Východoslovenská energetika Holding a.s.

Separate Financial Statements
for the year ended 31 December 2017

prepared in accordance with
International Financial Reporting Standards
as adopted by the European Union

Východoslovenská energetika Holding a.s.

Separate financial statements for the year ended 31 December 2017, prepared in accordance with International Financial Reporting Standards as adopted by the European Union were approved and authorized for issue on 28 February 2018 by the Board of Directors.

Dipl.-Kfm. Karl Kraus
Chairman of the Board of Directors

Ing. Alena Rozsypalová
Member of the Board of Directors

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in EUR thousand	Note	As at 31 December 2017	2016
ASSETS			
Non-current assets			
Tangible assets	5	4,784	4,893
Intangible assets	6	2,058	1,854
Investments in subsidiaries, associates and joint ventures	7	895,572	895,422
Deferred income tax asset	17	1,868	1,307
		904,282	**903,476**
Current assets			
Trade and other receivables	8,10	2,778	1,655
Current income tax		27	235
Cash and cash equivalents	8,11	445	8,113
		3,250	**10,003**
Total assets		**907,532**	**913,479**
EQUITY			
Share capital	12	111,618	111,618
Legal reserve fund	12	22,339	22,339
Other reserves	12	12,946	12,946
Retained earnings	12	429,541	470,189
Total equity		**576,444**	**617,092**
LIABILITIES			
Non-current liabilities			
Borrowings and loans	8,14	120,000	170,000
Liability from contingent consideration	8, 15	18,372	19,948
Employees benefit obligation	18,19	1,268	1,105
		139,640	**191,053**
Current liabilities			
Trade and other payables	8,13	5,569	5,071
Financial liabilities from cash pooling	8,16	106,256	94,726
Borrowings and loans	8,14	64,715	-
Liability from contingent consideration	8,15	14,848	5,500
Employees benefit obligation	18,19	33	10
Provisions for other liabilities and charges	18	27	27
		191,448	**105,334**
Total liabilities		**331,088**	**296,387**
Total equity and liabilities		**907,532**	**913,479**

		Year ended 31 December	
in EUR thousand	**Note**	**2017**	**2016**
Revenue	20	20,463	23,816
Raw materials and other consumed materials	21	(876)	(829)
Employee benefit expense	21	(10,850)	(9,706)
Services	21	(8,968)	(9,678)
Depreciation, amortization expense and impairment losses	5, 6, 21	(1,846)	(2,148)
Own work capitalized	21	331	276
Dividend income	21	31,709	45,223
Other operating income	21	378	456
Other operating expenses	21	(450)	(502)
Profit from operations		**29,891**	**46,908**
Interest income	22	13	2
Interest expense	22	(3,514)	(3,656)
Other financial expense	22	(11,090)	(1,881)
Net financial income / (expenses)		**(14,591)**	**(5,535)**
Profit before income tax		**15,300**	**41,373**
Income tax expense	23	524	(122)
Profit for the year		**15,824**	**41,251**
Other comprehensive income not subsequently reclassified through profit or loss			
Re-measurements of post-employment benefit obligation	19	(153)	112
Total comprehensive income for the year		**15,671**	**41,363**

in EUR thousand	Share capital	Legal reserve fund	Other reserves	Retained earnings	Total equity
Balance at 1 January 2016	**111,618**	**22,339**	**12,946**	**499,414**	**646,317**
Dividends paid	-	-	-	(70,587)	(70,587)
Total transactions with owners, recognized directly in equity	**-**	**-**	**-**	**(70,587)**	**(70,587)**
Profit for the year	-	-	-	41,251	41,251
Other comprehensive income for the year	-	-	-	112	112
Total comprehensive income for the year	**-**	**-**	**-**	**41,363**	**41,363**
Other	-	-	-	(1)	(1)
Balance at 31 December 2016	**111,618**	**22,339**	**12,946**	**470,189**	**617,092**
Balance at 1 January 2017	**111,618**	**22,339**	**12,946**	**470,189**	**617,092**
Dividends paid	-	-	-	(56,319)	(56,319)
Total transactions with owners, recognized directly in equity	**-**	**-**	**-**	**(56,319)**	**(56,319)**
Profit for the year	-	-	-	15,824	15,824
Other comprehensive income for the year	-	-	-	(153)	(153)
Total comprehensive income for the year	**-**	**-**	**-**	**15,671**	**15,671**
Balance at 31 December 2017	**111,618**	**22,339**	**12,946**	**429,541**	**576,444**

		Year ended 31 December	
in EUR thousand	**Note**	**2017**	**2016**
Cash flows from operating activities			
Cash generated from operations	24	10,921	14,685
Interest paid		(1,313)	(1,507)
Interest received		13	2
Income tax (-) paid / (+) received		171	1,003
Net cash from operating activities		**9,792**	**14,183**
Cash flows from investing activities			
Purchase of property, plant and equipment (PPE) and intangible assets	5,6	(1,941)	(2,037)
Increase of equity in VSE Ekoenergia, s.r.o.		(150)	-
Proceeds from sale of PPE		25	148
Dividends received	24	31,709	45,223
Net cash used in investing activities		**29,643**	**43,334**
Cash flows from financing activities			
Borrowings and loans withdrawn	14	14,715	25,320
Earn out payment	15	(5,499)	(8,990)
Dividends paid to shareholders	12	(56,319)	(70,587)
Net cash used in financing activities		**(47,103)**	**(54,257)**
Net increase/(decrease) in cash, cash equivalents and bank overdrafts		(7,668)	3,260
Cash, cash equivalents at the beginning of the year	8,11	**8,113**	**4,853**
Cash, cash equivalents at the end of the year	8,11	**445**	**8,113**

1. General information

Východoslovenské energetické závody š.p. („VEZ“) was set up by the Ministry of Economy of the Czech and Slovak Federal Republic on 1 September 1990 in the legal form of a state enterprise. During preparation for privatisation, the legal form was changed, and on 1 January 2002 the joint-stock company Východoslovenská energetika a.s. (since 1 July 2014 Východoslovenská energetika Holding a.s., hereinafter „the Company“) was registered in the Košice I Commercial Court under the Section Sa, Insert 1203/V by its sole shareholder the National Property Fund of the Slovak Republic (“FNM SR”), based on a Foundation Deed dated 17 December 2001. The formation of the Company was carried out in line with the Act no. 92/1991 Col., as amended and in accordance with the Government ruling no. 645 dated 11 July 2001 on privatisation of VEZ. The Company, as the legal successor of VEZ, took over all its assets, liabilities, rights and obligations.

Until 23 January 2003, 100 % of the share capital of the Company was owned by the National Property Fund of the Slovak Republic. On 23 January 2003, the Slovak Government, represented by the Ministry of Economy of the Slovak Republic, the National Property Fund of Slovakia and RWE Plus AG entered into agreements that provided, inter alia, for a transfer of 49% of the shares of the Company to RWE Plus AG (“privatisation”). Under the Shareholder Agreement and Company’s Articles of Association, executed as part of the privatisation transaction, selected significant decisions regarding the Company’s business have to be approved by both shareholders. In 2004, 49 % of shares of the Company were acquired by RWE Energy AG under an Agreement on Separation and Takeover.

The Company’s operations were governed by the terms of its license granted under the Energy Law (“the Energy Licence”). The licence, obtained in January 2002, expired in December 2005 in accordance with § 69 Article 1 of the Act on Energy Industries no. 656/2004. In August 2005, the Company obtained a new licence for the period beginning 1 January 2006, which is valid for an unlimited period, and this licence was provided in accordance with § 7 the Act on Energy Industries no. 656/2004.

The Regulatory Office of Network Industries of the Slovak Republic regulated certain aspects of the Company’s relationships with its customers, including the pricing of its services provided to certain groups of customers.

The enactment of the Energy Act no. 656/2004 Coll. as amended, stated the legal obligation to separate operation of distribution grid as of 1 July 2007.

The company Východoslovenská distribučná, s.r.o. (hereinafter “VSD”) was established by a deed of foundation on 14 October 2005 as a subsidiary of the Company. The registration of VSD in the commercial register at the District Court Košice I. was performed on 4 November 2005 in the section Sro, file No. 17263/V.

On the basis of the decision of the General Meeting of VSD from 30 January 2007, the legal form of the company was changed from a limited liability company to a joint-stock company. The registration of VSD into the commercial register of the District Court Košice I. was performed on 15 February 2007 in the section Sa, file No. 1411/V.

Considering several options, the Company decided to fulfil the legal obligations concerning the legal separation of distribution system operations by non-monetary contribution-in-kind of part of business of the Company representing distribution grid to VSD, effective 1 July 2007.

Following the changes in unbundling requirements, in 2014 the Company unbundled its 2 parts of business divisions of grid services and sales as follows:

- On the basis of decision of the General Assembly of the Company from 19 November 2013, the division grid services were integrated into VSD effective on 1 January 2014. The transaction was performed as non-monetary contribution-in-kind of part of the business.
- On the basis of the decision of the General Assembly of the Company from 19 June 2014 the sales division was integrated into Company's subsidiary Východoslovenská energetika a.s. (until 30 June 2014 VSE Development, a.s. and until 31 March 2014 VSE Development, s.r.o., hereinafter VSE) effective on 1 July 2014. The transaction was performed as non-monetary contribution-in-kind of part of the business.

The Company provided electricity supply services in Slovakia until 30 June 2014. After this date, electricity supply services are not performed anymore and the Company's activities were limited to providing services within the group Východoslovenská energetika Holding a.s. and to other companies under control of RWE AG.

In connection with unbundling requirements, the General Meeting of the Company approved on 16 December 2014 the transfer of activities from VSE H as Transferor to VSD and VSE as Transferee, on the basis of the Contract on the Transfer of Part of Employer Activities and on the Transfer of Rights and Obligations from Employment Relations in accordance with provisions of Art. 28 of the Labour Code, with effect from 1 January 2015.

In connection with the transfer of activities there is also an automatic (legislative requirement) transfer of all rights and obligations arising from employment relations connected to employees concerned, who are as of 1 January 2015 performing work for VSD and VSE in accordance with their job descriptions.

The number of affected employees is 129 and the Contract on the Transfer of Part of Activities transfers activities to VSD (34 employees) and VSE (95 employees) executed by the Departments Back Office, Supply Management and Business Support of Customer Systems and IT Services.

This transfer of activities did not meet the definition of discontinued operations or non-current assets held for sale as defined in IFRS 5, neither has it represented a business as defined by IFRS.

On the basis of the decision of the General Meeting of Company, the Company acquired RWE Gas Slovensko, s.r.o. (hereinafter "RGSK"). Based on the purchase agreement the 100% share on share capital was acquired from RWE Česká republika a.s, with effective date of acquiring of control on 1 September 2015. RGSK changed its name to innogy Slovensko s. r. o. (hereinafter "iSK") on 1 October 2016.

The Company's shareholders as at 31 December 2017 were as follows:

	Interest in share capital	
	In EUR thousand	**%**
Ministry of Economy of the Slovak Republic	56,925	51
Innogy International Participations N.V., Nederland	54,693	49
Total	**111,618**	**100**

The Company's shareholders as at 31 December 2016 were as follows:

	Interest in share capital	
	In EUR thousand	**%**
Ministry of Economy of the Slovak Republic	56,925	51
Innogy International Participations N.V., Nederland	54,693	49
Total	**111,618**	**100**

The Company employed 307 staff on average during 2017 (2016: 295).

Members of the statutory bodies of the Company

The members of the Company's statutory bodies were as follows:

Board of Directors:	Changes in 2017 and status as at 31 December 2017	Changes in 2016 and status as at 31 December 2016
Chairman	Dipl.-Kfm. Karl Kraus	Dipl.-Kfm. Karl Kraus
Vice Chairman	Ing. Vladimír Dolný (from 17 Mar 2017) Roman Šipoš, MBA (till 28 Feb 2017)	Roman Šipoš, MBA (from 16 Dec 2016) Ing. Vladimír Dolný (till 15 Dec 2016)
Members	Dipl.-Volksw. Thomas Jan Hejcman Ing. Alena Rozsypalová (from 1 Aug 2017) Dipl.-Kff. Diana Custodis (till 31 Jul 2017) Ing. Vladimír Dolný (till 16 Mar 2017)	Dipl.-Volksw. Thomas Jan Hejcman Dipl.-Kff. Diana Custodis Ing. Vladimír Dolný (from 16 Dec 2016) Roman Šipoš, MBA (till 15 Dec 2016)

Supervisory Board:	Changes in 2017 and status as at 31 December 2017	Changes in 2016 and status as at 31 December 2016
Chairman	Ing. Eva Petruchová (from 1 May 2017) JUDr. Ján Dorkin (till 28 Feb 2017)	JUDr. Ján Dorkin (from 16 Dec 2016) Ing. Marek Horváth (till 30 Jun 2016)
Vice Chairman	PhDr. Patrik Bauer, PhD.	PhDr. Patrik Bauer, PhD.
Members	Magdaléna Gogoláková Ing. Imrich Ungvarský Ing. Peter Sýkora Ing. Štefan Lasky MUDr. Michal Varga Ing. Rastislav Klamár JUDr. Ján Cáfal	Magdaléna Gogoláková Ing. Imrich Ungvarský Ing. Peter Sýkora Ing. Štefan Lasky (till 30 Jun 2016) Ing. Štefan Lasky (from 16 Dec 2016) MUDr. Michal Varga (from 16 Dec 2016) Ing. Rastislav Klamár (from 16 Dec 2016) JUDr. Ján Cáfal (from 16 Dec 2016) Ing. Andrej Hanzel (till 30 Jun 2016) Ing. Jozef Sedlák (till 30 Jun 2016) Mgr. Erika Mochnáčová (till 30 Jun 2016)

As part of the sale of 49% of the shares of the Company, National Property Fund of Slovak Republic and RWE AG have entered into a shareholders' agreement which sets out the areas of responsibility and decision making for the General Meeting, the Board of Directors and the Supervisory Board of the Company and Východoslovenská distribučná, a.s. (since 2007 in connection with first phase of unbundling), as well as the rules for nomination of members of the Board of Directors and Supervisory Board of these companies. Since 1 July 2014 the shareholders' agreement is valid also for the Company's subsidiary Východoslovenská energetika a.s. (until 30 June 2014 VSE Development, a.s. and until 31 March 2014 VSE Development, s.r.o.). In relation to above mentioned acquisition of iSK by Východoslovenská energetika Holding a.s., Part B of the Restated and Amended Shareholders´ Agreement as amended by its Amendment No. 1 and Amendment No. 2 came into effect as from 1 September 2015.

