



ZÁPADOSLOVENSKÁ ENERGETIKA, a.s.

(incorporated with limited liability in the Slovak Republic)

EUR 1,000,000,000

Euro Medium Term Note Programme

Under the Euro Medium Term Note Programme (the “**Programme**”), Západoslovenská energetika, a.s. (“**ZSE**” or the “**Issuer**”), subject to compliance with all relevant laws, regulations and directives, may from time to time issue notes (the “**Notes**”). The aggregate nominal amount of Notes outstanding will not at any time exceed EUR 1,000,000,000 (or the equivalent in other currencies).

This Base Prospectus has been approved by the Central Bank of Ireland (the “**CBI**”) as competent authority under the Prospectus Directive. The CBI only approves this Base Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Such approval relates only to the Notes issued within 12 months of the date of this Base Prospectus, which are to be admitted to trading on a regulated market for the purposes of Directive 2014/65/EU or which are to be offered to the public in any Member State of the European Economic Area. Application has been made to the Irish Stock Exchange plc (the “**Irish Stock Exchange**”) for the Notes, issued within 12 months of the date of this Base Prospectus, to be admitted to the official list (the “**Official List**”) and to trading on its regulated market (the “**Main Securities Market**”). The Main Securities Market is a regulated market for the purposes of Directive 2004/39/EC. The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”). Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined under Regulation S of the Securities Act (“**Regulation S**”)).

The Issuer has been rated A- by Standard & Poor’s Credit Market Services Europe Limited (“**S&P**”). S&P is established in the European Union and registered under Regulation (EC) No. 1060/2009 (as amended) (the “**CRA Regulation**”) and is included in the list of registered credit rating agencies published by the European Securities and Markets Authority (“**ESMA**”) on its website in accordance with the CRA Regulation. Notes issued under this Programme may be rated or unrated. Where a Series of Notes is rated, such rating will not necessarily be the same as the rating assigned to the Programme by S&P.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Investing in Notes issued under the Programme involves certain risks. The principal risk factors that may affect the abilities of the Issuer to fulfil its obligations under the Notes are discussed under “Risk Factors” below.

Arranger and Dealer

Citigroup

Dealer

UniCredit Bank

15 February 2018

IMPORTANT NOTICES

This Base Prospectus constitutes a base prospectus for the purposes of Article 5.4 of the Prospectus Directive. When used in this Base Prospectus, “**Prospectus Directive**” means Directive 2003/71/EC, as amended, and includes any relevant implementing measure in a relevant member state of the European Economic Area (“**EEA**”).

The Issuer accepts responsibility for the information contained in this Base Prospectus and the Final Terms or Drawdown Prospectus (each as defined below) for each Tranche (as defined herein) of Notes issued under the Programme and declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Base Prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

This Base Prospectus contains financial, operational and other information taken or derived from Eurostat, the Statistical Office of the Slovak Republic, the National Bank of Slovakia, the Regulatory Office for Network Industries (“**RONI**”), the annual reports of ZSE, SSE, VSE and SE, the prospectus of EPH Financing SK, a.s., S&P, Ministry of Economy (the “**External Data**”) in the “*Description of the Issuer*” section of this Base Prospectus. The External Data has not been independently verified by the Issuer. The External Data was accurately reproduced by the Issuer in the Base Prospectus, and as far as the Issuer is aware and is able to ascertain, no facts have been omitted that would render the reproduced External Data inaccurate or misleading. The source of the External Data is detailed in the relevant section of the Base Prospectus.

Each Tranche of Notes will be issued on the terms set out herein under “*Terms and Conditions of the Notes*” (the “**Conditions**”) as completed by a document specific to such Tranche called final terms (the “**Final Terms**”) or in a separate prospectus specific to such Tranche (the “**Drawdown Prospectus**”) as described under “*Final Terms and Drawdown Prospectuses*” below. In the case of a Tranche of Notes which is the subject of a Drawdown Prospectus, each reference in this Base Prospectus to information being specified or identified in the relevant Final Terms shall be read and construed as a reference to such information being specified or identified in the relevant Drawdown Prospectus unless the context requires otherwise. This Base Prospectus must be read and construed together with any amendments or supplements hereto and with any information incorporated by reference herein and, in relation to any Tranche of Notes which is the subject of Final Terms, must be read and construed together with the relevant Final Terms. For the avoidance of doubt, any websites mentioned herein do not form part of this Base Prospectus.

The Conditions also contain provisions that allow for the substitution of the Issuer upon satisfaction of certain conditions (see Condition 17 (*Meetings of Noteholders; Modification and Substitution*) for further details).

The Issuer has confirmed to the Dealers named under “*Subscription and Sale*” below that this Base Prospectus contains all information which is (in the context of the Programme, the issue, offering and sale of the Notes) material; that such information is true and accurate in all material respects and is not misleading in any material respect; that any opinions, predictions or intentions expressed herein are honestly held or made and are not misleading in any material respect; that this Base Prospectus does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in the context of the Programme, the issue, offering and sale of the Notes) not misleading in any material respect; and that all proper enquiries have been made to verify the foregoing.

No person has been authorised to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other document entered into in relation to the Programme or any information supplied by the Issuer or such other information as is in the public domain and, if given or made, such information or representation should not be relied upon as having been authorised by the Issuer or any Dealer.

Neither the Dealers nor any of their respective affiliates have authorised the whole or any part of this Base Prospectus and none of them makes any representation or warranty or accepts any responsibility

as to the accuracy or completeness of the information contained in this Base Prospectus. Neither the delivery of this Base Prospectus or any Final Terms nor the offering, sale or delivery of any Note shall, in any circumstances, create any implication that the information contained in this Base Prospectus is true subsequent to the date hereof or the date upon which this Base Prospectus has been most recently completed or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the prospects or financial or trading position of the Issuer since the date thereof or, if later, the date upon which this Base Prospectus has been most recently completed or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. The Dealers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme or to advise any investor in Notes issued under the Programme of any information coming to their attention.

The distribution of this Base Prospectus and any Final Terms and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus or any Final Terms comes are required by the Issuer and the Dealers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of this Base Prospectus or any Final Terms and other offering material relating to the Notes, see “*Subscription and Sale*”. In particular, Notes have not been and will not be registered under the Securities Act and the Bearer Notes are subject to certain U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold, or, in the case of Bearer Notes, delivered, within the United States or to or for the account or benefit of U.S. persons, except in offshore transactions in reliance on Regulation S under the Securities Act.

MIFID II product governance / target market – The Final Terms or Drawdown Prospectus in respect of any Notes will include a legend entitled “MiFID II Product Governance” which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the target market assessment; however, a distributor subject to Directive 2014/65/EU (as amended, “**MiFID II**”) is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the “**MiFID Product Governance Rules**”), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MIFID Product Governance Rules.

IMPORTANT – EEA RETAIL INVESTORS – If the Final Terms or Drawdown Prospectus in respect of any Notes includes a legend entitled “Prohibition of Sales to EEA Retail Investors”, the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of Directive 2002/92/EC (“**IMD**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive. Consequently no key information document required by Regulation (EU) No 1286/2014 (the “**PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

Amounts payable on Floating Rate Notes will be calculated by reference to one of LIBOR or EURIBOR as specified in the relevant Final Terms or Drawdown Prospectus. As at the date of this Base Prospectus, the administrators of LIBOR and EURIBOR are included in ESMA’s register of administrators under Article 36 of the Regulation (EU) No. 2016/1011.

Neither this Base Prospectus nor any Final Terms constitutes an offer or an invitation to subscribe for or purchase any Notes and should not be considered as a recommendation by the Issuer, the Dealers or any of them that any recipient of this Base Prospectus or any Final Terms should subscribe for or purchase any Notes. Each recipient of this Base Prospectus or any Final Terms shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuer.

The maximum aggregate principal amount of Notes outstanding at any one time under the Programme will not exceed EUR 1,000,000,000 (and for this purpose, any Notes denominated in another currency shall be translated into euro at the date of the agreement to issue such Notes (calculated in accordance with the provisions of the Dealer Agreement)). The maximum aggregate principal amount of Notes which may be outstanding at any one time under the Programme may be increased from time to time, subject to compliance with the relevant provisions of the Dealer Agreement as defined under “*Subscription and Sale*”.

In this Base Prospectus, unless otherwise specified, references to a “**Member State**” are references to a Member State of the European Economic Area, references to “**EUR**” or “**euro**” are to the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro, as amended.

Suitability of Investment

The Notes may not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

- (i) has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;
- (ii) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (iii) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes where the currency for principal or interest payments is different from the potential investor’s currency;
- (iv) understands thoroughly the terms of the Notes and is familiar with the behaviour of financial markets; and
- (v) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

Stabilisation

In connection with the issue of any Tranche of Notes, a Dealer or Dealers (if any) acting as Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at

a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the Stabilisation Manager(s) (or persons acting on behalf of the Stabilisation Manager(s)) in accordance with all applicable laws and rules.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

The audited consolidated financial statements of the Group for the years ended 31 December 2017 and 31 December 2016 (the “**Financial Statements**”), are set out on pages F-1 to F-50 in this Base Prospectus.

The Financial Statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union (“**IFRS**”). Presentation of financial information in accordance with IFRS requires management to make various estimates and assumptions which may impact the values shown in the financial statements and notes thereto. The actual values may differ from such assumptions.

The Financial Statements are presented in EUR, the functional currency of the Company and the presentation currency of the Group. Furthermore, unless otherwise indicated, financial and statistical data included in this Base Prospectus is expressed in EUR thousand.

Certain figures included in this Base Prospectus have been subject to rounding adjustments and presented in EUR million or EUR billion (not in EUR thousand as in the Financial Statements). Accordingly, in certain instances the sum of numbers in a column or a row in tables contained in this Base Prospectus may not conform exactly to the total figure given for that column or row. Some percentages in the tables in this Base Prospectus have also been rounded, and accordingly the totals in these tables may not exactly add up to 100 per cent. Percentage changes during the compared periods were computed on the basis of the original (not rounded) amounts.

All financial data included in the “*Description of the Issuer*” in this Base Prospectus has been prepared on a consolidated basis, unless indicated otherwise.

Included in this Prospectus are certain measures that are not measures defined by IFRS and representing alternative performance measures as defined in the ESMA Guidelines on Alternative Performance Measures (“**APMs**”), including EBITDA. Such APMs do not provide a sufficient basis to compare the Group’s performance with that of other companies and should not be considered in isolation or as a substitute for operating income or any other measure as an indicator of operating performance or as an alternative to cash generated from operating activities as a measure of liquidity. In addition, these APMs should not be used instead of, or considered as an alternative to, the Group’s historical financial results as reported in the Financial Statements. The Group presented these APMs because it believes they are helpful to investors and financial analysts in highlighting trends in our overall business. EBITDA is defined as earnings before interest, taxes, depreciation and amortisation and reconciliation of EBITDA of the Group for the years ended 31 December 2017 and 2016 to profit before interest and taxes is set out in note 26 to the Financial Statements.

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OVERVIEW OF THE PROGRAMME

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Base Prospectus and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Final Terms.

This overview constitutes a general description of the Programme for the purposes of Article 22.5(3) of Commission Regulation (EC) No 809/2004 implementing Directive 2003/71/EC.

Words and expressions defined in the “Terms and Conditions of the Notes” below or elsewhere in this Base Prospectus have the same meanings in this overview.

Issuer:	Západoslovenská energetika, a.s.
Risk Factors:	Investing in Notes issued under the Programme involves certain risks. The principal risk factors that may affect the abilities of the Issuer to fulfil its obligations under the Notes are discussed under “ <i>Risk Factors</i> ” below.
Description	Euro Medium Term Note Programme.
Arranger:	Citigroup Global Markets Limited.
Dealers:	Citigroup Global Markets Limited, UniCredit Bank AG and any other Dealer appointed from time to time by the Issuer either generally in respect of the Programme or in relation to a particular Tranche of Notes.
Certain Restrictions	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see “ <i>Subscription and Sale</i> ”).
Fiscal Agent:	Citibank, N.A., London Branch.
Final Terms or Drawdown Prospectus:	Notes issued under the Programme may be issued either (1) pursuant to this Base Prospectus and associated Final Terms or (2) pursuant to a Drawdown Prospectus. The terms and conditions applicable to any particular Tranche of Notes will be the Terms and Conditions of the Notes as completed to the extent described in the relevant Final Terms or, as the case may be the relevant Drawdown Prospectus.
Listing and Trading:	Application has been made for the Notes to be admitted to the Official List and to trading on the Main Securities Market.
Clearing Systems:	Euroclear SA/NV (“ Euroclear ”) and/or Clearstream Banking, S.A. (“ Clearstream, Luxembourg ”) and/or, in relation to any Tranche of Notes, any other clearing system as may be specified in the relevant Final Terms or the relevant Drawdown Prospectus.
Programme Size:	Up to EUR 1,000,000,000 (or its equivalent in other currencies calculated as described in the Dealer Agreement) outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Dealer Agreement.
Issuance in Series:	Notes will be issued in Series. Each Series may comprise one or more Tranches issued on different issue dates. The Notes of each Series will all be subject to identical terms, except that the issue date and the amount of the first payment of interest may be different in respect of different Tranches. The Notes of each Tranche will all be subject to identical terms in all respects save that a Tranche may comprise Notes

of different denominations.

Forms of Notes:

Notes may be issued in bearer form or in registered form.

Each Tranche of Bearer Notes will initially be in the form of either a Temporary Global Note or a Permanent Global Note, in each case as specified in the relevant Final Terms or the relevant Drawdown Prospectus. Each Global Note which is not intended to be issued in new global note form (a “**Classic Global Note**” or “**CGN**”), as specified in the relevant Final Terms or the relevant Drawdown Prospectus, will be deposited on or around the relevant issue date with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and each Global Note which is intended to be issued in new global note form (a “**New Global Note**” or “**NGN**”), as specified in the relevant Final Terms or the relevant Drawdown Prospectus, will be deposited on or around the relevant issue date with a common safekeeper for Euroclear and/or Clearstream, Luxembourg. Each Temporary Global Note will be exchangeable for a Permanent Global Note or, if so specified in the relevant Final Terms or the relevant Drawdown Prospectus, for Definitive Notes. If the TEFRA D Rules are specified in the relevant Final Terms or the relevant Drawdown Prospectus as applicable, certification as to non-U.S. beneficial ownership will be a condition precedent to any exchange of an interest in a Temporary Global Note or receipt of any payment of interest in respect of a Temporary Global Note. Each Permanent Global Note will be exchangeable for Definitive Notes in accordance with its terms. Definitive Notes will, if interest-bearing, have Coupons attached and, if appropriate, a Talon for further Coupons.

Each Tranche of Notes represented by a Global Registered Note will either be: (a) in the case of a Note which is not to be held under the new safekeeping structure (“**New Safekeeping Structure**” or “**NSS**”), registered in the name of a common depositary (or its nominee) for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and the relevant Global Registered Note will be deposited on or about the issue date with the common depositary; or (b) in the case of a Note to be held under the New Safekeeping Structure, be registered in the name of a common safekeeper (or its nominee) for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and the relevant Global Registered Note will be deposited on or about the issue date with the common safekeeper for Euroclear and/or Clearstream, Luxembourg.

Currencies:

Notes may be denominated in euro or in any other currency, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.

Status of the Notes:

Notes will be issued on an unsubordinated basis.

Issue Price:

Notes may be issued at any price as specified in the relevant Final Terms or the relevant Drawdown Prospectus. The price and amount of Notes to be issued under the Programme will be determined by the Issuer and the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions.

Maturities:

Any maturity that is in compliance with all applicable legal and/or regulatory and/or central bank requirements.

Where Notes have a maturity of less than one year and either (a) the

issue proceeds are received by the Issuer in the United Kingdom or (b) the activity of issuing the Notes is carried on from an establishment maintained by the Issuer in the United Kingdom, such Notes must: (i) have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be issued only to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses; or (ii) be issued in other circumstances which do not constitute a contravention of section 19 of the Financial Services and Markets Act 2000, as amended (the “FSMA”) by the Issuer.

Redemption:	Notes may be redeemable at par or at such other Redemption Amount as may be specified in the relevant Final Terms or the relevant Drawdown Prospectus.
Optional Redemption:	If so specified in the relevant Final Terms or the relevant Drawdown Prospectus, the Notes may be redeemed prior to their stated maturity at the option of the Issuer in accordance with Condition 9(c) (<i>Redemption at the option of the Issuer</i>) and/or Condition 9(d) (<i>Redemption at the option of the Issuer at the Make-Whole Amount</i>) and/or the Noteholders in accordance with Condition 9(f) (<i>Redemption at the option of Noteholders</i>) or Condition 9(g) (<i>Redemption on Change of Control</i>).
Tax Redemption:	Except as described in “ <i>Optional Redemption</i> ” above, early redemption will only be permitted for tax reasons as described in Condition 9(b) (<i>Redemption for tax reasons</i>).
Substitution of the Issuer:	The Conditions allow, without the consent of the Noteholders, for the substitution of the Issuer as principal debtor under the Notes provided that certain conditions described in Condition 17(c) (<i>Substitution</i>) are fulfilled, including a requirement that ZSE guarantees such Notes, and that the Guarantee in respect of the Notes is fully effective in relation to the obligations of the Substituted Debtor.
Interest:	Notes may be interest-bearing or non-interest bearing. Interest (if any) may accrue at a fixed rate or a floating rate and the method of calculating interest may vary between the issue date and the maturity date of the relevant Series.
Denominations:	No Notes may be issued under the Programme which (a) have a minimum denomination of less than EUR 100,000 (or the equivalent in another currency), or (b) carry the right to acquire shares (or transferable securities equivalent to shares) issued by the Issuer or by any entity to whose group the Issuer belongs. Subject thereto, the Notes will be issued in such denominations as may be specified in the relevant Final Terms or the relevant Drawdown Prospectus, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.
Negative Pledge:	The Notes will have the benefit of a negative pledge as described in Condition 5 (<i>Negative Pledge</i>).
Cross Default:	The Notes will have the benefit of a cross default as described in Condition 13 (<i>Events of Default</i>).
Taxation:	All payments in respect of Notes will be made free and clear of withholding taxes of the Slovak Republic, unless the withholding is required by law. In that event, the Issuer will (subject as provided in

Condition 12 (*Taxation*)) pay such additional amounts as will result in the Noteholders receiving such amounts as they would have received in respect of such Notes had no such withholding been required.

