Východoslovenská energetika Holding a.s.

Consolidated 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.

Consolidated financial statements for the year ended 31 December 2017, prepared in accordance with International Financial Reporting Standards as adopted by 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	6	458,459	439,932
Goodwill	7	14,476	14,476
Other intangible assets	7	60,203	53,832
Investments in associates and joint ventures	8	1,906	2,066
		535,044	**510,306**
Current assets			
Inventories	10	3,000	4,363
Trade and other receivables	11	66,198	63,551
Income tax receivable		-	1,167
Cash and cash equivalents	12	12,010	19,713
		81,208	**88,794**
Total assets		**616,252**	**599,100**
EQUITY			
Equity attributable to the owners of the parent			
Share capital	13	111,618	111,618
Legal reserve fund	13	22,338	22,350
Other funds	13	12,946	12,946
Other reserves	13	71	-
Retained earnings	13	50,993	62,339
Total		**197,966**	**209,253**
Non-controlling interests		**-**	**339**
Total equity		**197,966**	**209,592**
LIABILITIES			
Non-current liabilities			
Finance lease	16	3,248	3,494
Borrowings and loans	16	120,000	170,910
Liability from contingent consideration	17	18,372	19,948
Deferred revenues	15	35,204	30,120
Deferred income tax liabilities	18	33,259	31,625
Post-employment benefits	19,20	7,029	5,817
		217,112	**261,914**
Current liabilities			
Trade and other payables	14	114,971	119,131
Finance lease	16	245	240
Borrowings and loans	16	64,715	668
Liability from contingent consideration	17	14,848	5,500
Deferred revenues	15	1,944	1,794
Income tax payable		151	-
Post-employment benefits	19,20	99	97
Provisions for other liabilities and charges	19	4,201	164
		201,174	**127,594**
Total liabilities		**418,286**	**389,508**
Total equity and liabilities		**616,252**	**599,100**

in EUR thousand	Note	For the year ended 31 December 2017	2016
Revenue	21	780,685	819,524
Purchases of electricity, gas and electricity distribution costs	22	(584,333)	(628,124)
Raw materials and other consumed materials	22	(9,432)	(8,568)
Employee benefit expense	22	(47,145)	(44,062)
Services	22	(30,639)	(28,106)
Depreciation, amortization expense and change in impairment provisions for non-current assets	6,7,22	(33,136)	(33,141)
Own work capitalized	22	8,017	8,087
Other operating income	22	3,579	3,914
Other operating expenses	22	(8,445)	(3,331)
Profit from operations		**79,151**	**86,193**
Financial income / (expenses)			
Interest income	23	-	2
Interest expense	23	(3,448)	(3,646)
Other financial income	23	-	217
Other financial expense	23	(11,090)	(2,844)
Net financial income / (expenses)		**(14,538)**	**(6,271)**
Income from associates and joint ventures	27	78	290
Profit before income tax		**64,691**	**80,212**
Income tax expense	24	(18,787)	(23,893)
Profit for the year		**45,904**	**56,319**
Profit attributable to:			
- Owners of the parent		45,874	56,304
- Non-controlling interest		30	15
Other comprehensive income			
Items that may be reclassified to profit or loss			
Cash flow hedges	13	71	47
Items that will not be reclassified to profit or loss			
Re-measurements of post-employment benefits obligation	20	(901)	533
Other comprehensive income for the period, net of tax		**(830)**	**580**
Total comprehensive income for the year		**45,074**	**56,899**
Attributable to:			
- Equity holders of the Group		45,044	56,884
- Non-controlling interest		30	15

in EUR thousand	Share capital	Legal reserve fund	Other funds	Other reserves	Retained earnings	Total	Non-controlling interest (Note 8)	Total equity
Balance at 1 January 2016	**111,618**	**22,350**	**12,946**	**(47)**	**76,090**	**222,957**	**324**	**223,281**
Dividends paid	-	-	-	-	(70,587)	(70,587)	-	(70,587)
Total transactions with owners, recognized directly in equity	**-**	**-**	**-**	-	**(70,587)**	**(70,587)**	**-**	**(70,587)**
Profit for the year	-	-	-	-	56,304	56,304	15	56,319
Other comprehensive income for the year	-	-	-	47	533	580	-	580
Total comprehensive income for the year	**-**	**-**	**-**	**47**	**56,837**	**56,884**	**15**	**56,899**
Other	-		-	-	(1)	(1)		(1)
Balance at 31 December 2016	**111,618**	**22,350**	**12,946**	**-**	**62,339**	**209,253**	**339**	**209,592**
Balance at 1 January 2017	**111,618**	**22,350**	**12,946**	**-**	**62,339**	**209,253**	**339**	**209,592**
Dividends paid	-	-	-	-	(56,319)	(56,319)	-	(56,319)
Total transactions with owners, recognized directly in equity	**-**	**-**	**-**	**-**	**(56,319)**	**(56,319)**	**-**	**(56,319)**
Profit for the year	-	-	-	-	45,874	45,874	30	45,904
Other comprehensive income for the year	-	-	-	71	(901)	(830)	-	(830)
Total comprehensive income for the year	-	-	-	**71**	**44,973**	**45,044**	**30**	**45,074**
Derecognition of Bioplyn Rozhanovce	-	(12)	-	-	-	(12)	(369)	(381)
Balance at 31 December 2017	**111,618**	**22,338**	**12,946**	**71**	**50,993**	**197,966**	**-**	**197,966**

in EUR thousand	Note	Year ended 31 December 2017	2016
Cash flows from operating activities			
Cash generated from operations	25	103,781	116,738
Interest paid		(1,266)	(1,522)
Interest received		-	2
Income tax paid		(15,724)	(22,424)
Net cash from operating activities		**86,791**	**92,794**
Cash flows from investing activities			
Purchase of property plant and equipment ("PPE") and intangible assets		(48,133)	(48,135)
Purchase of customers'portfolio	1	(7,268)	-
Cash received as part of customer portfolio purchase		7,482	-
Increase of equity in subsidiary and joint venture	5,27	(150)	-
Proceeds from sale of PPE		137	1,618
Dividends received		782	-
Net cash used in investing activities		**(47,150)**	**(46,517)**
Cash flows from financing activities			
Repayments of borrowings	16	-	(303)
Contingent consideration - payment	17	(5,499)	(8,990)
Finance lease	16	(241)	(238)
Drawings of borrowings	16	14,715	25,292
Dividends paid	13, 30	(56,319)	(70,587)
Net cash used in financing activities		**(47,344)**	**(54,826)**
Net increase/ (decrease) in cash, cash equivalents and bank overdrafts		**(7,703)**	**(8,549)**
Cash, cash equivalents at beginning of year	12	**19,713**	**28,262**
Cash, cash equivalents at end of year	12	**12,010**	**19,713**

1. General information

These consolidated financial statements have been prepared for the year ended 31 December 2017 in accordance with International Financial Reporting Standards (hereinafter „IFRS“) as adopted by European Union (EU) for the company Východoslovenská energetika Holding a.s. (hereinafter „the Company“ or “VSE Holding”) and its subsidiaries (the Company and its subsidiaries are referred to hereinafter as „the Group“ or „the VSE H Group”).

Východoslovenské energetické závody š.p. (hereinafter „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.,) 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 (hereinafter “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. Východoslovenská energetika a.s., 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 (hereinafter “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 (hereinafter “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 regulates certain aspects of the Group’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 General Meeting of the Group approved on 16 December 2014 the transfer of activities from VSE Holding 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 was also an automatic (legislative requirement) transfer of all rights and obligations arising from employment relations connected to employees concerned, who were as of 1 January 2015 performing work for VSD and VSE in accordance with their job descriptions.

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

On the basis of the decision of the General Meeting of VSE Holding, the Group acquired RWE Gas Slovensko, s.r.o. (hereinafter "RGSK"). Based on the purchase agreement, 100% share 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.

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. The Group participated on this increase through the paid cash of EUR 150 thousand and its share on voting rights decreased from 51 % to 34%. The Group derecognised net assets and non-controlling interest held on Consolidated Statement of Financial Position as at 1 August 2017. Profit for seven month period is presented in Consolidated Statement of Profit or Loss. Commencing August 2017, the Group consolidates company using equity method.

On 1 December 2017, the Group has acquired the household customers' portfolio from ČEZ Slovensko, s.r.o. The transaction comprises customers portfolio of EUR 7,998 thousand (Notes 2.5, 7), working capital of EUR (4,613) thousand and cash of EUR 7,482 thousand. Outstanding purchase liability of EUR 3,599 thousand is presented as Trade and Other liabilities and was paid on 29 January 2018.

The Group'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., Netherlands	54,693	49
Total	**111,618**	**100**

The Group'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., Netherlands	54,693	49
Total	**111,618**	**100**

The Group employed 1,592 staff on average during 2017 (2016: 1,565).

Members of the statutory bodies of the Group:

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 VSE Holding, 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 VSE Holding 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, VSE and VSD 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 5 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 supervisory 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 3 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 VSE Holding Group, of which the Company is a part. From 1 September 2015 the companies within the Group are included as subsidiaries 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 VSE Holding is:
Mlynská 31
042 91 Košice
Slovak Republic

Company number: 36 211 222
VAT number: SK2020062319

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

The consolidated financial statements for the period ended 31 December 2016 have been approved by the General Meeting held on 24 May 2017.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, 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 consolidated financial statements for the year ended 31 December 2017 in accordance with IFRS as adopted by the EU.

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

For purposes of preparation of these consolidated financial statements according to IFRS, the management of the Group defines the critical assumptions and estimates which have an influence on recognized amounts of assets and liabilities in the balance sheet and on expenses and income recognized in the profit or loss. At the application of accounting policies of the Group, 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 consolidated financial statements have been prepared under the historical cost convention, except for derivative financial instruments (cash flow hedge) that are valued at fair value as at balance sheet date and financial liability at fair value through profit or loss.

Consolidated financial statements were prepared on accrual basis and under the going concern assumption. Transactions are recognized in the financial statements in the related period.

The consolidated financial statements are prepared for the Group which is in detail described in Note 5.

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 standards, amendments and interpretations adopted by the Group 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 Group. The following new standards and interpretations became effective for the Group 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 Group'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 requires disclosure of a reconciliation of movements in liabilities arising from financing activities. An effective date of this amendment is 1 January 2017. This disclosure is in Notes 3.6 and 16.