On 19 November 2013, the General Meeting of the Company approved the transfer of 49% shares of the Company from the company RWE Aktiengesellschaft, with its registered office: Germany, 45128 Essen, Opernplatz 1 (hereinafter „RWE AG“) to the 100% subsidiary of RWE AG - RWE Beteiligungsverwaltung

Ausland GmbH, with its registered office: Germany, D-45128 Essen, Opernplatz 1 (hereinafter referred to as „RBA“) - contribution of capital in the form of shares to RBA. Registration with the Central Securities Depository of the Slovak Republic took place on 10 December 2013.

On the basis of Act No. 197/2014 Coll. amending Act No. 92/1991 Coll. on the conditions of state property transfer to other persons as amended, there was a transfer of shareholding from the National Property Fund of SR to the state on 1 August 2014. After this date, shareholder rights and obligations are executed by the Ministry of Economy of SR as the owner of the shareholding in Východoslovenská energetika Holding a.s. The transfer of shareholding ownership does not affect the terms and conditions agreed in the current Shareholders' Agreement.

On 4 March 2016, RWE Downstream Beteiligungs GmbH, with its registered office: Germany, 45128 Essen, Opernplatz 1, became an owner of 1,647,870 units of shares, i.e. of 49% share in the share capital and voting rights of VSE Holding, based on a merger of RWE Downstream Beteiligungs GmbH and RWE Beteiligungsverwaltung Ausland GmbH.

On 31 May 2016, the General Meeting of the Company approved the transfer of 49% company shares from RWE Downstream Beteiligungs GmbH, with its registered office: Germany, 45128 Essen, Opernplatz 1 to RWE International SE, with its registered office: Germany, 45128 Essen, Opernplatz 1. The registration with the Central Securities Depository of the Slovak Republic took place on 8 June 2016.

On 17 June 2016, the General Meeting of the Company approved the transfer of 49% company shares from RWE International SE, with its registered office: Germany, 45128 Essen, Opernplatz 1 to RWE Gas International N.V., with its registered office: Kingdom of the Netherlands, 5211AK 's-Hertogenbosch, Willemsplein 4. The registration with the Central Securities Depository of the Slovak Republic took place on 30 June 2016.

On 26 August 2016, a shareholder of VSE Holding, RWE Gas International N.V., changed its business name to innogy International Participations N.V. (hereinafter referred to as “innogy”).

The transfer of shareholding ownership does not affect the terms and conditions agreed in the current Shareholders' Agreement.

The General Meetings of the Company, VSD, iSK and VSE decide within the competencies provided by the shareholders' agreement and articles of association of the respective company. The General Meeting of the Company decides by unanimous consent of all shareholders. The General Meeting of the Company elects the members of the Board of Directors of the Company.

The Boards of Directors of the company manage the operations of the respective company and decide on all matters unless these are assigned to competencies of the General Meeting or the Supervisory Board by the shareholders' agreement and articles of association. The Boards of Directors of the Company, VSE and VSD consist of five members. The statutory body of iSK consists of five managing directors. The chairman and two members of the Boards of Directors are nominated by innogy. Ministry of Economy of SR nominates one vice-chairman and one member of the Boards of Directors.

The Supervisory Boards are the supreme controlling bodies of the Company, VSE, iSK and VSD. The Supervisory Boards supervise the activities of the Boards of Directors of the respective company and its business activities. The Supervisory Boards of the Company, VSE and VSD consist of nine members. The vice-chairman of the Supervisory Board is nominated by innogy. Ministry of Economy of SR is represented by the chairman and four members. The employees are represented by three members. The Supervisory Board of iSK consists of three members. The vice-chairman of the Supervisory Board is nominated by innogy. Chairman and one member is nominated by Ministry of Economy of SR.

Based on amended shareholders agreement, which became effective on 1 September 2015, RWE Aktiengesellschaft became ultimate controlling party of the Company. From 1 September 2015 the Company is included as subsidiary in the consolidated financial statements of RWE Aktiengesellschaft, Opernplatz 1,

D-45128 Essen, Germany. The consolidated financial statements are available directly at the seat of the company.

Registered address

The registered address of the Company is:

Mlynská 31
042 91 Košice
Slovak Republic
Company number: 36 211 222
VAT number: SK2020062319

The Company does not have any unlimited liability in other accounting entities.

The General Meeting held on 24 May 2017 approved the financial statements for 2016.

2. Summary of significant accounting policies

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

2.1. Basis for preparation

The Act on Accounting of the Slovak Republic no. 431/2002 as amended requires certain companies to prepare separate financial statements for the year ended 31 December 2017 in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

The separate financial statements for the year ended 31 December 2017 have been prepared as ordinary financial statements under § 17 Sec. 6 Act of NR SR No. 431/2002 Coll. as amended ("Accounting Act") for the accounting period from 1 January 2017 to 31 December 2017.

These separate financial statements have been prepared in accordance with IFRS. The Company applies all IFRS and interpretations issued by International Accounting Standards Board (hereinafter "IASB"), as adopted by the European Union, which were in force as of 31 December 2017.

These separate financial statements should be read together with the consolidated financial statements of the group Východoslovenská energetika Holding a.s. to obtain full information on the financial position, results of operations and changes in financial position of the group as a whole. These consolidated financial statements for the year ended 31 December 2017 are available together with these separate financial statements directly at the registered seat of the Company stated above.

For purposes of preparation of these separate financial statements according to IFRS, the management of the Company defines critical assumptions and estimates, which have an influence on recognized amounts of assets and liabilities in the balance sheet and on expenses and revenues recognized in the profit or loss. At the application of accounting policies of the Company, the management makes certain critical judgments. The areas, which require a more complex decision-making process and areas, where the critical assumptions and estimates are material to these financial statements, are presented in Note 4.

The separate financial statements have been prepared under the historical cost convention, except for financial liability at fair value through profit or loss.

The separate financial statements have been prepared on accrual basis and under the going concern assumption. The transactions are recognized in the financial statements in the related period.

The Board of Directors may propose to the Company's shareholders to amend the financial statements after their approval by the General Shareholders Meeting. However, § 16, points 9 to 11 of the Accounting Act prohibit reopening an entity's accounting records after the financial statements were prepared and approved. If, after the financial statements were 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 accounting period, in which the relevant facts are identified.

a) New and amended standards adopted by the Company during the year ended 31 December 2017

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2017 that would be expected to have a material impact on the Company. The following new standards and interpretations became effective for the Company from 1 January 2017:

Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12 (issued on 19 January 2016 and effective in the EU for annual periods beginning on or after 1 January 2017). The amendment has clarified the requirements on recognition of deferred tax assets for unrealised losses on debt instruments. The entity will have to recognise deferred tax asset for unrealised losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic benefit embodied

in the deferred tax asset arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains. An effective date of this interpretation is 1 January 2017. This standard does not have a material impact on the Company's financial statements.

Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective in the EU for annual periods beginning on or after 1 January 2017). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. An effective date of this interpretation is 1 January 2017. This disclosure is in Notes 3.6 and 14.

b) New standards, amendments and interpretations issued and effective for the financial year beginning 1 January 2018 or later and not early adopted

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2018 or later, and which the Company has not early adopted.

IFRS 9, Financial Instruments (issued on 24 July 2014 and effective in the EU for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

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

An effective date is 1 January 2018. This standard has been endorsed by the EU on 22 November 2016.

Impact

The Company has reviewed its financial assets and liabilities and expects following impact from the adoption of the new standard on 1 January 2018:

The financial assets held by the Company include:

- Trade and other receivables currently classified as held-to-maturity and measured at amortised cost, which meet the conditions for classification at amortised cost under IFRS 9.

Accordingly, the group does not expect the new guidance to affect the classification and measurement of these financial assets.

Most of the requirements of IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that the Group will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income. The derecognition rules have been transferred from IAS 39 *Financial Instruments: Recognition and Measurement* and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses, as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Company does not expect significant change in bad debt provision.

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

Date of adoption by the Company

The Company will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective in the EU 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 does not expect a material impact of the standard on its financial statements. Effective date is 1 January 2018. This standard has been endorsed by the EU on 22 September 2016.

Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective in the EU for annual periods beginning on or after 1 January 2018). The amendments do not

change the underlying principles of the Standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard.

The Company does not expect a material impact of the standard on its financial statements. Effective date is 1 January 2018.

IFRS 16, Leases (issued on 13 January 2016 and effective in the EU 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 income statement. 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 does not expect a material impact of the standard on its financial statements. Effective date is 1 January 2019. This standard has been endorsed by the EU on 31 October 2017.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4 (issued on 12 September 2016 and effective in the EU, 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). The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the replacement Standard that the IASB is developing for IFRS 4. These concerns include temporary volatility in reported results. The amendments introduce two approaches: an overlay approach and a deferral approach. The amended Standard will give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts Standard is issued. In addition, the amended Standard will give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments Standard—IAS 39. The amendments to IFRS 4 supplement existing options in the Standard that can already be used to address the temporary volatility. The Company does not expect material impact of this new standard on its financial statements. Effective date is 1 January 2018. This standard has been endorsed by the EU on 3 November 2017.

Amendments to IFRS 2, Share-based Payments (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments mean that non-market performance vesting conditions will influence measurement of cash-settled share-based payment transactions in the same manner as equity-settled awards. The amendments also clarify classification of a transaction with a net settlement feature in which the entity withholds a specified portion of the equity instruments, that would otherwise be issued to the counterparty upon exercise (or vesting), in return for settling the counterparty's tax obligation that is associated with the share-based payment. Such arrangements will be classified as equity-settled in their entirety.

Finally, the amendments also clarify accounting for cash-settled share based payments that are modified to become equity-settled, as follows (a) the share-based payment is measured by reference to the modification-

date fair value of the equity instruments granted as a result of the modification; (b) the liability is derecognised upon the modification, (c) the equity-settled share-based payment is recognised to the extent that the services have been rendered up to the modification date, and (d) the difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date is recorded in profit or loss immediately. The Company does not expect material impact of this new standard on its financial statements. These amendments have not been endorsed by the EU yet.

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). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Company does not expect material impact of this new standard on its financial statements. These amendments have not been endorsed by the EU yet.

Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 12 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017). The amendments clarify the scope of the disclosure requirements in IFRS 12 by specifying that the disclosure requirements in IFRS 12, other than those relating to summarised financial information for subsidiaries, joint ventures and associates, apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in accordance with IFRS 5. These amendments did not have material impact on the Company. These amendments have been endorsed by the EU on 7 February 2018.

Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 and IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018). IFRS 1 was amended and some of the short-term exemptions from IFRSs in respect of disclosures about financial instruments, employee benefits and investment entities were removed, after those short-term exemptions have served their intended purpose. The amendments to IAS 28 clarify that an entity has an investment-by-investment choice for measuring investees at fair value in accordance with IAS 28 by a venture capital organisation, or a mutual fund, unit trust or similar entities including investment linked insurance funds. Additionally, an entity that is not an investment entity may have an associate or joint venture that is an investment entity. IAS 28 permits such an entity to retain the fair value measurements used by that investment entity associate or joint venture when applying the equity method. The amendments clarify that this choice is also available on an investment-by-investment basis. The Company does not expect material impact of this new standard on its financial statements. These amendments have been endorsed by the EU on 7 February 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). The amendments clarify the requirements on transfers to, or from, investment property in respect of properties under construction. Prior to the amendments, there was no specific guidance on transfers into, or out of, investment properties under construction in IAS 40. The amendment clarifies that there was no intention to prohibit transfers of a property under construction or development, previously classified as inventory, to investment property when there is an evident change in use. IAS 40 was amended to reinforce the principle of transfers into, or out of, investment property in IAS 40 to specify that a transfer into, or out of investment property should only be made when there has been a change in use of the property; and such a change in use would involve an assessment of whether the property qualifies as an investment property. Such a change in use should be supported by evidence. The Company does not expect material impact of this new standard on its financial statements. These amendments have not been endorsed by the EU yet.