Governing Law:

English law.

Enforcement of Notes in Global Form:

In the case of Global Notes, individual investors' rights against the Issuer will be governed by a Deed of Covenant dated 15 February 2018, a copy of which will be available for inspection at the specified office of the Fiscal Agent.

Ratings:

The Issuer has been rated "A-" by S&P. S&P is established in the European Union and registered under the CRA Regulation and is included in the list of credit rating agencies published by ESMA on its website in accordance with the CRA Regulation. Notes issued under this Programme may be rated or unrated. Where a Series of notes is rated, such rating will not necessarily be the same as the rating assigned to the Issuer by S&P.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Selling Restrictions:

For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering material in the United States of America, the European Economic Area, the United Kingdom and the Slovak Republic, see "*Subscription and Sale*" below.

RISK FACTORS

In purchasing Notes, investors assume the risk that the Issuer may become insolvent or otherwise be unable to make all payments due in respect of the Notes. You should carefully consider the following information about these risks, together with the information contained elsewhere in this Base Prospectus, before deciding to buy any Notes. Each of these risks could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects or the trading price of the Notes, and investors could lose all or part of their investment. The Issuer has described the risks and uncertainties that it believes are material, but these risks and uncertainties may not be the only ones the Group faces. Additional risks and uncertainties relating to the Group that are not currently known to the Issuer, or that the Issuer currently deems immaterial, may also have an adverse effect on the Group's business, results of operations, financial condition and future prospects. If this occurs, the trading price of the Notes may decline, and investors could lose all or part of their investment.

The following risks relate to the Group's business and the environment in which the Group operates. The order in which the risks are presented does not necessarily reflect the likelihood of their occurrence or the magnitude of their potential impact on the Group's business, results of operations, financial condition, future prospects or the trading price of the Notes.

Investors should consider carefully whether an investment in the Notes is suitable for them in light of the information in this Base Prospectus and their personal circumstances.

Risks related to the Group's business and industries generally

The Group's operations are located primarily in the Slovak Republic. As a public utility, its business, results of operations and financial condition are significantly affected by economic conditions in the Slovak Republic and any significant economic downturn in the Slovak Republic or any significant political, economic or legal uncertainties affecting the Slovak Republic could have a material adverse effect on the Group

Substantially all of the Group's operations are located in the Slovak Republic and the Group is therefore exposed to economic risks associated with the Slovak Republic. The Group's business, results of operations and financial condition are dependent on the performance of the Slovak Republic's economy as the level of economic activity in the Slovak Republic may have an effect on the consumption of electricity and gas and, consequently, demand for the Group's distribution and supply services.

The economy of the Slovak Republic is vulnerable to external shocks. A significant decline in the economic growth of any of the country's trading partners, in particular Germany and other member states of the EU, could in the future have an adverse effect on the Slovak Republic's balance of trade and adversely affect its economic growth.

In addition, because international investors reactions to the events occurring in one market may demonstrate a "contagion" effect, in which an entire region or class of investment is disfavoured by international investors, the Slovak Republic could be adversely affected by negative economic or financial developments in other European countries or countries with credit ratings similar to those of the Slovak Republic.

There can be no assurance that any slowdown or economic decline such as those described above or similar events will not negatively affect investor confidence in markets relevant for the Group's business. Any of such economic decline or similar events could have a material adverse effect on the Group's business, results of operations and financial condition.

A future economic downturn could also have a negative impact on the gas and power industries generally. There may be reduced demand for gas and power as a result of a future economic decline, which could result in a decrease of electricity supplied and distributed by the Group and gas supplied by the Group. Moreover, the Group's large fixed asset base may make it difficult to rapidly adjust its fixed costs downward when demand for the Group's products declines unexpectedly. In addition, such events could have an adverse impact on the Slovak Republic's economy and its ability to raise capital in the external debt markets in the future.

Further, the tightening of credit availability in the financial markets could adversely affect the Group's commercial customers' creditworthiness and their ability to obtain financing for their operations. This could result in a decrease in the demand for electricity and gas, the restructuring of agreements with the Group's customers (including price reductions) or the inability to collect payments from the customers. If any of the foregoing occurs, the Group's business, results of operations and financial condition could be materially adversely affected.

Similarly, any changes in economic, tax, regulatory, administrative or other conditions or policies of the Slovak government, as well as political or economic developments in the Slovak Republic over which the Group has no control, could have a significant effect on the Slovak economy, which in turn could have a material adverse effect on the Group's business, results of operations and financial condition.

The Group is subject to extensive regulation and licensing requirements and any adverse change in regulation and licensing requirements could have a negative effect on the Group. The Group may also be subject to liabilities as a result of any violation of applicable regulations or may be materially adversely affected by any loss of material licences

The Group is subject to extensive regulation in conducting its business; see “*Regulation, Environment and Health and Safety*”. Any failure by the Group to comply with applicable regulations could result in a range of administrative, civil and criminal penalties and other liabilities and could also materially negatively impact the Group's reputation.

The Third EU Energy Package was implemented in the Slovak Republic in 2012. The Group is in compliance with the new regulatory regime. However, the relevant authorities in the Slovak Republic (mainly the Regulatory Office for Network Industries (“**RONI**”)) and the EU may enforce existing regulations more strictly than they have done in the past and may in the future impose stricter standards, or higher levels of fines and penalties for violations, than those which are in effect at present. The Group's core activities of distribution of electricity and the supply of electricity and gas require licences issued by RONI, which are granted for an indefinite period. However, the licences can be revoked by RONI if there is any material breach of the Energy Act or other regulations. Any failure to maintain the licences necessary for the operation of the Group's business and the execution of its strategy could have a material adverse effect on its business, results of operations and financial condition. In addition, it is possible that future changes in regulation and licensing requirements could have an adverse effect on the Group.

Changes in regulated tariffs could have an adverse effect on the Group's business, results of operations and financial condition

Although the energy sector in the Slovak Republic has been gradually liberalised since 2001, the Group is still subject to a substantial degree of regulation, particularly with respect to the applicable tariffs.

A significant portion of the Group's revenue from electricity distribution and supply of electricity and gas is derived from the regulated tariff rates it charges its customers. The part of the Group's business subject to regulated tariffs accounted for 94 per cent. of the Group's EBITDA in 2016 and 94 per cent. of the Group's EBITDA in 2017. See “*Business*” for further details on the composition of the Group's regulated EBITDA and “*Regulation, Environment and Health and Safety—Price Regulation*” for further details on the tariff system.

As a result, the Group is affected by the pricing decisions of RONI for distribution tariffs and regulated electricity and gas supply prices. RONI may delay or limit tariff rate increases or may adopt a methodology for the calculation of regulated prices which is less favourable to the Group than the existing system. For example, RONI has discretion when determining certain variables in tariff calculation formulae, including the value of the regulatory asset base, technical lifetimes of assets and cost of capital. Although RONI is required to apply transparent and justifiable methodology and legal remedies might be available to the Group in some cases, any delays, mistakes or negative changes affecting RONI's pricing decisions could have an adverse effect on the Group's business, results of operations and financial condition.

Policy decisions on increased support of renewable energy sources and highly efficient cogeneration could have an adverse effect on the Group's business, results of operations and financial condition

The Slovak Republic currently operates a system of subsidies to support electricity generation from renewable energy sources and highly efficient cogeneration (“RES”), such as combined heat and power production plants. The Group is obliged to purchase electricity from operators of RES which meet certain criteria at a price which substantially exceeds the market price. The Group is also obliged to prioritise the supply of such electricity over supply from other sources. The additional costs incurred by the Group in these activities are generally recoverable through a special tariff charged to the end consumers and self-producers. However, the amount of such tariff and the time for recovery of these costs depends on a number of conditions and factors, including approval by RONI and the degree of volatility in generation from RES. Any deficit or surplus resulting from support for RES should be compensated by RONI through a correction mechanism over two years, which can result in a cash flow disadvantage to the Group in the interim period until the Group recovers the costs. See “Regulation, Environment and Health and Safety—Support of Renewable Energy” for further details.

Although ZSE is currently not aware of any planned extension of support for RES, any such decision in the future could increase the adverse effect of the support system on the Group's business, results of operations and financial condition.

The Group could incur unforeseen taxes, tax penalties and sanctions which could adversely affect its business, results of operations and financial condition

Tax laws, including those relating to the energy industry in the Slovak Republic, and their interpretation, may change in the future, possibly with retrospective effect. Significant tax disputes with tax authorities, any change in the tax status of any member of the Group and any change in Slovak taxation legislation or its scope or interpretation could also affect the Group's business, results of operations and financial condition.

Since 1 September 2012 the Group has been subject to a special levy applicable to businesses in regulated industries, which includes the energy sector. The levy is payable if the profit of the relevant regulated entity exceeds EUR 3 million. The basis for calculation of the levy is the financial result (profit) for the relevant year multiplied by a specific coefficient (calculated as a ratio between the revenues from regulated activities and total revenues). The levy is payable on monthly basis. The current monthly levy rate is 0.00726 per cent and the levy rate will be decreased to 0.00545 per cent. with effect from 1 January 2019 and then further to 0.00363 per cent. with effect from 1 January 2021. In 2017, the Group incurred costs of EUR 5.5 million in respect of this levy compared to EUR 3.8 million in 2016.

The Group is exposed to increased competition in the electricity and gas markets in the Slovak Republic

The Group is the natural monopoly distributor of electricity in the western part of the Slovak Republic and this activity generated 88 per cent. of the Group's EBITDA in 2017. See “Business—Distribution” for further details. However, with regard to the supply of electricity and gas, the Group operates in an increasingly competitive market.

The Group competes with up to 30 major suppliers of electricity and gas in the Slovak Republic and some of these companies may have greater financial or technical resources than the Group or other competitive advantages. In particular, the dominant gas supplier in the Slovak Republic, Slovenský plynárenský priemysel, a.s. (“SPP”), has begun to supply electricity as well and is expected to extend its market share through its ability to cross-sell electricity to its existing gas supply customer base. In addition, SE Predaj (a subsidiary of the dominant Slovak electricity producer, Slovenské elektrárne, a.s.) is actively seeking to enlarge its customer base whereas ČEZ (a major regional energy group based in the Czech Republic) transferred its retail business to Východoslovenská energetika, a.s. (“VSE”). As a result of the increasing competition, the rate of customer churn in the Slovak electricity supply market may increase despite it having been relatively stable in recent years. According to RONI, 73,008 electricity consumers (2.92 per cent.) changed their supplier in 2016 compared to 70,278 customers (2.84 per cent.) in 2015 and 68,066 customers (2.77 per cent.) in 2014.

If a significant number of the Group's electricity customers choose to switch their supplier, the Group's supply business and results of operations could be significantly adversely affected.

The Group's revenues, costs and results of operations are influenced by weather conditions and seasonal variations that are not within its control

Electricity and gas consumption is seasonal and is mainly affected by weather conditions. In Europe, electricity consumption is generally higher during the autumn and winter months, and the Group generally experiences higher demand during the colder months of October through March and lower demand during the warmer months of April through September. As a result of these seasonal patterns, the Group's sales and results of operations are higher in the first and fourth quarters and lower in the second and third quarters. Sales and results of operations for all of the Group's energy operations can be negatively affected by periods of unseasonably warm weather during the autumn and winter months. The Group expects seasonal and weather-related fluctuations in its sales and results of operations to continue in the future.

An unexpected disruption to the supply of electricity and gas could materially and adversely affect the Group's business, results of operations and financial condition

The Group does not operate any material electricity or gas generation facilities. A significant proportion of the Group's supplied electricity is purchased from Slovenské elektrárne a.s., the dominant Slovak producer of electricity. Currently, the Group is experiencing no difficulties with the supply of electricity and gas, because there is sufficient electricity generation capacity in the Slovak Republic and the country's consumption and generation of electricity is almost balanced. Slovak electricity and gas transmission grids are well connected to neighbouring countries (Ukraine, Czech Republic, Poland and Hungary) allowing for imports of large volumes of electricity and gas. However, an unexpected disruption to the supply of electricity and gas purchased from third parties, however caused, or any disruption to the cross-border transmission of gas and electricity, would have a material adverse effect on the Group's business, results of operations and financial condition.

An unexpected increase in the costs of electricity and gas could materially and adversely affect the Group's business, results of operations and financial condition

A significant portion of the Group's expenses are its costs of purchasing electricity and gas, which are heavily influenced by prices in the world market for electricity, gas and fuel oil and other commodities, such as coal or uranium. The prices for such commodities have historically been volatile and there is no guarantee that prices will remain within projected levels. In order to manage their volatility, the Group implements an effective hedging and risk management strategy. However, there can be no assurance that these measures will be effective at all times to manage the risk of material changes in gas and electricity prices and the Group could experience significant price rises which are not adequately hedged and which can adversely affect its business, results of operations and financial condition.

The Group is vulnerable to any changes in demand for electricity and gas that may occur, and to increases in the levels of its overdue receivables

In the ordinary course of business, the Group is exposed to the risk of a reduction in demand for its electricity and gas, in particular by its commercial and industrial customer base. The demand for the Group's electricity and gas is principally driven by the level of economic activity in the Slovak Republic. See "*—The Group's operations are located primarily in the Slovak Republic. As a public utility, its business, results of operations and financial condition are significantly affected by economic conditions in the Slovak Republic and any significant economic downturn in the Slovak Republic or any significant political, economic or legal uncertainties affecting the Slovak Republic could have a material adverse effect on the Group.*". A significant part of the Group's revenues from electricity distribution are fixed and do not depend on the amount of electricity consumed, but the Group's revenues are still affected by economic cycles and general economic conditions. Any economic slowdown typically leads to a reduction in electricity and gas consumption and this has an adverse effect on the Group's business, results of operations and financial condition. Distribution tariff calculation methodology includes assumptions of the electricity distribution volume. If the actual distribution volume falls below the assumption, the Group's revenues from electricity distribution will be negatively impacted through a smaller part of allowed revenues being allocated to the variable tariffs dependent on consumption.

As at 31 December 2017, the Group's recorded provision for impairment of receivables amounted to EUR 29.2 million compared to EUR 29.7 million as at 31 December 2016. As at 31 December 2017, a significant

proportion of these impaired trade receivables were more than one year overdue. The Group is able to take legal action against its defaulting customers to seek to recover amounts outstanding, although the timing and amount of such recovery is uncertain. Any material increase in overdue receivables, increased delays in payment times or write-offs could have a significant adverse effect on the Group's business, results of operations and financial condition.

A default by any of the Group's counterparties (including its partners, contractors, subcontractors and suppliers) may affect the Group's business, results of operations and financial condition

Group companies enter into contracts with a range of counterparties, including contractors, subcontractors, architects, engineers, operators, other service providers, suppliers and customers and, accordingly, the Group is subject to the risk that a counterparty will default on its contractual obligations and that any guarantee or performance bond in respect of such obligations will not be honoured. The Group's counterparties may default on their obligations for a number of reasons, including as a result of their bankruptcy, a lack of liquidity or operational failure. Any default by the Group's counterparties may affect the cost and completion of its projects, the quality of its work and the supply to its customers. It may also expose the Group to reputational risk, business continuity risk and the loss of important contracts. In addition, the Group may be required to pay contractual penalties or find alternative counterparties. Any such setbacks may result in delays in the completion of the Group's projects and other unforeseen costs, which could have a material adverse effect on its business, results of operations and financial condition.

The Group is subject to environmental and health and safety laws and regulations and must maintain environmental and health and safety regulatory approvals and may be exposed to significant liabilities if it fails to comply with such laws or maintain such approvals

The Group is subject to various environmental and health and safety laws and regulations governing, among other things:

- the generation, storage, handling, release, use, disposal and transportation of waste or hazardous materials;
- the emission and discharge of hazardous materials into the ground, air or water; the decommissioning and decontamination of its facilities; and
- the health and safety of the Group's employees.

The Group is also required to obtain environmental and safety permits from various governmental authorities for its operations. Certain permits require periodic renewal or review of their conditions as well as continuous monitoring and compliance reporting. The Group may not always be able to renew such permits or there may be material changes to its permits requiring significant expenditure. Violations of these laws, regulations or permits could result in fines or legal proceedings being commenced against the Group or other sanctions, in addition to negative publicity and significant damage to the Group's reputation.

The Group has adopted high environmental standards applicable to its operations. While as at the date of this Base Prospectus the Group is in compliance with all material applicable environmental and health and safety regulations in force in the Slovak Republic, there can be no guarantee that it will continue to be in compliance in the future. Should any Group company fail to comply with any such regulations, it may be liable for penalties and/or the consequences of default under any contractual obligations requiring it to comply with applicable regulations.

