements. Any difference between the carrying amount of net assets, including the predecessor entity's goodwill, and the consideration for the acquisition is accounted for in these financial statements as an adjustment to Retained earnings within equity.

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

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

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

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

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

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

Deferred income tax is recognised using the balance sheet liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination and the transaction, when initially recorded, affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the respective reporting period and apply to the period when the related deferred income tax asset will be realised, or the deferred income tax liability will be settled.

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

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

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

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

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

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

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

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

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

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

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

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

Leases. The Company is a lessee.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. Adoption of New or Revised Standards and Interpretations

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

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

4. New Accounting Pronouncements

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

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

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

IFRS 16, Leases (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time,also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the statement of profit or loss and other comprehensive income. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Company is currently assessing the impact of the new standard on its financial statements. This standard has not yet been endorsed by the EU.

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

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

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

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

5. Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

Unbilled electricity distribution. The unbilled revenue from distribution represent an accounting estimate based on estimated volume of delivered and distributed electricity expressed in MWh for low voltage network and estimated unit price that will be billed in the future. The Company uses a bespoke customer information system Enersim to estimate the unbilled deliveries based on assumed customer demand profiles. This accounting estimate is based on: (a) the estimated volume distributed to households in technical units (MWh) between the date of the last meter reading and the end of the reporting period; (b) the consumption estimate utilising the time patterns of consumption of various customer profiles observed on a sample basis; (c) the estimated losses in the distribution network; and (d) the unit price in EUR/MWh, that will be applied to billing the electricity distribution. Refer to Note 20.

The Company also engaged an independent expert to estimate network losses. Should the estimate of total network losses be lower by 0.1 %, representing approximatel10 GWh of electricity (2015: 10 GWh), with other parameters unchanged, the revenues for commodity and distribution services would increase by EUR 813thousand (2015: EUR 815 thousand).

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

Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Company. The following primary factors are considered: (a) the expected usage of the assets; (b) the expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) the technical obsolescence, if any. If the estimated useful life of network assets had been shorter by 10% than management's estimates at 31 December 2016, the Company would have recognised an additional depreciation of network assets of EUR 6,501 thousand (2015: EUR 6,560 thousand).

6. Property, Plant and Equipment

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

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

In thousands of EUR	Land	Network buildings	Power lines	Switching stations and network equipment	Other assets*	Capital work in progress	Total
Cost at 1 January 2016	26,741	127,411	940,452	339,591	32,752	38,988	**1,505,935**
Accumulated depreciation and impairment losses	-	(37,297)	(335,092)	(140,585)	(21,177)	-	**(534,151)**
Carrying amount at 1 January 2016	26,741	90,114	605,360	199,006	11,575	38,988	**971,784**
Additions	-	-	-	-	-	69,719	**69,719**
Capitalised borrowing costs**	-	-	-	-	-	1,431	**1,431**
Transfers	328	3,514	40,020	21,033	1,245	(66,140)	**-**
Depreciation charge	-	(5,801)	(37,599)	(21,193)	(2,894)	-	**(67,487)**
Disposals	(28)	(2)	(5)	(601)	-	-	**(636)**
Impairment (charge)/ release	-	-	-	-	-	-	**-**
Cost at 31 December 2016	**27,041**	**129,936**	**976,024**	**351,586**	**33,407**	**43,998**	**1,561,992**
Accumulated depreciation and impairment losses	**-**	**(42,111)**	**(368,248)**	**(153,341)**	**(23,481)**	**-**	**(587,181)**
Carrying amount at 31 December 2016	**27,041**	**87,825**	**607,776**	**198,245**	**9,926**	**43,998**	**974,811**

*) Other assets comprise machinery, non-network and administrative buildings, vehicles and other assets.
**) Capitalisation rate of borrowing costs was approximately 3,59% p.a. for 2016.