IFRIC 23, Uncertainty over Income Tax Treatments (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority would examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. The Company is currently assessing the impact of the interpretation on its financial statements. This interpretation has not been endorsed by the EU yet.

Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019). The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument. In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortised cost that do not result in the de-recognition will result in an gain or loss in profit or loss. Reporting entities will thus in most cases not be able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification. The Company is currently assessing the impact of the amendments on its financial statements. These amendments have not been endorsed by the EU yet.

Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).The amendments clarify that reporting entities should apply IFRS 9 to long-term loans, preference shares and similar instruments that form part of a net investment in an equity method investee before they can reduce such carrying value by a share of loss of the investee that exceeds the amount of investor's interest in ordinary shares. . The Company is currently assessing the impact of the amendments on its financial statements. These amendments have not been endorsed by the EU yet.

Annual Improvements to IFRSs 2015-2017 cycle – Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019). The narrow scope amendments influence four standards. IFRS 3 was amended to clarify that an acquirer should remeasure its previously held interest in a joint operation when it obtains control of the business. Conversely, IFRS 11 now explicitly explains that the investor should not remeasure its previously held interest when it obtains joint control of a joint operation, similarly to the existing requirements when an associate becomes a joint venture and vice versa. The amended IAS 12 explains that an entity recognises all income tax consequences of dividends where it has recognised the transactions or events that generated the related distributable profits, e.g. in profit or loss or in other comprehensive income. It is now clear that this requirement applies in all circumstances as long as payments on financial instruments classified as equity

are distributions of profits, and not only in cases when the tax consequences are a result of different tax rates for distributed and undistributed profits. The revised IAS 23 now includes explicit guidance that the borrowings obtained specifically for funding a specified asset are excluded from the pool of general borrowings costs eligible for capitalisation only until the specific asset is substantially complete. The Company is currently assessing the impact of the amendments on its financial statements. These amendments have not been endorsed by the EU yet.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

2.2. Subsidiaries, associates and joint arrangements ventures

The Company applies acquisition accounting as set out in IFRS 3 as accounting policy for business combinations under common control.

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

Investments in subsidiaries are carried at cost in these separate financial statements according to IAS 27. Impairment losses are recognized using respective allowance accounts. Allowance is recognized based on the present value of estimated future cash flows of the investment.

Associates and joint ventures

Associates are all entities over which the Company has significant influence, but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Jointly controlled entities (“joint ventures”) are those in which the Company shares control of the operations with its joint venture partners.

Investments in associates and joint ventures are carried at cost in these separate financial statements according to IAS 27. Impairment losses are recognized using allowance account. Allowance is recognized based on the present value of estimated future cash flows.

2.3. Foreign currency translation

Functional and presentation currency

Items included in the separate financial statements are measured using the currency of the primary economic environment in which the entity operates (‘the functional currency’). Company’s functional and presentation currency is Euro (“EUR”) and these separate financial statements are presented in thousands of 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 recognized in the profit or loss.

2.4. Tangible assets

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

Historical cost includes expenditure that is directly attributable to the acquisition. Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for the intended use or sale (qualifying assets) are capitalised as part of the costs of those assets if this capitalisation commenced on 1 January 2009 or later. 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.

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

The depreciation of property, plant and equipment begins in the month when the property, plant and equipment is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Property, plant and equipment is depreciated in line with the approved depreciation plan. Property, plant and equipment is depreciated using the straight-line method. Monthly depreciation charge is stated as the difference between acquisition costs and residual value, divided by estimated useful life of the property, plant and equipment. The residual value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value is equal to zero or to value at the disposal if the Company expect a particular tangible asset to be used throughout its entire useful life. The residual values in the moment of disposal and estimated useful life of non-current asset are subject to reassessment at each end of the reporting period and adjusted, if necessary.

The estimated useful lives of individual groups of assets are as follows:

Buildings and infrastructure	
Other residential buildings (small building units)	50 years
Administrative buildings	25 years
Garage buildings	30 years
Infrastructure	25-50 years

Machinery and equipment	
Containers	8 years
Air conditioning units	8 years
Vehicles	5 – 10 years
Office equipment	3 – 12 years
Safe deposits	25 years

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

Land and assets under construction are not depreciated.

The most significant items of property, plant and equipment are buildings and infrastructure.

Gains and losses from disposal of property, plant and equipment are determined as the difference between proceeds from disposal and the asset's carrying amount and are recognized in profit or loss.

2.5. Intangible assets

Intangible assets are stated at historical cost less accumulated amortization and accumulated impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the items including costs needed to bring the intangible assets to a condition so that the intangible assets can be used as intended by management.

The amortization of an intangible asset begins in the month when the intangible asset is available for use, i.e. when it is in the condition necessary for it to be capable of operating in the manner intended by management. Intangible assets are amortized in line with the approved amortization plan. Intangible assets are amortized using the straight-line method. Monthly amortization charge is stated as the difference between acquisition costs and residual value, divided by the estimated useful life of the intangible assets. The residual value of intangible assets is assumed to be zero, unless (a) there is a commitment by a third party to purchase the asset at the end of its useful life, or (b) there is an active market for the asset and residual value can be determined by the reference to that market, and it is probable that such a market will exist at the end of the asset's useful life.

The Company does not have intangible assets with indefinite useful lives. The Company does not have any internally generated intangible assets.

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

Subsequent expenditures, which enhance or extend the performance of computer software programs beyond their original specifications and meets criteria for recognizing it as an intangible asset according to IAS 38, is recognized as a capital improvement and added to the original cost of the software.

The estimated useful lives of individual groups of intangible assets are as follows:

Software	3 years
Other intangible assets	3 years

2.6. Impairment of non-financial assets

Assets that are subject to amortization and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are individually identifiable cash flows (cash-generating units). Non-financial assets that were impaired are reviewed for possible reversal of the impairment at each end of the reporting period.

2.7. Financial assets

The Company does not have financial assets at fair value through profit or loss nor available-for-sale financial assets or financial assets held to maturity. If the Company had such financial assets, their classification would depend on the purpose for which these financial assets were acquired and on the intention of management of the Company on further use. Management determines the classification of its financial assets at initial recognition.

A financial asset is derecognised if the contractual rights to cash inflows from the asset expire or if the financial asset is transferred. The latter is the case if all substantial risks and rewards of ownership of the asset are transferred or if control over the asset is lost.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are incurred, if the Company supplies cash, goods or services directly to the debtor without intention to trade with receivables. Loans and receivables are included in current assets, except for maturities greater than 12 months after the end of the reporting period that would be classified as non-current assets. The Company does not have any loans. The Company does not have any receivables classified as non-current assets. In the Statement of Financial Position ("SOFP"), receivables are presented as "Trade and other receivables".

A financial asset is derecognised if the contractual rights to cash inflows from the asset expire or if the financial asset is transferred. The latter is the case if all substantial risks and rewards of ownership of the asset are transferred or if control over the asset is lost.

2.8. Leases

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

Finance leases

The Company does not have any finance leases.

Operating leases

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

2.9. Financial liabilities

When a financial liability is recognized initially, the Company measures it at its fair value adjusted for transaction costs that are directly attributable to the acquisition of the financial liability.

The Company classifies its financial liabilities according to IAS 39 "Financial Instruments: Recognition and Measurement" as other financial liabilities held at amortized cost or as financial liability at fair value through profit or loss. Contingent consideration related to the acquisition of iSK described in Note 3.6 is measured at fair value through profit or loss. All other financial liabilities are measured at amortized cost using effective interest rate method. The classification depends on the contractual provisions of the instrument and the intentions with which management entered into the contract. Management determines the classification of its financial liabilities at initial recognition.

The gain or loss from financial liabilities is recognised in the profit or loss when the financial liability is derecognised. A financial liability (or a part of financial liability) is removed from the Company's SOFP when, and only when it is extinguished – i.e. when the obligation specified in the contracts is discharged or cancelled or expires.

2.10. Inventories

Inventories are stated at the lower of cost and net realisable value. Weighted average method is used for the measurement at the disposal of inventories. The cost of material includes purchase price and directly

attributable acquisition costs. The net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling costs.

2.11. Construction contracts

A construction contract is defined by IAS 11 as a contract specifically negotiated for the construction of an asset. The activity that meets recognition criteria is implementation of software solutions for VSE and VSD.

Contract costs are recognized as expenses in the period in which they are incurred.

When the outcome of a construction contract cannot be reliably estimated, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable. The Company considers all its construction contracts to be recoverable as these contracts are agreed with companies within the group Východoslovenská energetika Holding a.s. based on Service Level Agreements (SLA) and recognizes revenue according to percentage of completion method. As management has concluded that it is always possible to estimate the outcome reliably as according to SLA, the Company re-invoices its construction contract costs with a 5% margin to VSD and VSE.

The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventory, prepayments or other assets, depending on their nature.

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

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

2.12. Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method, less provision for impairment. Revenue recognition policy is described in the Note 2.23.

A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all the amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy or financial reorganization, default or any delinquency in payments are considered indicators, 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 the estimated future cash flow discounted by the original effective interest rate.

Impairment of trade receivables is recognized on the account of provision for receivables. Set-up and release of the provision is recognized in the profit or loss within “Other operating (expenses)/income”. Trade receivables that cannot be collected are written off against the provision account for trade receivables and are recognized in the profit or loss also within “Other operating (expenses)/income”.

Trade receivables that were written off and subsequently paid by the debtors are recognized in the profit or loss within “Other operating (expenses)/income”.

The Company reviews monthly trade receivables balance and creation of bad debt provisions for receivables overdue.

2.13. Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, overdrafts and receivables from cash-pooling within the group Východoslovenská energetika Holding a.s.

Cash pooling financing was implemented within the group Východoslovenská energetika Holding a.s. The Company has recognized liability from cash pooling to its subsidiaries VSD, VSE, iSK and VSE Call Centrum, s.r.o. in the amount of EUR 106,256 thousand (2016: EUR 94,726 thousand), which is presented as Finance liabilities from cash-pooling. The Company has recognized a receivable from cash pooling from VSE Ekoenergia, s.r.o. in the amount of EUR 287 thousand (2016: EUR 248 thousand). It is presented as Cash and cash equivalents. Receivables from cash-pooling within the group Východoslovenská energetika Holding a.s. are cash equivalent as there is substantially no credit risk related to these receivables due to availability of financing for the group Východoslovenská energetika Holding a.s. and they are repayable on demand.

2.14. Share capital

Ordinary shares are considered as share capital. Additional costs attributable to issuing of new ordinary shares are presented in equity as decrease in equity, net of income tax.

2.15. Dividends

Dividend payout is recognized as liability, and decreases equity as of the end of the reporting period only if it has been declared by the end of the reporting period.

2.16. Legal reserve fund

Legal reserve fund is created in accordance with Commercial Code, based on financial statements, in the amount of 10% of profit after tax, up to 20% of share capital. Legal reserve fund can be used only for increase of share capital, or cover the losses.

2.17. Trade payables

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

2.18. Borrowings

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

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

2.19. Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset in accordance with IAS 23. To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization is determined by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of

obtaining a qualifying asset. The amount of borrowing costs capitalized during a period does not exceed the amount of borrowing costs incurred during that period.

2.20. Current and deferred income tax

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

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

Deferred income tax is determined using tax rates and respective legislation that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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

The Company shall offset deferred tax assets and deferred tax liabilities, if the Company has a legally enforceable right to set them off and they are concerned income taxes to be paid to the tax authorities.

2.21. Employee benefits

Pension plans and jubilee awards

The Company has defined benefit and defined contribution plans.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligations to pay further contributions in case the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Unfunded defined benefit pension plan

According to the contract with the Trade Unions effective from 1 April 2017 till 31 December 2019 the Company is obliged, based on the number of years in service, to pay its employees on early retirement, regular retirement or disability the following multiples of their average monthly salary (condition that an employee is not entitled to termination benefits must be met):

Years of service	Multiple of the average monthly salary
Up to 10 years	2x
10-15	3x
15-20	4x
20-25	5x
25-30	6x
30-35	7x
Over 35	8x

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

The Company also pays life jubilees benefits. Jubilee benefits when the employee reaches age of 50 years depend on the length of the service within the Company and are as follows:

	Benefit	
Years of service	**2017**	**2016**
Over 5 (2016: Up to 10)	374 EUR	360 EUR
Over 10	500 EUR	500 EUR
Over 20	670 EUR	670 EUR

The same or similar obligation had been included in the contracts with the Trade Unions since 1994. The Company created expectations on the side of its employees that it will continue to provide the benefits, and it is the management's judgement that it is not realistic for the Company to cease providing them.

The liability recognized in the SOFP in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period.

The defined benefit obligation is calculated annually by independent actuaries using the Projected Unit Credit Method. Discount rates were derived from the Bloomberg yield curve for high quality Euro corporate bonds (AA) quoted as at 14 December 2017 (2016: as at 15 December 2016). Subsequently, figures were adjusted by "bootstrapping" to spot line to calculate used forward discount rate. The yield curves used are not materially different compared to the yield curves as of the year-ends.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise.