Any occurrence of environmental damage or loss of life or serious injury to its employees as a result of any breach of applicable health and safety legislation may result in a disruption of the Group's services or cause reputational harm, and significant liability could be imposed on the Group for damages, clean-up costs and penalties and/or compensation as a result. For more information on environmental, health and safety matters, see "*Regulation, Environment and Health and Safety*".

The Group's ability to access credit and bond markets and its ability to raise additional financing are in part dependent on ZSE's credit ratings

The Group's ability to access the capital markets and other forms of financing (or refinancing), and the costs connected with such activities, depend in part on ZSE's credit ratings. As at the date of this Base Prospectus, ZSE has been assigned a long-term corporate credit rating of A- with stable outlook by S&P.

ZSE's ability to maintain its current rating is dependent on a number of factors, some of which may be beyond its control. In the event that ZSE's credit rating is lowered by S&P, the Group's ability to access credit and bond markets and other forms of financing (or refinancing) could be limited. This could have an adverse effect on its business, results of operations and financial condition.

Failures, breakdowns, planned or unplanned outages as well as natural disasters, sabotage or acts of terrorism, theft or damage to the Group's distribution infrastructure may harm its business

The Group's distribution infrastructure and the information systems controlling these facilities could be subject to failure, breakdowns, unplanned outages, capacity limitations, system loss, theft, breaches of security or physical damage due to natural disasters (such as storms, floods or earthquakes), sabotage, terrorism, computer viruses, fuel interruptions and other causes. The occurrence of any such events could:

- negatively impact the Group's ability to provide service to its customers;
- result in loss of life or injury to the Group's employees or third parties or damage to the Group's facilities;
- lead to disruption or stoppage of operations or otherwise disrupt the business; and/or
- in some cases, expose the Group to regulatory penalties, litigation and potential criminal liability as well as materially adversely affecting the Group's reputation.

The Group's business and its ability to generate revenue depend on the availability and operating performance of the equipment necessary to operate its distribution networks. Mechanical failures or other defects in equipment, or accidents that result in non-performance or underperformance of the distribution network may have a direct impact on the profitability of the Group's operations.

The Group's ability to distribute electricity is dependent upon the Slovak transmission system

The distribution of electricity to the Group's distribution networks is dependent upon the infrastructure of the Slovak transmission system. The Group has no control over the operation of this transmission system and it is entirely reliant on the transmission system operator in the Slovak Republic, which is a state-owned entity. Any failure of the Slovak transmission system, including as a result of natural disasters, insufficient maintenance or inadequate development, could prevent the Group from distributing electricity to its end consumers, which in turn could have a material adverse effect on its business, results of operations and financial condition.

A malfunction or disruption of the Group's IT systems may have material negative effect on the Group

Information and communication technology plays an important role in the Group's business operations. The Group operates highly complex and sophisticated information systems (such as servers, networks, applications and databases) which are essential for the everyday operations of its business and are a key success factor for the Group. The Group is routinely exposed to risks associated with the development, implementation and application of its IT systems. In addition, there is a risk that there might be unauthorised access to the Group's sensitive data by third parties and improper use of such data, which may lead to the loss of company secrets and may result in a breach of applicable data protection regulations. As a result, any malfunction, breach or unauthorised use of the Group's IT systems may have a material adverse effect on the Group's business, results of operations and financial condition.

The Group is reliant upon skilled managers and personnel in the engineering and technical fields and may not be able to recruit and retain qualified personnel

The Group's business and operations are dependent upon its ability to recruit and retain skilled managers and engineering and other technical personnel. If the Group is unable to retain experienced, capable and reliable personnel, or fails to recruit skilled professional and technical staff to replace those who leave, the Group's operations may be adversely affected. There is significant demand for experienced and capable personnel in the engineering and technical fields and the Group faces significant competition in recruitment of such personnel.

The Group may become subject to litigation and/or regulatory proceedings in the ordinary course of business, some of which may significantly adversely affect the Group's business, results of operations and financial condition

In the ordinary course of its business, the Group is subject to civil and administrative proceedings. Such proceedings are unpredictable and any such existing or future proceedings or any settlement in respect of them could have a material adverse effect on the Group's business, results of operations and financial condition. See also "Description of the Issuer—Legal Proceedings".

The EU General Data Protection Regulation may have material implications for the Group

The EU Regulation 2016/679 of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data (also known as the EU General Data Protection Regulation; the "GDPR") will directly apply in all EU Member States (including the Slovak Republic) from 25 May 2018 and will replace the current EU and Slovak data privacy laws. Although a number of basic existing principles will remain the same, the GDPR introduces new obligations on data controllers and enhanced rights for data subjects, including, among others:

- accountability and transparency requirements, which will require data controllers to demonstrate and record compliance with the GDPR and to provide more detailed information to data subjects regarding processing;
- enhanced data consent requirements, which include "explicit" consent in relation to the processing of sensitive (special categories) of personal data;
- obligations to consider data privacy as any new products or services are developed and limit the amount of information collected, processed, stored and its accessibility, carry out privacy impact assessments with respect to certain high risk processing activities and to introduce adequate security safeguards;
- constraints on using data to profile data subjects;
- providing data subjects with personal data in a useable format on request and erasing personal data in certain circumstances; and
- reporting of breaches without undue delay (within 72 hours where feasible).

The GDPR also introduces new fines and penalties for a breach of obligations thereunder, including fines for serious breaches of up to the higher of 4 per cent. of group annual worldwide turnover or EUR 20,000,000 and fines of up to the higher of 2 per cent. of group annual worldwide turnover or EUR 10,000,000 for other specified infringements. The GDPR identifies a list of points to consider when imposing fines (including the nature, gravity and duration of the infringement).

The implementation of the GDPR will require substantial amendments to the Group's procedures and policies. The changes could also adversely impact the Group's business by increasing its operational and compliance costs. Further, there is a risk that the measures will not be implemented correctly and/or timely or that relevant employees or contractors will not fully comply with the new procedures. If there are breaches of these measures, the Group could face administrative and monetary sanctions, civil claims as well as reputational damage which may have a material adverse effect on its business, results of operations and financial condition.

The Group depends on good relations with its workforce, and any significant disruption could adversely affect the Group's operations

Many of the Group's employees are unionised and possess certain bargaining or other rights. These employment rights may require the Group to expend substantial time and expense in altering or amending employees terms of employment or making staff reductions.

All of the Group's employees are covered by collective bargaining agreements which are currently negotiated until the end of 2020. These agreements determine the framework for the Group's dealings with its employers and limit its ability to rationalise its workforce.

If the Group's relations with workforce or the trade unions deteriorate for any reason, including as a result of the Group's inability to enter into new collective bargaining agreements, changes in its compensation or any other changes in the Group's policies or procedures that are perceived negatively by employees or the trade unions, or if the Group is unable to successfully conclude any future collective bargaining agreements with the trade unions, the Group may experience a labour disturbance or work stoppage at the relevant facility or facilities, which could have a material adverse effect on any such facility's operations and on the Group's business, results of operations and financial condition.

The Group is unable to insure itself against all potential risks and may become subject to higher insurance premiums

The Group's operations may be affected by a number of risks, including terrorist acts and war-related events, for which full insurance cover is either not available or not available on commercially reasonable terms. For example, the Group has not purchased business interruption, radioactive contamination, war or terrorist insurance cover and nor is damage to the Group's power lines covered by insurance. In addition, the severity and frequency of various insurance events, such as accidents and other mishaps, business interruptions or potential damage to its facilities, property and equipment caused by inclement weather, human error, pollution, labour disputes and natural catastrophes, may result in losses or expose the Group to liabilities in excess of its insurance coverage. The Group cannot assure investors that its insurance coverage will be sufficient to cover losses arising from any, or all, of such events, or that it will be able to renew existing insurance cover on commercially reasonable terms, if at all.

In addition, the Group's insurance policies are subject to commercially negotiated deductibles, exclusions and limitations, and the Group will only receive insurance proceeds in respect of a claim made to the extent that its insurers have the funds to make payment. Therefore, insurance may not cover all losses incurred by the Group and no assurance is given that the Group will not suffer losses beyond the limits of, or outside the cover provided by, its insurance policies.

Should an incident occur in relation to which the Group has no insurance coverage or inadequate insurance coverage, the Group could lose the capital invested in, and anticipated future revenue relating to, any property that is damaged or destroyed and, in certain cases, the Group may remain liable for financial obligations related to the impacted property. Similarly, in the event that any assessments are made against the Group in excess of any related insurance coverage that it may maintain, its assets could be subject to attachment, confiscation or restraint under various judicial procedures. Any of these occurrences could have a material adverse effect on the Group's business, results of operations and financial condition.

ZSE's obligations under the Notes do not benefit from any direct or indirect Slovak government guarantee or other legally enforceable government backing

Although the Slovak Republic is ZSE's majority shareholder, the Notes are not directly or indirectly guaranteed by the Slovak government and do not benefit from any legally enforceable government backing. In addition, the Slovak government is under no obligation to extend financial support to ZSE. Accordingly, the Notes are not, and should not be regarded as, obligations of the Slovak government or backed by the Slovak government.

ZSE's ability to make payments under the Notes is dependent on its ability to fund such obligations from its operating cash flows and any other borrowings. Therefore, any decline in such operating cash flows or any difficulty in securing external funding may materially adversely affect ZSE's ability to make payments under the Notes.

The Slovak Republic as a shareholder of ZSE can block certain decisions on the Group's policies and pursue policies that may conflict with the Group's objectives

The Slovak Republic, through the Ministry of Economy, holds 51 per cent. of the shares and voting rights in ZSE. Although the Slovak Republic does not have effective sole control of ZSE, it may influence or block certain decisions of the Group. For more information, see “Description of the Issuer - Shareholders”.

The Slovak government's objectives may conflict with the Group's objectives. For example, the Slovak government's key objective is to ensure the stable supply of electricity and gas to the country's residents and businesses at affordable costs rather than the optimisation of the Group's revenue and profits. The Slovak Republic attempted to strengthen its influence over public utilities in 2008 by way of special legislation that provided that price regulation proposals by public utilities to RONI must be approved by a general meeting. The special legislation was revoked in 2011, but it was reintroduced in August 2012. As of the date of this Base Prospectus, the legislation does not have a material adverse effect on the Group's business, but there can be no assurance that the government will not amend the legislation or take other action to further its own objectives which may be in conflict with the interests of the Group or the Noteholders in the future.

The sale of shares in ZSE by E.ON or the Slovak Republic may adversely affect the Group's access to know how, support services, reputation or ZSE's credit rating

E.ON SE indirectly owns 49 per cent. of the shares in ZSE and the Slovak Republic owns the remaining 51 per cent. As at the date of this Base Prospectus, there is no indication that the Slovak government or E.ON SE will divest any of their shares in the Issuer. Although the Slovak government is considering transferring its shareholding in the Issuer to a state-owned holding company, this would not impact on the Slovak Republic's ultimate ownership of the shareholding. However, any such divestment could affect the Group's borrowing costs and, in case of divestment by E.ON SE, the Group's ability to benefit from the links with the E.ON group, including access to technology and management know-how, management resources, support services and other benefits. These changes may have a material adverse effect on the Group's business, results of operations and financial position.

The Issuer is a holding company with no material direct operations

The Issuer has no material direct operations and its principal assets are the equity interests it holds in its subsidiaries. As a result, the Issuer's ability to pay interest on and repay principal of the Notes and its other indebtedness is dependent upon the operations of its direct and indirect subsidiaries and the distributions, transfers and advances or other payments of funds the Issuer receives. The Issuer cannot provide any assurance that it will receive sufficient funds to make payments on the Notes when due. The Issuer's subsidiaries are separate and distinct legal entities and they will have no direct obligation, contingent or otherwise, to pay amounts due under the Notes.

The claims of related parties are subordinated to claims of unrelated creditors in insolvency proceedings

A related party of ZSE under the Slovak Act No. 7/2005 Coll. on Bankruptcy and Restructuring, as amended (the “**Slovak Insolvency Code**”) includes any creditor holding directly or indirectly at least 5 per cent. of the shares or voting rights in ZSE or any of its related parties or, alternatively, where ZSE or any of its related parties holds at least 5 per cent. of the shares or voting rights in that creditor (any such party, a “**Related Party**”).

The claims which are or were owed by ZSE to any creditor which is or was a Related Party of ZSE may only be satisfied in the bankruptcy of ZSE after all other senior claims have been satisfied (and are therefore, as a practical matter, these claims are very rarely satisfied in insolvency where the available assets of the company may be limited). If any Noteholder is or becomes a Related Party of ZSE, the claims of such Noteholder will be subordinated to the claims of all other creditors of ZSE which would include Notes held by Noteholders that are not Related Parties.

The Slovak Insolvency Code expressly provides that creditors who acquire a receivable from a Related Party will not themselves be deemed to be a Related Party for the purposes of the Slovak Insolvency Code if they could not have known (acting with due care) that they are acquiring a Note previously owned by a Related Party. There is also a rebuttable presumption that a Noteholder who acquires the Notes on a regulated market

would not know that any Notes purchased were previously owned by a Related Party and thus the subordination rule would not apply.

However, in case the relevant Noteholder is unable to prove it falls within one of the above exemptions, there is a risk that a Slovak court may apply the subordination rule broadly in which case the subordination of particular Notes held by a person who was a Related Party at the relevant time will apply to such Notes indefinitely irrespective of whether such Notes are later transferred to a Noteholder that is not a Related Party.

The rule would also adversely affect the ability of any Group company (including the Issuer) to recover claims against another Group company in insolvency proceedings.

The legal infrastructure and the law enforcement system in the Slovak Republic are less developed compared to Western Europe

The legal infrastructure and the law enforcement system in the Slovak Republic are less developed when compared to some western European countries. The average length of judicial proceedings in commercial matters in 2016 in the Slovak Republic was 17.9 months and may be longer when taken together with appeals, extraordinary remedial procedures or proceedings before the Slovak Constitutional Court. In some circumstances, it may not be possible to obtain legal remedies to enforce contractual or other rights in a timely manner or at all. Although institutions and legal and regulatory systems characteristic of parliamentary democracies have begun to develop in the Slovak Republic, the lack of an institutional history remains a problem. As a result, shifts in government policies and regulations tend to be less predictable than in countries with more developed democracies. A lack of legal certainty or the inability to obtain effective legal remedies in a timely manner or at all may have a material adverse effect on the Group's business, results of operations and financial condition.

In addition, in the Slovak Republic, there may be fewer judges specialised and experienced in complex matters involving investments in securities when compared to judges in western European countries. Investors should therefore be aware that matters that must be brought before the Slovak courts (for example, insolvency matters) may be subject to delays and may not be conducted in a manner similar to more developed legal systems and may, as a result, lead to extended delays in proceedings or incurrence of additional costs or losses.

Risks related to the structure of a particular Tranche of Notes

A range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features:

If the Issuer has the right to redeem any Notes at its option, this may limit the market value of the Notes concerned and an investor may not be able to reinvest the redemption proceeds in a manner which achieves a similar effective return

An optional redemption feature is likely to limit the market value of Notes. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

If the Issuer has the right to convert the interest rate on any Notes from a fixed rate to a floating rate, or vice versa, this may affect the secondary market and the market value of the Notes concerned

Fixed/Floating Rate Notes are Notes which may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market in, and the market value of, the Notes since the Issuer may be expected to convert the rate when it is likely to result in a lower overall cost of borrowing for the Issuer. If the Issuer

converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing market rates.

Notes which are issued at a substantial discount or premium may experience price volatility in response to changes in market interest rates

The market values of securities issued at a substantial discount (such as Zero Coupon Notes) or premium to their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for more conventional interest-bearing securities. Generally, the longer the remaining term of such securities, the greater the price volatility as compared to more conventional interest-bearing securities with comparable maturities.

Uncertainty about the future of LIBOR may adversely affect the value of Notes referencing LIBOR

On 27 July 2017, the Chief Executive of the United Kingdom Financial Conduct Authority, which regulates LIBOR, announced that it does not intend to continue to persuade, or use its powers to compel, panel banks to submit rates for the calculation of LIBOR to the administrator of LIBOR after 2021. The announcement indicates that the continuation of LIBOR on the current basis is not guaranteed after 2021. It is impossible to predict whether, and to what extent, panel banks will continue to provide LIBOR submissions to the administrator of LIBOR. This may cause LIBOR to perform differently than it did in the past and may have other consequences which cannot be predicted.

Investors should be aware that under the existing fall-back provisions applicable to Notes referencing LIBOR, if LIBOR is discontinued or otherwise unavailable the interest rate applicable to any Notes referencing LIBOR may, in certain circumstances, be determined for the relevant period by reference to the last available LIBOR rate applied in the previous period. This could effectively make such Notes a fixed rate instrument. In addition to uncertainty about the future of LIBOR, there is also uncertainty as to the establishment of an alternative interest rate which would apply if LIBOR were discontinued and the adequacy of any such alternative rate. Any of the foregoing could have an adverse effect on the value or liquidity of, and return on, any Notes referencing LIBOR.

Investors should consult their own independent advisers and make their own assessment of these matters when making their investment decision with respect to any Notes referencing LIBOR.

Risks relating to the Notes generally

Set out below is a description of material risks relating to the Notes generally:

The Notes may be redeemed prior to maturity

In the event that Issuer would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Slovak Republic or any political subdivision thereof or any authority therein or thereof having power to tax, the Issuer may redeem all outstanding Notes in accordance with the Conditions.