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

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

Movements in the carrying amount of property, plant and equipment during 2015

In thousands of EUR	Land	Network buildings	Power lines	Switching stations and network equipment	Other assets*	Capital work in progress	Total
Cost at 1 January 2015	25,786	121,096	907,214	321,780	30,917	37,672	**1,444,465**
Accumulated depreciation and impairment losses	-	(32,468)	(296,847)	(125,145)	(18,118)	(4)	**(472,582)**
Carrying amount at 1 January 2015	25,786	88,628	610,367	196,635	12,799	37,668	**971,883**
Additions	-	-	-	-	-	68,983	**68,983**
Capitalised borrowing costs**	-	-	-	-	-	957	**957**
Transfers	1,105	6,540	36,814	22,616	1,873	(68,948)	**-**
Depreciation charge	-	(5,051)	(41,821)	(20,208)	(3,105)	-	**(70,185)**
Disposals	(150)	(3)	-	(37)	-	-	**(190)**
Other	-	-	-	-	-	-	
Purchase of part of the business	-	-	-	-	11	328	**339**
Impairment (charge) / reversal	-	-	-	-	(4)	-	**(4)**
Cost at 31 December2015	**26,741**	**127,411**	**940,452**	**339,591**	**32,752**	**38,988**	**1,505,935**
Accumulated depreciation and impairment losses	**-**	**(37,297)**	**(335,092)**	**(140,585)**	**(21,177)**	**-**	**(534,151)**
Carrying amount at 31 December 2015	**26,741**	**90,114**	**605,360**	**199,006**	**11,575**	**38,988**	**971,784**

*) Other assets comprise machinery, non-network and administrative buildings, vehicles and other assets.
**) Capitalisation rate of borrowing costs was 3,59 % p.a. for 2015.

The Company holds insurance against damages caused by natural disasters up to EUR 306,459 thousand for buildings and up to amount of EUR 536,867 thousand for machinery, equipment, fixtures, fittings and other assets (2015: EUR 303,422 thousand and 518,373 thousand, respectively).

The above disclosures include carrying value of power lines leased out under operating leases with carrying value of EUR 2,326 thousand (2015: carrying value of EUR 2,259 thousand. Rental income is presented in Note 23.

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

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

The proceeds from disposal of property, plant and equipment

In thousands of EUR	2016	2015
Net book value of disposals	636	190
Gain/ (Loss) on disposal of property, plant and equipment (Note22 and 23)	(446)	112
Proceeds from disposals	**190**	**302**

7. Intangible Assets

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

Movements in the carrying amount of intangible assets

In thousands of EUR	Goodwill	Software and similar assets	Assets not yet available for use	Total
Cost at 1 January 2015	-	3,475	1,598	**5,073**
Accumulated depreciation and impairment losses	-	(1,281)	-	**(1,281)**
Carrying amount at 1 January 2015	**-**	**2,194**	**1,598**	**3,792**
Additions	285	-	3,242	**3,527**
Transfers	-	4,195	(4,195)	**-**
Amortisation charge	(71)	(3,558)	-	**(3,629)**
Purchase of part of the business	-	3,265	454	**3,719**
Other	-	-	-	**-**
Cost at 31 December 2015	285	10,936	1,099	**12,320**
Accumulated depreciation including impairment charge	(71)	(4,840)	-	**(4,911)**
Carrying amount at 31 December 2015	**214**	**6,096**	**1,099**	**7,409**
Additions	-	-	1,940	**1,940**
Transfers	-	975	(975)	**-**
Amortisation charge	(72)	(2,566)	-	**(2,638)**
Other	-	-	-	**-**
Cost at 31 December 2016	285	19,552	2,064	**21,901**
Accumulated depreciation and impairment losses	(143)	(15,047)	-	**(15,190)**
Carrying amount at 31 December 2016	**142**	**4,505**	**2,064**	**6,711**

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

8. Borrowings received

An overview of borrowings received is presented in the table below:

An overview of borrowings received		
In thousands of EUR	2016	2015
Borrowings received – Západoslovenská energetika, a.s.	634,833	634,833
Total	**634,833**	**634,833**
From this: short-term part	4,833	4,833

More details about received borrowings are presented in the table below:

More details about received borrowings			
	Principal in EUR	Nominal interest rate	Maturity date
Borrowing 1	315,000,000	3.04% p.a.	14.10.2018
Borrowing 2	315,000,000	4.14% p.a.	14.10.2023
Total	**630,000,000**		

9. Inventories

Inventories		
In thousands of EUR	2016	2015
Materials and spare parts	1,068	1,243
Total inventories	**1,068**	**1,243**

The inventory items are shown after provision for slow-moving materials and spare parts of EUR 8 thousand (2015: EUR 15 thousand).