Amendments to the pension plans (past-service costs) are recognised immediately in profit or loss.

Amendments to the jubilee benefits plans are accounted at its inception in profit or loss.

Defined contribution pension plans

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

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

Throughout the year, the Company contributed to such schemes in the amount of up to 35.2% (2016: 35.2%) of gross salaries up to a monthly salary, which is defined by the relevant law together with the contributions of the employees of a further up to 13.4 % (2016: 13.4%) of gross salaries. The costs contributed by the Company are charged to the profit or loss in the same period as the related salary costs.

In addition, with respect to employees who have chosen to participate in a supplementary pension scheme, the Company contributed to the supplementary scheme based on tariff wages and years of service provided in the Company in the following way:

	Benefit	
Years of service	**From 1 April 2017**	**From 1 January 2016**
up to 5 years	1.50 % of gross salary	1.50 % of gross salary
from 5 till 10 years	1.75 % of gross salary	1.75 % of gross salary
from 10 till 15 years	2.00 % of gross salary	2.00 % of gross salary
from 15 till 20 years	2.50 % of gross salary	2.50 % of gross salary
from 20 till 25 years	3.00 % of gross salary	3.00 % of gross salary
from 25 till 30 years	3.50 % of gross salary	3.50 % of gross salary
from 30 till 35 years	4.00 % of gross salary	4.00 % of gross salary
from 35 till 40 years	5.00 % of gross salary	5.00 % of gross salary
Over 40 years	6.00 % of gross salary	6.00 % of gross salary

Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits at the earlier of the following dates: (a) when the Company can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefit. In the case of an offer made to encouraged voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

2.22. Provisions and contingent liabilities

A provision is recognized by the Company when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognized for future operating losses. An entity may expect reimbursement of some or all expenditure required to settle a provision (e.g. through insurance contracts). It recognizes a reimbursement when, and only when, it is virtually certain that reimbursement will be received.

When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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

Contingent liability is defined as (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, or (b) a present obligation that arises from past events, but is not recognized, because: (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or (ii) the amount of the obligation cannot be measured with sufficient reliability.

2.23. Revenue recognition

Revenues represent fair value of the consideration received or receivable for the sale and distribution of electricity and for other services. Revenue is stated net of value-added tax, returns, rebates and discounts. Furthermore, the Company recognizes income from dividends and interest.

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 are met for each of the Company's activities as described below.

Sales of services

Sales of services represents the revenue stream which is presented as revenues and within profit from continuing operating on the statement of profit or loss and other comprehensive income are recognized in the accounting period in which the services are rendered.

The Company is providing services to companies within the group Východoslovenská energetika Holding a.s., as well as to innogy Solutions s.r.o. (until 31 August 2016: Innogy, s.r.o. and until 21 June 2016: KA Contracting SK, s.r.o.), innogy South East Europe s.r.o. (until 19 August 2016: RWE Slovensko s. r. o.):

- Finance and taxes, accounting, controlling and risk controlling
- Purchase, logistics, fleet and facility management
- Human resources, business advisory, internal audit, security management and translations
- Communication and marketing
- IT management and telecommunication management
- Call centre
- Billing
- Receivables management
- Rental of non-residential premises.

The rendering of these services is based on Service Level Agreements – SLAs. Revenues are calculated based on the cost of the Company plus 5%. Respective revenues of the Company for services amounted to EUR 19,858 thousand (2016: EUR 23,364 thousand).

The Company determines the stage of completion of contract using cost based method, i.e. costs incurred to date in comparison with total expected contract costs.

Interest income

Interest income is recognized on accrual basis using the effective interest rate method in the period when it is incurred, independent from the actual payments of the interest.

Dividend income

Dividend income is recognized within profit from operations when the Company's right to receive payments is established.

2.24. Related party disclosures

The Company applies exemptions under IAS 24 and discloses only qualitative and selected quantitative disclosures with entities under control of the government.

2.25. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the SOFP when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise

the asset and settle the liability simultaneously. The Company did not offset any financial assets and financial liabilities.

2.26. Share-based payments

Strategic Performance Program (hereinafter "SPP")

Selected executives of innogy SE as well as selected executives of legally independent subsidiaries, which are controlled by innogy SE, provided these subsidiaries have declared their participation in the SPP for the respective tranche are eligible to participate in the SPP.

Performance Shares (hereinafter "PS") are granted as a voluntary, additional bonus payment in yearly tranches. The repeated grant of PS shall not give rise to any rights to subsequent grants of PS or benefits of equal value. innogy SE and the legally independent subsidiaries decide annually at their own discretion whether and to what extent PS may be granted. The grant of the annual tranches is performed through personalized grant letters, which also state the individual grant amount ("Target Amount").

The SPP comprises four tranches (Company's executives are eligible only for 3 tranches beginning in 2017) which start in the four consecutive fiscal years 2016, 2017, 2018 and 2019 respectively. The beginning of each term is January 1 of the respective fiscal year. PS are granted on January 1 of the respective fiscal year.

The determination of the number of conditionally granted PS is conducted at the beginning of the respective grant year. For the conversion to conditionally granted PS, the target amount is divided by the arithmetic mean, commercially rounded to two decimal places, of the closing prices of innogy SE (ISIN: DE000A2AADD2) as quoted on the XETRA trading system of Deutsche Börse AG over the last 30 Trading days prior to January 1 of the respective grant year.

The conditionally granted PS have a vesting period of four years in total. The vesting period begins on January 1 of the respective grant year and ends on December 31 of the third year following the respective grant year.

PS do not bear voting rights or dividend entitlements.

The payout amount is calculated using the number of finally allocated PS multiplied with the sum of the arithmetic mean of the closing prices of Innogy SE over the last 30 trading days prior to the end of the vesting period and dividends paid per share in the fiscal years between the final allocation of PS and the end of the vesting period.

Dividends are not reinvested or eligible to any interest payments. If a dividend payment occurs within the 30 Trading Days prior to the end of the Vesting Period, share prices of the Trading Days before the payment (Cum-prices) are adjusted for the dividend payment to avoid proportionate double counting of the dividends.

The liability of EUR 20 thousand resulting from 2017 tranche is presented in Trade and other payables in SOFP. For more information, see Note 25.

3. Financial risk management

The Company's activities are exposed to a variety of financial risks: market risk (including risk of changes in foreign currency exchange rates, interest rates, and price risk), credit risk and liquidity risk. The strategy of risk management of the Company is focused on the mitigation of potential negative impacts on financial results of the Company. In 2005, the Company introduced and subsequently updated the risk management framework, focusing on contractual, credit and financial risk.

Risk management function is carried out by the central department Risk controlling, governed by policies approved by the Chief Executive Officer. Risk controlling identifies, evaluates and manages financial risks in close co-operation with the Company's operating units. The Risk controlling department provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, credit risk, use of derivative financial instruments and non-derivative instruments. Management of liquidity and interest rate risks is carried out by department Finance.

3.1. Credit risk

The Company is exposed to credit risk because of the possibility of failure of business partner and subsequent non-payment for commodity, goods or services supplied or because of unrealised agreed supplies of goods and serices.

The Company mainly renders services to its subsidiaries and companies within the innogy Group. The exposure to credit risk is considered by management to be low and is not specifically managed.

Credit risk also originates from cash and bank accounts. Risk resulting from bank accounts is reduced through diversification of deposits in several banks. A long-term global rating of bank accounts in the local currency is stable for all banks. As a result, the Company evaluates the risk of bank accounts as standard.

The table below shows the amounts of cash and bank accounts and overdraft facilities:

in EUR thousand	Rating		31 December 2017		31 December 2016	
Bank	2017	2016	Bank balance	Overdraft facility	Bank balance	Overdraft facility
VÚB	A2/P-1	A2/P-1	109	46,000	138	50,000
ING Bank	Aa3/P-1	A1	19	-	20	-
UniCredit Bank	Baa1/P-2	Baa1	14	-	40	-
Citibank	A1/P-1	A1	-	85,000	7,661	85,000
Total			**142**	**131,000**	**7,859**	**135,000**

The Company has also receivables from cash pooling within the group Východoslovenská energetika Holding a.s. These receivables are part of Cash and cash equivalents and are presented on the SOFP accordingly (see Note 2.13).

3.2. Liquidity risk

Prudent liquidity risk management means maintaining sufficient cash and marketable securities,availability of credit facilities and the ability to close out market positions. The Company's financing position management is focused on maintaining flexibility of financing by ensuring availability of credit lines.

Management monitors interim liquidity forecasts based on expected cash flows that are presented in cash and cash equivalents.

Beside the cash in banks, the Company has a borrowing facility in form of overdrafts in total amount of EUR 131,000 thousand (2016: EUR 135,000 thousand). The Company draw the overdraft of EUR 14,715 thousand as at 31 December 2017 (2016: EUR 0 thousand).

The table below shows the analysis of financial liabilities of the Company according to remaining contractual maturities. The amounts in the table present the undiscounted cash flows. The amounts due up to 3 months are equal to their carrying amount, as the impact of discounting is not significant.

in EUR thousand	Less than 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
31 December 2017						
Borrowings (Note 14)	-	64,928	-	-	127,965	192,893
Trade and other payables (net of liabilities within the VSE H group presented below) (Note 13)	3,313	-	-	-	-	3,313
Liability from contingent consideration (Note 15)	-	14,848	21,372	-	-	36,220
Liabilities to subsidiaries (Note 13)	268	-	-	-	-	268
Liabilities from cash pooling (Note 16)	106,256	-	-	-	-	106,256
Total	**109,837**	**79,776**	**21,372**	**-**	**127,965**	**338,950**

in EUR thousand	Less than 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
31 December 2016						
Borrowings (Note 14)	-	-	50,406	-	129,051	179,457
Trade and other payables (net of liabilities within the VSE H group presented below) (Note 13)	3,226	-	-	-	-	3,226
Liability from contingent consideration (Note 15)	-	5,500	3,050	21,762	-	30,312
Liabilities to subsidiaries (Note 13)	255	-	-	-	-	255
Liabilities from cash pooling (Note 16)	94,726	-	-	-	-	94,726
Total	**98,207**	**5,500**	**53,456**	**21,762**	**129,051**	**307,976**

3.3. Cash flow interest rate risk

As the Company has no other significant interest earning assets or liabilities besides bank accounts, the interest income and operating cash flow are only slightly dependent on the changes of market interest rates.

The Company’s interest expense and financing cash flows depend on changes in market interest rates, as the majority of existing borrowings are frequently re-priced. As the interest paid is not significant for the Company, the impact of the interest rate risk is limited and no sensitivity analysis is disclosed.

3.4. Foreign exchange risk

The Company is not exposed to significant foreign exchange risk as foreign currency expenditures, revenues and borrowings are not significant to the Company.

3.5. Capital management

The Company's capital management objective is focused on maintaining optimal structure of debt and own capital (debt/equity ratio) on the consolidated level of the group Východoslovenská energetika Holding a.s. The Company defines capital as equity increased by loans and decreased by cash and cash equivalents. Management monitors these ratios only at the level of consolidated financial statements for the group Východoslovenská energetika Holding a.s.

The amounts of borrowings and cash, capital and liabilities in the separate financial statements are as follows:

	As at 31 December	
in EUR thousand	**2017**	**2016**
Borrowings	184,715	170,000
Contingent consideration	33,220	25,448
Liabilities from cash-pooling	106,256	94,726
Cash and cash equivalents	(445)	(8,113)
Net debt	**323,746**	**282,061**
Equity	576,444	617,092
Capital total	**900,190**	**899,153**
Liabilities	331,088	296,387
Liabilities to capital ratio	**36.8%**	**33.0%**
Debt / equity ratio	**56.2%**	**45.7%**

3.6. Fair value estimation of financial instruments

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the group classifies its financial instruments into the three levels prescribed under the accounting standards.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The Company has no financial instruments classified within Level 1 of fair value hierarchy.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. The Company has no financial instruments classified within Level 2 of fair value hierarchy.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. The Company records contingent consideration from acquisition of iSK (see Note 15) at

fair value through profit or loss. Its fair value is recorded on the balance sheet within Non-current and Current liabilities as Liability from contingent consideration.

In addition, the Company has financial instruments that are measured at fair value at their initial recognition and that are subsequently measured at amortized cost using effective interest rates. For measuring their fair value, the Company uses inputs that are not based on observable market data (Level 3 inputs as defined by IFRS 13). Fair value of these financial instruments is not materially different compared to their carrying amounts.

Fair value measurements using significant unobservable inputs

The following table presents the changes in level 3 items, which relate to contingent consideration liability:

in EUR thousand	As at and for the period ended 31 December 2017	As at and for the period ended 31 December 2016
Fair value of liability from contingent consideration as of 1 January (current and non-current)	**25,448**	**30,416**
Payment of a part of contingent consideration	(5,499)	(8,990)
Finance costs – unwinding of discount	2,181	2,141
Finance (+) expense/ (-) income – reassessment of fair value of contingent consideration as of 31 December, other than unwinding of discount	11,090	1,881
Fair value of liability from contingent consideration as of 31 December (current and non-current)	**33,220**	**25,448**

The finance department of the Group includes a team that performs the valuations of financial instruments required for financial reporting purposes, including level 3 fair values. This team reports directly to the chief financial officer (CFO). Discussions of valuation processes and results are held between the CFO, chief accountant and the valuation team at least once every three months.