In addition, if in the case of any particular Tranche of Notes the relevant Final Terms or the relevant Drawdown Prospectus specifies that the Notes are redeemable at the Issuer's option in certain other circumstances the Issuer may choose to redeem the Notes at times when prevailing interest rates may be relatively low. In such circumstances an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the relevant Notes.

Investors will have to rely on the procedures of Euroclear and Clearstream, Luxembourg

The Notes in bearer form will be represented by the Global Notes except in certain limited circumstances described in the Permanent Global Note. The Global Notes will be deposited with a common depositary, or

common safekeeper, as the case may be, for Euroclear and Clearstream, Luxembourg. Except in certain limited circumstances described in the Permanent Global Note, investors will not be entitled to receive Definitive Notes. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Notes. While the Notes are represented by the Global Notes, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Issuer will discharge its payment obligations under the Notes by making payments to the common depository, or common safekeeper, as the case may be, for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a Global Note must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes.

Holders of beneficial interests in the Global Notes will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies. Similarly, holders of beneficial interests in the Global Notes will not have a direct right under the Global Notes to take enforcement action against the Issuer in the event of a default under the Notes but will have to rely upon their rights under the Deed of Covenant.

The conditions of the Notes contain provisions which may permit their modifications and the substitution of the Issuer without the consent of all investors

The conditions of the Notes contain provisions for calling meetings of Holders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Holders including such Holders who did not attend and vote at the relevant meeting and the Holders who voted in a manner contrary to the majority.

The conditions of the Notes also provide that the Issuer may, without the consent of the Holders, agree to (i) any modification of any of the provisions of the Notes or (ii) the substitution of another company in place of the Issuer (or any previous substitute of the Issuer) upon satisfaction of certain conditions (see Condition 17 (*Meetings of Noteholders; Modification and Substitution*) for further details).

Whether before or after such substitution, potential investors must not rely upon the tax summary contained in this document and/or in the Final Terms but should ask for their own tax adviser's advice with respect to their individual taxation with respect to the acquisition, sale and redemption of the Notes. Only these advisors are in a position to duly consider the specific situation of the potential investor. The afore-mentioned individual tax treatment of the Notes with regard to any potential investor may have an adverse impact on the return which any such potential investor may receive under the Notes.

The value of the Notes could be adversely affected by a change in English law or administrative practice

The conditions of the Notes are based on English law in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law, or administrative practice after the date of this Base Prospectus and any such change could materially adversely impact the value of any Notes affected by it.

Investors who hold less than the minimum Specified Denomination may be unable to sell their Notes and may be adversely affected if Definitive Notes are subsequently required to be issued

In relation to any issue of Notes which have a denomination consisting of the minimum specified denomination plus a higher integral multiple of another smaller amount, it is possible that the Notes may be traded in amounts in excess of the minimum specified denomination that are not integral multiples of the minimum specified denomination (or its equivalent). In such a case a Holder of Notes who, as a result of trading such amounts, holds a principal amount of less than the minimum specified denomination would not be able to sell the remainder of such holding without first purchasing a principal amount of Notes at or in excess of the minimum specified denomination such that its holding amounts to a specified denomination. Further, a Holder of Notes who, as a result of trading such amounts, holds an amount which is less than the minimum specified denomination in his account with the relevant clearing system at the relevant time may not receive a Definitive Note in respect of such holding (should Definitive Notes be printed) and may need to

purchase a principal amount of Notes at or in excess of the minimum specified denomination such that its holding amounts to the minimum specified denomination.

If such Notes in definitive form are issued, Holders of Notes should be aware that Definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

The Slovak Public Sector Partners Act may impose certain obligations on Noteholders

The Slovak Act No. 315/2016 Coll. on the register of public sector partners, as amended (the “**Public Sector Partners Act**”), came into force on 1 February 2017. Under the Public Sector Partners Act, recipients of funds or other benefits pursuant to certain transactions with the state or state-related parties (including the Issuer) are required to register as public sector partners (“**Public Sector Partners**”) in the newly created public sector partners register (the “**Register**”) and disclose information on their ownership structure, including their ultimate beneficial owners in the Register. All Noteholders, as recipients of payments of interest and/or principal in respect of the Notes, will qualify as Public Sector Partners, unless they are exempted under a specific provision of the Public Sector Partners Act.

Pursuant to the Public Sector Partners Act, persons who, in a single calendar year, receive no more than EUR 100,000 in a single payment or a total of EUR 250,000 in aggregate repeated payments from any one or more state or state-related party are not deemed Public Sector Partners and fall outside the scope of such act. Any Noteholder who receives any payment of interest and/or principal in respect of the Notes and does not qualify under this exemption will be treated as a Public Sector Partner with a duty to register in the Register.

In the opinion of the Issuer, the Public Sector Partners Act contains no sanction that could be imposed upon a Noteholder for the failure to register in the Register in connection with the receipt of payments of interest and/or principal in respect of the Notes. However, there are sanctions which may be imposed on Noteholders who have already registered or will register in the Register for breaching certain obligations during the registration process or after its completion (including, without limitation, the obligation to provide correct or complete information, update any out-dated information in the Register or verify whether the information in the Register is accurate). These sanctions include, but are not limited to fines of up to the amount of profit derived from the relevant transaction or up to EUR 1,000,000, if such profit cannot be ascertained.

In addition to the above public law sanctions, the Public Sector Partners Act allows (but does not oblige) the Issuer to postpone a payment of interest and/or principal in respect of the Notes to a Noteholder who has registered in the Register but whose registration is incorrect, incomplete or out-dated until such time as the defects of the registration are rectified by the relevant Noteholder. In limited circumstances, the Issuer is also permitted (but not obligated) to withdraw from the relevant legal relationship, although it is unclear how such a withdrawal right could be applied with respect of the Notes. In the opinion of the Issuer, no such rights exist *vis-a-vis* the Noteholders who are not registered. The Issuer believes that no provision of the Public Sector Partners Act prevents the Issuer from complying with any of its obligations under the Notes and any rights potentially afforded to the Issuer under the Public Sector Partners Act will not affect the obligations of the Issuer under the Notes governed by English law. The Issuer will comply with its obligations under the Notes notwithstanding the non-registration or the incomplete, inaccurate or out-dated registration of any Noteholder. The Issuer has made a representation and undertaking in the Dealer Agreement to such effect. The Issuer however makes no representation or warranty that the Noteholders will not be subject to any sanctions imposed by relevant authority under Slovak law in connection with any failure to comply with the Public Sector Partners Act, if applicable.

Furthermore, due to the fact that the Issuer is itself registered under the Public Sector Partners Act, in the event of the bankruptcy or restructuring of the Issuer the Noteholders will be required, pursuant to the Slovak Insolvency Code, to register in the Register in order to avoid their claims against the Issuer above EUR 1,000,000 being deemed as subordinated to all other senior unsecured creditors of the Issuer. Noteholders can avoid the deemed subordination of their claims against the Issuer by effecting the registration at any time after the commencement of formal bankruptcy or restructuring proceedings.

Due to numerous issues related to the application of the Public Sector Partners Act, including its impact on the operation of various state-related parties, the act is currently under public scrutiny and it is anticipated that an amendment will be adopted sometime in the second quarter of 2018. However, there is no guarantee that such

amendment (even if adopted) will remove the Noteholders from the scope of the Public Sector Partners Act or otherwise relieve them from the abovementioned implications.

Risks related to the market generally

Set out below is a description of material market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

An active secondary market in respect of the Notes may never be established or may be illiquid and this would adversely affect the value at which an investor could sell his Notes

Notes may have no established trading market when issued, and one may never develop. If a market for the Notes does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities.

If an investor holds Notes which are not denominated in the investor's home currency, he will be exposed to movements in exchange rates adversely affecting the value of his holding. In addition, the imposition of exchange controls in relation to any Notes could result in an investor not receiving payments on those Notes

The Issuer will pay principal and interest on the Notes in a specified currency (the “**Specified Currency**”). This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the “**Investor's Currency**”) other than the Specified Currency. These include the risk that exchange rates may change significantly (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (i) the Investor's Currency-equivalent yield on the Notes, (ii) the Investor's Currency-equivalent value of the principal payable on the Notes and (iii) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose exchange controls that could adversely affect an applicable exchange rate or the ability of the Issuer to make payments in respect of the Notes. As a result, investors may receive less interest or principal than expected, or no interest or principal.

The value of Fixed Rate Notes may be adversely affected by movements in market interest rates

Investment in Fixed Rate Notes involves the risk that if market interest rates subsequently increase above the rate paid on the Fixed Rate Notes, this will adversely affect the value of the Fixed Rate Notes.

Credit Ratings assigned to the Issuer or any Notes may not reflect all the risks associated with an investment in those Notes

One or more independent credit rating agencies may assign credit ratings to the Issuer or the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors which may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances). Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances). The list of registered and certified rating agencies published by the European Securities and Markets Authority (“**ESMA**”) on its

website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Base Prospectus.

FINAL TERMS AND DRAWDOWN PROSPECTUSES

In this section the expression “*necessary information*” means, in relation to any Tranche of Notes, the information necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and of the rights attaching to the Notes. In relation to the different types of Notes which may be issued under the Programme the Issuer has endeavoured to include in this Base Prospectus all of the necessary information except for information relating to the Notes which is not known at the date of this Base Prospectus and which can only be determined at the time of an individual issue of a Tranche of Notes.

Any information relating to the Notes which is not included in this Base Prospectus and which is required in order to complete the necessary information in relation to a Tranche of Notes will be contained either in the relevant Final Terms or in a Drawdown Prospectus. Such information will be contained in the relevant Final Terms unless any of such information constitutes a significant new factor relating to the information contained in this Base Prospectus in which case such information may be contained in a Supplement to this Base Prospectus, or alternatively, together with all of the other necessary information in relation to the relevant series of Notes, in a Drawdown Prospectus.

For a Tranche of Notes which is the subject of Final Terms, those Final Terms will, for the purposes of that Tranche only, complete this Base Prospectus and must be read in conjunction with this Base Prospectus. The terms and conditions applicable to any particular Tranche of Notes which is the subject of Final Terms are the Conditions as completed to the extent described in the relevant Final Terms.

The terms and conditions applicable to any particular Tranche of Notes which is the subject of a Drawdown Prospectus will be the Conditions as completed to the extent described in the relevant Drawdown Prospectus.

Each Drawdown Prospectus will be constituted either (1) by a single document containing the necessary information relating to the Issuer and the relevant Notes or (2) by a registration document (the “**Registration Document**”) containing the necessary information relating to the Issuer, a securities note (the “**Securities Note**”) containing the necessary information relating to the relevant Notes and, if necessary, a summary note. In addition, if the Drawdown Prospectus is constituted by a Registration Document and a Securities Note, any significant new factor, material mistake or inaccuracy relating to the information included in the Registration Document which arises or is noted between the date of the Registration Document and the date of the Securities Note which is capable of affecting the assessment of the relevant Notes will be included in the Securities Note.

FORMS OF THE NOTES

Bearer Notes

Each Tranche of Notes in bearer form (“**Bearer Notes**”) will initially be in the form of either a temporary global note in bearer form (the “**Temporary Global Note**”), without interest coupons, or a permanent global note in bearer form (the “**Permanent Global Note**” and, together with the Temporary Global Note, the “**Bearer Global Notes**”), without interest coupons, in each case as specified in the relevant Final Terms or the relevant Drawdown Prospectus. Each Temporary Global Note or, as the case may be, Permanent Global Note (each a “**Global Note**”) which is not intended to be issued in new global note (“**NGN**”) form, as specified in the relevant Final Terms or the relevant Drawdown Prospectus, will be deposited on or around the issue date of the relevant Tranche of the Notes with a depositary or a common depositary for Euroclear Bank SA/NV as operator of the Euroclear System (“**Euroclear**”) and/or Clearstream Banking, S.A. (“**Clearstream, Luxembourg**”) and/or any other relevant clearing system and each Global Note which is intended to be issued in NGN form, as specified in the relevant Final Terms or the relevant Drawdown Prospectus, will be deposited on or around the issue date of the relevant Tranche of the Notes with a common safekeeper for Euroclear and/or Clearstream, Luxembourg.

On 13 June 2006 the European Central Bank (the “**ECB**”) announced that Notes in NGN form are in compliance with the “*Standards for the use of EU securities settlement systems in ESCB credit operations*” of the central banking system for the euro (the “**Eurosystem**”), provided that certain other criteria are fulfilled. At the same time the ECB also announced that arrangements for Notes in NGN form will be offered by Euroclear and Clearstream, Luxembourg as of 30 June 2006 and that debt securities in global bearer form issued through Euroclear and Clearstream, Luxembourg after 31 December 2006 will only be eligible as collateral for Eurosystem operations if the NGN form is used.

Where the Bearer Global Notes issued in respect of any Tranche are in NGN form, the relevant Final Terms or relevant Drawdown Prospectus will also indicate whether such Bearer Global Notes are intended to be held in a manner which would allow Eurosystem eligibility. Any indication that the Bearer Global Notes are to be so held does not necessarily mean that the Bearer Notes of the relevant Tranche will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any times during their life as such recognition depends upon satisfaction of the Eurosystem eligibility criteria. The Common Safekeeper for NGNs will either be Euroclear or Clearstream, Luxembourg or another entity approved by Euroclear and Clearstream, Luxembourg.

In the case of each Tranche of Bearer Notes, the relevant Final Terms or the relevant Drawdown Prospectus will also specify whether United States Treasury Regulation §1.163-5(c)(2)(i)(C) or any successor United States Treasury Regulation Section including, without limitation, regulations issued in accordance with U.S. Internal Revenue Service Notice 2012-20 or otherwise in connection with the U.S. Hiring Incentives to Restore Employment Act of 2010) (the “**TEFRA C Rules**”) or United States Treasury Regulation §1.163-5(c)(2)(i)(D) (or any successor United States Treasury Regulation Section including, without limitation, regulations issued in accordance with U.S. Internal Revenue Service Notice 2012-20 or otherwise in connection with the U.S. Hiring Incentives to Restore Employment Act of 2010) (the “**TEFRA D Rules**”) are applicable in relation to the Notes or, if the Notes do not have a maturity of more than 365 days, that neither the TEFRA C Rules nor the TEFRA D Rules are applicable.

Temporary Global Note exchangeable for Permanent Global Note

If the relevant Final Terms or the relevant Drawdown Prospectus specifies the form of Notes as being “Temporary Global Note exchangeable for a Permanent Global Note”, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for interests in a Permanent Global Note, without interest coupons, not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever any interest in the Temporary Global Note is to be exchanged for an interest in a Permanent Global Note, the Issuer shall procure (in the case of first exchange) the delivery of a Permanent Global Note to the

bearer of the Temporary Global Note or (in the case of any subsequent exchange) an increase in the principal amount of the Permanent Global Note in accordance with its terms against:

- (i) presentation and (in the case of final exchange) presentation and surrender of the Temporary Global Note to or to the order of the Fiscal Agent; and
- (ii) receipt by the Fiscal Agent of a certificate or certificates of non-U.S. beneficial ownership.

The principal amount of Notes represented by the Permanent Global Note shall be equal to the aggregate of the principal amounts specified in the certificates of non-U.S. beneficial ownership *provided, however*, that in no circumstances shall the principal amount of Notes represented by the Permanent Global Note exceed the initial principal amount of Notes represented by the Temporary Global Note.

If:

- (a) the Permanent Global Note has not been delivered or the principal amount thereof increased by 5.00 p.m. (London time) on the seventh day after the bearer of the Temporary Global Note has requested exchange of an interest in the Temporary Global Note for an interest in a Permanent Global Note; or
- (b) the Temporary Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Temporary Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer of the Temporary Global Note in accordance with the terms of the Temporary Global Note on the due date for payment,

then from 5.00 p.m. (London time) on such day, the bearer of the Temporary Global Note will become entitled to proceed directly against the Issuer on, and subject to, the terms of a deed of covenant dated 15 February 2018 (the “**Deed of Covenant**”) and the bearer of the Temporary Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Temporary Global Note or others may have under the Deed of Covenant).

The Permanent Global Note will become exchangeable, in whole but not in part only and at the request of the bearer of the Permanent Global Note, for Bearer Notes in definitive form (“**Definitive Notes**”) if either of the following events occurs:

- (i) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; or
- (ii) any of the circumstances described in Condition 13 (*Events of Default*) occurs.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the Final Terms or the Drawdown Prospectus), in an aggregate principal amount equal to the principal amount of Notes represented by the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

- (a) Definitive Notes have not been duly delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has requested exchange of the Permanent Global Note for Definitive Notes; or
- (b) the Permanent Global Note was originally issued in exchange for part only of a Temporary Global Note representing the Notes and the bearer of such Temporary Global Note ceases to have rights under it in accordance with its terms; or
- (c) the Permanent Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Permanent Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued

interest thereon has not been made to the bearer in accordance with the terms of the Permanent Global Note on the due date for payment,

then from 5.00 p.m. (London time) on such day, the bearer of the Permanent Global Note will become entitled to proceed directly against the Issuer on, and subject to, the terms of the Deed of Covenant and the bearer of the Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under the Deed of Covenant).

Temporary Global Note exchangeable for Definitive Notes

If the relevant Final Terms or the relevant Drawdown Prospectus specifies the form of Notes as being “Temporary Global Note exchangeable for Definitive Notes” and also specifies that the TEFRA C Rules are applicable or that neither the TEFRA C Rules or the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole but not in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes.