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, and which the Group has not early adopted.

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

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (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 Group 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 group 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 hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. Current hedge relationships of the Group will qualify as continuing hedges upon the adoption of IFRS 9.

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 Group 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 Group

The Group 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 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 Group assessed the impact of new standard on its financial statements (for result see below). An 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 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. These amendments have not been endorsed by EU yet.

Impact

The Group has assessed the effects of applying the new standard IFRS 15 on the Group's financial statements and has identified the following areas that will be affected:

- Non-commodity (Grid +) Short term - construction projects on electrical equipment - IFRS 15 requires accounting for revenues from these contracts on over-time basis during the duration of the contract rather than at the end once bill is issued. As a result, the Group implemented a new process and recognises the revenue based on the percentage of project completion.

- Contract on integrated power supply with Take or Pay clause - New standard requires to straight line the effect of take or pay clause over the duration of the contract rather than recognise the entire amount upon the conclusion of those contracts, which take or pay clause is exercised. Contractual penalties resulting from enforcement of take or pay clauses were immaterial in 2017.

- Non-commodity - various short-term construction type contracts - This impact relates to significant financing component. There are contracts for works with deferred payment conditions (payment over duration of 36 months), which in accordance with new revenue standard contain financing component. Nominal value of receivable should be discounted to present value and difference would represent interest income. Based on the entire 2017 revenue, there would be no material impact (2016: EUR 33 thousand).

- Contract costs – commissions - In the new revenue standard IFRS 15, commissions paid to either external agents or internal sales channels that are incremental are required to be capitalized and amortized over expected contract duration. In 2017, variable commissions paid to Customer`s center and Mobile sales channel amounted to EUR 1,440 thousand and commissions paid to external agents were in the amount of EUR 72 thousand.

Date of adoption by the Group

Adoption is mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

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 1 January 2016). 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 Group does not expect material impact on its consolidated financial statements. These amendments have not been endorsed by the EU yet.

IFRS 16 "Leases" (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the 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 Group is currently assessing the impact of the standard on its consolidated 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 Group does not expect material impact on its consolidated 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 impact 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 Group does not expect material impact on its consolidated 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. The Group does not expect material impact on its consolidated financial statements. 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 Group does not expect material impact on its consolidated financial statements. These amendments have been endorsed by the EU on 7 February 2018.

IFRIC 22, Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018). The interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) on the de-recognition of a non-monetary asset or non-monetary liability arising from an advance consideration in a foreign currency. Under IAS 21, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. IFRIC 22 only applies in circumstances in which an entity recognises a non-monetary asset or non-monetary liability arising from an advance consideration. IFRIC 22 does not provide application guidance on the definition of monetary and non-monetary items. An advance

payment or receipt of consideration generally gives rise to the recognition of a non-monetary asset or non-monetary liability, however, it may also give rise to a monetary asset or liability. An entity may need to apply judgment in determining whether an item is monetary or non-monetary. The Group does not expect material impact on its consolidated financial statements. This interpretation has not been endorsed by the EU yet.

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 Group does not expect material impact on its consolidated financial statements. These amendments have not been endorsed by the EU yet.

IFRS 17, Insurance Contracts (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. The Group is currently assessing the impact of the standard on its consolidated financial statements. This standard has 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 will 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 Group is currently assessing the impact of the interpretation on its consolidated 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 Group is currently assessing the impact of the amendments on its consolidated 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 Group is currently assessing the impact of the amendments on its consolidated 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 impact 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 Group is currently assessing the impact of the amendments on its consolidated 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 Group.

2.2. Subsidiaries, associates, joint ventures and non-controlling interest

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group 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 Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the profit or loss.

Intercompany transactions, balances and unrealized gains on transactions between the companies within the Group are eliminated. Unrealized losses are also eliminated but considered as an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Associates and joint arrangements

Associates are all entities over which the Group has significant influence, but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights considering in addition shareholder's arrangement in place. Jointly controlled entities ("joint ventures") are those in which the Group shares control of the operations with its joint venture partners.

The Group's share of its associates' and joint ventures' post-acquisition profits or losses is recognized in the profit or loss, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in associate or joint venture equals or exceeds its interest in the associate or joint venture, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the associates and joint ventures. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by Group.

Non-controlling interest

Non-controlling interest is that portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the parent. Non-controlling interest is presented in equity.

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group.

As stated in Note 1 the Group derecognised non-controlling interest that was fully attributable to Bioplyn Rozhanovce, s.r.o.

2.3. Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional and presentation currency of the Group is Euro ("EUR") and these consolidated financial statements are presented in EUR thousand.

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 is 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 capitalization commenced on 1 January 2009 and after. The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying assets, (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 Group 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 starts 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 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.

For accounting treatment of donated property, plant and equipment and physical count surpluses refer to Note 2.22.

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

Buildings and infrastructure	
Other residential buildings (small building units)	50 years
Underground lines	35 years
Garage buildings	30 years
Administrative buildings	25 years
Electric stations	25 years
Lines on pylons, pylons	25 years
Infrastructure	25-50 years

Machinery and equipment	
Transformers	20 years
Technology part of electric stations	20 years
Switches and protection parts	15 years
Containers	8 years
Air conditioning units	8 years
Data collection and processing devices	5 years
Cars	5 years
Fixtures and fittings	8 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 Group proportionally allocates the amount initially recognised 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 is electricity grid, buildings and infrastructure.

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

2.5. Intangible assets

Goodwill

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed. Goodwill is fully attributable to Gas trade CGU as defined in Note 2.6. as it is a result of acquisition of iSK. The Group achieved control over this subsidiary on 1 September 2015.

Customers' portfolio

The customers' portfolio attributable to gas commodity was acquired as part of a business combination on 1 September 2015. It is recognised at their fair value at the date of acquisition and is subsequently amortised on a straight-line based on the timing of projected cash flows of the contracts over the estimated useful lives of customers based on assumed churn rates.

On 1 December 2017, the Group acquired customers' portfolio attributable to both electricity and gas commodity from ČEZ Slovensko, s.r.o. It is recognised at cost at the date of acquisition and is subsequently amortised on a straight-line basis over the estimated useful live. For more information see Note 7.

Computer software and other intangible assets

Computer software and other intangible assets are stated at historical cost less accumulated depreciation less 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 starts 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.

Apart from the goodwill the Group does not have intangible assets with indefinite useful lives. The Group has internally generated intangible assets.

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

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognized as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

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

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

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
Customers' portfolio	25 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 or CGUs).

The Group recognizes the following CGUs:

- Electricity trade and related non-commodity business
- Gas trade (the whole goodwill is allocated to this CGU as a result of acquisition of iSK) and related non-commodity business
- Distribution of electricity and related non-commodity business

Non-financial assets other than goodwill, that were impaired, are subject to the assessment of impairment allowance.

The recoverable amount of all CGUs has been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flow beyond the five-year period are extrapolated using estimated growth rate of 1.9% (2016: 1.8%) derived from inflation rate.

2.7. Financial assets

The Group 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 Group 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 Group on further use. Management determines the classification of its financial assets at initial recognition.

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 Group 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 longer than 12 months after the end of the reporting period that would be classified as non-current assets. The Group does not have any loans. The Group 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 Group is a lessee of certain property, plant and equipment. Leases of property, plant and equipment, where the Group has substantially all the risks and rewards of the ownership of the asset are classified as finance leases. Finance leases are recognized as assets in the Group's Statement of Financial Position at the commencement of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is split into the liability and finance charges to achieve a constant periodic rate of interest on the remaining balance of the liability. The corresponding rental obligations, net of finance charges, are included in non-current liabilities or current liabilities, depending on the maturity date. The interest part of financial expenses is accounted in the profit or loss during the period of lease in the way that a constant periodic rate of interest on the remaining liability for each period is achieved. If there is reasonable certainty that the lessee will obtain ownership of the asset by the end of the lease term, the period of expected use is the useful life of the asset and the asset is depreciated accordingly; otherwise the asset is depreciated over the shorter of the lease term and its useful life.

The management of the Group has assessed the existence of leases as defined in IAS 17 in contracts and concluded that the Group has one contract where the substance is a lease payable for the period of 20 years. This contract was initially recognized in 2012 in the amount of EUR 4,887 thousand. This has been classified as finance lease and presented within Non-current tangible assets and non-current liabilities or current liabilities, depending on the maturity date, on the SOFP. After the lease period of 50 years, the Group has exclusive right to renew the contract. The Group has no purchase option of the property.

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 Group measures it at its fair value adjusted for transaction costs that are directly attributable to the acquisition of the financial liability.

The Group 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 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 recognized in the profit or loss when the financial liability is derecognized. A financial liability (or a part of a financial liability) is removed from the Group's statement of

financial position 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 realizable 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. Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. Revenue recognition policy is described in the Note 2.22.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all the amounts due according to the original terms of 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 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 Group reviews monthly trade receivables balance and creation of bad debt provisions for receivables overdue.

2.12. 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 and overdrafts. Cash and cash equivalents are stated at their carrying amount determined by the effective interest rate method.

2.13. Share capital

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

2.14. Dividends

Dividend pay-out 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.

2.15. 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 of the Company. Legal reserve fund can be used only for increase of share capital, or cover the losses.

2.16. Trade payables

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

2.17. Borrowings

Borrowings are initially recognized at fair value adjusted for 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 method.

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

2.18. Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised 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 capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation 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 capitalised during a period does not exceed the amount of borrowing costs incurred during that period.

2.19. 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 consolidated 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 income tax rates legislation related to special levy charges that have been enacted or substantially enacted by the end of the reporting period, and that are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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

Deferred income tax is provided on temporary differences arising on investments in associates and joint ventures, except for when the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

The Group shall offset deferred tax assets and deferred tax liabilities, if the Group has a legally enforceable right to set them off and if they relate to income taxes to be paid to the same tax authority.