The main level 3 inputs used by the Group are derived and evaluated as follows:

- Discount rates for contingent consideration liability is determined using a capital asset pricing model to calculate a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the financial instrument.
- Expected EBITDA related to iSK performance in 2018 are estimated based on the entity's knowledge of the business, gross profitability of various categories of customers, expected operating expenses and how the current economic environment is likely to influence the results.

The following table summarises sensitivity analysis related to contingent consideration liability assuming basic scenario discount factor at 10% and applying of the expected EBITDA in year 2018.

Sensitivity analysis	Liability as at 31 December 2017	Change in parameter compared to basic scenario in thousand EUR	Change in comparison with basic scenario in %
Liability in basic scenario as at 31 December 2017	33,220		
1% decrease in discount factor	33,493	273	0.8
EUR 1,000 thousand increase in Expected EBITDA of iSK for 2018	35,048	1,828	5.5

Sensitivity analysis	Liability as at 31 December 2016	Change in parameter compared to basic scenario in thousand EUR	Change in comparison with basic scenario in %
Liability in basic scenario as at 31 December 2016	25,448		
1% decrease in discount factor	25,871	423	1.7
EUR 1,000 thousand increase in Expected EBITDA of iSK for 2017	27,276	1,828	7.2
EUR 1,000 thousand increase in Expected EBITDA of iSK for 2018	27,110	1,662	6.5

4. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are considered reasonable under the circumstances.

4.1. Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. 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 outlined below.

Liability from contingent consideration

Based on acquisition contract, the purchase price of 100% share on voting rights of iSK consists from fixed consideration paid in cash and contingent consideration (Note 15) dependent of future EBITDA of acquired subsidiary.

In the event that certain pre-determined EBITDA are achieved by the iSK for the years ended 31 December 2015, 2016, 2017 and 2018, additional consideration may be payable in cash on 1 April of each following year. While the maximum earn-out amount is not limited, the minimum amount is zero.

The fair value of financial liability from contingent consideration of EUR 33,220 thousand was estimated by calculating the present value of the future expected cash flows.

See Note 3.6 for more disclosures in this respect.

5. Tangible assets

in EUR thousand	Land	Buildings and infrastructure	Machinery, equipment, vehicles and office equipment	Construction in progress	Total
At 1 January 2016					
Cost	488	21,191	10,942	201	32,822
Accumulated depreciation	-	(12,005)	(8,964)	-	(20,969)
Impairment	-	(6,974)	-	-	(6,974)
Net book value	**488**	**2,212**	**1,978**	**201**	**4,879**
Additions	-	-	-	1,205	1,205
Transfer from CIP	-	-	903	(903)	-
Damaged assets	-	(27)	-	-	(27)
Net book value of sold assets	(3)	(95)	-	-	(98)
Release of impairment provision	-	563	-	-	563
Depreciation charge	-	(799)	(830)	-	(1,629)
Closing net book value	**485**	**1,854**	**2,051**	**503**	**4,893**
At 31 December 2016					
Cost	485	20,864	11,506	503	33,358
Accumulated depreciation	-	(12,599)	(9,455)	-	(22,054)
Impairment	-	(6,411)	-	-	(6,411)
Net book value	**485**	**1,854**	**2,051**	**503**	**4,893**
At 1 January 2017					
Cost	485	20,864	11,506	503	33,358
Accumulated depreciation	-	(12,599)	(9,455)	-	(22,054)
Impairment	-	(6,411)	-	-	(6,411)
Net book value	**485**	**1,854**	**2,051**	**503**	**4,893**
Additions	-	-	-	775	775
Transfer from CIP	-	218	699	(917)	-
Release of impairment provision	-	611	-	-	611
Depreciation charge	-	(795)	(700)	-	(1,495)
Closing net book value	**485**	**1,888**	**2,050**	**361**	**4,784**
At 31 December 2017					
Cost	485	21,062	10,737	361	32,645
Accumulated depreciation	-	(13,374)	(8,687)	-	(22,061)
Impairment	-	(5,800)	-	-	(5,800)
Net book value	**485**	**1,888**	**2,050**	**361**	**4,784**

An impairment in the amount of EUR 5,800 thousand was recognized in the SOFP for administrative buildings as at 31 December 2017 (2016: EUR 6,411 thousand). The reason for impairment of these buildings is their low utilization. The recoverable amount of the building is determined as its value in use, calculated as future cash flows from the rental of unused space over the building's estimated economic useful life, considering future operating costs. The estimate is based on an expected utilization of the premises not occupied by the Company's staff. The rental charge per m^2 is the current market rate for similar premises in the area. The discount factor used is 5.99% p.a. (31 December 2016: 6.0% p.a.). Net book value of building not covered by impairment provision is zero. The management decided to decrease the impairment provision by amount equal to yearly depreciation charge.

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

The Company recognizes and uses no significant real estate subscribed in Cadastral Register, which are not legally permitted for the usage of the Company as at the end of the reporting period.

Property, plant and equipment are insured up to the amount of EUR 88,569 thousand (2016: EUR 88,719 thousand).

6. Intangible assets

in EUR thousand	Computer software and other	Intangible assets not yet ready to use	Total
At 1 January 2016			
Cost	18,980	807	19,787
Accumulated amortization	(17,683)	-	(17,683)
Net book value	**1,297**	**807**	**2,104**
Additions	-	832	832
Transfer from CIP	921	(921)	-
Amortization charge	(1,082)	-	(1,082)
Closing net book value	**1,136**	**718**	**1,854**
At 31 December 2016			
Cost	19,902	718	20,620
Accumulated amortization	(18,766)	-	(18,766)
Net book value	**1,136**	**718**	**1,854**
At 1 January 2017			
Cost	19,902	718	20,620
Accumulated amortization	(18,766)	-	(18,766)
Net book value	**1,136**	**718**	**1,854**
Additions	-	1,166	1,166
Transfer from CIP	1,011	(1,011)	-
Amortization charge	(962)	-	(962)
Closing net book value	**1,185**	**873**	**2,058**
At 31 December 2017			
Cost	20,913	873	21,786
Accumulated amortization	(19,728)	-	(19,728)
Net book value	**1,185**	**873**	**2,058**

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

7. Subsidiaries, associates and joint ventures

Subsidiaries

The Company's subsidiaries at 31 December 2017 are set out below. They have share capital consisting solely of ordinary shares that are held directly by the Company, and the proportion of ownership interests held equals the voting rights held by the group. The country of incorporation or registration is also their principal place of business.

Name	Country of incorporation	Date of incorporation	Date of commencement of operation	% interest held	Purpose
Východoslovenská distribučná, a. s.	Slovak Republic	February 2007	July 2007	100%	Electricity distribution
Východoslovenská energetika, a.s.	Slovak Republic	November 2008	July 2014*	100%	Electricity delivery
innogy Slovensko s. r. o.	Slovak Republic	July 2008	July 2008	100%	Gas delivery
VSE Ekoenergia, s.r.o.	Slovak Republic	November 2003	November 2003	100%	Outsourcing of electricity network operations and maintenance
VSE Call centrum, s.r.o.	Slovak Republic	July 2009	January 2010	100%	Computer data processing services

*VSE took over sales activities from the parent company after its spin-off on 1 July 2014 (see Note 1).

Direct interest in share capital of subsidiaries at cost is as follows:

in EUR thousand	As at 31 December 2017	2016
Východoslovenská distribučná, a. s.	725,316	725,316
Východoslovenská energetika a.s.	117,427	117,427
innogy Slovensko s. r. o.	51,537	51,537
VSE Ekoenergia, s.r.o.	675	525
VSE Call centrum, s.r.o.	50	50
Total	**895,005**	**894,855**

Until July 2017, VSE Ekoenergia had 51% share in share capital of its subsidiary Bioplyn Rozhanovce s.r.o. representing EUR 465 thousand. (2016: EUR 465 thousand). Based on the General Meeting decision held on 3 August 2017 Bioplyn Rozhanovce, s.r.o. increased its share capital from EUR 465 thousand to EUR 1,138 thousand. VSE Ekoenergia, s.r.o. participated on this increase through the paid cash of EUR 150 thousand and its share on voting rights decreased from 51 % to 34%.

Financial results of subsidiaries are as follows:

2017 in EUR thousand	Assets	Liabilities	Equity	Profit/loss
Východoslovenská distribučná, a.s.	765,870	164,895	600,975	30,626
Východoslovenská energetika a.s.	119,353	60,112	59,241	1,869
innogy Slovensko s. r. o.	44,720	36,480	8,240	7,841
VSE Ekoenergia, s.r.o.	478	294	184	(59)
VSE Call centrum, s.r.o.	300	274	26	(29)
	930,721	**262,055**	**668,666**	**40,248**

2016 in EUR thousand	Assets	Liabilities	Equity	Profit/loss
Východoslovenská distribučná, a.s.	743,259	152,930	590,329	19,283
Východoslovenská energetika a.s.	144,246	66,377	77,869	7,308
innogy Slovensko s. r. o.	55,693	51,046	4,647	4,318
VSE Ekoenergia, s.r.o.	347	255	92	(39)
VSE Call centrum, s.r.o.	317	245	72	17
Bioplyn Rozhanovce s.r.o. (51% subsidiary of VSE Ekoenergia, s.r.o.)	2,475	1,768	707	30
	946,337	**272,621**	**673,716**	**30,917**

Investments in associates and joint ventures

Name of entity	Country of incorporation	Date of incorporation	% Interest held	Activities
SPX, s.r.o., Žilina	Slovak Republic	January 2005	33.33% Joint venture	Consulting services provider in the area of energy industry
TRANSELEKTRO spoločnosť s ručením obmedzeným Košice	Slovak Republic	November 1993	25.5% Associate	Electricity importer
Energotel, a.s. Bratislava	Slovak Republic	March 2000	20,00% Joint venture	Fixed line telecom and data services provider
Bioplyn Rozhanovce, s.r.o.	Slovak Republic	July 2010	34,00% Joint venture of VSE Ekoenergia, s.r.o.	Production of electricity from biomass

The Company, together with other shareholders, has joint control of the financial and operational policies of Energotel and SPX through the shareholder agreement together with its other venturers.

The cost of shares in associates and joint ventures is as follows:

in EUR thousand	As at 31 December 2017	2016
SPX, s.r.o.	33	33
TRANSELEKTRO spoločnosť s ručením obmedzeným Košice	9	9
Energotel, a.s.	525	525
Total	**567**	**567**

In addition, Company's subsidiary VSE Ekoenergia has 34% share on share capital of its joint venture Bioplyn Rozhanovce s.r.o. representing cost of EUR 387 thousand. For more information, see Note 7 – Subsidiaries.

The financial results of the Company's associates and joint ventures are as follows (in EUR thousand):

2017	Assets	Liabilities	Equity	Profit/(loss)
SPX, s.r.o.	176	23	153	11
TRANSELEKTRO spoločnosť s ručením obmedzeným Košice	517	91	426	(33)
Energotel, a.s	13,449	6,644	6,805	1,293
Bioplyn Rozhanovce, s.r.o.	2,887	1,448	1,439	58
Total	**17,029**	**8,206**	**8,823**	**1,329**

2016	Assets	Liabilities	Equity	Profit/(loss)
SPX, s.r.o.	156	14	142	11
TRANSELEKTRO spoločnosť s ručením obmedzeným Košice	563	105	458	(73)
Energotel, a.s.	14,815	5,393	9,422	1,562
Total	**15,534**	**5,512**	**10,022**	**1,500**

The financial figures for year 2017 are based on interim not audited and not approved financial statements as at 31 December 2017. They are not expected to differ significantly from the final amounts.

8. Financial instruments by category

The reconciliation of the classes and categories of financial instruments is as follows:

31 December 2017 in EUR thousand	Loans and receivables	Total
Assets as per statement of financial position		
Trade and other receivables (Note 10)	2,118	2,118
Cash and cash equivalents (Note 11)	445	445
Total	**2,563**	**2,563**

31 December 2017 in EUR thousand	Other financial liabilities carried at amortised cost	Liabilities at fair value through the Profit or Loss	Total
Liabilities as per statement of financial position			
Trade and other payables (Note 13)	3,313	-	3,313
Liabilities to subsidiaries (Note 13)	268	-	268
Liabilities from contingent consideration (Note 15)	-	33,220	33,220
Current financial liabilities from cash pooling (Note 16)	106,256	-	106,256
Borrowings (Note 14)	184,715	-	184,715
Total	**294,552**	**33,220**	**327,772**

31 December 2016 in EUR thousand	Loans and receivables	Total
Assets as per statement of financial position		
Trade and other receivables (Note 10)	1,189	1,189
Cash and cash equivalents (Note 11)	8,113	8,113
Total	**9,302**	**9,302**

31 December 2016 in EUR thousand	Other financial liabilities carried at amortised cost	Liabilities at fair value through the Profit or Loss	Total
Liabilities as per statement of financial position			
Trade and other payables (Note 13)	3,226	-	3,226
Liabilities to subsidiaries (Note 13)	255	-	255
Liabilities from contingent consideration (Note 15)	-	25,488	25,488
Current financial liabilities from cash pooling (Note 16)	94,726	-	94,726
Borrowings (Note 14)	170,000	-	170,000
Total	**268,207**	**25,488**	**293,655**

The risk management is described in Note 3 Financial risk management.