If the relevant Final Terms or the relevant Drawdown Prospectus specifies the form of Notes as being “Temporary Global Note exchangeable for Definitive Notes” and also specifies that the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever the Temporary Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms or the relevant Drawdown Prospectus), in an aggregate principal amount equal to the principal amount of the Temporary Global Note to the bearer of the Temporary Global Note against the surrender of the Temporary Global Note to or to the order of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

- (a) Definitive Notes have not been duly delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has requested exchange of the Temporary Global Note for Definitive Notes; or
- (b) the Temporary Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Temporary Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Temporary Global Note on the due date for payment,

then from 5.00 p.m. (London time) on such day, the bearer of the Temporary Global Note will become entitled to proceed directly against the Issuer on, and subject to, the terms of the Deed of Covenant and the bearer of the Temporary Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Temporary Global Note or others may have under the Deed of Covenant).

For the avoidance of doubt, if Notes are to be issued with a minimum Specified Denomination and in integral multiples of another smaller amount in excess thereof as specified in the relevant Final Terms or the relevant Drawdown Prospectus, the Notes cannot be represented on issue by a Temporary Global Note exchangeable for Definitive Notes.

Permanent Global Note exchangeable for Definitive Notes

If the relevant Final Terms or the relevant Drawdown Prospectus specifies the form of Notes as being “Permanent Global Note exchangeable for Definitive Notes”, then the Notes will initially be in the form of a Permanent Global Note which will be exchangeable in whole, but not in part, for Definitive Notes if either of the following events occurs:

- (i) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; or

- (ii) any of the circumstances described in Condition 13 (*Events of Default*) occurs.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the Final Terms or the Drawdown Prospectus), in an aggregate principal amount equal to the principal amount of Notes represented by the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

- (a) Definitive Notes have not been duly delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has requested exchange of the Permanent Global Note for Definitive Notes; or
- (b) the Permanent Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Permanent Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Permanent Global Note on the due date for payment,

then from 5.00 p.m. (London time) on such day, the bearer of the Permanent Global Note will become entitled to proceed directly against the Issuer on, and subject to, the terms of the Deed of Covenant and the bearer of the Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under the Deed of Covenant).

Rights under Deed of Covenant

Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Temporary Global Note or a Permanent Global Note which becomes void will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Temporary Global Note or Permanent Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

Terms and Conditions applicable to the Notes

The terms and conditions applicable to any Definitive Note will be endorsed on that Note and will consist of the terms and conditions set out under “*Terms and Conditions of the Notes*” below and the provisions of the relevant Final Terms or the relevant Drawdown Prospectus which complete those terms and conditions.

The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under “*Summary of Provisions Relating to the Notes while in Global Form*” below.

Legend concerning United States persons

In the case of any Tranche of Bearer Notes (other than the Temporary Global Note) and any Coupons and Talons appertaining thereto will bear a legend to the following effect:

“Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code.”

Registered Notes

Each Tranche of Registered Notes will be in the form of either individual Note Certificates in registered form (“**Individual Note Certificates**”) or a global Note in registered form (a “**Global Registered Note**”), in each case as specified in the relevant Final Terms or the relevant Drawdown Prospectus.

In a press release dated 22 October 2008, “*Evolution of the custody arrangement for international debt securities and their eligibility in Eurosystem credit operations*”, the ECB announced that it has assessed the new holding structure and custody arrangements for registered notes which the ICSDs had designed in cooperation with market participants and that Notes to be held under the new structure (the “**New Safekeeping Structure**” or “**NSS**”) would be in compliance with the “*Standards for the use of EU securities settlement systems in ESCB credit operations*” of the central banking system for the euro (the “**Eurosystem**”), subject to the conclusion of the necessary legal and contractual arrangements. The press release also stated that the new arrangements for Notes to be held in NSS form will be offered by Euroclear and Clearstream, Luxembourg as of 30 June 2010 and that registered debt securities in global registered form held issued through Euroclear and Clearstream, Luxembourg after 30 September 2010 will only be eligible as collateral in Eurosystem operations if the New Safekeeping Structure is used.

Each Global Registered Note will either be: (a) in the case of a Note which is not to be held under the new safekeeping structure (“**New Safekeeping Structure**” or “**NSS**”), registered in the name of a common depositary (or its nominee) for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and the relevant Global Registered Note will be deposited on or about the issue date with the common depositary and will be exchangeable in accordance with its terms; or (b) in the case of a Note to be held under the New Safekeeping Structure, be registered in the name of a common safekeeper (or its nominee) for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and the relevant Global Registered Note will be deposited on or about the issue date with the common safekeeper for Euroclear and/or Clearstream, Luxembourg and will be exchangeable for Individual Note Certificates in accordance with its terms.

If the relevant Final Terms or the relevant Drawdown Prospectus specifies the form of Notes as being “Individual Note Certificates”, then the Notes will at all times be in the form of Individual Note Certificates issued to each Noteholder in respect of their respective holdings.

If the relevant Final Terms or the relevant Drawdown Prospectus specifies the form of Notes as being “Global Registered Note exchangeable for Individual Note Certificates”, then the Notes will initially be in the form of a Global Registered Note which will be exchangeable in whole, but not in part, for Individual Note Certificates if either of the following events occurs:

- (i) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; or
- (ii) any of the circumstances described in Condition 13 (*Events of Default*) occurs.

Whenever the Global Registered Note is to be exchanged for Individual Note Certificates, the Issuer shall procure that Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Registered Note within five business days of the delivery, by or on behalf of the registered holder of the Global Registered Note to the Registrar of such information as is required to complete and deliver such Individual Note Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Note Certificates are to be registered and the principal amount of each such person’s holding) against the surrender of the Global Registered Note at the specified office of the Registrar.

Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any holder, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

If:

- (a) Individual Note Certificates have not been delivered by 5.00 p.m. (London time) on the thirtieth day after they are due to be issued and delivered in accordance with the terms of the Global Registered Note; or
- (b) any of the Notes represented by a Global Registered Note (or any part of it) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of

the Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the holder of the Global Registered Note in accordance with the terms of the Global Registered Note on the due date for payment,

then from 5.00 p.m. (London time) on such day, each holder of the Global Registered Note will become entitled to proceed directly against the Issuer on, and subject to, the terms of the Deed of Covenant in respect of the Notes and the holder of the Global Registered Note will have no further rights thereunder (but without prejudice to the rights which the holder of the Global Registered Note or others may have under the Deed of Covenant. Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Global Registered Note will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Global Registered Note became void, they had been the holders of Individual Note Certificates in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

Terms and Conditions applicable to the Notes

The terms and conditions applicable to any Individual Note Certificate will be endorsed on that Individual Note Certificate and will consist of the terms and conditions set out under “*Terms and Conditions of the Notes*” below and the provisions of the relevant Final Terms or the relevant Drawdown Prospectus which complete those terms and conditions.

The terms and conditions applicable to any Global Registered Note will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under “*Summary of Provisions Relating to the Notes while in Global Form*” below.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions which, as completed by the relevant Final Terms or the relevant Drawdown Prospectus, will be endorsed on each Note in definitive form issued under the Programme. The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under “Summary of Provisions Relating to the Notes while in Global Form” below.

1. Introduction

- (a) *Programme:* Západoslovenská energetika, a.s. (“**ZSE**” or the “**Issuer**”) has established a Euro Medium Term Note Programme (the “**Programme**”) for the issuance of up to EUR 1,000,000,000 in aggregate principal amount of notes (the “**Notes**”).
- (b) *Final Terms:* Notes issued under the Programme are issued in series (each a “**Series**”) and each Series may comprise one or more tranches (each a “**Tranche**”) of Notes. Each Tranche is the subject of a document specific to such Tranche called final terms (the “**Final Terms**”) or a separate prospectus specific to such Tranche (the “**Drawdown Prospectus**”) which completes these terms and conditions (the “**Conditions**”). The terms and conditions applicable to any particular Tranche of Notes are these Conditions as completed by the relevant Final Terms or the relevant Drawdown Prospectus. In the event of any inconsistency between these Conditions and the relevant Final Terms or the relevant Drawdown Prospectus, as the case may be, the relevant Final Terms or the relevant Drawdown Prospectus shall prevail.
- (c) *Agency Agreement:* The Notes are the subject of an amended and restated issue and paying agency agreement dated 15 February 2018 (the “**Agency Agreement**”, which expression includes the same as it may be amended, supplemented, novated or restated from time to time) between the Issuer, Citibank, N.A., London Branch as fiscal agent (the “**Fiscal Agent**”, which expression includes any successor fiscal agent appointed from time to time in connection with the Notes), Citigroup Global Markets Deutschland AG as registrar (the “**Registrar**”, which expression includes any successor registrar appointed from time to time in connection with the Notes), the paying agents named therein (together with the Fiscal Agent, the “**Paying Agents**”, which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes) and the transfer agents named therein (together with the Registrar, the “**Transfer Agents**”, which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes). In these Conditions references to the “**Agents**” are to the Paying Agents and the Transfer Agents and any reference to an “**Agent**” is to any one of them.
- (d) *Deed of Covenant:* The Notes may be issued in bearer form (“**Bearer Notes**”), or in registered form (“**Registered Notes**”). Registered Notes are constituted by a deed of covenant dated 15 February 2018 (the “**Deed of Covenant**”, which expression includes the same as it may be amended, supplemented, modified or restated from time to time) entered into by the Issuer.
- (e) *The Notes:* All subsequent references in these Conditions to “Notes” are to the Notes which are the subject of the relevant Final Terms or the relevant Drawdown Prospectus. Copies of the relevant Final Terms or the relevant Drawdown Prospectus are available for viewing at the specified office of each of the Paying Agents and copies may be obtained from the registered office of the Issuer.
- (f) *Summaries:* Certain provisions of these Conditions are summaries of the Agency Agreement and the Deed of Covenant and are subject to their detailed provisions. Noteholders and the holders of the related interest coupons, if any, (the “**Couponholders**” and the “**Coupons**”, respectively) are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement and the Deed of Covenant applicable to them. Copies of the Agency Agreement and the Deed of Covenant are available for inspection by Noteholders during normal business hours at the Specified Offices of each of the Agents, the initial Specified Offices of which are set out below.

2. Interpretation

(a) *Definitions:* In these Conditions the following expressions have the following meanings:

“Accrual Yield” has the meaning given in the relevant Final Terms or the relevant Drawdown Prospectus;

“Additional Business Centre(s)” means the city or cities specified as such in the relevant Final Terms or the relevant Drawdown Prospectus;

“Additional Financial Centre(s)” means the city or cities specified as such in the relevant Final Terms or the relevant Drawdown Prospectus;

“Benchmark Security” means the security specified in the relevant Final Terms or the relevant Drawdown Prospectus, or, if such security is no longer outstanding on the Make-Whole Amount Calculation Date, such substitute benchmark security selected by the Financial Advisor, in each case as having a maturity comparable to the remaining term of the Notes, that would be used at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Notes;

“Benchmark Yield” means the yield as at the Make-Whole Amount Calculation Date as appearing at around noon London time on the Benchmark Yield Screen Page in respect of the Benchmark Security, or if such yield cannot be so determined at such time, the yield determined as aforesaid as appearing on the Benchmark Yield Screen Page at such other time on the Make-Whole Amount Calculation Date as may be considered to be appropriate by the Calculation Agent in consultation with the Issuer;

“Benchmark Yield Screen Page” means screen page specified in the relevant Final Terms or the relevant Drawdown Prospectus (or any successor page or successor pricing source), or, if such Bloomberg page or pricing source is not available, such other page (if any) from such other information provider displaying substantially similar data as determined in consultation with the Issuer;

“Business Day” means:

- (a) in relation to any sum payable in euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in each (if any) Additional Business Centre; and
- (b) in relation to any sum payable in a currency other than euro, a day on which commercial banks and foreign exchange markets settle payments generally in London, in the Principal Financial Centre of the relevant currency and in each (if any) Additional Business Centre;

“Business Day Convention”, in relation to any particular date, has the meaning given in the relevant Final Terms or the relevant Drawdown Prospectus and, if so specified in the relevant Final Terms or the relevant Drawdown Prospectus, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

- (a) **“Following Business Day Convention”** means that the relevant date shall be postponed to the first following day that is a Business Day;
- (b) **“Modified Following Business Day Convention”** or **“Modified Business Day Convention”** means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;
- (c) **“Preceding Business Day Convention”** means that the relevant date shall be brought forward to the first preceding day that is a Business Day;
- (d) **“FRN Convention”**, **“Floating Rate Convention”** or **“Eurodollar Convention”** means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the relevant Final Terms or

the relevant Drawdown Prospectus as the Specified Period after the calendar month in which the preceding such date occurred *provided, however, that*:

- (i) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;
 - (ii) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and
 - (iii) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and
- (e) **“No Adjustment”** means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

“Calculation Agent” means the Fiscal Agent or such other Person specified in the relevant Final Terms or the relevant Drawdown Prospectus as the party responsible for calculating the Rate(s) of Interest and Interest Amount(s) and/or such other amount(s) as may be specified in the relevant Final Terms or the relevant Drawdown Prospectus;

“Calculation Amount” has the meaning given in the relevant Final Terms or the relevant Drawdown Prospectus;

“Coupon Sheet” means, in respect of a Note, a coupon sheet relating to the Note;

“Day Count Fraction” means, in respect of the calculation of an amount for any period of time (the **“Calculation Period”**), such day count fraction as may be specified in these Conditions or the relevant Final Terms or the relevant Drawdown Prospectus and:

- (a) if **“Actual/Actual (ICMA)”** is so specified, means:
 - (i) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and
 - (ii) where the Calculation Period is longer than one Regular Period, the sum of:
 - (A) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and
 - (B) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year;
- (b) if **“Actual/Actual (ISDA)”** is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (c) if **“Actual/365 (Fixed)”** is so specified, means the actual number of days in the Calculation Period divided by 365;

- (d) if “**Actual/360**” is so specified, means the actual number of days in the Calculation Period divided by 360;
- (e) if “**30/360**” is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows

$$\text{Day Count Fraction} = \frac{[360x(Y_2 - Y_1)] + [30x(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y₁**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y₂**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M₁**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M₂**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D₁**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

“**D₂**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D₁ is greater than 29, in which case D₂ will be 30”;

- (f) if “**30E/360**” or “**Eurobond Basis**” is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360x(Y_2 - Y_1)] + [30x(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y₁**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y₂**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M₁**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M₂**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D₁**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

“**D₂**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D₂ will be 30; and

- (g) if “**30E/360 (ISDA)**” is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360x(Y_2 - Y_1)] + [30x(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y₁**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y₂**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M₁**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M₂**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D₁**” is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D₁ will be 30; and

“**D₂**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D₂ will be 30,

provided, however, that in each such case the number of days in the Calculation Period is calculated from and including the first day of the Calculation Period to but excluding the last day of the Calculation Period;

“**Designated Maturity**” means, in relation to Screen Rate Determination, the period of time designated in the Reference Rate.

“**Early Redemption Amount**” means, in respect of any Note, its principal amount or such other amount as may be specified in, the relevant Final Terms or the relevant Drawdown Prospectus;

“**E.ON**” means E.ON SE with its registered office in Essen, Federal Republic of Germany;

“**Extraordinary Resolution**” has the meaning given in the Agency Agreement;

“**Final Redemption Amount**” means, in respect of any Note, its principal amount or such other amount as may be specified in the relevant Final Terms or the relevant Drawdown Prospectus;

“**Financial Advisor**” means a leading investment bank or financial institution of international standing selected by the Issuer;

“**First Interest Payment Date**” means the date specified in the relevant Final Terms or the relevant Drawdown Prospectus;

“**Fixed Coupon Amount**” has the meaning given in the relevant Final Terms or the relevant Drawdown Prospectus;

“**Guarantee**” means, in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation):

- (a) any obligation to purchase such Indebtedness;
- (b) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;
- (c) any indemnity against the consequences of a default in the payment of such Indebtedness; and

(d) any other agreement to be responsible for such Indebtedness;

“Group Revenue” means at any time the total revenue at that time of the Group on a consolidated basis as shown by the Issuer’s most recent consolidated annual audited financial statements;

“Group Total Assets” means at any time the total book value of all assets of the Group based on the most recent consolidated annual audited financial statements of the Issuer;

“Holder”, in the case of Bearer Notes, has the meaning given in Condition 3(b) (*Title to Bearer Notes*) and, in the case of Registered Notes, has the meaning given in Condition 3(d) (*Title to Registered Notes*);

“Indebtedness” means any indebtedness of any Person for money borrowed or raised including (without limitation) any indebtedness for or in respect of:

- (a) amounts raised by acceptance under any acceptance credit facility;
- (b) amounts raised under any note purchase facility;
- (c) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with applicable law and generally accepted accounting principles, be treated as finance or capital leases;
- (d) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of 60 days; and
- (e) amounts raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having the commercial effect of a borrowing;

“Interest Amount” means, in relation to a Note and an Interest Period, the amount of interest payable in respect of that Note for that Interest Period;

“Interest Commencement Date” means the Issue Date of the Notes or such other date as may be specified as the Interest Commencement Date in the relevant Final Terms or the relevant Drawdown Prospectus;

“Interest Determination Date” has the meaning given in the relevant Final Terms or the relevant Drawdown Prospectus;

“Interest Payment Date” means the First Interest Payment Date and any date or dates specified as such in the relevant Final Terms or the relevant Drawdown Prospectus and, if a Business Day Convention is specified in the relevant Final Terms or the relevant Drawdown Prospectus:

- (a) as the same may be adjusted in accordance with the relevant Business Day Convention; or
- (b) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the relevant Final Terms or the relevant Drawdown Prospectus as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Interest Commencement Date (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case);

“Interest Period” means each period beginning on (and including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date;

“ISDA Definitions” means the 2006 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of the Notes of the relevant Series (as specified in the relevant Final Terms or the relevant Drawdown Prospectus) as published by the International Swaps and Derivatives Association, Inc.);

“Issue Date” has the meaning given in the relevant Final Terms or the relevant Drawdown Prospectus;

“Make-Whole Amount” means, in respect of redemption of any Notes pursuant to Condition 9(d), the amount equal to the sum of:

- (a) 100 per cent. of the principal amount of the Notes being redeemed; plus
- (b) accrued interest, if any, to (but excluding) the Optional Redemption Date (Make-Whole Call); plus
- (c) the excess of:
 - (i) as determined by the Calculation Agent, the sum of the present values of the remaining scheduled payments of principal and interest on the relevant Series of Notes not including any portion of such payment of interest accrued up to the Optional Redemption Date (Make-Whole Call), from the Optional Redemption Date (Make-Whole Call) to the earlier of (x) the first day on which the Notes may be redeemed at the option of the Issuer at their principal amount pursuant to Condition 9(c) (if specified in the relevant Final Terms or the relevant Drawdown Prospectus as being applicable) and (y) the Maturity Date, discounted to the Optional Redemption Date (Make-Whole Call) at the Benchmark Yield plus Make-Whole Margin; over
 - (ii) the principal amount of the relevant Notes;

, *provided that* the determination of the Calculation Agent pursuant to paragraph (c)(i) above shall be conclusive in absence of manifest error;

“Make-Whole Amount Calculation Date” the sixth Business Day prior to the Optional Redemption Date (Make-Whole Call);

“Make-Whole Margin” has the meaning given in the relevant Final Terms or the relevant Drawdown Prospectus;

“Margin” has the meaning given in the relevant Final Terms or the relevant Drawdown Prospectus;

“Material Subsidiary” means as of any date, a Subsidiary of the Issuer whose consolidated (or in the case of a Subsidiary that does not itself have any Subsidiaries, unconsolidated) total assets represent 10 per cent. or more of Group Total Assets or whose consolidated (or, in the case of a Subsidiary that does not itself have any Subsidiaries, unconsolidated) revenue represents 10 per cent. or more of Group Revenue, in each case as reflected in the Issuer’s most recent consolidated annual audited financial statements.