10. Trade and Other Receivables

Trade and Other Receivables		
In thousands of EUR	2016	2015
Trade receivables	32,751	27,000
Accrued distribution fee related to unbilled electricity net of advances from customers	6,464	7,064
Less impairment provision for trade receivables	(8,117)	(7,987)
Trade receivables, net	**31,098**	**26,077**
Prepayments	202	148
Total trade and other receivables	**31,300**	**26,225**

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

Movements in the impairment provision for trade receivables		
In thousands of EUR	2016	2015
Provision for impairment at 1 January	**7,987**	**8,495**
Impairment loss expense	184	(306)
Amounts written off during the year as uncollectible	(54)	(202)
Provision for impairment at 31 December	**8,117**	**7,987**

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

Total trade receivables and amounts due from customers for contract work, net of provision		
In thousands of EUR	2016	2015
Neither past due nor impaired		
- collected by 31 January after the reporting period	27,642	25,046
- not collected by 31 January after the reporting period and not overdue	2,882	233
- amounts that became overdue after the reporting period	36	160
Total neither past due nor impaired	30,560	25,439
Individually impaired		
1 to 30 days past due	349	611
31 to 60 days past due	133	21
61 to 90 days past due	121	14
91 to 120 days past due	32	13
121 to 180 days past due	37	25
181 to 360 days past due	90	85
Over 360 days past due	7,893	7,856
Total individually impaired before provision for impairment	8,655	8,625
Less provision for impairment	(8,117)	(7,987)
Total trade receivables and amounts due from customers for contract work, net of provision	**31,098**	**26,077**

11. Receivables/Liabilities from Cash Pooling

Receivables/Liabilities from Cash Pooling		
In thousands of EUR	2016	2015
Receivables/(Liabilites) from Cash Pooling	29,817	(11,217)
Total Receivables/(Liabilites) from Cash Pooling	**29,817**	**(11,217)**

The Company has concluded with its Parent company cash pooling agreement. Based on this agreement the available cash is managed by Parent company. If the case of additional financing needs the cash from cash pool is made available to the Company. The interest rate on receivable from cash pooling was 0.1% p.a. and since May 2016 at the level of 0.05% p.a. The interest rate on the liability from cash pooling for 2015 was 0.1% p.a. Receivables from cash pooling are neither past nor impaired and management of the Company considers this related party as creditworthy without an increased credit risk. Credit rating of the Parent Company is A- by Standard and Poor's.

12. Cash and Cash Equivalents

Cash and Cash Equivalents in the statement of financial position		
In thousands of EUR	2016	2015
Current accounts with banks	1,849	1,629
Total Cash and Cash Equivalents in the statement of financial position	**1,849**	**1,629**

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

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

The credit quality of cash and cash equivalents		
In thousands of EUR	2016	2015
Neither past due nor impaired		
Credit rating A2 by Moody's	9	8
Credit rating A1 by Moody's	16	17
Credit rating Baa1 by Moody's	1,824	1,604
Total Cash and Cash Equivalents	**1,849**	**1,629**

13. Share Capital

The Company's registered share capital consists of 10 shares with a nominal value of EUR 3,320 each and 1 share with a nominal value of EUR 33,193,919.The share capital totals of EUR 33,227 thousand. As at 31 December 2016 and at 31 December 2015 all the shares are owned by Západoslovenská energetika, a.s. Each share carries voting right equall to share nominal value.

The general meeting of the Company's shareholders approved the Company's prior year financial statements and declared dividends of EUR 38,328 thousand (2015: dividends of EUR 42,983 thousand). Slovak legislation identifies distributable reserves as retained earnings reported in the separate financial statements of the Company which amount to EUR 69,255 thousand (2015: EUR 48,491 thousand).

Dividend per share represents EUR 383 per share with the nominal value of EUR 3,320 (31 December 2015: EUR 429) and EUR 62,726 thousand per share with the nominal value of EUR 33,194 thousand (31 December 2015: EUR 42,933 thousand).

14. Legal Reserve Fund

The legal reserve fund represents appropriations of profits of the Company required by Slovak legislation.