Bad debt provision is set-up by the Company as follows:

Bad debt provisions for receivables due from companies in bankruptcy are accounted up to the amount of submitted claims. In this case, the provisions are tax deductible.

Bad debt provisions for receivables due from debtors, which are not in bankruptcy, are created based on the ageing structure of individual receivables. Applied percentage is dependent on a type of a customer. Bad debt provision for receivables due from subsidiaries is not created, as all receivables within the consolidated group are fully recoverable.

a/ Creation of bad debt provisions for receivables overdue – other operations.

Days overdue from – till	% bad debt
1 – 90 days	5 %
91 – 180 days	10 %
181 – 360 days	20 %
361 and longer	100 %

b/ Receivables due from commercial customers in bankruptcy are fully provided with specific bad debt provision regardless of overdue days. The reconciliation of changes in bad debt provisions for trade and other receivables is stated in Note 10.

The Company's collaterals had used for credit risk were not significant to the Company, and therefore did not affect bad debt provision.

The percentages in categories of overdue days by customers from the tables above were determined based on historical experience with collectability of receivables.

There are no significant individually impaired receivables.

9. Amounts due from / due to customers for contract work

in EUR thousand	As at 31 December 2017	2016
The aggregate costs incurred and recognised profits (less recognised losses) to date for contracts in progress	730	810
Less progress billings	(644)	(504)
Total	**86**	**306**
Amounts due from customers for contract work	86	306

The contract revenue recognised in the year ended 31 December 2017 amounted to EUR 730 thousand (2016: EUR 810 thousand) is presented within "revenues" in Note 20.

Amounts due from customer for the contract is presented within Trade and other receivables (Note 10).

10. Trade and other receivables

in EUR thousand	As at 31 December 2017	2016
Financial instruments:		
Receivables not due from continuing operations, not impaired	1,797	1,163
Receivables past due from continuing operations, impaired	23	172
Trade receivables	**1,820**	**1,335**
Less provision for impairment of receivables	(14)	(172)
Trade receivables – net	**1,806**	**1,163**
Receivable from dividend	312	-
Non-Financial instruments:		
Prepayments	590	438
Advances paid	53	28
Other receivables	17	26
Total	**2,778**	**1,655**

The carrying amounts of trade and other receivables are not substantially different from their fair value. The maximum exposure to credit risk is limited by the carrying value of receivables. There was low concentration of credit risk with respect to trade receivables as the Company had a large number of customers.

Other receivables are not impaired.

Trade receivables are denominated in EUR.

Ageing structure of overdue receivables is as follows (in EUR thousand):

	2017		**2016**	
Days overdue	**Receivables**	**Bad debt provision**	**Receivables**	**Bad debt provision**
Up to 3 months overdue	8	-	-	-
3 – 6 months overdue	-	-	-	-
6 – 12 months overdue	1	-	-	-
More than 12 months overdue	13	13	171	171
Total	**22**	**13**	**171**	**171**

Impaired receivables due from commercial customers in bankruptcy of EUR 1 thousand (2016: EUR 1 thousand) were covered with specific bad debt provision of EUR 1 thousand (2016: EUR 1 thousand).

The movements of bad debt provisions are presented in the profit of loss as “Other operating (expenses) / income”. Movements are presented below:

	As at December	
in EUR thousand	**2017**	**2016**
Balance at 1 January	**172**	**172**
Creation of bad debt provision	1	-
Receivables written off during the year as uncollectible	(159)	-
Balance at 31 December	**14**	**172**

There are no individually significant impaired receivables. The Company does not hold any collateral as security. There are no restrictions of ownership relating to receivables.

11. Cash and cash equivalents

	As at December	
in **EUR thousand**	**2017**	**2016**
Receivables from cash-pooling	287	248
Cash at bank and in hand	158	7,865
Total	**445**	**8,113**

The effective interest on a weighted average basis on interest bearing deposits was 0% (2016: 0%) and these deposits had an average maturity of 1 day (2016: 1 day).

Carrying amount is a reasonable approximation of fair value.

For the purposes of the Statement of Cash Flow, the cash and cash equivalents comprise of the above-mentioned items.

The Company has no bank guarantees as at 31 December 2017 (31 December 2016: 0).

The Company had no cash related restrictions in 2017 and 2016.

12. Equity

Ordinary shares	Number of shares (EUR thousands)	Ordinary shares (EUR thousand)
At 31 December 2017	3,363	111,618
At 31 December 2016	3,363	111,618

The total authorized number of ordinary shares is 3,363 thousand shares (31 December 2016: 3,363 thousand) with a nominal value of EUR 33.19 per share. All issued shares are fully paid.

In accordance with Act No. 659/2007 Coll. on the Introduction of the Euro Currency in the Slovak Republic, the Company has translated nominal value of shares and nominal value of share capital from the Slovak crowns to EUR using the conversion exchange rate and the other relevant rules for transition to the EUR. The difference resulting from rounding in amount of EUR 13 thousand was accounted for in legal reserve fund as a contribution to the legal reserve fund.

The Company does not have any equity subscribed but not listed in the Commercial Register.

The Company is obliged to create a reserve fund at its establishment in amount and in the way described in Articles of the Company. The minimum amount of reserve fund is 10% of registered capital. This fund is to be replenished annually by a sum defined in the Articles, minimum 5% of net profit up to the amount stated in the Articles, minimum up to 20% of registered capital.

Portion of the reserve fund required by the Commercial Code can be used only to cover losses of the Company or for actions, which should be set to overcome an unfavourable development of results of the Company. The Board of Directors decides on the use of reserve fund, if not stated in Articles otherwise.

The Company created the legal reserve fund in amount of 20% of share capital established at the incorporation (EUR 16,480 thousand) and by the contribution from retained earnings in the amount of EUR 5,846 thousand and by the difference from translation of share capital by the conversion exchange rate at 1 January 2009 in the amount of EUR 13 thousand. The Company had created as at 31 December 2017 the required amount of legal reserve fund in accordance with Commercial Code.

In 2005, the Company allocated EUR 12,946 thousand from profit for the year 2004 to the fund for the investment support in the region. This fund can be used for the purposes of development in the Eastern Slovak region.

On 24 May 2017, the General Meeting approved the statutory financial statements for 2016 and decided to pay out dividends to the shareholders for 2016 of EUR 56,319 thousand.

The profit for the period ended 31 December 2017 of EUR 15,824 thousand (2016: EUR 41,251 thousand) is available for distribution. The General Meeting will decide about the profit distribution. The consolidated profit for the year 2017 is used as a base for profit distribution. Therefore, the Board of Directors will submit the proposal to the General Meeting to pay the dividend of EUR 45,904 thousand to shareholders, i.e. EUR 13.65 per share.

There is no income tax consequence related to this dividend.

Dividends per share are calculated as follows:

in EUR thousand	2017	2016
Dividends approved and paid out (EUR thousand)	56,319	70,587
Weighted average number of ordinary shares (thousand)	3,363	3,363
Dividends per share (EUR/share)	**16.75**	**20.99**

13. Trade and other payables

	As at 31 December	
in EUR thousand	**2017**	**2016**
Financial instruments:		
Trade and other payables (net of liabilities to subsidiaries)	2,647	2,647
Liabilities to subsidiaries	268	255
Accrued borrowing costs	232	231
Payables to employees	434	348
Items not representing financial instruments:		
Deferred revenues	30	19
Taxes	127	113
Social security and other liabilities	1,831	1,458
Total	**5,569**	**5,071**

The fair value of trade and other payables is not significantly different from their carrying amount.

There are no liabilities pledged or secured in another way.

The Company recognizes no payables overdue as at 31 December 2017 and as at 31 December 2016.

14. Borrowings

	As at 31 December	
in EUR thousand	**2017**	**2016**
Non-current borrowings		
Bank loans	120,000	170,000
	120,000	**170,000**
Current borrowings		
Bank loans	64,715	-
	64,715	**-**
Total borrowings	**184,715**	**170,000**

The carrying amounts of bank borrowings are as follows:

	As at 31 December	
in EUR thousand	**2017**	**2016**
Citibank	14,715	-
UniCredit Bank	60,000	60,000
ING bank	110,000	110,000
Total	**184,715**	**170,000**

The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on borrowings rate of 0.75% (2016: 0.95%) and are within level 3 of the fair value hierarchy.

Further details on loans outstanding as of 31 December 2017 are provided below (in EUR thousand):

Bank / creditor	**Currency**	**Amount in EUR'00**	**Interest rate in %**	**Maturity date**	**Collateral**	**Proportion due in the next 12 months in EUR'000**
Citibank	EUR	14,715	1M EURIBOR+0.55%	30 Sep 2018	-	14,715
ING bank	EUR	50,000	6M EURIBOR+0.5%	7 Aug 2018	Statement of Guarantor – VSE	50,000
ING bank	EUR	60,000	Fix 0.500%	22 Jun 2023	Statement of Guarantor – VSE and VSD	-
UniCredit Bank	EUR	60,000	Fix1.163%	26 Jun 2026	Guarantor – VSE and VSD	-
Total		**184,715**				**64,715**

Further details on loans outstanding as of 31 December 2016 are provided below (in EUR thousand):

Bank / creditor	**Currency**	**Amount in EUR'00**	**Interest rate in %**	**Maturity date**	**Collateral**	**Proportion due in the next 12 months in EUR'000**
ING bank	EUR	50,000	6M EURIBOR+0.5%	7 August 2018	Statement of Guarantor – VSE	-
ING bank	EUR	60,000	Fix 0.500%	22 June 2023	Statement of Guarantor – VSE and VSD	-
UniCredit Bank	EUR	60,000	Fix1.163%	26 June 2026	Guarantor – VSE and VSD	-
Total		**170,000**				**-**

The exposure of the Company's borrowings to interest rate changes (the periods in which the borrowings re-price) is as follows:

in EUR thousand	2017	2016
6 months or less	64,715	50,000
	64,715	**50,000**

The effective average interest rates at the end of the reporting period were as follows:

in EUR thousand	2017	2016
Bank borrowings	0.75%	0.95%

Borrowing facilities

The Company has the following borrowing facilities:

			Funds availability up to the amount	
Bank / creditor	**Type**	**Currency**	**2017**	**2016**
Citibank	Overdraft	EUR	85,000	85,000
VUB	Overdraft	EUR	46,000	50,000
Total			**131,000**	**135,000**

The borrowing facilities are used by the Company for covering temporary discrepancies between the requirements on cash and funds available.

The reconciliation of loan balances is set out in table below:

in EUR thousand	2017	2016
1 January	**170,000**	**144,680**
Cash flow	14,715	25,320
31 December	**184,715**	**170,000**

15. Liability from contingent consideration

Financial liability from contingent consideration for acquired iSK denominated in EUR is stated in the table below:

	As at 31 December	
in EUR thousand	**2017**	**2016**
Non-current liabilities		
Liability from contingent consideration	18,372	19,948
Total	**18,372**	**19,948**
Current liabilities		
Liability from contingent consideration	14,848	5,500
Total	**14,848**	**5,500**
Total	**33,220**	**25,448**

	As at 31 December	
in EUR thousand	**2017**	**2016**
Gross finance liabilities from expected consideration payments:		
No later than 1 year	14,848	5,500
Later than 1 year and no later than 2 years	21,372	3,050
Later than 2 years and no later than 5 years	-	21,762
Total	**36,220**	**30,312**
Future finance charges on finance liabilities	(3,000)	(4,864)
Present value of liabilities from contingent consideration	**33,220**	**25,448**

The present value of finance liabilities from contingent consideration is as follows:

	As at 31 December	
in EUR thousand	**2017**	**2016**
No later than 1 year	14,390	5,330
Later than 1 year and no later than 2 years	18,830	2,687
Later than 2 years and no later than 5 years	-	17,431
Total	**33,220**	**25,448**

For critical accounting estimates and assumptions refer to Note 4.1.

16. Financial liabilities from cash pooling

Liabilities within the consolidated group and liabilities from cash pooling are shown in the table below:

	As at 31 December	
in EUR thousand	**2017**	**2016**
Liability from cash pooling	106,256	94,726
Total	**106,256**	**94,726**

17. Deferred income tax

Deferred income taxes are calculated in full on temporary differences under the liability method using a principal tax rate of 21% (2016: 21%).