“Maturity Date” has the meaning given in the relevant Final Terms or the relevant Drawdown Prospectus;

“Maximum Redemption Amount” has the meaning given in the relevant Final Terms or the relevant Drawdown Prospectus;

“Minimum Redemption Amount” has the meaning given in the relevant Final Terms or the relevant Drawdown Prospectus;

“Noteholder”, in the case of Bearer Notes, has the meaning given in Condition 3(b) (*Form, Denomination, Title and Transfer – Title to Bearer Notes*) and, in the case of Registered Notes, has the meaning given in Condition 3(d) (*Form, Denomination, Title and Transfer – Title to Registered Notes*);

“Optional Redemption Amount (Call)” means, in respect of any Note, its principal amount or such other amount as may be specified in the relevant Final Terms or the relevant Drawdown Prospectus;

“Optional Redemption Amount (Put)” means, in respect of any Note, its principal amount or such other amount as may be specified in the relevant Final Terms or the relevant Drawdown Prospectus;

“Optional Redemption Date (Call)” has the meaning given in the relevant Final Terms or the relevant Drawdown Prospectus;

“Optional Redemption Date (Make-Whole Call)” means the date specified in the relevant notice of redemption given by the Issuer pursuant to Condition 9(d);

“Optional Redemption Date (Put)” has the meaning given in the relevant Final Terms or the relevant Drawdown Prospectus;

“Participating Member State” means a Member State of the European Communities which adopts the euro as its lawful currency in accordance with the Treaty;

“Payment Business Day” means:

- (a) if the currency of payment is euro, any day which is:
 - (i) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and
 - (ii) in the case of payment by transfer to an account, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or
- (b) if the currency of payment is not euro, any day which is:
 - (i) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and
 - (ii) in the case of payment by transfer to an account, a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre;

“Person” means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

“Principal Financial Centre” means, in relation to any currency, the principal financial centre for that currency *provided, however, that* in relation to euro, it means the principal financial centre of such Member State of the European Communities as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent;

“Put Option Notice” means a notice which must be delivered to a Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

“Put Option Receipt” means a receipt issued by a Paying Agent to a depositing Noteholder upon deposit of a Note with such Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

“Rate of Interest” means the rate or rates (expressed as a percentage per annum) of interest payable in respect of the Notes specified in the relevant Final Terms or the relevant Drawdown Prospectus, as the case may be, or calculated or determined in accordance with the provisions of these Conditions;

“Redemption Amount” means, as appropriate, the Final Redemption Amount, the Early Redemption Amount, the Optional Redemption Amount (Call), the Optional Redemption Amount (Put) or such other amount in the nature of a redemption amount as may be specified in the relevant Final Terms or the relevant Drawdown Prospectus;

“Reference Banks” has the meaning given in the relevant Final Terms or the relevant Drawdown Prospectus or, if none, four major banks selected by the Financial Advisor in the market that is most closely connected with the Reference Rate;

“Reference Price” has the meaning given in the relevant Final Terms or the relevant Drawdown Prospectus;

“Reference Rate” means either LIBOR or EURIBOR as specified in the relevant Final Terms or the relevant Drawdown Prospectus;

“Regular Period” means:

- (a) in the case of Notes where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;
- (b) in the case of Notes where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where **“Regular Date”** means the day and month (but not the year) on which any Interest Payment Date falls; and
- (c) in the case of Notes where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where **“Regular Date”** means the day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period;

“Relevant Date” means, in relation to any payment, whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in the Principal Financial Centre of the currency of payment by the Fiscal Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders;

“Relevant Financial Centre” has the meaning given in the relevant Final Terms or the relevant Drawdown Prospectus;

“Relevant Indebtedness” means any Indebtedness which is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument which is, or is capable of being, listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market);

“Relevant Screen Page” means the page, section or other part of a particular information service (including, without limitation, Reuters) specified as the Relevant Screen Page in the relevant Final Terms or the relevant Drawdown Prospectus, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

“Relevant Time” has the meaning given in the relevant Final Terms or the relevant Drawdown Prospectus;

“Reserved Matter” means any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of any payment under the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution;

“Security Interest” means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction;

“Specified Currency” has the meaning given in the relevant Final Terms or the relevant Drawdown Prospectus;

“Specified Denomination(s)” has the meaning given in the relevant Final Terms or the relevant Drawdown Prospectus;

“Specified Office” has the meaning given in the Agency Agreement;

“Specified Period” has the meaning given in the relevant Final Terms or the relevant Drawdown Prospectus;

“Subsidiary” means, in relation to any Person (the **“first Person”**) at any particular time, any other Person (the **“second Person”**):

- (a) whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise; or
- (b) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first Person;

“Talon” means a talon for further Coupons;

“TARGET2” means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007;

“TARGET Settlement Day” means any day on which TARGET2 is open for the settlement of payments in euro;

“Treaty” means the Treaty establishing the European Communities, as amended; and

“Zero Coupon Note” means a Note specified as such in the relevant Final Terms or the relevant Drawdown Prospectus;

Interpretation: In these Conditions:

- (i) if the Notes are Zero Coupon Notes, references to Coupons and Couponholders are not applicable;
- (ii) if Talons are specified in the relevant Final Terms or the relevant Drawdown Prospectus as being attached to the Notes at the time of issue, references to Coupons shall be deemed to include references to Talons;
- (iii) if Talons are not specified in the relevant Final Terms or the relevant Drawdown Prospectus as being attached to the Notes at the time of issue, references to Talons are not applicable;
- (iv) any reference to principal shall be deemed to include the Redemption Amount, any additional amounts in respect of principal which may be payable under Condition 12 (*Taxation*), any premium payable in respect of a Note and any other amount in the nature of principal payable pursuant to these Conditions;
- (v) any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 12 (*Taxation*) and any other amount in the nature of interest payable pursuant to these Conditions;
- (vi) references to Notes being “outstanding” shall be construed in accordance with the Agency Agreement; and

- (vii) if an expression is stated in Condition 2(a) (*Definitions*) to have the meaning given in the relevant Final Terms or the relevant Drawdown Prospectus, but the relevant Final Terms or the relevant Drawdown Prospectus gives no such meaning or specifies that such expression is “not applicable” then such expression is not applicable to the Notes.

3. **Form, Denomination, Title and Transfer**

- (a) *Bearer Notes*: Bearer Notes are in the Specified Denomination(s) with Coupons and, if specified in the relevant Final Terms or the relevant Drawdown Prospectus, Talons attached at the time of issue. In the case of a Series of Bearer Notes with more than one Specified Denomination, Bearer Notes of one Specified Denomination will not be exchangeable for Bearer Notes of another Specified Denomination.
- (b) *Title to Bearer Notes*: Title to Bearer Notes and the Coupons will pass by delivery. In the case of Bearer Notes, “**Holder**” means the holder of such Bearer Note and “**Noteholder**” and “**Couponholder**” shall be construed accordingly.
- (c) *Registered Notes*: Registered Notes are in the Specified Denomination(s), which may include a minimum denomination specified in the relevant Final Terms or the relevant Drawdown Prospectus and higher integral multiples of a smaller amount specified in the relevant Final Terms or the relevant Drawdown Prospectus.
- (d) *Title to Registered Notes*: The Registrar will maintain the register in accordance with the provisions of the Agency Agreement. A certificate (each, a “**Note Certificate**”) will be issued to each Holder of Registered Notes in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register. In the case of Registered Notes, “**Holder**” means the person in whose name such Registered Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and “**Noteholder**” shall be construed accordingly.
- (e) *Ownership*: The Holder of any Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or, in the case of Registered Notes, on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft thereof) and no Person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of any Note under the Contracts (Rights of Third Parties) Act 1999.
- (f) *Transfers of Registered Notes*: Subject to Conditions 3(i) (*Closed periods*) and 3(j) (*Regulations concerning transfers and registration*) below, a Registered Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; *provided, however, that* a Registered Note may not be transferred unless the principal amount of Registered Notes transferred and (where not all of the Registered Notes held by a Holder are being transferred) the principal amount of the balance of Registered Notes not transferred are Specified Denominations. Where not all the Registered Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Registered Notes will be issued to the transferor.
- (g) *Registration and delivery of Note Certificates*: Within five business days of the surrender of a Note Certificate in accordance with Condition 3(f) (*Transfers of Registered Notes*) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Registered Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this Condition 3(g), “**business**

day” means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.

- (h) *No charge*: The transfer of a Registered Note will be effected without charge by or on behalf of the Issuer or the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.
- (i) *Closed periods*: Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Registered Notes.
- (j) *Regulations concerning transfers and registration*: All transfers of Registered Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Registered Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

4. **Status**

Status of the Notes: The Notes constitute direct, unconditional and unsubordinated obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

5. **Negative Pledge**

So long as any Note remains outstanding, the Issuer shall not, and the Issuer shall procure that none of its Material Subsidiaries will, create or permit to subsist any Security Interest upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure any Relevant Indebtedness or Guarantee of Relevant Indebtedness without (a) at the same time or prior thereto securing the Notes equally and rateably therewith or (b) providing such other security for the Notes as may be approved by an Extraordinary Resolution of Noteholders.

6. **Fixed Rate Note Provisions**

- (a) *Application*: This Condition 6 is applicable to the Notes only if the Fixed Rate Note Provisions are specified in the relevant Final Terms or the relevant Drawdown Prospectus as being applicable.
- (b) *Accrual of interest*: The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 10 (*Payments – Bearer Notes*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 6 (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).
- (c) *Fixed Coupon Amount*: The amount of interest payable in respect of each Note for any Interest Period shall be the relevant Fixed Coupon Amount and, if the Notes are in more than one Specified Denomination, shall be the relevant Fixed Coupon Amount in respect of the relevant Specified Denomination.

- (d) *Calculation of interest amount:* The amount of interest payable in respect of each Note for any period for which a Fixed Coupon Amount is not specified shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of such Note divided by the Calculation Amount. For this purpose a “**sub-unit**” means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

7. **Floating Rate Note Provisions**

- (a) *Application:* This Condition 7 is applicable to the Notes only if the Floating Rate Note Provisions are specified in the relevant Final Terms or the relevant Drawdown Prospectus as being applicable.
- (b) *Accrual of interest:* The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 10 (*Payments – Bearer Notes*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 7(b) (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).
- (c) *Screen Rate Determination:* If Screen Rate Determination is specified in the relevant Final Terms or the relevant Drawdown Prospectus as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be determined by the Calculation Agent on the following basis:
- (i) if the Reference Rate is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page (or such replacement page on that service which displays the information) as of the Relevant Time on the relevant Interest Determination Date;
 - (ii) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;
 - (iii) if, in the case of (i) above, such rate does not appear on that page or, in the case of (ii) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Calculation Agent will:
 - (A) request the principal Relevant Financial Centre office of each of the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Interest Determination Date to prime banks in the Relevant Financial Centre interbank market in an amount that is representative for a single transaction in that market at that time; and
 - (B) determine the arithmetic mean of such quotations; and
 - (iv) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates (being the nearest to the Reference Rate, as determined by the Calculation Agent) quoted by major banks in the Principal Financial Centre of the Specified Currency, selected by the Calculation Agent, at approximately 11.00 a.m. (local time in the Principal Financial Centre of the Specified Currency) on the first day of the relevant Interest Period for loans in the Specified Currency to leading European banks for a period equal to the relevant

Interest Period and in an amount that is representative for a single transaction in that market at that time,

and the Rate of Interest for such Interest Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined; *provided, however, that* if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Rate of Interest applicable to the Notes during such Interest Period will be the sum of the Margin and the rate or (as the case may be) the arithmetic mean last determined in relation to the Notes in respect of a preceding Interest Period.

- (d) *ISDA Determination*: If ISDA Determination is specified in the relevant Final Terms or the relevant Drawdown Prospectus as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where “ISDA Rate” in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:
- (i) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Final Terms or the relevant Drawdown Prospectus;
 - (ii) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Final Terms or the relevant Drawdown Prospectus; and
 - (iii) the relevant Reset Date (as defined in the ISDA Definitions) is either (A) if the relevant Floating Rate Option is based on the London inter-bank offered rate (LIBOR) for a currency, the first day of that Interest Period or (B) in any other case, as specified in the relevant Final Terms or the relevant Drawdown Prospectus.
- (e) *Maximum or Minimum Rate of Interest*: If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the relevant Final Terms or the relevant Drawdown Prospectus, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified.
- (f) *Linear Interpolation*: Where Linear Interpolation is specified as applicable in respect of an Interest Period in the relevant Final Terms or the relevant Drawdown Prospectus, the Rate of Interest for such Interest Period shall be calculated by the Calculation Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified as applicable in the applicable Final Terms) or the relevant Floating Rate Option (where ISDA Determination is specified as applicable in the relevant Final Terms or the relevant Drawdown Prospectus), one of which shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period and the other of which shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period; *provided, however, that* if there is no rate available for a period of time next shorter or, as the case may be, next longer, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.
- (g) *Calculation of Interest Amount*: The Calculation Agent will, as soon as practicable after the time at which the Rate of Interest is to be determined in relation to each Interest Period, calculate the Interest Amount payable in respect of each Note for such Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of the relevant Note divided by the Calculation Amount. For this

purpose a “**sub-unit**” means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

- (h) *Calculation of other amounts:* If the relevant Final Terms or the relevant Drawdown Prospectus specifies that any other amount is to be calculated by the Calculation Agent, the Calculation Agent will, as soon as practicable after the time or times at which any such amount is to be determined, calculate the relevant amount. The relevant amount will be calculated by the Calculation Agent in the manner specified in the relevant Final Terms or the relevant Drawdown Prospectus.
- (i) *Publication:* The Calculation Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Paying Agents and each competent authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation as soon as practicable after such determination but (in the case of each Rate of Interest, Interest Amount and Interest Payment Date) in any event not later than the first day of the relevant Interest Period. Notice thereof shall also promptly be given to the Noteholders. The Calculation Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period. If the Calculation Amount is less than the minimum Specified Denomination the Calculation Agent shall not be obliged to publish each Interest Amount but instead may publish only the Calculation Amount and the Interest Amount in respect of a Note having the minimum Specified Denomination.
- (j) *Notifications etc:* All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 7 by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Paying Agents, the Noteholders and the Couponholders and (subject as aforesaid) no liability to any such Person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

8. **Zero Coupon Note Provisions**

- (a) *Application:* This Condition 8 is applicable to the Notes only if the Zero Coupon Note Provisions are specified in the relevant Final Terms or the relevant Drawdown Prospectus as being applicable.
- (b) *Late payment on Zero Coupon Notes:* If the Redemption Amount payable in respect of any Zero Coupon Note is improperly withheld or refused, the Redemption Amount shall thereafter be an amount equal to the sum of:
 - (i) the Reference Price; and
 - (ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price on the basis of the relevant Day Count Fraction from (and including) the Issue Date to (but excluding) whichever is the earlier of (A) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (B) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

9. **Redemption and Purchase**

- (a) *Scheduled redemption:* Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their Final Redemption Amount on the Maturity Date, subject as provided in Condition 10 (*Payments – Bearer Notes*).