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

15. Income Taxes

Income tax expense comprises the following:

Income tax expense		
In thousands of EUR	2016	2015
Current Tax at standard rate of 22% (2015: 22%)	18,584	15,057
Income Tax related to prior periods	15	-
Special levy on profits in excess of EUR 3,000 thousand from regulated activities	3,239	2,546
Deferred Tax	(6,841)	(1,654)
Income Tax expense/(credit) for the year	**14,997**	**15,949**

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

The levy is a deductible expense for the purposes of applying the standard corporate income tax rate of 22% (a reduced 21% standard tax rate enacted in November 2016 with effect from 2017). As a result, the income tax rate applicable to regulated activities is as follows:

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

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

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

Income tax expense for the period		
In thousands of EUR	2016	2015
Profit before tax	**77,785**	**60,318**
Theoretical tax charge at applicable tax rate of 25.256% (2015: 25.256%)	19,645	15,234
Non-deductible expenses /(non-taxable income) for which deferred tax was not recognised - expenses not deductible for standard tax but deductible for special levy purposes	(267)	239
Income tax related to prior periods	15	-
Effect of the first EUR 3 million exempt from special levy	(98)	(98)
Effect on deferred taxes of change in standard tax rate to 21% from 1 January 2017	(4,362)	-
Effect on deferred taxes of extension of special levy for indefinite period	(653)	-
Other	717	574
Income tax expense for the period	**14,997**	**15,949**

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

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

Deferred taxes are attributable to the following temporary differences:

Deferred tax liability		
In thousands of EUR	2016	2015
Differences between tax base and carrying value of property, plant and equipment	96,667	102,301
Post-employment defined benefit obligation	(933)	(816)
Other long term employee benefits	(189)	(94)
Other liabilities	(2,799)	(2,538)
Provision for impairment of trade receivables	(163)	(414)
Other	(977)	(187)
Total net deferred tax liability	**91,606**	**98,252**

The movements in deferred taxes for temporary differences were recognised in profit or loss except for EUR (195) thousand (2015: EUR (86) thousand) for actuarial remeasurements of post-employment defined benefit obligation, which was recognised in other comprehensive income.

16. Post-Employment Defined Benefit Obligations

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

Present value of unfunded post-employment defined benefit		
In thousands of EUR	2016	2015
Present value of unfunded post-employment defined benefit obligations at the beginning of the year	**8,445**	**7,981**
Current service cost	318	467
Interest cost	150	156
Past service costs due to changes in the defined benefit plan rules	12	-
Total expense (Note 21)	480	623
Actuarial remeasurements:		
- attributable to changes in financial assumptions	1,152	(94)
- attributable to changes in demographic assumptions	(2,323)	-
- attributable to experience adjustments	244	(296)
Total actuarial remeasurements recognised in other comprehensive income	(927)	(390)
Benefits paid during the year	(263)	(266)
Other changes	1	497
Present value of unfunded post-employment defined benefit obligations at the end of the year	**7,736**	**8,445**

The principal actuarial assumptions were as follows:

The principal actuarial assumptions		
In thousands of EUR	2016	2015
Number of employees at 31 December	1,285	1,289
Staff turnover	4.55% p.a.	4.61%p.a.
Expected salary increases short-term	2.50% p.a.	3.00% p.a.
Expected salary increases long-term	3.00% p.a.	3.00% p.a.
Discount rate	1.10% p.a.	1.80%p.a.

In 2016, Slovak legislation has changed and the retirement age will depend on expected longevity of the population. This effect, along with staff turnover, resulted in an actuarial gain presented within actuarial remeasurements attributable to changes in demographic assumptions. In 2016, Slovak legislation also removed a cap on social security tax payable on the post-employment benefits with effect from 2017, which in combination with salary level assumptions resulted in an actuarial loss presented above as a loss attributable to changes in demographic assumptions.

Management applied its judgement in determining that the changes in legislation are not past service costs caused by changes in the benefit plan rules and thus recognised the effects in other comprehensive income as an actuarial remeasurement caused by changes in retirement age, salary level and social security tax assumptions.

17. Other Long Term Employee Benefits

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

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

18. Deferred Connection Fees and Customer Contribution

Current deferred income		
In thousands of EUR	2016	2015
Non-current		
Customer contributions	8,873	8,861
Connection fees	51,670	47,152
Total non-current deferred income	**60,543**	**56,013**
Current		
Customer contributions	355	345
Connection fees	3,518	3,385
Total current deferred income	**3,873**	**3,730**

Customer contributions are paid primarily for capital expenditures made on behalf of customers and include access network assets transferred to the Company by its customers free of charge. The contributions are non-refundable and are recognised as other operating income over the useful lives of the related assets. Connection fees are paid by customers to connect them to the electricity network. The fees are recognised as deferred income and are released to revenues over the useful lives of related assets of approximately 20 years.