	As at 31 December	
in EUR thousand		**2016**
Deferred tax assets:		
- Deferred tax asset to be recovered after more than 12 months	1,385	1,016
- Deferred tax asset to be recovered within 12 months	483	291
Total	**1,868**	**1,307**

The movement on the deferred income tax account is as follows:

in EUR thousand	**2017**	**2016**
As at 1 January	1,307	1,477
Income/(expense) in profit or loss	561	(170)
As at 31 December	**1,868**	**1,307**

The movement in deferred tax assets and liabilities during the year is as follows:

in EUR thousand	**At 1 January 2017**	**(Charged) / credited to the profit or loss**	**At 31 December 2017**	**Impact of change in expected tax rate**
Difference between tax base and carrying amount of non-current assets	750	(90)	660	-
Bad debt provisions	34	(34)	-	-
Provision for other liabilities and charges	505	60	565	-
Tax losses carried forward	-	612	612	
Other	18	13	31	-
Total	**1,307**	**561**	**1,868**	**-**

in EUR thousand	**At 1 January 2016**	**(Charged) / credited to the profit or loss**	**At 31 December 2016**	**Impact of change in expected tax rate**
Difference between tax base and carrying amount of non-current assets	826	(76)	750	(36)
Bad debt provisions	36	(2)	34	(2)
Provision for other liabilities and charges	615	(110)	505	(24)
Other	-	18	18	(1)
Total	**1,477**	**(170)**	**1,307**	**(63)**

18. Provisions for other liabilities and charges

in EUR thousand	Pensions and other staff benefits	Restructuring	Total
At 1 January 2017	**1,115**	**27**	**1,142**
Provisions creation	266	27	293
Unused amount released	-	(27)	(27)
Used/paid during year	(80)	-	(80)
At 31 December 2017	**1,301**	**27**	**1,328**

in EUR thousand	Pensions and other staff benefits	Restructuring	Legal claims	Total
At 1 January 2016	**1,166**	**205**	**33**	**1,404**
Provisions creation	42	27	-	69
Unused amount released	-	(187)	(33)	(220)
Used/paid during year	(93)	(18)	-	(111)
At 31 December 2016	**1,115**	**27**	**-**	**1,142**

Restructuring provision

In accordance with long-term plans of the Company, a reduction of 2 jobs will be made in 2018. This decision was approved in 2017 by the Company's representatives and communicated to the trade unions. The estimated staff restructuring costs to be incurred are EUR 27 thousand and the provision will be used in 2017. Similar restructuring programme was in place in 2016, which resulted in recognition of provision in the comparative period in the amount EUR 27 thousand.

Provision for retirement and other employee benefits

These provisions are described in Note 19. Use of the provision for retirement depends on the termination of employment by employees at the normal retirement date, which is expected in years 2018-2062. Provision for jubilee awards is expected to be used at life or work milestones, when such an event occurs.

Analysis of total provisions for other liabilities and charges:

in EUR thousand	As at 31 December	
	2017	**2016**
Non-current provisions (long-term portion of pension liability)	1,268	1,105
Current provisions (restructuring and short-term portion of pension liability)	60	37
Total	**1,328**	**1,142**

19. Employees benefit obligations

The following amounts have been recognized with respect of the defined benefit pension plan in the financial statements:

in EUR thousand	As at 31 December 2017	2016
Balance sheet obligation for:		
Present value of recognized unfunded retirement obligations	1,178	1,001
Jubilee awards	59	57
Disability benefits	64	57
Liability in the SOFP	**1,301**	**1,115**

in EUR thousand	2017	2016
Income statement charge included in operating profit		
Current service cost	87	80
Interest cost	20	25
Past service cost, other	6	50
Total charge / (credit) included in employee benefit expense and interest expenses	**113**	**155**

in EUR thousand	2017	2016
Re-measurements for:		
Defined pension benefits	153	(112)
Total re-measurements	**153**	**(112)**

The movement in defined benefit pension over the year is as follows:

in EUR thousand	Present value of obligation	Total
As at 1 January 2016	**1,165**	**1,165**
Current service cost	80	80
Past service cost	50	50
Interest cost	25	25
	1,320	**1,320**
Re-measurements:		
- Loss from change in financial assumptions	117	117
- Gain from change in future wages growth assumptions	(75)	(75)
- Gain from change in demographic assumptions	(144)	(144)
- Gain from change in fluctuation	(10)	(10)
	(112)	**(112)**
Payments from plan	(93)	(93)
As at 31 December 2016	**1,115**	**1,115**

in EUR thousand	Present value of obligation	Total
As at 1 January 2017	**1,115**	**1,115**
Current service cost	87	87
Past service cost	6	6
Interest cost	20	20
	1,228	**1,228**
Re-measurements:		
- Loss from change in financial assumptions	35	35
- Loss from change in future wages growth assumptions	76	76
- Loss from change in fluctuation	11	11
- Loss from adjustments to actual	31	31
	153	**153**
Payments from plan	(80)	(80)
As at 31 December 2017	**1,301**	**1,301**

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

Year 2017	
Number of employees with entitlement to the benefit	335
Percentage of employees, who will annually terminate their employment with VSE H prior to retirement (withdrawal rate)	2.43%
Expected salary increases	2.5% p.a. in 2018 onwards
Discount rate	Bloomberg's yield curve for high quality Euro corporate bonds AA in range from (0.480%) to 1.767%

Year 2016	
Number of employees with entitlement to the benefit	316
Percentage of employees, who will annually terminate their employment with VSE H prior to retirement (withdrawal rate)	2.47%
Expected salary increases	0.9% in 2017, 1.6% in 2018,1.9% in 2019 and in following years: 2.0 % p.a.
Discount rate	Bloomberg's yield curve for high quality Euro corporate bonds AA in range from (0.346)% to 1.954%

Amounts paid for defined contribution pension plans:

in EUR thousand	2017	2016
Defined contribution pension plan	89	85
Total	**89**	**85**

Through its defined benefit pension plans, the Company is exposed to many risks, the most significant of which is change in bond yields. A decrease in corporate bond yields will increase plan liabilities.

Sensitivity analysis of liability (part related to liability classified as liability of disposal group classified as held for sale included) for employee benefits is stated in following table:

Description of change of parameter	Liability as at 31 December 2017 (EUR thousand)	Change in comparison with basic scenario	Change in comparison with basic scenario in %
Basic scenario	1,301		
Increase of fluctuation by 2%	1,005	(296)	(23)
Decrease of fluctuation by 2%	1,570	269	21
Increase in salaries +1% compared to principal assumptions	1,477	176	14
Decrease in salaries -1% compared to principal assumptions	1,154	(147)	(11)
Discount rate +1% compared to principal assumptions	1,142	(159)	(12)
Discount rate -1% compared to principal assumptions	1,494	193	15

Description of change of parameter	Liability as at 31 December 2016 (EUR thousand)	Change in comparison with basic scenario	Change in comparison with basic scenario in %
Basic scenario	1,115		
Increase of fluctuation by 2%	874	(241)	(22)
Decrease of fluctuation by 2%	1,340	225	20
Increase in salaries +1% compared to principal assumptions	1,256	141	13
Decrease in salaries -1% compared to principal assumptions	996	(119)	(11)
Discount rate +1% compared to principal assumptions	986	(129)	(12)
Discount rate -1% compared to principal assumptions	1,270	155	14

Sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practise, this is unlikely to occur, and changes in some of the assumptions may be correlated.

The methods and types of assumptions used in preparing the sensitivity analysed did not change compared to the previous period.

20. Revenues

Revenues consist of the following:

in EUR thousand	2017	2016
Services provided within the group Východoslovenská energetika Holding a.s.	19,694	23,216
Services for other subjects	769	600
Total revenues	**20,463**	**23,816**

21. Profit from operations

The following amounts have been charged or credited in arriving at profit from operations:

in EUR thousand	2017	2016
Revenues	**20,463**	**23,816**
Own work capitalized	331	276
Raw materials and other consumed materials	(876)	(829)
Wages and salaries	(8,063)	(7,242)
Social security costs	(2,441)	(2,160)
Restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring	(27)	(27)
Other staff costs	(319)	(277)
Employee benefit expense	**(10,850)**	**(9,706)**
Repairs and maintenance	(195)	(183)
IT maintenance fees	(2,021)	(1,818)
Cash collection costs	-	(795)
Training and business restructuring consulting	(941)	(896)
Post and telecommunication costs	(1,016)	(1,276)
Rental and protection of property	(1,183)	(1,011)
Assurance services provided by auditor	(60)	(61)
Travel expenses	(237)	(184)
Other non-audit services provided by auditor	(52)	-
Other services	(3,263)	(3,454)
Services	**(8,968)**	**(9,678)**
Depreciation	(1,495)	(1,629)
Impairment provision	611	563
Amortization	(962)	(1,082)
Depreciation and amortization	**(1,846)**	**(2,148)**
Dividends income	**31,709**	**45,223**
Bad debt provision	(1)	-
Profit/(loss) on sale of property and equipment	4	50
Other operating income	353	308
Other operating expenses	(428)	(404)
Other operating income / (expenses)	**(72)**	**(46)**
Profit from operations	**29,891**	**46,908**

22. Finance income and expenses

The following amounts have been charged or credited in arriving at profit from finance.

In EUR thousand	2017	2016
Finance income		
Interest from financial assets	13	2
Finance income	**13**	**2**
Finance costs		
Interest expense:		
- Bank borrowings	(1,315)	(1,492)
- Unwinding of discount	(2,201)	(2,165)
Revaluation of liability from contingent consideration	(11,090)	(1,881)
	(14,606)	**(5,538)**
Amount capitalised	2	1
Finance costs expensed	**(14,604)**	**(5,537)**
Net finance costs	**(14,591)**	**(5,535)**

Capitalized borrowing costs

The capitalization rate used to determine the amount of borrowing costs to be capitalized is the weighted average interest rate applicable to the Company's' general borrowings during the year, in this case 0.66% (2016 – 0.68%).

23. Income tax expense

in EUR thousand	2017	2016
Current tax	37	(48)
Deferred tax	(561)	170
Income tax expense	**(524)**	**122**

The reconciliation between the reported income tax cost and the theoretical amount that would arise using the standard tax rates is as follows:

in EUR thousand	2016	2015
Profit before tax	15,300	41,373
Income tax calculated at a tax rate of 21% (2016: 22%)	3,213	9,102
Tax effects of:		
Expenses not deductible for tax purposes	2,888	1,163
Impact of change in expected tax rate from 22% to 21%	-	(63)
Adjustment of current tax of prior period	34	(131)
Income not subject to tax	(6,659)	(9,949)
Tax charge	**(524)**	**122**
Effective tax rate*	**(3.4%)**	**0.3%**

* Effective tax rate before the adjustment of current tax of prior period.

The corporate income tax rate applicable for the year 2017 is 21% (2016: 22%). The corporate income tax rate applicable since 1 January 2018 remains 21%.

24. Cash generated from operations

The Company prepared cash flow statement using indirect method. The amounts for comparative period include both continuing and discontinued operations.

in EUR thousand	2017	2016
Profit before tax	**15,300**	**41,373**
Adjustments for:		
Depreciation (Note 5, 21)	1,495	1,629
Amortization (Note 6, 21)	962	1,082
Impairment provision	(611)	(563)
(Profit)/loss on sale of property and equipment (Note 21)	(4)	(50)
Dividend income	(31,709)	(45,223)
Interest income	(13)	(2)
Interest expense	3,514	3,656
Shortages and damages	-	27
Revaluation of contingent consideration	11,090	1,881
Other non-cash transactions	(41)	(25)
Changes in working capital (excluding the effects of acquisition and disposal of subsidiaries):		
Trade and other receivables	(1,123)	145
Payables from cash pooling	11,530	10,987
Trade and other payables	498	(82)
Provisions and employee benefits	33	(150)
Cash generated from operations	**10,921**	**14,685**

25. Share-based payments

Strategic Performance Program

Set out below are summaries of options granted under program.

	2017		**2016**	
	Average price per share	**Number of performance shares**	**Average price per share**	**Number of performance shares**
As at 1 January	-	-	-	-
Granted during the year	40,00	1,974	-	-
As at 31 December	40,00	1,974	-	-
Vested and exercisable at 31 December	-	-	-	-

26. Contingencies

Taxation

Due to the presence of provisions in Slovak tax legislation allowing more than one interpretation, management's judgment of the Company's business activities may not coincide with interpretation of the same activities by the tax authorities. The fiscal years from 2008 until 2017 remain open to the possibility that tax authority could levy the tax. The Company's management is not aware of any circumstances that may give rise to a future material expense in this respect.

27. Commitments

Capital commitments

As at 31 December 2017, the Company has contracted approximately EUR 8,842 thousand of the capital commitments (31 December 2016: EUR 1 320 thousand). Capital commitments of EUR 325 thousand is attributable to intangible assets (2016: EUR 0). In addition, there are the rental commitments of EUR 444 thousand (31 December 2016: EUR 388 thousand).