2.20. Employee benefits

Pension plans and jubilee awards

The Group 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 Group 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 Group is obliged, based on the number of years in service, to pay its employees on earlier 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	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 Group also pays life jubilees benefits. Jubilee benefits when the employee reaches age of 50 years depend on the length of the service within the Group and are as follows:

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

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

The liability recognized in the statement of financial position 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. For determining the present value the discount rate derived from the yield curve for high quality Europe corporate bonds (AA) quoted as at 14 December 2017 (2016: 15 December 2016) was used (source: Bloomberg). Subsequently, the figures were adjusted by "bootstrapping" to spot line to calculate forward discount rate used. The yield curves used are not materially different compared to the yield curves as of the year-ends.

Re-measurements (formerly Actuarial gains and losses) arising from experience adjustments and changes in actuarial assumptions are recognized immediately in Other comprehensive income (OCI).

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

Defined contribution pension plans

The Group contributes to government and to private defined contribution pension plans.
The Group makes contributions to government health, retirement benefit, accidental and guaranty insurance and unemployment schemes at the statutory rates being in force during the year, based on the gross salary payments.

Throughout the year, the Group 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 Group 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 Group contributed to the supplementary scheme based on tariff wages and years of service provided in Group 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 Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of the following dates: (a) when the Group 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.

2.21. Provisions and contingent liabilities

A provision is recognized by the Group when the Group entity 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 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.

2.22. 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 Group recognizes income from dividends and interest.

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

Revenues from supply and distribution of electricity and gas

The Group sells electricity primarily to final users and recognizes revenues from such sales for both supply and distribution of electricity. Such customer contracts are called integrated contracts. The Group subcontracts other electricity distribution companies in Slovakia for delivering the distribution services in other regions of Slovakia which are outside of the electricity grid owned by the Group.

The Group sells gas primarily to final users. The revenues are recognized in the same way as described for electricity, using integrated contracts. The Group subcontracts one gas distribution company for delivering the distribution services in all regions of Slovakia.

As for electricity distribution, the Group's customers are electricity traders. These traders contract with final users, and invoice them for both trade and distribution part of supply. The Group invoices other electricity traders for distribution services.

Revenue from sales and distribution of electricity and gas is recognized when the electricity and gas is delivered to the customer.

The supply and distribution of wholesale customers is measured and billed on monthly basis for both commodities.

The supply and distribution of electricity retail customers in households segment is measured and billed on annual basis for each of eleven billing cycles. Each customer is allocated to one of these eleven billing cycles. Annual metering of billing cycles is phased during the year, each month until January to November approximately one eleventh of the customers is measured. The Group uses type diagrams of delivery (TDD) for estimation of the monthly supply to the household segment between the date of last measurement and the end of the reporting period. Retail customers in household segment are billed on a monthly basis in the form of advance payments. The final bill is issued after measurement once a year.

The supply and distribution of gas retail customers in households segment is measured and billed on annual basis for each of twelve billing cycles. Each customer is allocated to one of these twelve billing cycles. Annual metering of billing cycles is phased throughout the whole year, each month until January to December approximately one twelfth of the customers is measured. . The Group uses type diagrams of delivery (TDD) for estimation of the monthly supply to the household segment between the date of last measurement and the end of the reporting period. Retail customers in household segment are billed on a monthly basis in the form of advance payments. The final bill is issued after measurement once a year.

The supply and distribution of retail customers in electricity commodity, in the segment of small entrepreneurs, is measured and billed on the annual basis from 1 January till 31 December. Small entrepreneurs pay monthly or quarterly prepayments during the year.

Within gas commodity, supply and distribution of retail customers, in the segment of small entrepreneurs, is measured in two ways: for one part of the customer's portfolio in the same way as households segment, and for the other part of the customer's portfolio on the annual basis from 1 January till 31 December. Small entrepreneurs pay monthly prepayments during the year.

Revenue from sale of electricity on the spot market is recognized when the contract is fulfilled. There are no spot market transactions within gas commodity.

Revenues from services

Revenues from services are recognized in the accounting period in which the services are rendered. The following services are mainly rendered by the Group:

- Shared services
- Maintenance and construction (grid) works
- Rental of non-residential premises and telecom
- Non-commodity products and services.

Revenues from non-commodity business refer to sale and rental of products and services related to the energy management and packages for health and safety.

Product portfolio for households mainly consists of cost and energy saving LED bulbs, smart electric water heaters and shower heads, and Loyalty Card programme with year-round discounts in shops and with the Warranty Plus service. As of the 1 December 2017, the Loyalty Card programme business model was changed. Previously, revenues from the Loyalty Card programme were recognized as service provided, including sub-deliveries of insurance services from an insurance entity, and a profit margin. As of 1 December 2017 – the Group has become an independent agent of the insurance company, in provision of insurance in Loyalty Card programme. As result, revenues from Loyalty Card programme are recognized on net basis – as a provision earned.

Solutions to business cover tailored solutions and solutions for plants lighting, thermal insulation of buildings and an e-mobility package.

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

Connection fees revenues

The Distribution System Operator (hereinafter “DSO”) receives contribution from the customers to connect them to electricity grid. When connecting to the electricity network, the customers must pay a connection fee based on the actual costs of infrastructure to be built in order to connect them to the network. The revenue from connection fees is deferred and recognised as income evenly over the estimated customer relationship period. The amortization period of connection fees is 20 years. Deferred connection fees are carried in the SOFP as long-term and short-term deferred revenues.

Revenues from donated property, plant and equipment and physical count surpluses

The Group periodically carries on the physical counts of its assets. Identified surpluses on non-current assets are recognised in the SOFP. The initial measurement is at fair value based on valuator’s report. Subsequently the value is depreciated over its useful life that is estimated based on particular group of asset. The revenue from surplus is deferred and recognised over useful life of underlying asset. Deferred surplus revenues are carried in the SOFP as long-term and short-term deferred revenues.
Similarly, the revenues from non-current assets donated by customers that relate to reallocation of electric lines are deferred and recognised as income evenly over the estimated useful life of lines.

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 as Income from associates and joint ventures when the Group’s right to receive payments is established.

2.23. Related party disclosures

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

2.24. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Group did not offset any financial assets and financial liabilities.

2.25. Derivative financial instruments

Derivative financial instruments are recognised as assets or liabilities and measured at fair value, regardless of their purpose. Changes in this value are recognised with an effect on income, unless the instruments are used for hedge accounting purposes. In such cases, recognition of changes in the fair value depends on the type of hedging transaction.

The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

Cash flow hedges

Cash flow hedges are used to hedge the risk of variability in cash flows related to an asset or liability carried on the balance sheet or related to a highly probable forecast transaction. If a cash flow hedge exists, unrealised gains and losses from the hedging instrument are initially stated as other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within other income or other expense. Gains or losses accumulated in other comprehensive income are only included in the income statement when the hedged underlying transaction has an effect on income. If forecast transactions are hedged and such transactions lead to the recognition of a financial asset or financial liability in subsequent periods, the amounts that were recognised in equity until this point in time are recognised in the income statement in the period during which the asset or liability affects the income statement.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

The Group has entered into Natural Gas Swap agreements in August 2017 and December 2017 with effective date 1 January 2020 and termination date 31 December 2020. Impact of the swap agreements of EUR 71 thousand is presented on the balance sheet within Other reserves.

During the year 2016 the Group entered into one-off weather index swap agreement with termination date 31 December 2016. For more information refer to Note 23.

Management considers these amounts to be immaterial in the context of these financial statements.

2.26. Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred,
- liabilities incurred to the former owners of the acquired business,
- equity interests issued by the Group,
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred. The excess of the consideration transferred, amount of any non-controlling interest in the acquired entity, and acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions, which also reflects the risk related to the business acquired in a business combination.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

2.27. 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 (the Group 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 56 thousand resulting from 2017 tranche is presented in Trade and other payables in SOFP. For more information see Note 26.

3. Financial risk management

The Group’s activities are exposed to a variety of financial risks: credit risk, market risk (including risk of changes in foreign currency exchange rates, interest rates, and price risk) and liquidity risk. The strategy of risk management of the Group is focused on the mitigation of potential negative impacts on financial results of the Group. In 2005, the Group 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 Group’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 Group is exposed to credit risk because of the possibility of failure of business partner and subsequent non-payment or non-delivery of commodity, goods or services supplied.

Key customers of the Group are final users of commodity where the Group delivers both supply and distribution of electricity and natural gas.

Final users of commodity

The Group implemented individual assessment of major customers' credit risk (wholesale) based on own valuation model. The input information of the model are e.g. rating of external credit risk rating companies, payment discipline of customer, key indicators from financial statements, available information on customer's debt. For this group of customers the Group implemented categorization into 5 risk grades, each of them having their own payment conditions and individual credit limit. Credit limit represents maximum possible credit exposure against customer resulting from a customer contract according to the evaluation of risk. The Group mitigates the credit exposure by various tools, such as bank guarantees, statement of guarantor, financial deposit, adjustment of payment conditions (including the possible request for prepayments), contractual credit clauses, etc.

The Group is applying a system of advance payments for small price-list customers (retail), thus significantly eliminating credit risk. Consumption of households are measured during the year in eleven cycles for electricity delivery and in twelve cycles for gas delivery, consumption of small entrepreneurs is either measured for the period of 1 January to 31 December or in twelve monthly cycles (see Note 2.22 for more details). At the year-end, the advance payments billed to households are recognized within unbilled electricity balance in the Statement of Financial Position. Respective debit balance is presented in trade receivables (see Note 11) and credit balance is presented in trade payable (see Note 14). Unbilled electricity and unbilled gas is determined at individual customer level.

As another instrument for credit risk management, the Group is using credit clauses within the process of commenting and approving standard contracts and terms and conditions for customer segments as well as individual contracts for large customers.

Electricity traders

The electricity suppliers according the framework distribution contract are obliged to pay advance payments on a monthly basis to Companies' bank account or provide an adequate guarantee.

From 2013 the payment conditions including condition for adequate guarantee correspond to the supplier´s classification of payment terms according to the credit risk evaluation carried out by the DSO in accordance with Ordinance No.24/2013 Coll. of the Regulatory Office which introduces rules for the internal market in electricity and gas (hereinafter referred to as the "Market Rules"). The conditions of credit risk evaluation, as well as definition of the respective groups of payment terms are laid down in the Terms and Conditions for the Framework distribution contract and they are a part of the DSO Operating Rules. Based on these suppliers are categorised to the grades “A to D”. In line with the Market Rules the supplier is obliged to provide to the DSO either adequate bank guarantee/financial deposit/guarantee of parent company or respective prepayments on monthly invoices based on the grade received.