19. Trade and Other Payables

Trade and Other Payables		
In thousands of EUR	2016	2015
Trade payables	30,347	21,741
Other accrued liabilities	11,687	7,152
Payables from leasing	3,135	2,311
Other financial liabilities	1,719	1,628
Total financial instruments within trade and other payables	**46,888**	**32,832**
Deferred electricity and distribution fees	4,253	5,738
Employee benefits payable	1,541	1,612
Social security on employee benefits	1,296	1,186
Accrued staff costs	6,104	5,910
Advance payments	11,763	10,654
Value added tax payable	4,452	1,837
Other payables	2,489	2,023
Total trade and other payables	**78,786**	**61,792**

The Company had overdue trade payables of EUR 149 thousand (2015: EUR 637 thousand). None of the payables are overdue more than 30 days at 31 December 2016.

20. Revenue

Revenue comprises the following:

Revenue		
In thousands of EUR	2016	2015
Distribution fees for electricity to industrial and commercial customers	228,378	222,296
Distribution fees for electricity to residential customers	101,690	100,276
Tariff for system operation and system services – OKTE, a.s. a related party controlled by Slovak government	124,225	115,237
Revenues for reserved capacity	10,146	9,905
Total distribution fees	464,439	447,714
Revenues for connection work and testing fees	3,966	3,918
Other revenue	6,725	2,484
Total revenue	**475,130**	**454,116**

The Company provides access to its electricity distribution network at regulated prices.

Slovakia has implemented the European Union electricity market directive, which resulted in a complete liberalisation of the market whereby all customers, including households, became eligible to buy electricity in the open market from 1 July 2007. However, price regulation applies to certain protected groups of customers.

21. Employee Benefits

Employee benefits		
In thousands of EUR	2016	2015
Wages and salaries	26,689	24,676
Defined contribution pension costs	417	379
Post-employment defined benefit plan expense (Note 16)	480	623
Other long-term employee benefit plans – current service and interest cost	(102)	329
Actuarial remeasurements of other long-term employee benefit plans	194	(91)
Other social costs	12,287	11,532
Total employee benefits expense	**39,965**	**37,448**

22. Other Operating Expenses

Other Operating Expenses		
In thousands of EUR	2016	2015
Repairs and operation of energetic devices	3,102	2,878
Customers services	3,578	4,241
Other repairs and maintenance	7,658	7,144
Administration of distribution equipment	10,112	10,861
Repairs of machinery and devices	708	612
IT services	10,515	6,924
Measuring of electricity consumption	894	847
Facility management	13,178	15,512
Finance services	2,562	2,710
Control and evaluation of losses, regulation	-	769
Rental costs	3,290	2,613
Advisory services	670	189
Other services	4,135	2,738
Call centrum	1,538	1,538
Bad debt expense (Note 10)	184	(306)
Audit fee	101	98
Loss on disposal of fixed assets (Note 6)	446	-
Total other operating expenses	**62,671**	**59,368**

Comparative amounts were reclassified to conform to the presentation in the current period. In particular, employee benefits in amount EUR 39,965 thousand, depreciation in amount EUR 67,487 thousand and amortisation in amount EUR 2,638 thousand are now presented separately in the statement of profit or loss and other comprehensive income. Furthermore consumption of materials was reclassified from other operating expenses to 'purchases of electricity for losses and other purchases' in amount EUR 4,530 thousand. The changes in the presentation did not have an impact on the total amount of assets, equity or the result of operations of the previous period.

23. Other Operating Income

Other Operating Income		
In thousands of EUR	2016	2015
Operating lease income	1,165	909
Gain on disposal of fixed assets (Note 6)	-	112
Income from contractual penalties	34	85
Income from unauthorized consumption of electricity	249	420
Other	500	530
Total other operating income	**1,948**	**2,056**

24. Interest and Similar Expense

Interest and Similar Expense		
In thousands of EUR	2016	2015
Interest expense on borrowings	22,617	22,617
Other interest expense	151	197
Less capitalised borrowings costs	(1,431)	(957)
Total interest and similar expense	**21,337**	**21,857**

25. Financial Risk Management

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

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

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

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

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

Exposure to credit risk arises as a result of the Company's sales of energy and services on credit terms and other transactions with counterparties giving rise to financial assets. The exposure includes cash and cash equivalents, financial derivatives and deposits with banks and financial institutions, as well as exposures to wholesale and retail customers, including outstanding receivables and transactions made.