28. Related party transactions and balances

Related parties are divided into following categories:

a) *Entities under control of RWE Group*
- RWE AG
- RWE Supply & Trading CZ, a.s.
- RWE Hrvatska d.o.o.
- RWE Energija, d.o.o.
- RWE Group Business Services GmbH
- innogy SE (RWE IT GbmH)
- innogy SE (RWE Deutschland Aktiengesellschaft Essen)
- innogy SE
- innogy Gastronomie GmbH (RWE Gastronomie GmbH Essen)
- innogy Česká republika a.s. (RWE Česká republika a.s.)
- innogy South East Europe s.r.o. (RWE Slovensko s. r. o.)
- innogy Solutions s.r.o. (KA Contracting SK, s.r.o.)

b) *Subsidiaries*
- Východoslovenská distribučná, a.s.
- Východoslovenská energetika, a.s.
- innogy Slovensko, s.r.o.
- VSE Ekoenergia, s.r.o.
- VSE Call centrum, s.r.o.
- Bioplyn Rozhanovce, s.r.o. (till July 2017)

c) *Associates and joint ventures in which the entity is a venturer*
- TRANSELEKTRO spoločnosť s ručením obmedzeným Košice
- Energotel, a.s.
- SPX, s.r.o.
- Bioplyn Rozhanovce, s.r.o. (from August 2017)

d) *Key management personnel of the entity*
- members of Board of Directors
- members of Supervisory Board
- division directors

e) *State controlled entities*

Routine trading transactions with the Slovak government, including its departments and agencies, and transactions between state-controlled entities, which are providers of public utilities and services, for which standard commercial terms and conditions have been applied, and which do not represent a significant portion of a type of transaction, are excluded from the scope of related party disclosures.

The nature of relationship with related parties with which the Company carried out significant transactions or had significant balances with are described below. The related party transactions were made on an arm's length basis.

a) Entities under control of RWE Group

Transactions with entities under control of RWE Group are stated in the following table:

in EUR thousand	2017	2016
Sale of services	164	148
Purchase of services	(394)	(564)
Other expenses	(963)	(928)
Dividends paid	(27,596)	(34,588)

Balances with entities under control of RWE Group are stated in the following table:

	As at 31 December	
in EUR thousand	2017	2016
Trade receivables (gross)	26	9
Trade and other payables	284	247
Contingent consideration	33,220	25,448

b) Subsidiaries

Transactions with subsidiaries are stated in the following table:

in EUR thousand	2017	2016
Sale of services	19,694	23,215
Other revenues	98	99
Purchase of electricity	(160)	(195)
Material and other consumables	-	(2)
Purchase of services	(1,778)	(1,503)
Interest income	13	2
Dividends received	30,927	45,223

Balances with subsidiaries are stated in the following table:

in EUR thousand	As at 31 December 2017	2016
Trade receivables (gross)	1,657	1,106
Other receivables (gross)		
- receivable from cash-pooling (presented within Cash and cash equivalents)	287	248
Loans		
- finance liability from cash pooling	106,256	94,726
Trade and other payables	268	255

c) Associates and joint ventures in which the entity is a venturer

Transactions with associates and joint ventures in which the entity is a venturer are stated in the following table:

in EUR thousand	2017	2016
Sale of services	3	349
Rental revenues	516	29
Purchase of services	(87)	(109)
Dividends received	782	-

Balances with associates and joint ventures in which the entity is a venturer are stated in the following table:

in EUR thousand	As at 31 December 2017	2016
Trade receivables (gross)	72	56
Dividend receivable	312	-
Trade and other payables	16	14

d) Key management personnel of the entity

Transactions with key management personnel of the entity are stated in the following table:

	2017		2016	
in EUR thousand	**Board of Directors**	**Supervisory board**	**Board of Directors**	**Supervisory board**
Short-term employee benefits	1,184	119	1,133	161
Total	**1,184**	**119**	**1,133**	**161**

There was no post-employment benefits expense incurred attributable to key personnel of the Company throughout the year 2017 and 2016, respectively.

Information about members of Board of Directors

Dipl.-Kfm. Karl Kraus
Chairman of Board of Directors of from 1 April 2014
Date of birth:
9 November 1963
Education:
Technical university in Braunschweig
University in Göttingen
Other Executive Positions:
Chief Executive Officer of RSB Logistic GmbH (1998)
Chief Executive Officer of RW Beteiligungsgesellschaft für Bau und Logistik GmbH (1999)
Chairman of Board of Directors of RSB (Canada/USA), RSB Logistic Group (2000)
Managing Director of SCP Severočeská plynárenská a.s., Česká republika (2002 - 2005)
Vice-president of Business development, M&A RWE Power AG (2005)
Vice-president of Sale development, RWE AG (2008)
Managing Director of RWE East, s.r.o. (from 2011 till 31 December 2016)
Chief Executive Officer and Managing Director of RWE Hrvatska, (from 2013)
Managing Director of innogy South East Europe s.r.o. (from 2013)
Vice-chairman of Supervisory Board VSE H (from 2 March 2013 until 31 March 2014)
Chairman of Supervisory Board of ELMU/EMASZ (from 10 May 2016)

Roman Šipoš, MBA
Vice-chairman of Board of Directors (from 16 December 2016 until 28 February 2017)
Date of birth:
19 September 1986
Education:
University of South Carolina Aiken, Bachelor of Science in Finance
Business school Lausanne, Master of Business Administration
Other Executive Positions:
Vice-chairman of Board of directors VSE a.s. (from 1 July 2014 until 20 February 2017)
Managing Director of rwm corporation s.r.o. from 30 July 2010
Managing Director of iSK from 1 September 2015
Managing Director of BAJAN company s.r.o. (from 21 March 2016)
Member of Board of Directors of VSE H (from 12 Sep 2014 until 15 June 2016)

Dipl.-Volksw. Thomas Jan Hejcman
Member of Board of Directors from 1 April 2014 and Chief Executive Officer from January 2012
Date of birth:
10 February 1962
Education:
University Tübingen/ Hohenheim/ Freiburg, economy study
Other Executive Positions:
Managing Director of RWE Zákaznícke služby, s.r.o Ostrava, Česká republika (2007-2011)
Managing Director of innogy South East Europe s.r.o. (from 2013)
Chairman of Board of Directors of VSE H (from 1 January 2012 until 31 March 2014)
Chairman of Board of Directors of VSE (from 1 July 2014)
Managing Director of iSK (from 1 September 2015)

Ing. Vladimír Dolný
Vice-chairman of Board of Directors of VSE H from 17 March 2017
Date of birth:
6 October 1949
Education:
VŠT Košice – Faculty of Electrical Engineering
University of Economics in Bratislava – Faculty of National Economy
Deutsche Management Akademie – Niedersachsen, Zelle
Other Executive Positions:
Head of a branch plant of Slovenský energetický podnik, š.p. Bohunice nuclear power plant (from 2 November 1992 to 29 June 1994)
Vice-chairmen of Board of Directors of Tepláreň Košice a.s. (2001-2006)
Chairman of Board of Directors of Košická energetická spoločnosť a.s. (2006-2012)
Managing director of Econs, spol. s r.o. (2010-2012)
Vice-chairman of Board of Directors of ECONS ENERGY, a.s. (from 1 March 2012)
Vice-chairman of Board of Directors of VSE H (from 12 Sep 2014 until 15 December 2016)
Member of Board of Directors of VSE H (from 16 December 2016 until 16 March 2017)

Dipl.-Kff. Diana Custodis
Member of Board of Directors and Chief Finance Officer (from 1 August 2011 until 31 July 2017)
Date of birth:
19 February 1967
Education:
Rheinisch-Westfällische Technische Hochschule Aachen
Other Executive Positions:
Managing director of innogy South East Europe s.r.o. (from 2013 until 31 July 2017)
Member of Board of Directors of Essent N.V. (from 18 January 2017)

Ing. Alena Rozsypalová
Member of Board of Directors and Chief Finance Officer from 1 August 2017
Date of birth:
30 December 1974
Education:
Mendel Agricultural and Forestry University in Brno, Faculty of economics, specialization: manager – economist, Qualification – Engineer of Economics
Other Executive Positions:
Managing director of innogy South East Europe s.r.o. (from 1 August 2017)

Information about Supervisory Board members

Ing. Eva Petruchová
Chairwoman of Supervisory Board from 1 May 2017
Date of birth:
19 February 1971
Education:
Technical University of Košice – Faculty of Metallurgy, study programme: Economy and Management in Industry
Other Executive Positions:
Managing Director of Szapet s.r.o. (from 29 August 2017)

Ing. Marek Horváth
Chairman of Supervisory Board from 1 July 2012 until 30 June 2016
Date of birth:
23 March 1974
Education:
University of Economics in Bratislava – Faculty of Business Economy, Košice
Other Executive Positions:
Managing director of Expertise, s.r.o. from 2007
Managing director of CCMI, s.r.o.

JUDr. Ján Dorkin
Chairman of Supervisory Board (from 16 December 2016 until 28 February 2017)
Date of birth:
13 December 1958
Education:
UPJŠ Košice – law faculty
Other Executive Positions:
CEDC Investment, a.s. (2008)

PhDr. Patrik Bauer, PhD.
Vice-chairman of Supervisory Board from 1 April 2014
Date of birth:
28 May 1977
Education:
Univerzita Karlova – economics and post gradual study
Ludwig-Maximilians-Universität, Munchen
University in Sien
Other Executive Positions:
Member of Supervisory board in:
innogy Česká republika a.s. from 29 November 2012 until 31 October 2014
TE Plomin d.o.o. from 9 December 2012 until 11 June 2015
EČS – Elektrárna Čechy-Střed v likvidaci, a.s. from 29 June 2013
RWE Supply & Trading CZ, a.s. from 1 May 2012 until 31 March 2013
RWE Grid Holding, a.s. from 30 May 2012 until 30 January 2013

Ing. Peter Sýkora
Member of Supervisory Board from 23 February 2015
Date of birth:
30 May 1964
Education:
SPU Nitra, European studies and regional development faculty
Other Executive Positions:
none

Magdaléna Gogoláková
Member of the Supervisory Board from 23 February 2015
Date of birth:
30 April 1968
Education:
Secondary Technical School of Electrical Engineering, Košice
Other Executive Positions:

Member of Supervisory Board of LFC business Group a.s. from 19 June 2015

Ing. Imrich Ungvarský
Member of the Supervisory Board from 23 February 2015
Date of birth:
5 November 1982
Education:
Technical University of Košice – Faculty of Electrical Engineering and Informatics
Other Executive Positions:
none

Ing. Andrej Hanzel
Member of Supervisory Board from 1 July 2012 until 30 June 2016
Date of birth:
25 November 1953
Education:
EF SVŠT Bratislava
Other Executive Positions:
Managing Director of Centrum pre vedu a výskum, s.r.o.

Ing. Štefan Lasky
Member of Supervisory Board from 16 December 2016
Date of birth:
16 October 1966
Education:
Technical university Košice, Mechanical engineering faculty
Slovak University of Agriculture in Nitra, Faculty of Economics and Management
Other Executive Positions:
Managing Director of EUROCONT SK, s.r.o.
Vice-chairman of Board of Directors of SSIM, a.s. Košice (2008-2009)
Managing Director of PLV PARTNERS s.r.o.
Managing Director of PZB s.r.o.
Member of Supervisory Board of VSEH (from 1 July 2012 until 30 June 2016)

Ing. Jozef Sedlák
Member of Supervisory Board from 1 July 2012 until 30 June 2016
Date of birth:
20 March 1954
Education:
Technical university Košice, Mechanical engineering faculty
Other Executive Positions:
Member of Board of Directors of Východoslovenská distribučná, a.s. (2007 – 2011)
Managing Director of MEASURING, s.r.o.

Mgr. Erika Mochnáčová
Member of Supervisory Board from 1 July 2012 until 30 June 2016
Date of birth:
10 January 1970
Education:
Vysoká škola zdravotníctva a sociálnej práce Sv. Alžbety Bratislava
Other Executive Positions:

Member of Board of Directors of Vojenská zotavovňa a hotel Zemplínska Šírava, a.s until 2013

JUDr. Ján Cáfal
Member of Supervisory Board from 16 December 2016
Date of birth:
5 January 1980
Education:
Pavol Jozef Šafárik University in Košice, Faculty of Law
Police Academy in Bratislava
Other Executive Positions:
Managing Director of JUDr. Ján Cáfal, advokátska kancelária, s.r.o. from 18 June 2010

MUDr. Michal Varga
Member of Supervisory Board from 16 December 2016
Date of birth:
19 July 1963
Education:
Pavol Jozef Šafárik University in Košice, Faculty of Medicine
Other Executive Positions:
Managing director of II. M PLUS., s.r.o. from 19 January 2012
Managing director of II. M, s.r.o. from 3 May 2005

Ing. Rastislav Klamár
Member of Supervisory Board from 16 December 2016
Date of birth:
23 January 1960
Education:
The Technical University of Košice, Faculty of Metallurgy
Other Executive Positions:
Managing director of „RAGAS“, s.r.o. from 16 March 1995

e) Entities controlled by government or where government has significant influence

The Company performs collectively significant transactions with entities controlled by government or where government has significant influence. These transactions are represented by:

in EUR thousand	2017	2016
Sale of services	26	44
Purchases	(44)	-
Dividends paid	(28,723)	(35,999)

Balances are stated in the following table:

	As at 31 December	
in EUR thousand	2017	2016
Trade receivables (gross)	-	4
Trade and other payables	4	-

29. Events after the reporting period

There has been no other event after the reporting period that should be disclosed in Notes prepared in accordance with IFRS as adopted by EU.