If the supplier fails to meet its obligation to provide a specific collateral during the whole contract period, the Group is entitled to claim a contractual fine corresponding to the amount of interest laid down in the Framework distribution contract, namely interest on the outstanding amount for each day of collateral

condition breach. Non-observance of such an obligation is deemed to be a major breach of the Framework distribution contract and the DSO is entitled to terminate the contract.

For each day the payment (advance payment, invoice) is late, the DSO is entitled to invoice late payment interest. The amount of late payment interest for each day the payment is late is 0.035% on the overdue amount (from August 2014 late payment interest is based on ECB base rate as defined in Government ordinance no. 21/2013).

Cash and bank accounts

Credit risk also originates from cash and bank accounts. Risk resulting from bank accounts is reduced through diversification of deposits in several banks. As a result, the Group 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**
Sberbank	-	BB+	-	-	718	-
VÚB	A2/P-1	A2/P-1	4,330	46,000	8,698	50,000
ING bank	Aa3/P-1	A1	5,950	-	908	-
Komerční Banka	A2/P-1	A2/P-1	-	-	-	400
UniCredit Bank	Baa1/P-2	Baa1	14	-	40	-
Citibank	A1/P-1	A1	1,687	85,000	9,330	85,000
Total			**11,981**	**131,000**	**19,694**	**135,400**

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 Group’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 Group has a borrowing facility in form of overdrafts in total amount of EUR 131,000 thousand (31 December 2016: EUR 135,400 thousand). The Group used the possibility to draw the overdraft as at 31 December 2017 in the amount of EUR 14,715 thousand (31 December 2016: EUR 364 thousand).

The table below shows the analysis of financial liabilities of the Group according to remaining contractual maturities. The amounts in the table present the undiscounted cash flows. The amounts trade and other payables 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						
Bank borrowings (Note 16)	-	64,928	-	-	127,965	192,893
Liability from contingent consideration (Note 17)	-	14,848	21,372	-	-	36,220
Finance lease (Note 16)	245	-	247	749	2,334	3,575
Trade and other payables (Note 14)	91,434	-	-	-	-	91,434
Total	**91,679**	**79,776**	**21,619**	**749**	**130,299**	**324,122**
31 December 2016						
Bank borrowings (Note 16)	76	242	50,724	617	129,051	180,710
Liability from contingent consideration (Note 17)	-	5,500	3,050	21,762	-	30,312
Finance lease (Note 16)	240	-	244	746	2,656	3,886
Trade and other payables (Note 14)	92,624	-	-	-	-	92,624
Total	**92,940**	**5,742**	**54,018**	**23,125**	**131,707**	**307,532**

3.3 Cash flow interest rate risk

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

The Group’s interest expense and financing cash flows depend on changes in market interest rates. The Group decreases interest rate risk by appropriate combination of fixed and variable interest rates on credit facilities received together with the duration of these credit facilities.

3.4 Foreign exchange risk

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

3.6 Capital management

The Group'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. The Group defines capital as equity increased by loans and decreased by cash and cash equivalents.

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

	As at 31 December	
in EUR thousand	**2017**	**2016**
Current liabilities from financing activities		
Finance lease	245	240
Borrowings	64,715	668
Contingent consideration	14,848	5,500
Non-current liabilities from financing activities		
Finance lease	3,248	3,494
Borrowings	120,000	170,910
Contingent consideration	18,372	19,948
Cash and cash equivalents	(12,010)	(19,713)
Net debt	**209,418**	**181,047**
Equity (less non-controlling interest)	197,966	209,253
Capital total	**407,384**	**390,300**
Liabilities	418,286	389,508
Liabilities to capital ratio	**103%**	**100%**
Debt / equity ratio	**106%**	**86%**

3.7 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 Group 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 Group 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 Group records contingent consideration from acquisition of iSK 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 group recorded in 2017 within Other reserves and

Trade and other receivables the fair value of hedging derivative with after-tax carrying amount of EUR 71 thousand, which is not material in the context of financial statements and therefore not further analysed.

Fair value measurements using significant unobservable inputs

The following table presents the changes in level 3 items for the periods ended 31 December 2017 and 2016, 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	2,140
Finance (+) expense/ (-) income – reassessment of fair value of contingent consideration as of 31 December, other than unwinding of discount	11,090	1,882
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, in line with the Group's interim reporting periods.

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

- Discount rates for contingent consideration liability are 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 is estimated based on 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 impact 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 (2016: years 2017 and 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

3.8 Fair value estimation of non-financial assets

This note explains the judgements and estimates made in determining the fair values of the non-financial assets that are recognised initially at fair value in the financial statements, i.e. customer portfolio which was recognized upon acquisition of the subsidiary iSK. It represents non-recurring fair value measurement. The fair value hierarchy applies analogically to the Note 3.6. above. The Group used measurements of level 3 of fair value hierarchy to determine the fair value of customer portfolio as of the date of acquiring control over iSK, which was 1 September 2015.

The finance department of the Group includes a team that performed the valuation of customer portfolio required for financial reporting purposes, including level 3 fair values. This team reports directly to the chief financial officer (CFO).

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

- Discount rates for projected cash-flows from customer portfolio,
- Churn rates of customers by various categories of customers,
- Profitability of customers by various categories of customers.

The following table summarises sensitivity analysis related to customer portfolio assuming basic scenario discount factor at 7.5%, average churn rates of 2.39% for B2C customers and 9.3% for B2B customers.

Sensitivity analysis	Fair value of customer portfolio as at 1 September 2015	Change in parameter compared to basic scenario in thousand EUR	Change in comparison with basic scenario in %
Fair value of customer portfolio in basic scenario	40,731		
1% increase in discount factor	38,236	(2,495)	(6.1)
1% increase in churn rate	40,552	(179)	(0.4)
1% increase in profitability	41,138	407	1.0

4. Critical accounting estimates and judgments

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

4.1 Critical accounting estimates and assumptions

The Group 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.

Unbilled revenues from electricity supply and distribution

As a result of the fact that the retail customers in the household segment are metered at one of the eleven cycles which are phased between January and November of a calendar year (more detailed description in Note 2.22), remaining part of electricity supply and distribution for the reporting period gives rise to unbilled revenues from electricity supply and distribution. It is an accounting estimate which is based on:

- the estimate of the supplied resp. distributed volume to households in technical units (MWh) between the date of last metering and the end of the reporting period, and
- the estimate of the unit price of EUR/MWh which will be used for billing for the supply and distribution in the future. Price is based on actual price list valid for the respective calendar year.

The net balance of unbilled revenues from electricity supply and distribution is determined as the estimated delivery in MWh multiplied by unit price in EUR/MWh deducted by the amount of advance billing to the customers. It is determined on individual customer level.

If the estimate of supply in households segment was higher by 1%, or 11 GWh (2016: 11 GWh), the volume of unbilled electricity would be changed by EUR 1,346 thousand (2016: EUR 1,466 thousand). The balance sheet would be debited and profit or loss would be credited by these amounts.

If the estimate of price invoiced for supplies in the future was higher by 1%, or 1.27 EUR/MWh (2016: 1.31 EUR/MWh), the volume of unbilled electricity would be changed by EUR 1,346 thousand (2016: EUR 1,466 thousand). The balance sheet would be debited and profit or loss would be credited by these amounts.

The balance of unbilled revenues from electricity supply and distribution is stated in Note 11 and Note 14.

Unbilled revenues from gas supply and distribution

As a result of the fact that the retail customers in the household segment, and partially also in segment of small entrepreneurs are metered at one of the twelve cycles which are phased throughout whole calendar year (more detailed description in Note 2.22), remaining part of gas supply, and distribution for the reporting period gives rise to unbilled revenues from gas supply and distribution. It is an accounting estimate which is based on:

- the estimate of the supplied, and distributed volume to households and small entrepreneurs in technical units (MWh) between the date of last metering and the end of the reporting period, and
- the estimate of the unit price of EUR/MWh which will be used for billing for the supply, and distribution in the future. Price is based on actual price list valid for the respective calendar year.

The net balance of unbilled revenues from gas supply and distribution is determined as the estimated delivery in MWh multiplied by unit price in EUR/MWh deducted by the amount of advance billing to the customers. It is determined at individual customer level.

Under ceteris paribus condition, if the estimate of supply in households segment was higher by 1%, or 24 GWh (2016: 22 GWh), the volume of unbilled gas would increase by EUR 846 thousand (2016: EUR 835 thousand). The balance sheet would be debited and profit or loss would be credited by these amounts.
The same increase in the volume of unbilled gas would apply also for 1 % increase of price invoiced for supplies: 0.35 EUR/MWh (2016: 0.38 EUR/MWh). The balance sheet would be debited and profit or loss would be credited by these amounts.

The balance of unbilled revenues from gas supply and distribution is stated in Note 11 and Note 14.

Impairment of goodwill

Goodwill was recognised in the Group as a result of acquisition of subsidiary iSK. The date of obtaining of control is 1 September 2015. Full amount of goodwill is attributable to the Gas trade CGU. The Group tests whether goodwill has suffered any impairment on an annual basis. The recoverable amount of a cash generating unit (CGU) is determined based on value-in-use calculations which require the use of assumptions. The calculations apply cash flow projections based on financial budgets approved by management covering a five-year period. Given the expected EBIT results for forthcoming period, the carrying amounts of assets which are represented mainly by customer portfolio and discount factors specific to Gas trade business of the Group at the level of 4.25% (2016: 6%), the management has concluded that goodwill is not impaired and there is sufficient headroom. Cash flows beyond the five-year period are extrapolated using the estimated growth rates in industry reports specific to the industry in which each CGU operates.

The finance department of the Group includes a team that performs the valuations required for financial reporting purposes, including level 3 fair values. This team reports directly to the chief financial officer (CFO).