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

The Company uses a system of reminders, which may culminate in a service disconnection, as the prevailing contract enforcement. The collection of receivables could be influenced by economic factors; management believes that there is no significant risk of loss to the Company beyond the provisions already recorded. The credit quality of outstanding balances with banks is presented in Note 12 and credit quality information about trade receivables is included in Note 10.

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

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

The table below analyses the Company's undiscounted amount of financial liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date.

The maturity analysis is as follows at 31 December 2016:

The maturity analysis at 31 December 2016						
In thousands of EUR	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Borrowings received(Note 8)	-	-	22,617	376,740	341,082	**740,439**
Trade payables (Note 19)	22,654	7,668	25	-	-	**30,347**
Other accrued liabilities (Note 19)	-	2,348	9,339	-	-	**11,687**
Other financial liabilities (Note 19)	1,719	-	-	-	-	**1,719**
Gross finance lease liability	-	-	615	2,520	-	**3,135**
Total future payments, including future principal and interest payments	**24,373**	**10,016**	**32,596**	**379,260**	**341,082**	**787,327**

The maturity analysis is as follows at 31 December 2015:

The maturity analysis at 31 December 2015						
In thousands of EUR	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Borrowings received(Note 8)	-	-	22,679	386,352	354,123	**763,154**
Trade payables (Note 19)	18,279	2,815	647	-	-	**21,741**
Other accrued liabilities (Note 19)	-	2,785	4,367			**7,152**
Other financial liabilities (Note 19)	1,628	-	-	-	-	**1,628**
Gross finance lease liability	-	-	186	2,125	-	**2,311**
Liabilities from cash pooling	11,217	-	-	-	-	**11,217**
Total future payments, including future principal and interest payments	**31,124**	**5,600**	**27,879**	**388,477**	**354,123**	**807,203**

26. Management of Capital

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders, and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. The Company manages capital reported under IFRS as equity amounting to EUR 160,801thousand at 31 December 2016 (31 December 2015: EUR 135,607 thousand).In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders or return capital to shareholders.

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

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

27. Offsetting Financial Assets and Financial Liabilities

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

at 31 December 2016						
	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position	Amounts subject to master nettingand similar arrangements not set off in the statement of financial position		Net amount of exposure
In thousands of EUR	(a)	(b)	(c) = (a) - (b)	Financial instrument (d)	Cash collateral received (e)	(c) – (d) – (e)
ASSETS						
Cash pooling	29,817	-	29,817	29,817	-	**-**
TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**29,817**	**-**	**29,817**	**29,817**	**-**	**-**
LIABILITIES						
Borrowings received	634,833	-	634,833	29,817	-	**605,016**
TOTAL LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**634,833**	**-**	**634,833**	**29,817**	**-**	**605,016**

At 31 December 2015, there were not any financial instruments subject to offsetting, enforceable master netting and similar arrangements.

28. Fair Value Disclosures

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

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

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

Fair Value Disclosures				
	31 December 2016		31 December 2015	
In thousands of EUR	Level 2 fair value	Carrying value	Level 2 fair value	Carrying value
ASSETS				
Trade receivables, net (Note 10)	31,098	31,098	26,077	26,077
Cash and cash equivalents (Note 12)	1,849	1,849	1,629	1,629
Receivables from cash pooling (Note 11)	29,817	29,817	-	-
TOTAL ASSETS	**62,764**	**62,764**	**27,706**	**27,706**
LIABILITIES				
Borrowings received (Note 8)	714,231	634,833	696,531	634,833
Trade payables (Note 19)	30,347	30,347	21,741	21,741
Other accrued liabilities (Note 19)	11,687	11,687	7,152	7,152
Other financial liabilities (Note 19)	1,719	1,719	1,628	1,628
Liabilities from finance leasing (Note 19)	3,135	3,135	2,311	2,311
Liabilities from cash pooling (Note 11)	-	-	11,217	11,217
TOTAL LIABILITIES	**761,119**	**681,721**	**740,580**	**678,882**

The fair value of borrowings received was determined at the quoted market price of the bonds, based on the calculation of related issued bonds by Západoslovenská energetika, a.s.