- (b) *Redemption for tax reasons:* The Notes may be redeemed at the option of the Issuer in whole, but not in part:
- (i) at any time (if the Floating Rate Note Provisions are not specified in the relevant Final Terms or the relevant Drawdown Prospectus as being applicable); or
 - (ii) on any Interest Payment Date (if the Floating Rate Note Provisions are specified in the relevant Final Terms or the relevant Drawdown Prospectus as being applicable),

on giving not less than the minimum period nor more than the maximum period of notice specified in the relevant Final Terms or relevant Drawdown Prospectus to the Noteholders (which notice shall be irrevocable), at their Early Redemption Amount, together with interest accrued (if any) to the date fixed for redemption, if:

- (A) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 12 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the Slovak Republic or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the date of issue of the first Tranche of the Notes; and
- (B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided, however, that no such notice of redemption shall be given earlier than:

- (1) where the Notes may be redeemed at any time, 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due; or
- (2) where the Notes may be redeemed only on an Interest Payment Date, 60 days prior to the Interest Payment Date occurring immediately before the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due.

Prior to the publication of any notice of redemption pursuant to this Condition 9(b), the Issuer shall deliver to the Fiscal Agent (A) a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (B) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment. Upon the expiry of any such notice as is referred to in this Condition 9(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 9(b).

- (c) *Redemption at the option of the Issuer:* If the Call Option is specified in the relevant Final Terms or the relevant Drawdown Prospectus as being applicable, the Notes may be redeemed at the option of the Issuer in whole or, if so specified in the relevant Final Terms or the relevant Drawdown Prospectus, in part on any Optional Redemption Date (Call) at the relevant Optional Redemption Amount (Call) on the Issuer's giving not less than the minimum period nor more than the maximum period of the notice specified in the relevant Final Terms or relevant Drawdown Prospectus to the Noteholders (which notice shall be irrevocable and shall oblige the Issuer to redeem the Notes or, as the case may be, the Notes specified in such notice on the relevant Optional Redemption Date (Call) at the Optional Redemption Amount (Call) plus accrued interest (if any) to such date).
- (d) *Redemption at the option of the Issuer at the Make-Whole Amount:* If the Make-Whole Call Option is specified in the relevant Final Terms or the relevant Drawdown Prospectus as being applicable, the Notes may be redeemed at the option of the Issuer in whole or, if so specified in the relevant Final Terms or the relevant Drawdown Prospectus, in part on any date at the

relevant Make-Whole Amount on the Issuer's giving not less than the minimum period nor more than the maximum period of the notice specified in the relevant Final Terms or relevant Drawdown Prospectus to the Noteholders (which notice shall be irrevocable and shall oblige the Issuer to redeem the Notes or, as the case may be, the Notes specified in such notice on the relevant Optional Redemption Date (Make-Whole Call) at the Make-Whole Amount).

- (e) *Partial redemption:* If the Notes are to be redeemed in part only on any date in accordance with Condition 9(c) (*Redemption at the option of the Issuer*) or Condition 9(d) (*Redemption at the option of the Issuer at the Make-Whole Amount*), in the case of Bearer Notes, the Notes to be redeemed shall be selected by the drawing of lots in such place as the Fiscal Agent approves and in such manner as the Fiscal Agent considers appropriate, subject to compliance with applicable law, the rules of each competent authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation and the notice to Noteholders referred to in Condition 9(c) (*Redemption at the option of the Issuer*) or Condition 9(d) (*Redemption at the option of the Issuer at the Make-Whole Amount*) shall specify the serial numbers of the Notes so to be redeemed, and, in the case of Registered Notes, each Note shall be redeemed in part in the proportion which the aggregate principal amount of the outstanding Notes to be redeemed on the relevant Optional Redemption Date (Call) or Optional Redemption Date (Make-Whole Call) (as applicable) bears to the aggregate principal amount of outstanding Notes on such date. If any Maximum Redemption Amount or Minimum Redemption Amount is specified in the relevant Final Terms or the relevant Drawdown Prospectus, then the Optional Redemption Amount (Call) shall in no event be greater than the maximum or be less than the minimum so specified.
- (f) *Redemption at the option of Noteholders:* If the Put Option is specified in the relevant Final Terms or the relevant Drawdown Prospectus as being applicable, the Issuer shall, at the option of the Holder of any Note redeem such Note on the Optional Redemption Date (Put) specified in the relevant Put Option Notice at the relevant Optional Redemption Amount (Put) together with interest (if any) accrued to such date. In order to exercise the option contained in this Condition 9(f), the Holder of a Note must, not less than the minimum period nor more than the maximum period of notice specified in the relevant Final Terms or relevant Drawdown Prospectus before the relevant Optional Redemption Date (Put), deposit with any Paying Agent such Note together with all unmatured Coupons relating thereto and a duly completed Put Option Notice in the form obtainable from any Paying Agent. The Paying Agent with which a Note is so deposited shall deliver a duly completed Put Option Receipt to the depositing Noteholder. No Note, once deposited with a duly completed Put Option Notice in accordance with this Condition 9(f), may be withdrawn; *provided, however, that* if, prior to the relevant Optional Redemption Date (Put), any such Note becomes immediately due and payable or, upon due presentation of any such Note on the relevant Optional Redemption Date (Put), payment of the redemption moneys is improperly withheld or refused, the relevant Paying Agent shall mail notification thereof to the depositing Noteholder at such address as may have been given by such Noteholder in the relevant Put Option Notice and shall hold such Note at its Specified Office for collection by the depositing Noteholder against surrender of the relevant Put Option Receipt. For so long as any outstanding Note is held by a Paying Agent in accordance with this Condition 9(f), the depositor of such Note and not such Paying Agent shall be deemed to be the Holder of such Note for all purposes.
- (g) *Redemption on Change of Control:* If so specified in the relevant Final Terms or the relevant Drawdown Prospectus as being applicable, if at any time while any Note remains outstanding, either of the following events shall occur (each, as applicable, a “**Put Event**”):
 - (i) a Change of Control occurs and, if at the start of the Change of Control Period the Notes are rated by any Rating Agency, a Rating Downgrade in respect of that Change of Control occurs within such Change of Control Period; or
 - (ii) a Change of Control occurs and, on the occurrence of the Change of Control, either the Issuer, the Programme or the Notes are not rated by any Rating Agency,

then the Holder of each Note will have the option (the “**Put Option**”) (unless, prior to the giving of the Change of Control Put Event Notice (as defined below), the Issuer gives notice of its intention to redeem the Notes under Condition 9(b) (*Redemption for tax reasons*) to require the Issuer to redeem or, at the Issuer’s option, to purchase or procure the purchase of that Note on the Change of Control Optional Redemption Date (as defined below), at its principal amount together with (or, where purchased, together with an amount equal to) accrued interest up to but excluding the Change of Control Optional Redemption Date.

For the purposes of this Condition 9(g):

A “**Change of Control**” shall be deemed to have occurred if the Slovak Republic ceases to hold, directly or indirectly at least 50 per cent. plus one share of the ordinary shares of the Issuer;

“**Change of Control Period**” means the period (i) commencing on the date of the first public announcement of the relevant Change of Control and (ii) ending on the date which is 120 days after the date of the first public announcement (such 120th day, the “**Initial Longstop Date**”); *provided that*, unless any other Rating Agency has on or prior to the Initial Longstop Date effected a Rating Downgrade in respect of its rating of the Notes, if a Rating Agency publicly announces, at any time during the period commencing on the date which is 60 days prior to the Initial Longstop Date and ending on the Initial Longstop Date, that it has placed its rating of the Notes under consideration for rating review either entirely or partially as a result of the relevant public announcement of the Change of Control, the Change of Control Period shall be extended to the date which falls 60 days after the date of such public announcement by such Rating Agency;

“**Rating Agency**” means any of the following: (i) Fitch Ratings Limited, Moody’s Investors Service Limited or Standard & Poor’s Credit Market Services Europe Limited; or (ii) any other rating agency of equivalent international standing specified and instructed from time to time by the Issuer, and, in each case, their respective successors or affiliates; a “**Rating Downgrade**” shall be deemed to have occurred in respect of a Change of Control if, within the Change of Control Period, the rating previously assigned to the Notes, the Issuer or the Programme by any Rating Agency is (A) withdrawn or (B) changed from an investment grade rating (BBB-/Baa3, or their respective equivalents for the time being, or better) to a non-investment grade rating (BB+/Ba1, or their respective equivalents for the time being, or worse) or (C) if such rating previously assigned to the Notes by any Rating Agency was below an investment grade rating (as described above), lowered by at least one full rating notch (for example, from BB+ to BB or their respective equivalents); and

Promptly upon the Issuer becoming aware that a Change of Control Put Event has occurred, the Issuer shall give notice (a “**Change of Control Put Event Notice**”) to the Noteholders in accordance with Condition 19 (*Notices*) specifying the nature of the Put Event and the circumstances giving rise to it and the procedure for exercising the Change of Control Put Option contained in this Condition 9(g).

To exercise the Put Option, the Noteholder must deposit any applicable Note, together with each unmatured Coupon relating thereto (if any), to the account of any Paying Agent for the account of the Issuer within the period (the “**Change of Control Put Period**”) of 30 days after the day on which the Change of Control Put Event Notice is given, together with a duly signed and completed Put Option Notice in the form (for the time being current and substantially in the form set out in the Agency Agreement) obtainable from the specified office of any Agent.

Subject to the deposit of any such Notes to the account of an Agent for the account of the Issuer as described above, the Issuer shall redeem the Notes in respect of which the Change of Control Put Option has been validly exercised as provided above on the date which is the fifth business day following the end of the Change of Control Put Period (the “**Change of Control Optional Redemption Date**”). The Agent to whom a Note has been so deposited shall deliver a duly Put Option Receipt to the depositing Noteholder. No Note, once so deposited

with a duly completed Put Option Notice in accordance with this Condition 9(g), may be withdrawn; *provided, however, that* if, prior to the relevant Change of Control Optional Redemption Date, any such Note becomes immediately due and payable or, upon due presentation of any such Note on or prior to the end of the Change of Control Put Period, payment of the redemption moneys is improperly withheld or refused on the relevant Change of Control Optional Redemption Date, the relevant Agent shall mail notification thereof to the depositing Noteholder at such address as may have been given by such Noteholder in the relevant Put Option Notice and shall hold such Note at its Specified Office for collection by the depositing Noteholder against surrender of the relevant Put Option Receipt. For so long as any outstanding Note is held by an Agent in accordance with this Condition 9(g), the depositor of such Note and not such Agent shall be deemed to be the holder of the Note for all purposes.

If 80 per cent. or more in nominal amount of the Notes then outstanding have been redeemed or purchased pursuant to the foregoing provisions of this Condition 9(g), the Issuer may, on not less than 30 nor more than 60 days' notice to the Noteholders given within 30 days after the Change of Control Put Period, redeem or purchase, at its option, the remaining Notes as a whole (but not some only) at a cash purchase price equal to 100 per cent. of the principal amount thereof together with interest accrued to but excluding the date of redemption or purchase, as the case may be.

- (h) *No other redemption:* The Issuer shall not be entitled to redeem the Notes otherwise than as provided in Conditions 9(a) (*Scheduled redemption*) to 9(g) (*Redemption on Change of Control*) above.
- (i) *Early redemption of Zero Coupon Notes:* Unless otherwise specified in the relevant Final Terms or the relevant Drawdown Prospectus, the Redemption Amount payable on redemption of a Zero Coupon Note at any time before the Maturity Date shall be an amount equal to the sum of:
 - (i) the Reference Price; and
 - (ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which the Note becomes due and payable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the Final Terms or the relevant Drawdown Prospectus for the purposes of this Condition 9(i) or, if none is so specified, a Day Count Fraction of 30E/360.

- (j) *Purchase:* The Issuer or any of its Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price, *provided that* all unmatured Coupons are purchased therewith. Such notes may be held, reissued, resold or, at the option of the Issuer or surrendered to any Agent for cancellation.
- (k) *Cancellation:* All Notes which are redeemed and any unmatured Coupons attached to or surrendered with them shall be cancelled and may not be reissued or resold.

10. **Payments – Bearer Notes**

This Condition 10 is only applicable to Bearer Notes.

- (a) *Principal:* Payments of principal shall be made only against presentation and (*provided that* payment is made in full) surrender of Bearer Notes at the Specified Office of any Paying Agent outside the United States by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency.

- (b) *Interest*: Payments of interest shall, subject to Condition 10(h) (*Payments other than in respect of matured Coupons*) below, be made only against presentation and (*provided that* payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph Condition 10(a) (*Principal*) above.
- (c) *Payments in New York City*: Payments of principal or interest may be made at the Specified Office of a Paying Agent in New York City if (i) the Issuer has appointed Paying Agents outside the United States with the reasonable expectation that such Paying Agents will be able to make payment of the full amount of the interest on the Notes in the currency in which the payment is due when due, (ii) payment of the full amount of such interest at the offices of all such Paying Agents is illegal or effectively precluded by exchange controls or other similar restrictions and (iii) payment is permitted by applicable United States law.
- (d) *Payments subject to fiscal laws*: all payments in respect of the Bearer Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 12 (*Taxation*) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the “**Code**”) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 12 (*Taxation*)) any law implementing an intergovernmental approach thereto.
- (e) *Deductions for unmatured Coupons*: If the relevant Final Terms or the relevant Drawdown Prospectus specifies that the Fixed Rate Note Provisions are applicable and a Bearer Note is presented without all unmatured Coupons relating thereto:
 - (i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; *provided, however, that* if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;
 - (ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:
 - (A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the “**Relevant Coupons**”) being equal to the amount of principal due for payment; *provided, however, that* where this Condition 10(e)(ii)(A) would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and
 - (B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; *provided, however, that*, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in Condition 10(a) (*Principal*) above against presentation and (*provided that* payment is made in full) surrender of the relevant missing Coupons.

- (f) *Unmatured Coupons void*: If the relevant Final Terms or the relevant Drawdown Prospectus specifies that this Condition 10(f) is applicable or that the Floating Rate Note Provisions are applicable, on the due date for final redemption of any Note or early redemption in whole of such Note pursuant to Condition 9(b) (*Redemption for tax reasons*), Condition 9(f) (*Redemption at the option of Noteholders*), Condition 9(c) (*Redemption at the option of the Issuer*), Condition 9(g) (*Redemption on Change of Control*) or Condition 13 (*Events of Default*), all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.
- (g) *Payments on business days*: If the due date for payment of any amount in respect of any Bearer Note or Coupon is not a Payment Business Day in the place of presentation, the Holder shall not be entitled to payment in such place of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.
- (h) *Payments other than in respect of matured Coupons*: Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Bearer Notes at the Specified Office of any Paying Agent outside the United States (or in New York City if permitted by paragraph (c) above).
- (i) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Bearer Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.
- (j) *Exchange of Talons*: On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a Coupon Sheet relating to the Bearer Notes, the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Fiscal Agent for a further Coupon Sheet (including, if appropriate, a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 14 (*Prescription*)). Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

11. **Payments – Registered Notes**

This Condition 11 is only applicable to Registered Notes.

- (a) *Principal*: Payments of principal shall be made by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.
- (b) *Interest*: Payments of interest shall be made by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.
- (c) *Payments subject to fiscal laws*: Save as provided in Condition 12 (*Taxation*), all payments in respect of the Registered Notes are subject in all cases (i) to any applicable fiscal or other laws and regulations in the place of payment, and the Issuer will not be liable for any taxes or duties of whatever nature imposed by such laws, regulations or agreements and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

- (d) *Payments on business days:* Where payment is to be made by transfer to an account, payment instructions (for value the due date, or, if the due date is not Payment Business Day, for value the next succeeding Payment Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Registered Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a Payment Business Day or (B) a cheque mailed in accordance with this Condition 11 arriving after the due date for payment or being lost in the mail.
- (e) *Partial payments:* If a Paying Agent makes a partial payment in respect of any Registered Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.
- (f) *Record date:* Each payment in respect of a Registered Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Registered Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

12. **Taxation**

- (a) *Gross up:* All payments of principal and interest in respect of the Notes and the Coupons by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Slovak Republic or any political subdivision therein or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments, or governmental charges is required by law. In that event, the Issuer shall pay such additional amounts as will result in receipt by the Noteholders and the Couponholders after such withholding or deduction of such amounts as would have been receivable by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note or Coupon:
 - (i) presented for payment in the Slovak Republic; or
 - (ii) held by or on behalf of a Holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Note or Coupon; or
 - (iii) where the relevant Note or Coupon or Note Certificate is presented or surrendered for payment more than 30 days after the Relevant Date except to the extent that the Holder of such Note or Coupon would have been entitled to such additional amounts on presenting or surrendering such Note or Coupon or Note Certificate for payment on the last day of such period of 30 days.
- (b) *Taxing jurisdiction:* If the Issuer becomes subject at any time to any taxing jurisdiction other than the Slovak Republic, references in these Conditions to the Slovak Republic shall be construed as references to the Slovak Republic and/or such other jurisdiction.