Sensitivity analysis:

Description of change of parameter 2017	Higher of VIU and FV (mil EUR)	Change in comparison with basic scenario	Change in comparison with basic scenario in %
Basic scenario	**211**		
Increase of WACC by 1%	168	(43)	(20)
Decrease of WACC by 1%	282	71	34
Increase of terminal growth (inflation rate forecast of ECB) by 1%	272	61	29
Decrease of terminal growth (inflation rate forecast of ECB) by 1%	174	(37)	(18)
Increase of EBITDA by 1%	213	2	1
Decrease of EBITDA by 1%	209	(2)	(1)
Carrying amount of assets / CGU	**50**		

Description of change of parameter 2016	Higher of VIU and FV (mil EUR)	Change in comparison with basic scenario	Change in comparison with basic scenario in %
Basic scenario	**207**		
Increase of WACC by 1%	167	(40)	(19)
Decrease of WACC by 1%	270	63	30
Increase of terminal growth (inflation rate forecast of ECB) by 1%	245	38	18
Decrease of terminal growth (inflation rate forecast of ECB) by 1%	180	(27)	(13)
Increase of EBITDA by 1%	210	3	1
Decrease of EBITDA by 1%	205	(2)	(1)
Carrying amount of assets / CGU	**52**		

Economic useful life of tangible fixed assets

The economic useful life of tangible fixed assets stated in Note 2.4 was based on the best estimate of the Group's management. Should the estimated residual useful life of tangible fixed assets be shorter by 10%, the Group would record additional annual depreciation charge of tangible fixed assets of EUR 3,540 thousand (2016: EUR 3,000 thousand). Should the estimated residual useful life of tangible fixed assets be longer by 10%, the Group would record depreciation charge lower by EUR 3,097 thousand (2016: EUR 2,454 thousand).

Liability from contingent consideration

Based on acquisition contract, the purchase price of 100% share on voting rights of iSK consists of fixed consideration paid in cash and contingent consideration (Note 17) dependent on future EBITDA of acquired subsidiary.

The acquisition contract states that 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 (31 December 2016: EUR 25,448 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. Structure of the Group

The Group'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 Group, 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).

6. Tangible assets

in EUR thousand	Land	Buildings and infrastructure	Machinery, equipment, vehicles and office equipment	Construction in progress	Total
At 1 January 2016					
Cost	9,268	455,196	249,830	14,581	728,875
Accumulated depreciation	-	(178,364)	(121,331)	-	(299,695)
Impairment	-	(6,974)	-	-	(6,974)
Net book value	**9,268**	**269,858**	**128,499**	**14,581**	**422,206**
Additions	-	-	-	45,401	45,401
Transfers	129	25,282	10,455	(35,866)	-
Net book value of disposals	-	(595)	(203)	-	(798)
Impairment	-	563	-	-	563
Correction of opening balances	-	77	(8)	-	69
Damages	-	(132)	(6)	-	(138)
Residual value of assets sold	(47)	(267)	(62)	-	(376)
Depreciation charge	-	(15,507)	(11,488)	-	(26,995)
Closing net book value	**9,350**	**279,279**	**127,187**	**24,116**	**439,932**
At 31 December 2016					
Cost	9,350	477,140	257,607	24,116	768,213
Accumulated depreciation	-	(191,450)	(130,420)	-	(321,870)
Impairment	-	(6,411)	-	-	(6,411)
Net book value	**9,350**	**279,279**	**127,187**	**24,116**	**439,932**
At 1 January 2017					
Cost	9,350	477,140	257,607	24,116	768,213
Accumulated depreciation	-	(191,450)	(130,420)	-	(321,870)
Impairment	-	(6,411)	-	-	(6,411)
Net book value	**9,350**	**279,279**	**127,187**	**24,116**	**439,932**
Additions	-	-	-	48,308	48,308
Transfers	32	31,573	11,538	(43,143)	-
Net book value of disposals	-	(693)	(120)	-	(813)
Impairment	-	611	-	-	611
Correction of opening balances	-	2	-	-	2
Derecognition of Bioplyn Rozhanovce (Note 1)	(163)	(1,286)	(728)	-	(2,177)
Damages	-	(2)	-	(210)	(212)
Residual value of assets sold	(1)	(3)	(109)	(1)	(114)
Depreciation charge	-	(15,573)	(11,505)	-	(27,078)
Closing net book value	**9,218**	**293,908**	**126,263**	**29,070**	**458,459**
At 31 December 2017					
Cost	9,218	504,360	262,887	29,070	805,535
Accumulated depreciation	-	(204,652)	(136,624)	-	(341,276)
Impairment	-	(5,800)	-	-	(5,800)
Net book value	**9,218**	**293,908**	**126,263**	**29,070**	**458,459**

An impairment in the amount of EUR 5,800 thousand was recognized in the SOFP for administrative buildings as at 31 December 2017 (31 December 2016: EUR 6,411 thousand). The reason for impairment of these buildings is their low utilization. The recoverable amount of the buildings is determined as their value in use, calculated as future cash flows from the rental of unused space over the building's estimated economic useful life, taking into account future operating costs. The estimate is based on an expected utilization of the premises not occupied by the Group's staff. The rental charge per m^2 is the current market rate for similar premises in the area. The discount factor used is 4.25% p.a. (31 December 2016: 6.0% p.a.). Net book value of related buildings not covered by impairment provision is zero. The Group decided to decrease the impairment provision by amount equal to yearly depreciation charge.

Main part of tangible assets is represented by components of electricity network.

The following amounts have been included under tangible assets:

	As at 31 December	
in EUR thousand	**2017**	**2016**
Cost – capitalized finance leases	4,887	4,887
Accumulated depreciation	(1,124)	(928)
Net book value	**3,763**	**3,959**

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

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

Property, plant and equipment is insured up to the amount of EUR 927,820 thousand (2016: EUR 923,076 thousand).

7. Intangible assets

in EUR thousand	Computer software and other	Goodwill	Customers portfolio	Intangible assets not yet ready for use	Total
At 1 January 2016					
Cost	54,612	14,476	40,731	1,761	111,580
Accumulated amortization	(40,972)	-	(543)	-	(41,515)
Net book value	**13,640**	**14,476**	**40,188**	**1,761**	**70,065**
Additions	-	-	-	4,223	4,223
Correction of opening balances	(69)	-	-	-	(69)
Transfer from CIP	4,304	-	-	(4,304)	-
Amortization charge	(4,282)	-	(1,629)	-	(5,911)
Closing net book value	**13,593**	**14,476**	**38,559**	**1,680**	**68,308**
At 31 December 2016					
Cost	64,188	14,476	40,731	1,680	121,075
Accumulated amortization	(50,595)	-	(2,172)	-	(52,767)
Net book value	**13,593**	**14,476**	**38,559**	**1,680**	**68,308**
At 1 January 2017					
Cost	64,188	14,476	40,731	1,680	121,075
Accumulated amortization	(50,595)	-	(2,172)	-	(52,767)
Net book value	**13,593**	**14,476**	**38,559**	**1,680**	**68,308**
Additions	-	-	7,998	4,229	12,227
Transfer from CIP	2,803	-	-	(2,803)	-
Amortization charge	(4,137)	-	(1,719)	-	(5,856)
Closing net book value	**12,259**	**14,476**	**44,838**	**3,106**	**74,679**
At 31 December 2017					
Cost	66,874	14,476	48,729	3,106	133,185
Accumulated amortization	(54,615)	-	(3,891)	-	(58,506)
Net book value	**12,259**	**14,476**	**44,838**	**3,106**	**74,679**

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

Internally generated intangible assets are not material.

8. Investment in associates, joint ventures and non-controlling interest

Associates and joint ventures

The overview of associates and joint ventures is in the schedule below:

Name and Place of business	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	Island grid lessor
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	Production of electricity from biomass

The Group, together with other venturers, has joint control of the financial and operational policies of Energotel, SPX and Bioplyn Rozhanovce through the shareholder agreement together with its other venturers. For more information regarding deemed disposal of Bioplyn Rozhanovce refer to Note 1.

Investments in associates and joint ventures are consolidated using the equity method of accounting.

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
Bioplyn Rozhanovce, s.r.o.	387	-
Total	**954**	**567**

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

2016	Assets	Liabilities	Equity	Profit/(loss)	Valuation
SPX, s.r.o.	156	14	142	11	4
TRANSELEKTRO spoločnosť s ručením obmedzeným Košice	563	105	458	(73)	(26)
Energotel, a.s.	14,815	5,393	9,422	1,562	312
Total	**15,534**	**5,512**	**10,022**	**1,500**	**290**

2017	Assets	Liabilities	Equity	Profit/(loss)	Valuation
SPX, s.r.o.	176	23	153	11	4
TRANSELEKTRO spoločnosť s ručením obmedzeným Košice	517	91	426	(33)	(26)
Energotel, a.s	13,449	6,644	6,805	1,293	(523)
Bioplyn Rozhanovce, s.r.o.	2,887	1,448	1,439	58	(1)
Total	**17,029**	**8,206**	**8,823**	**1,329**	**(546)**

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.

Non-controlling interest

The subsidiary of the Company, VSE Ekoenergia, s.r.o. and the company AT ABOV, spol. s r.o. established the subsidiary Bioplyn Rozhanovce, s.r.o. in July 2010. Until July 2017 the Group owned 51% of the subsidiary Bioplyn Rozhanovce, s.r.o. The company AT ABOV, spol. s r. o. was a minority shareholder with its 49% share in equity that gave rise to non-controlling interest of the Group.

The Group derecognised the non-controlling interest in August 2017 because of change of subsidiary to joint venture.

9. Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below (in EUR thousand):

As at 31 December 2017	Loans and receivables	Total
Assets as per statement of financial position		
Trade and other receivables (Note 11)	63,347	63,347
Cash and cash equivalents (Note 12)	12,010	12,010
Total	**75,357**	**75,357**

As at 31 December 2017	**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 14)	91,434	-	91,434
Liability from contingent consideration (Note 17)	-	33,220	33,220
Finance lease liability[1] (Note 16)	3,493	-	3,493
Bank borrowings (Note 16)	184,715	-	184,715
Total	**279,642**	**33,220**	**312,862**

As at 31 December 2016	**Loans and receivables**	**Total**
Assets as per statement of financial position		
Trade and other receivables (Note 11)	60,943	60,943
Cash and cash equivalents (Note 12)	19,713	19,713
Total	**80,656**	**80,656**

As at 31 December 2016	**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 14)	92,624	-	92,624
Liability from contingent consideration (Note 17)	-	25,448	25,448
Finance lease liability[1] (Note 16)	3,734	-	3,734
Bank borrowings (Note 16)	171,578	-	171,578
Total	**267,936**	**25,448**	**293,384**

[1] The categories in this disclosure are determined by IAS 39. Finance leases are mostly outside the scope of IAS 39, but they remain within the scope of IFRS 7. Therefore, finance leases have been shown separately.