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

29. Presentation of Financial Instruments by Measurement Category

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

30. Contingencies and Commitments

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

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

Capital expenditure commitments. At 31 December 2016, the Company had outstanding contractual commitments for purchases of property, plant and equipment of EUR 7,158 thousand (2015: EUR 5,861 thousand). Outstanding contractual commitments for purchases of intangible assets were EUR 269 thousand (2015: EUR 389 thousand).

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

The future aggregate minimum lease payments		
In thousands of EUR	2016	2015
No later than one year	1,554	21
Later than one year and no later than five years	918	66
Later than five years	1,011	1,015
Total	**3,483**	**1,102**

31. Balances and Transactions with Related Parties

The primary related parties of the Company are (a) its shareholders which have joint control over the Company as explained in Notes1 and 13: (i) the Slovak Government and (ii) E.ON, as well as (b) key management personnel. The Company applies the exemption from disclosing transactions with the Slovak government and entities over which it has control, joint control or significant influence. The exemption does not apply to individually significant transactions, such as taxes incurred and paid, purchases of electricity from an entity in which the Slovak government has a significant shareholding and other transactions presented below.

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

The related party transactions and outstanding balances for 2016:				
In thousands of EUR	Parent company	E.ON Group**	Slovak government*	Entities under common control of the Parent company
Revenue	1,880	176	171,159	198,277
Purchases and expenses	56,888	7,104	72,421	25,847
Receivables other than taxes	29,855	113	16,669	8,177
Payables other than taxes	637,428	2,936	3,696	2,302
Dividends declared and paid	38,327	-	-	-

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

Income taxes are disclosed in the statement of financial position, statement of profit or loss and other comprehensive income, in the statement of cash flows and are also analysed in Note 15. Outstanding value added tax payable is presented in Note 19.

The income tax paid was as follows:

The income tax paid		
In thousands of EUR	2016	2015
Current income tax expense at standard rate of 22% (2015: 22%) – refer to Note 15	18,599	15,057
Special levy on profits from regulated activities (Note 15)	3,229	2,546
Income tax refund receivable at the beginning of the period	3,255	1,356
Income tax refund receivable/(payable) at the end of the reporting period	(5,390)	3,255
Income tax paid	**(13,183)**	**(19,502)**

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

The related party transactions and outstanding balances for 2015

In thousands of EUR	Parent company	E.ON Group**	Slovak government*	Entities under common control of the Parent company
Revenue	760	30	157,703	198,431
Purchases and expenses	60,659	146	67,059	42,456
Property and motor vehicle tax	-	-	382	-
Receivables other than taxes	355	30	13,285	5,947
Payables other than taxes	648,870	-	4,099	2,673
Dividends declared and paid	42,983	-	-	-

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

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

Key management personnel comprises (a) members of the Board of Directors, (b) members of the supervisory board and (c) divisional directors. Key management personnel remuneration comprised:

Remuneration of supervisory board

In thousands of EUR	2016	2015
Board of directors and other key management personnel		
Salaries and other short-term employee benefits	642	487
Defined contribution pension costs	62	49
Total remuneration of board of directors and other key management personnel	**704**	**536**
Supervisory board		
Salaries and other short-term employee benefits	122	84
Defined contribution pension costs	15	11
Total remuneration of supervisory board	**137**	**95**

32. Purchase of Part of the Business

On 1 January 2015 the Parent company transferred customer services to subsidiaries Západoslovenská distribučná, a.s. and ZSE Energia, a.s. as a sale of part of its business.

The agreed purchase prices amounted to EUR 2,985 thousand and it was paid by the Company during 2015.

Recognised amounts of identifiable assets acquired and liabilities assumed	2015
Intangible assets	3,836
Trade and other payables	(1,094)
Pensions and other provisions for liabilities and charges	(107)
Total identifiable net assets	**2,635**
Add: Excess of consideration over net assets charged to equity	350
Outflow of cash and cash equivalents on acquisition	**2,985**

As at 31 December 2015 the Company acquired part of the business E.ON Business Services, s.r.o. for purchase price of EUR 320 thousand. This transaction is not included in table of recognized amounts of identifiable assets acquired and liabilities assumed above due to immateriality of the transaction.

33. Events after the End of the Reporting Period

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

Management authorised these financial statements for issue on 4 April 2017:

Ing. Andrej Juris
Chairman of the Board of Directors

Ing. Marián Kapec
Member of the Board of Directors

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