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

Bad debt provision is set-up by the Group 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, and the percentage of creation is dependent on the type of customer. Moreover, for wholesale customers, the Group creates bad debt provision on an individual basis and impairs the receivables, when there is evidence that the Group will not be able to collect all the amounts due according to the original terms of receivables.

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/ Creation of bad debt provisions for receivables overdue – wholesale

Days overdue From – till	% bad debt
1 – 60 days	15 %
61 – 120 days	20 %
121 – 150 days	30 %
151 – 360 days	50 %
361 and longer	100 %

c/ Creation of bad debt provisions for receivables overdue - retail – commercial

Days overdue From – till	% bad debt
1 – 60 days	15%
61 – 120 days	44 %
121 – 210 days	80 %
211 – 330 days	90 %
331 – 360 days	100 %
361 and longer	100 %

d/ Creation of bad debt provisions for receivables overdue - retail – households

Days overdue From - till	% bad debt
1 – 90 days	15 %
91 – 180 days	50 %
181 – 360 days	80 %
361 and longer	100 %

e/ Receivables due from commercial both electrical and gas customers in bankruptcy and from illegal take-offs are fully provided with specific bad debt provision regardless of overdue days. Specific provisions for receivables due from hospitals are created at 50% and 100%, respectively, depending on particular hospital. In addition there is created one specific provision at 3% for one gas customer.

The reconciliation of changes in bad debt provisions for trade and other receivables is stated in Note 11.

The Group's collaterals used for credit risk are not significant to the Group, and therefore do 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.

10. Inventories

in EUR thousand	As at 31 December 2017	2016
Raw materials	3,000	4,363
Total	**3,000**	**4,363**

The inventory items are shown after provision for slow-moving materials of EUR 160 thousand in the year 2017 (2016: EUR 111 thousand).

The cost of inventory recognized as an expense and recognized as "Raw materials and other consumed materials" amounted to EUR 9,432 thousand (2016: EUR 8,568 thousand).

11. Trade and other receivables

in EUR thousand	As at 31 December 2017	2016
Financial instruments:		
Receivables not due, not impaired	52,503	55,560
Receivables due, impaired	23,797	19,790
Trade receivables	**76,300**	**75,350**
Less provision for impairment of receivables	(16,372)	(15,321)
Trade receivables – net	**59,928**	**60,029**
Other trade receivables	2 967	849
Cashflow hedge	71	-
Other financial assets	381	-
Non-financial instruments:		
Prepayments	1,022	1,805
Advances paid	637	507
Taxes	1,192	361
Total	**66,198**	**63,551**

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 is low concentration of credit risk with respect to trade receivables as the Group has substantial number of customers.

Other receivables are not impaired.

Accounting for accrued unbilled electricity is more closely described in Notes 2.22 and 4.1.

Trade receivables are denominated in EUR.

The analysis of trade receivables, which are not due yet and are not impaired, is in the following table:

in EUR thousand	As at 31 December 2017	2016
Wholesale	34,238	38,188
Retail commercial	5,540	5,170
Retail households	5,151	4,018
Other trade receivables	7,574	8,184
Total	**52,503**	**55,560**

The analysis of the cash collection from these receivables as at 31 January is in the following table:

in EUR thousand	As at 31 January 2018	2017
Gas receivables paid	9,074	10,674
Electricity receivable paid	25,056	20,705
Other trade receivables	5,690	7,532
Total	**39,820**	**38,911**

The movements of bad debt provisions are presented in the profit or loss on line "Other operating (expenses) / income". Movements are presented below:

in EUR thousand	2017	2016
Balance at 1 January	**15,321**	**15,571**
Creation of bad debt provision	1,490	734
Effect of Acquisition of CEZ portfolio (Note 1)	561	-
Receivables written off during the year as uncollectible	(1,000)	(984)
Balance at 31 December	**16,372**	**15,321**

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

	2017		2016	
Wholesale	**Receivables**	**Bad debt provision**	**Receivables**	**Bad debt provision**
Till 2 months overdue	2,185	328	2,618	404
2 – 4 months overdue	68	14	95	19
4 – 5 months overdue	26	8	29	9
5 – 12 months overdue	161	80	151	76
More than 12 months overdue	422	422	281	281
Total	**2,862**	**852**	**3,174**	**789**

Retail – commercial				
Till 2 months overdue	161	24	29	4
2 – 4 months overdue	32	14	82	36
4 – 7 months overdue	69	55	59	47
7 – 11 months overdue	19	17	38	34
More than 11 months overdue	582	582	492	492
Total	**863**	**692**	**700**	**613**

Retail – households				
Till 3 months overdue	1,044	157	700	105
3 – 6 months overdue	265	132	193	97
6 – 12 months overdue	264	211	133	106
More than 12 months overdue	365	365	65	65
Total	**1,938**	**865**	**1,091**	**373**

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

	2017		**2016**	
Wholesale	**Receivables**	**Bad debt provision**	**Receivables**	**Bad debt provision**
Till 2 months overdue	221	33	383	57
2 – 4 months overdue	2	-	5	1
4 – 5 months overdue	-	-	-	-
5 – 12 months overdue	14	7	-	-
More than 12 months overdue	110	110	116	116
Total	**347**	**150**	**504**	**174**
Retail – commercial				
Till 2 months overdue	215	32	212	32
2 – 4 months overdue	59	26	34	15
4 – 7 months overdue	10	8	10	8
7 – 11 months overdue	83	75	83	75
More than 11 months overdue	602	602	559	559
Total	**969**	**743**	**898**	**689**
Retail – households				
Till 3 months overdue	463	69	320	48
3 – 6 months overdue	218	109	139	69
6 – 12 months overdue	199	159	178	143
More than 12 months overdue	1,050	1,050	583	583
Total	**1,930**	**1,387**	**1,220**	**843**

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

Other operations				
Till 3 months overdue	183	9	19	1
3 – 6 months overdue	10	1	29	3
6 – 12 months overdue	43	8	15	3
More than 12 months overdue	226	226	392	392
Total	**462**	**244**	**455**	**399**
Total overdue receivables	**9,371**	**4,933**	**8,042**	**3,880**

Impaired receivables due from both gas and electricity commercial customers in bankruptcy and electricity receivables due from hospitals are in amount of EUR 14,426 thousand (31 December 2016: EUR 11,562) thousand), where specific bad debt provision of EUR 11,439 thousand (31 December 2016: EUR 11,430 thousand) was created.

12. Cash and cash equivalents

	As at 31 December	
in EUR thousand	**2017**	**2016**
Cash at bank and in hand	12,010	19,713
Total	**12,010**	**19,713**

The effective interest on a weighted average basis on current interest-bearing deposits was 0.0% p.a. (2016: 0.0% p.a.) with daily settlements (unchanged to 2016).
Carrying amount is a reasonable approximation of fair value.

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

Citibank, VUB bank and Intesa Sao Paolo issued bank guarantees for the Group in the amount of EUR 15,173 thousand (2016: EUR 17,290 thousand).

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

13. Equity

Ordinary shares	**Number of shares (in thousands)**	**Ordinary shares (in 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 Group 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 Group is obliged to create a reserve fund at its establishment in amount and in the way described in Articles of the Group. 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 Group or for actions, which should be set to overcome an adverse development of results of the Group. The Board of Directors decides on the use of reserve fund, if not stated in Articles otherwise.

The Group created the legal reserve fund in the amount of 20% of share capital established at the incorporation (EUR 16,480 thousand), by the contribution from retained earnings in the amount of EUR 5,845 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 described above. The Group had created the required amount of legal reserve fund in accordance with Commercial Code as at 31 December 2017.

In 2005, the Group allocated EUR 12,946 thousand from the 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.

Other reserves are represented by after-tax impact of cash-flow hedge, see Note 2.25 for more details.

On 24 May 2017, the General Meeting approved the financial statements of the Group for 2016 and decided to pay-out dividends to the shareholders for 2016 of EUR 56,319 thousand.
The total consolidated profit for the year 2017 of EUR 45,904 thousand (2016: EUR 56,319 thousand) is used as a base for profit distribution to shareholders of the VSE H Group. 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 are no income tax consequences related to this dividend.

Dividends per share are calculated as follows:

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

14. Trade and other payables

in EUR thousand	As at 31 December 2017	2016
Financial instruments:		
Trade payables	89,486	90,670
Payables to employees	1,716	1,723
Accrued borrowing costs	232	231
Non-financial instruments:		
Unbilled revenues from electricity and gas supply	7,587	4,755
Taxes	6,160	8,594
Advances received	4,041	7,188
Social securities and other payables	5,749	5,970
Total	**114,971**	**119,131**

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

15. Deferred revenues

The Group recognizes deferred revenues from connection fees. These are amortized over 20 years. In addition the Group recognized deferred revenues from physical counting surpluses and donated properties from customers.

in EUR thousand	As at 31 December 2017	2016
Current deferred revenues		
Connection fees	1,944	1,794
	1,944	**1,794**
Non-current deferred revenues		
Connection fees	26,085	25,116
Physical count surpluses of Properties, plant and equipment and donated electrical equipment	9,119	5,004
	35,204	**30,120**

For more details regarding the donated electrical equipment refer to Note 2.22.

16. Borrowings

in EUR thousand	As at 31 December 2017	2016
Non-current borrowings		
Finance lease	3,248	3,494
Bank borrowings	120,000	170,910
	123,248	**174,404**
Current borrowings		
Finance lease	245	240
Bank borrowings	64,715	668
	64,960	**908**
Total borrowings	**188,208**	**175,312**

a) Bank borrowings

The carrying amounts of bank borrowings are as follows:

in EUR thousand	As at 31 December 2017	2016
Komerční banka Bratislava	-	1,578
Citibank	14,715	-
UniCredit Bank	60,000	60,000
ING Bank	110,000	110,000
Total	**184,715**	**171,578**

Carrying value of borrowings approximates its fair values. The fair values were calculated by the discounting of cash flows using the discount rate derived from interest rates on similar types of borrowings in amount of 0.75% (2016: 0.96%) and are within level 3 of the fair value hierarchy.

Further details on loans outstanding as of 31 December 2017 are provided below.

Bank	Currency	Amount in EUR thousand	Interest rate in % as of 31 December 2017 p.a.	Maturity date	Collateral
Citibank	EUR	14,715	1M EURIBOR+0.55%	30 Sep 2018	-
ING Bank	EUR	50,000	6M EURIBOR+0.50%	7 Aug 2018	Statement of Guarantor – VSE
ING Bank	EUR	60,000	Fix 0.500%	22 Jun 2023	Statement of Guarantor – VSE and VSD
UniCredit Bank	EUR	60,000	Fix 1.163%	26 Jun 2026	Statement of Guarantor – VSE and VSD
		184,715			

Further details on loans outstanding as of 31 December 2016 are provided below.

Bank	Currency	Amount in EUR thousand	Interest rate in % as of 31 December 2016 p.a.	Maturity date	Collateral
Komerční banka Bratislava	EUR	1,214	1M EURIBOR+2.00%	31 Dec 2020	Land and technology Guarantee provided by parent company
Komerční banka Bratislava	EUR	364	1M EURIBOR+1.40%	30 Nov 2018	No collateral
ING Bank	EUR	50,000	6M EURIBOR+0.50%	7 Aug 2018	Statement of Guarantor – VSE
ING Bank	EUR	60,000	Fix 0.500%	22 Jun 2023	Statement of Guarantor – VSE and VSD
UniCredit Bank	EUR	60,000	Fix 1.163%	26 Jun 2026	Statement of Guarantor – VSE and VSD
		171,578			

The exposure of the Group 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	51,578
Total	**64,715**	**51,578**

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

	2017	2016
Bank borrowings	0.75%	0.96%
Finance lease	0.44%	0.57%

Borrowing facilities

As at 31 December 2017 and 31 December 2016, the Group had following borrowing facilities:

Bank / creditor	Type	Currency	Funds availability up to 2017	2016
Citibank	overdraft	EUR	85,000	85,000
KB	overdraft	EUR	-	400
VUB	overdraft	EUR	46,000	50,000
Total			**131,000**	**135,400**

The borrowing facilities are used by the Group 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	**171,578**	**146,589**
Cash flow	14 715	24,989
Deconsolidation of Bioplyn Rozhanovce, s.r.o.	(1,578)	-
31 December	**184 715**	**171,578**

b) Finance lease liabilities

	As at 31 December	
in EUR thousand	**2017**	**2016**
Gross finance lease liabilities – minimum lease payments		
No later than 1 year	255	259
Later than 1 year and no later than 5 years	1,021	1,036
Later than 5 years	2,300	2,591
Total	**3,576**	**3,886**
Future finance charges on finance lease liabilities	(83)	(152)
Present value of finance lease liabilities	**3,493**	**3,734**

The present value of finance lease liabilities is as follows:

	As at 31 December	
in EUR thousand	**2017**	**2016**
No later than 1 year	245	240
Later than 1 year and no later than 5 years	985	974
Later than 5 years	2,263	2,520
Total	**3,493**	**3,734**

The reconciliation of finance lease liability is set out in table below:

in EUR thousand	2017	2016
1 January	**3,734**	**3,972**
Cash flow – payment of liability	(241)	(238)
Non-cash flow - acquisition	-	-
31 December	**3,493**	**3,734**

17. 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 liability from contingent consideration	**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 expected finance charges on finance liabilities	(3,000)	(4,864)
Present value of finance 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 related to contingent consideration refer to Note 4.1.

18. Deferred income tax

Deferred income taxes are calculated in full on temporary differences under the liability method using an enacted tax rate of 21% with an uplift of 3.75% related to a special levy legislation (2016: 24.75%). The change in tax rate is closely described in Note 24.

	As at 31 December	
in EUR thousand	**2017**	**2016**
Deferred tax assets:		
- Deferred tax asset to be recovered after more than 12 months	4,823	2,779
- Deferred tax asset to be recovered within 12 months	1,775	1,479
	6,598	**4,258**
Deferred tax liabilities:		
- Deferred tax liability to be recovered after more than 12 months	(39,857)	(35,883)
Total	**(33,259)**	**(31,625)**

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

in EUR thousand	**2017**	**2016**
At the beginning of the period	(31,625)	(24,138)
Movement through the other comprehensive income	-	(13)
Effect of derecognition of Bioplyn Rozhanovce, s.r.o.	111	-
Income/(expense) in profit or loss	(1,745)	(7,474)
At 31 December	**(33 259)**	**(31,625)**

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

in EUR thousand	At 1 January 2017	Derecognition of Bioplyn Rozhanovce	(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	(35,883)	111	(4,085)	(39,857)	-
Provisions against bad debts	1,257	-	70	1,327	-
Provisions against inventory	27	-	13	40	-
Provision for other liabilities and charges	2,919	-	1,591	4,510	-
Tax loss	55	-	666	721	-
Total	**(31,625)**	**111**	**(1,745)**	**(33,259)**	**-**

in EUR thousand	At 1 January 2016	(Charged)/ credited to OCI	(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	(28,309)	-	(7,574)	(35,883)	(3,987)
Provisions against bad debts	1,352	-	(95)	1,257	139
Provisions against inventory	-	-	27	27	3
Provision for other liabilities and charges	2,721	(13)	211	2,919	324
Tax loss	98	-	(43)	55	6
Total	**(24,138)**	**(13)**	**(7,474)**	**(31,625)**	**(3,515)**

19. Provisions for other liabilities and charges

in EUR thousand	Pensions and other staff benefits	Restructuring	Legal claims	Total
At 1 January 2017	**5,914**	**108**	**56**	**6,078**
Creation of provision	1,417	81	4,084	5,582
Used/paid during year	(203)	(108)	(20)	(331)
At 31 December 2017	**7,128**	**81**	**4,120**	**11,329**

in EUR thousand	Pensions and other staff benefits	Restructuring	Legal claims	Total
At 1 January 2016	**6,314**	**300**	**89**	**6,703**
Creation of provision	768	108	-	876
Used/paid during year	(1,168)	(300)	(33)	(1,501)
At 31 December 2016	**5,914**	**108**	**56**	**6,078**

Restructuring provision

In accordance with long-term plans of the Group, a reduction of 6 jobs will be made in 2018. This decision was approved in 2017 by the Group's representatives and communicated to the trade unions. The estimated staff restructuring costs to be incurred are EUR 81 thousand and the provision will be used in 2018. Similar restructuring programme was in place in 2016 which resulted in recognition of provision in the comparative period in the amount EUR 108 thousand.

Provision for legal claims

The provision includes amounts in respect of certain legal claims brought against the Group. One of the legal claims relates to the dispute with the customer and remaining legal cases are against producers of electricity from renewables energy sourcers and combined heat production.

Provision for retirement and other employee benefits

These provisions are described in Note 20. 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:

	As at 31 December	
in EUR thousand	**2017**	**2016**
Non-current (pension liability)	7,029	5,817
Current (legal claims, restructuring and short-term portion of pension liability)	4,300	261
Total	**11,329**	**6,078**

20. Employee benefits

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	6,338	5,178
Jubilee awards	337	330
Disability benefits	453	406
Liability in the SOFP	**7,128**	**5,914**

in EUR thousand	2017	2016
Income statement charge included in operating and financial profit		
Current service cost	373	377
Interest cost	113	136
Past service cost, other	30	255
Total charge / (credit) included in employee benefit expense	**516**	**768**

in EUR thousand	2017	2016
Re-measurements for:		
Defined pension benefits	901	(533)
Total re-measurements	**901**	**(533)**

The movements in defined benefit pension over the year are as follows:

in EUR thousand	Present value of obligation	Total
As at 1 January 2016	**6,314**	**6,314**
Current service cost	377	377
Past service cost	255	255
Interest cost	136	136
	7,082	**7,082**
Re-measurements:		
- Loss from change in financial assumptions	619	619
- Gain from change in future wages growth assumptions	(221)	(221)
- Gain from change in demographic assumptions	(883)	(883)
- Gain from change in fluctuation	(50)	(50)
- Loss from other actuarial assumptions	2	2
	(533)	**(533)**
Payments from plan	(635)	(635)
As at 31 December 2016	**5,914**	**5,914**

in EUR thousand	Present value of obligation	Total
As at 1 January 2017	**5,914**	**5,914**
Current service cost	373	373
Past service cost	30	30
Interest cost	113	113
	6,430	**6,430**
Re-measurements:		
- Loss from change in financial assumptions	184	184
- Loss from change in future wages growth assumptions	407	407
- Loss from change in fluctuation	80	80
- Loss from adjustments to actual	230	230
	901	**901**
Payments from plan	(203)	(203)
As at 31 December 2017	**7,128**	**7,128**

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

Year 2017	
Number of employees with entitlement to the benefits	1,678
Percentage of employees, who will annually terminate their employment with Group 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 benefits	1,595
Percentage of employees, who will annually terminate their employment with Group 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%

Through its defined benefit pension plans, the Group is exposed to a number of 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 for employee benefits of the Group is stated in following table (in EUR thousand):

Description of change of parameter	Liability as at 31 December 2017	Change in comparison with basic scenario	Change in comparison with basic scenario in %
Basic scenario	7,128		
Increase of fluctuation by 2%	6,285	(1,578)	(22)
Decrease of fluctuation by 2%	8,143	1,384	19
Increase in salaries +1% compared to principal assumptions	8,051	923	13
Decrease in salaries -1% compared to principal assumptions	6,350	(778)	(11)
Discount rate +1% compared to principal assumptions	5,550	(843)	(12)
Discount rate -1% compared to principal assumptions	8,512	1,015	14

Description of change of parameter	Liability as at 31 December 2016	Change in comparison with basic scenario	Change in comparison with basic scenario in %
Basic scenario	5,914		
Increase of fluctuation by 2%	4,633	(1,281)	(22)
Decrease of fluctuation by 2%	7,073	1,159	20
Increase in salaries +1% compared to principal assumptions	6,657	743	13
Decrease in salaries -1% compared to principal assumptions	5,284	(630)	(11)
Discount rate +1% compared to principal assumptions	5,232	(682)	(12)
Discount rate -1% compared to principal assumptions	6,730	816	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.

Amounts paid for defined contribution pension plans:

in EUR thousand	2017	2016
Defined contribution pension plan	436	429
Total	**436**	**429**

21. Revenues

Revenues consist of the following:

in EUR thousand	2017	2016
Sales to end customers - electricity	241,260	216,475
Sales to end customers - gas	196,560	285,506
Trading on the spot market – electricity	13,238	7,104
Distribution revenues – electricity	313,930	297,901
Electricity & gas sales and distribution:	**764,988**	**806,986**
Shared services revenues	183	242
Other operating revenues	15,514	12,296
Operating revenues:	**15,697**	**12,538**
Total	**780,685**	**819,524**

22. Profit from operations

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

in EUR thousand	**2017**	**2016**
Revenues	**780,685**	**819,524**
Electricity purchase	(236,415)	(198,510)
Electricity transmission fees	(167,925)	(155,826)
Gas purchase including distribution fees	(179,993)	(273,788)
Electricity and gas costs:	**(584,333)**	**(628,124)**
Own work capitalized	8,017	8,087
Raw materials and other consumed materials	(9,432)	(8,568)
Wages and salaries	(34,643)	(32,531)
Social security costs	(11,073)	(10,197)
Restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring	(81)	(108)
Other staff costs	(1,348)	(1,226)
Employee benefit expense	**(47,145)**	**(44,062)**
Repairs and maintenance	(8,192)	(8,802)
IT fees	(3,606)	(3,465)
Cash collection costs	(1,152)	(1,006)
Training and business restructuring consulting	(1,705)	(1,533)
Post and telecommunication costs	(1,827)	(2,195)
Assurance services provided by auditor	(180)	(182)
Other non-audit services provided by auditor	(52)	-
Rental and security services	(1,248)	(1,251)
Travel expenses	(1,015)	(934)
Other services	(11,662)	(8,738)
Services	**(30,639)**	**(28,106)**
Depreciation	(27,891)	(27,793)
Impairment	611	563
Amortization	(5,856)	(5,911)
Depreciation and amortization	**(33,136)**	**(33,141)**
Decrease / (increase) in bad debt provision	(679)	250
Increase in the stock provision	(50)	(41)
Profit on sale of property and equipment	23	1,242
Other operating income	3,442	2,306
Other operating expenses	(7,602)	(3,174)
Other operating income / (expenses)	**(4,866)**	**583**
Profit from operations	**79,151**	**86,193**

23. 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		
Fair value gain on financial instrument – weather index swap	-	217
Interest from financial assets	-	2
Finance income	**-**	**219**
Finance costs		
Interest expense:		
- Bank borrowings	(1,331)	(1,526)
- Finance lease liabilities	(16)	(22)
- Provisions: unwinding of discount	(2,294)	(2,275)
Fair value loss on financial instruments:		
- Revaluation of liability from contingent consideration	(11,090)	(1,882)
- Weather index swap – cash flow hedges	-	(963)
	(14,731)	**(6,668)**
Amount capitalised	193	178
Finance costs expensed	**(14,538)**	**(6,490)**
Net finance costs	**(14,538)**	**(6,271)**

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 Groups’ general borrowings during the year, in this case 0.72% (2016: 0.74%).

24. Income tax expense

in EUR thousand	**2017**	**2016**
Current tax	17,042	16,419
Deferred tax (Note 18)	1,745	7,474
Income tax expense	**18,787**	**23,893**

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	2017	2016
Profit before tax	64,691	80,212
Income tax calculated at tax rate of 21% (2016: 22%)	13,585	17,647
Tax effects of:		
Expenses not deductible for tax purposes	5,366	2,731
Effect of income tax rate change from 22% to 21%	-	(1,278)
Effect of special levy scheme changes	-	4,793
Income not subject to tax	(164)	-
Tax charge	**18,787**	**23,893**
Effective tax rate	**29%**	**30%**

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 at 21%.

The Group pays a special levy that is relevant for electric and gas business. The special levy is presented under income tax expense, as special levy is profit based expense, and therefore also in scope of IAS 12. Basis for special levy payment since 2017 is profit before tax (until 2016, it was profit before tax exceeding EUR 3,000 thousand).

Until 2016, the legislation on special levy was approved annually for only one year ahead with very limited impact on deferred tax. Amendment 338/2016 to this legislation effective from 31 December 2016 has changed the annual approval to indefinite period of time and temporary has increased special levy rates for next 4 years.

Under standard conditions, 21% would be the rate applied on temporary differences to calculate deferred tax position on the balance sheet. However, as special levy is de facto tax, the size of the uplift to 21% tax rate should be determined by projecting the special levy payments for future periods.

The Group performed this projection resulting into adjusted tax rate of 24.75% applied for deferred tax determination.

25. Cash generated from operations

The Group prepared cash flow statement using indirect method.

in EUR thousand	2017	2016
Profit before tax	**64,691**	**80,212**
Adjustments for:		
Depreciation (Note 6, 22)	27,891	27,793
Amortization (Note 7, 22)	5,856	5,911
Impairment	(611)	(563)
(Profit)/loss on sale of property and equipment (Note 22)	(23)	(1,242)
Share of results of associates and joined ventures	(78)	-
Change in deferred revenues	5,234	2,569
Change in provisions (Note 19, 20)	4,350	(92)
Interest income	-	(2)
Interest expense	3,448	3,646
Shortages and damages	212	72
Contingent consideration revaluation	11,090	1,882
Physical count surpluses of Properties, plant and equipment and donated electrical equipment	(4,405)	(1,401)
Other non-cash operations	(218)	(303)
Changes in working capital:		
Inventories	1,363	(1,118)
Trade and other receivables	(2,647)	(1,875)
Impact of acquisition of CEZ assets and liabilities on trade receivables	780	-
Trade and other payables	(4,160)	1,249
Impact of acquisition of CEZ assets and liabilities on trade payables	(8,992)	-
Cash generated from operations	**103,781**	**116,738**

26. 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	5,574	-	-
As at 31 December	40.00	5,574	-	-
Vested and exercisable at 31 December	-	-	-	-

27. Income from associates and joint ventures

in EUR thousand	2017	2016
Dividends received from associates and joint ventures	782	-
Loss on deemed disposal of Bioplyn Rozhanovce, s.r.o.	(158)	
Investment valuation	(546)	290
Income from associates and joint ventures	**78**	**290**

Loss on deemed disposal:

in EUR thousand	2017
Fair value of 34 % interest retained	387
Net assets derecognised	(764)
Non-controlling interest derecognised	369
Consideration paid	(150)
Gain/(Loss) on deemed disposal	**(158)**

28. Contingencies

Taxation

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

29. Commitments

Capital commitments

As at 31 December 2017, the Group has contracted approximately EUR 40,972 thousand of the capital commitments related mainly to construction contracts and maintenance of electricity grid. (31 December 2016: EUR 31,000 thousand). Capital commitments of EUR 325 thousand is attributable to intangible assets (2016: EUR 0).

30. Related party transactions and balances

Related parties are divided into following categories:

a) *Entities under control of RWE Group*

- RWE AG
- RWE Systems AG
- RWE Supply&Trading GmbH
- RWE Supply & Trading CZ, a.s.
- RWE Service GmbH
- RWE Hrvatska d.o.o.
- RWE Energija, d.o.o.
- RWE Group Business Services GmbH
- innogy SE (RWE IT GbmH)
- innogy SE (RWE Effizienz GmbH)
- innogy SE (RWE Deutschland Aktiengesellschaft Essen)
- innogy SE (RWE Netzservice GmbH)
- innogy Energo s.r.o. (RWE Energo s.r.o.)
- innogy SE
- innogy International Participations N.V.
- innogy Energie, s.r.o.
- innogy Gastronomie GmbH (RWE Gastronomie GmbH Essen)
- innogy Česká republika a.s. (RWE Česká republika a.s.)
- innogy Polska S.A. (RWE Polska Spolka Akcyjna)
- innogy South East Europe s.r.o. (RWE Slovensko s.r.o.)
- innogy Solutions s.r.o. (KA Contracting SK, s.r.o.)
- ELMŰ-ÉMÁSZ

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

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

d) 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 Group carried out significant transactions or had significant balances as at 31 December of 2017 and 31 December 2016, 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 electricity	3,246	1,126
Sale of services	195	175
Other revenues	18	35
Purchase of electricity	(5,661)	(1,506)
Purchase of gas	(120,691)	(213,810)
Purchase of services	(1,466)	(1,494)
Hedging	-	(686)
Personnel lease	(1,348)	(1,309)
Other expenses	(88)	(116)
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)	27	164
Liability from contingent consideration	33,220	25,448
Trade and other payables	18,003	30,941

b) Associates and joint ventures in which the Group 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	5	349
Rental revenues	516	29
Purchase of services	(175)	(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

c) Key management personnel of the Group

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

	2017		2017	
in EUR thousand	**Boards of directors**	**Supervisory boards**	**Boards of directors**	**Supervisory boards**
Short-term employee benefits	2,078	304	2,522	470
Total	**2,078**	**304**	**2,522**	**470**

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 October 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 till 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 till 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 till 14 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 till 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 till 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 till 15 December 2016)
Member of Board of Directors of VSE H (from 16 December 2016 till 16 March 2017)

Dipl.-Kff. Diana Custodis
Member of Board of Directors and Chief Finance Officer (from 1 August 2011 till 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)
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:
19.2.1971
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 till 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 till 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
University in Sien
Other Executive Positions:
Member of Supervisory board in:
innogy Česká republika a.s. from 29 November 2012 till 31 October 2014
TE Plomin d.o.o. from 9 December 2012 till 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 till 31 March 2013
RWE Grid Holding, a.s. from 30 May 2012 till 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 till 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 till 30 June 2016)

Ing. Jozef Sedlák
Member of Supervisory Board from 1 July 2012 till 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 till 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 till 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

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

The Group 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 electricity	8,624	8,536
Sale of services	129,424	124,339
Purchase of electricity	(228,027)	(260,842)
Purchase of gas	(62,580)	(61,914)
Purchase of services	(601)	(532)
Other purchases	(51)	-
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)	3,886	1,799
Trade and other payables	22,228	24,037

31. 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.