13. Events of Default

If any of the following events occur:

- (a) *Non-payment*: the Issuer fails to pay any amount of principal in respect of the Notes or fails to pay any amount of interest in respect of the Notes within seven days of the due date for payment thereof; or
- (b) *Breach of other obligations*: the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Notes and such default remains unremedied for 45 days after written notice thereof, addressed to the Issuer by any Noteholder, has been delivered to the Issuer or to the Specified Office of the Fiscal Agent; or
- (c) *Cross Default of Issuer or Material Subsidiary*:
 - (i) any Indebtedness of the Issuer or any of its Material Subsidiaries is not paid when due or (as the case may be) within any applicable grace period;
 - (ii) any such Indebtedness becomes, or becomes capable of being declared, due and payable prior to its stated maturity as a result of an event of default under such Indebtedness and otherwise than at the option of the Issuer or (as the case may be) the relevant Material Subsidiary or (*provided that* no event of default, howsoever described, has occurred) any Person entitled to such Indebtedness; or
 - (iii) the Issuer or any of its Material Subsidiaries fails to pay when due any amount payable by it under any Guarantee of any Indebtedness;

provided that no event in this Condition 13(c) shall constitute an Event of Default unless the amount of Indebtedness and/or the amount payable under any Guarantee, individually or when aggregated (without duplication) with any other Indebtedness or amount payable under any Guarantee as a result of any other event specified in this Condition 13(c) exceeds EUR 25,000,000 (or its equivalent in any other currency or currencies);

- (d) *Unsatisfied judgment*: one or more judgment(s) or order(s) for the payment of any amount aggregate amount in excess of EUR 25,000,000 (or its equivalent in any other currency or currencies) is rendered against the Issuer or any of its Material Subsidiaries and continue(s) unsatisfied and unstayed for a period of 45 days after the date(s) thereof or, if later, the date therein specified for payment; or
- (e) *Security enforced*: a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or any part of the undertaking, assets and revenues of the Issuer or any of its Material Subsidiaries in an amount in excess of EUR 25,000,000; or
- (f) *Insolvency etc*: (i) the Issuer or any of its Material Subsidiaries becomes insolvent or is unable to pay its debts as they fall due, (ii) an administrator or liquidator is appointed (or an application for any such appointment is made by or with the consent of the Issuer) in respect of the Issuer or any of its Material Subsidiaries, (iii) the Issuer or any of its Material Subsidiaries takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its Indebtedness or any Guarantee of any Indebtedness given by it or (iv) the Issuer or any of its Material Subsidiaries ceases or threatens to cease to carry on all or any substantial part of its business (otherwise than, in the case of a Material Subsidiary of the Issuer, for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent); or
- (g) *Winding up etc*: an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer or any of its Material Subsidiaries (otherwise than, in the case of a Material Subsidiary of the Issuer, for the purposes of or pursuant to an amalgamation, consolidation reorganisation or restructuring whilst solvent); or

- (h) *Analogous event*: any event occurs which under the laws of the Slovak Republic has an analogous effect to any of the events referred to in Conditions 13(d) (*Unsatisfied judgment*) to 13(g) (*Winding up etc*) above; or
- (i) *Failure to take action etc*: any action, condition or thing at any time required to be taken, fulfilled or done in order (i) to enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under and in respect of the Notes, (ii) to ensure that those obligations are legal, valid, binding and enforceable and (iii) to make the Notes and the Coupons admissible in evidence in the courts of the Slovak Republic is not taken, fulfilled or done; or
- (j) *Unlawfulness etc.*: it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Notes or the Issuer asserts that it is not obliged to perform or comply with any of its obligations under or in respect of the Notes,

then any Note may, by written notice addressed by the Holder thereof to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent, be declared immediately due and payable, whereupon it shall become immediately due and payable at Early Redemption Amount together with accrued interest (if any) without further action or formality.

14. **Prescription**

Claims for principal in respect of Bearer Notes shall become void unless the relevant Bearer Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest in respect of Bearer Notes shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date. Claims for principal and interest on redemption in respect of Registered Notes shall become void unless the relevant Note Certificates are surrendered for payment within ten years of the appropriate Relevant Date.

15. **Replacement of Notes and Coupons**

If any Note, Note Certificate or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Fiscal Agent, in the case of Bearer Notes, or the Registrar, in the case of Registered Notes (and, if the Notes are then admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent or Transfer Agent in any particular place, the Paying Agent or Transfer Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system), subject to all applicable laws and competent authority, stock exchange and/or quotation system requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes, Note Certificates or Coupons must be surrendered before replacements will be issued.

16. **Agents**

In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Agents act solely as agents of the Issuer and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

The initial Agents and their initial Specified Offices are listed below. The initial Calculation Agent (if any) is specified in the relevant Final Terms or the relevant Drawdown Prospectus.

The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint a successor fiscal agent or registrar or Calculation Agent and additional or successor paying agents; *provided, however, that*:

- (a) the Issuer shall at all times maintain a fiscal agent and a registrar; and
- (b) there will at all times be a paying agent in a jurisdiction within Europe other than the jurisdiction in which the Issuer is incorporated; and

- (c) if a Calculation Agent is specified in the relevant Final Terms or the relevant Drawdown Prospectus, the Issuer shall at all times maintain a Calculation Agent; and
- (d) if and for so long as the Notes are admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent and/or a Transfer Agent in any particular place, the Issuer shall maintain a Paying Agent and/or a Transfer Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders.

17. Meetings of Noteholders; Modification and Substitution

- (a) *Meetings of Noteholders:* The Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer and shall be convened by them upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more Persons holding or representing one more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more Persons being or representing Noteholders whatever the principal amount of the Notes held or represented; *provided, however, that* Reserved Matters may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more Persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

In addition, consent given by way of electronic consents through the relevant clearing system(s) (in a form satisfactory to the Fiscal Agent) by or on behalf of the holders of not less than three-quarters in nominal amount of the Notes for the time being outstanding will take effect as if it were an Extraordinary Resolution.

- (b) *Modification:* The Notes, these Conditions and the Deed of Covenant may be amended without the consent of the Noteholders or the Couponholders to correct a manifest error. In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error or it is, in the opinion of such parties, not materially prejudicial to the interests of the Noteholders.
- (c) *Substitution:* The Issuer (or any Substitute Debtor in accordance with this Condition 17) may, without the consent of the Holders, at any time (*provided that* no payment in respect of any of the Notes is overdue), substitute for the Issuer as principal debtor in respect of all obligations arising from or in connection with the Notes (the “**Substitute Debtor**”) *provided that:*
 - (i) the Substitute Debtor assumes all obligations of the Issuer in respect of the Notes;
 - (ii) the Substitute Debtor has obtained all necessary authorisations and may transfer to the Fiscal Agent in the currency required hereunder and without being obligated to deduct or withhold any taxes or other duties of whatever nature levied by the country in which the Substitute Debtor or the Issuer has its domicile or tax residence, all amounts required for the fulfilment of the payment obligations arising under the Notes;

- (iii) ZSE irrevocably and unconditionally guarantees substantially in the form appended to the Agency Agreement (the “**Guarantee**”), in favour of each Holder, the payment of all sums payable by the Substitute Debtor in respect of the Notes, and agrees to indemnify each Holder against any tax, duty, assessment or governmental charge which is imposed on such Holder with respect to any Note or the Deed of Covenant and which would not have been so imposed had the substitution not been made, as well as against any tax, duty, assessment or governmental charge, and any cost or expense, relating to the substitution;
 - (iv) all actions, conditions and things required to be undertaken, fulfilled and done (including any necessary consents) to ensure that the Notes and the Deed of Covenant represent valid, legally binding and enforceable obligations of the Substitute Debtor, and that the Guarantee represents the valid, legally binding and enforceable obligation of ZSE, have been taken, fulfilled and done and are in full force and effect;
 - (v) the Substitute Debtor shall have become party to the Agency Agreement, with any necessary consequential amendments, as if it had been an original party to it;
 - (vi) there shall have been delivered to the Fiscal Agent one legal opinion for each of the jurisdictions of the Issuer and the Substitute Debtor, and each addressed to the Noteholders, from lawyers of recognised standing with a leading securities practice to the effect that subparagraphs (i) to (v) above have been satisfied; and
 - (vii) ZSE shall have given at least 14 days prior notice of such substitution (published in accordance with Condition 19 (*Notices*)) to the Holders and the Fiscal Agent, stating that all documentation in relation to the substitution that are referred to above, or which might otherwise be material to the Holders, will be available for inspection at the specified office of each Paying Agent.
- (d) *Change of References:* In the event of any such substitution:
- (i) any reference in these Terms and Conditions (other than in Conditions 12 (*Taxation*) and 13 (*Events of Default*)) to the Issuer shall from then on be deemed to refer to the Substitute Debtor;
 - (ii) references in Condition 9(b)(ii)(A) (*Redemption for tax reasons*) and Condition 12 (*Taxation*) to the Slovak Republic shall from then on be deemed to refer to both the Slovak Republic and the country of domicile or residence for taxation purposes of the Substitute Debtor;
 - (iii) references in Conditions 12 (*Taxation*) and 13 (*Events of Default*) to obligations in respect of the Notes shall be deemed to include obligations under the Guarantee;
 - (iv) references in Conditions 12 (*Taxation*) and 13 (*Events of Default*) to the Issuer, shall from then on be deemed to refer to both the Substitute Debtor and to ZSE; and
 - (v) the events listed in Condition 13 (*Events of Default*) shall be deemed to include the Guarantee not being (or claimed by ZSE not to be) in full force and effect.

By subscribing to, acquiring or otherwise purchasing the Notes, the holders of the Notes expressly consent to the substitution of such Issuer and to the release of such Issuer from any and all obligations in respect of the Notes and any relevant agreements and are expressly deemed to have accepted such substitution and the consequences thereof.

18. **Further Issues**

The Issuer may from time to time, without the consent of the Noteholders or the Couponholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes.

19. Notices

- (a) *Bearer Notes*: Notices to the Holders of Bearer Notes shall be valid if published in a leading English language daily newspaper published in London (which is expected to be the *Financial Times*) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of first publication (or if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers). Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Holders of Bearer Notes.
- (b) *Registered Notes*: Notices to the Holders of Registered Notes shall be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the fourth day after the date of mailing.

20. Rounding

For the purposes of any calculations referred to in these Conditions (unless otherwise specified in these Conditions or the relevant Final Terms or the relevant Drawdown Prospectus), (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.), (b) all United States dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up) and (c) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

21. Governing Law and Jurisdiction

- (a) *Governing law*: The Notes and any non-contractual obligations arising out of or in connection with the Notes are governed by English law.
- (b) *English courts*: The courts of England have exclusive jurisdiction to settle any dispute (a “**Dispute**”) arising out of or in connection with the Notes (including any non-contractual obligation arising out of or in connection with the Notes).
- (c) *Appropriate forum*: The Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.
- (d) *Rights of the Noteholders to take proceedings outside England*: Condition 21(b) (*English courts*) is for the benefit of the Noteholders only. As a result, nothing in this Condition 21 prevents any Noteholder from taking proceedings relating to a Dispute (“**Proceedings**”) in any other courts with jurisdiction. To the extent allowed by law, Noteholders may take concurrent Proceedings in any number of jurisdictions.
- (e) *Service of process*: The Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Law Debenture Corporate Services Limited at Fifth Floor, 100 Wood Street, London EC2V 7EX, United Kingdom or to such other person with an address in England or Wales and/or at such other address in England or Wales as the Issuer may specify by notice in writing to the Noteholders. Nothing in this Condition 21(e) shall affect the right of any Noteholder to serve process in any other manner permitted by law. This Condition 21(e) applies to Proceedings in England and to Proceedings elsewhere.
- (f) *Consent to enforcement etc*: The Issuer consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment which is made or given in such Proceedings.

- (g) *Waiver of immunity:* To the extent that the Issuer may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer or its assets or revenues, the Issuer agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

FORM OF FINAL TERMS

The Final Terms in respect of each Tranche of Notes will be in the following form completed to reflect the particular terms of the relevant Notes and their issue.

[MIFID II product governance / Professional investors and ECPs only target market – Solely for the purposes of [the/each] manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, “**MiFID II**”); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the manufacturer[s/s] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer[s/s] target market assessment) and determining appropriate distribution channels.]

[PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (“**MiFID II**”); (ii) a customer within the meaning of Directive 2002/92/EC (“**IMD**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the “**Prospectus Directive**”). Consequently no key information document required by Regulation (EU) No 1286/2014 (the “**PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]¹

Final Terms dated [●]

ZÁPADOSLOVENSKÁ ENERGETIKA, A.S.

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]

EUR 1,000,000,000

Euro Medium Term Note Programme

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “**Conditions**”) set forth in the Base Prospectus dated 15 February 2018 [and the supplement[s] to it dated [date] [and [date]]] which [together] constitute[s] a base prospectus (the “**Base Prospectus**”) for the purposes of the Prospectus Directive. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus. Full information on the Issuer and the offer of the Notes described herein is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus has been published on [website].

[Include whichever of the following apply or specify as “Not Applicable”. Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or subparagraphs (in which case the subparagraphs of the paragraphs which are not applicable can be deleted). Italics denote directions for completing the Final Terms.]

¹ Legend to be included on front of the Final Terms for offers where the Notes potentially constitute “packaged” products or the issuer wishes to prohibit offers to EEA retail investors for any other reason, in which case the selling restriction should be specified to be “Applicable”

[If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination may need to be £100,000 or its equivalent in any other currency.]

1. Issuer: []
 2. (i) Series Number: []
 - (ii) Tranche Number: []
 - (iii) Date on which the Notes will be consolidated and form a single Series: [The notes will be consolidated and form a single Series with *[identify earlier tranches]* on [the Issue Date/the date that is 40 days after the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph [24] below, which is expected to occur on or about] *[date]*][Not Applicable]
 3. Specified Currency or Currencies: []
 4. Aggregate Nominal Amount: []
 - (i) Series: []
 - (ii) Tranche: []
 5. Issue Price: [] per cent. of the Aggregate Nominal Amount [plus accrued interest from *[insert date]*] (if applicable)
 6. (i) Specified Denominations: []
- (N.B. Notes must have a minimum denomination of EUR 100,000 (or equivalent))*
- (Note – where Bearer multiple denominations above [EUR 100,000] or equivalent are being used the following sample wording should be followed:*
- “[EUR 100,000] and integral multiples of [EUR 1,000] in excess thereof up to and including [EUR 199,000]. No Notes in definitive form will be issued with a denomination above [EUR 199,000].”)*
- (ii) Calculation Amount: []
 7. (i) Issue Date: []
 - (ii) Interest Commencement Date: [*specify*/Issue Date/Not Applicable]
 8. Maturity Date: [*Specify date or for Floating Rate Notes – Interest Payment Date falling in or nearest to [specify month and year]*]
 9. Interest Basis: [[] per cent. Fixed Rate]
- [[] month [LIBOR]/[EURIBOR] +/- [] per cent. Floating Rate]
- [Zero Coupon]
- (further particulars specified below)

10. Redemption/Payment Basis: Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at [] per cent. of their nominal amount.
11. Change of Interest Basis *[Specify the date when any fixed to floating rate change occurs or cross refer to paragraphs 14 and 15 below and identify there]*[Not Applicable]
12. Put/Call Options: [Investor Put]
[Issuer Call]
[Change of Control Put]
(see paragraph [18]/[20]/[21] below)
[Not Applicable]
13. (i) Status of the Notes: Senior
(ii) Date [Board] approval for issuance [] of Notes obtained:

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

14. **Fixed Rate Note Provisions** [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph 14)
- (i) Rate[(s)] of Interest: [] per cent. per annum payable in arrear on each Interest Payment Date
- (ii) Interest Payment Date(s): [] in each year up to and including Maturity Date
(Amend appropriately in the case of irregular coupons)
- (iii) Fixed Coupon Amount[(s)]: [] per Calculation Amount
- (iv) Broken Amount(s): [[] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [] [Not Applicable]
- (v) Day Count Fraction: [Actual/Actual (ICMA)][Actual]/[Actual ISDA]
[Actual/365 (Fixed)]
[Actual/360]
[30/360]
[30E/360] [Eurobond basis]
[30E/360 (ISDA)]
- (vi) Determination Dates: [[] in each year] [Not Applicable]
(Only relevant where Day Count Fraction is Actual/Actual (ICMA). In such a case, insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon)

15.	Floating Rate Note Provisions	[Applicable]/[Not Applicable]
		<i>(If not applicable, delete the remaining subparagraphs of this paragraph 15)</i>
(i)	Interest Period(s):	[]
(ii)	Specified Period:	[]
(iii)	Specified Interest Payment Dates:	[] [, subject to adjustment in accordance with the Business Day Convention set out in subparagraph (v) below/, not subject to adjustment, as the Business Day Convention in subparagraph (v) below is specified to be Not Applicable]
(iv)	First Interest Payment Date:	[]
(v)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention/ Not Applicable]
(vi)	Additional Business Centre(s):	[Not Applicable]/[]
(vii)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination]/[ISDA Determination]
(viii)	Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Fiscal Agent):	[]
(ix)	Screen Rate Determination:	
	• Reference Rate:	[] month [LIBOR]/[EURIBOR]
	• Interest Determination Date(s):	[] <i>(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)</i>
	• Relevant Screen Page:	[] <i>(In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)</i>
	• Relevant Time:	[]
	• Relevant Financial Centre:	[]
(x)	ISDA Determination:	
	• Floating Rate Option:	[]
	• Designated Maturity:	[]
	• Reset Date:	[] <i>(In the case of a LIBOR or EURIBOR based option,</i>

the first day of the Interest Period)

- (xi) Linear Interpolation: [Not Applicable/Applicable – the Rate of interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (*specify for each short or long interest period*)]
- (xii) Margin(s): [+/-][] per cent. per annum
- (xiii) Minimum Rate of Interest: [] per cent. per annum
- (xiv) Maximum Rate of Interest: [] per cent. per annum
- (xv) Day Count Fraction: [Actual/Actual (ICMA)][Actual]/[Actual ISDA]]
[Actual/365 (Fixed)]
[Actual/360]
[30/360]
[30E/360] [Eurobond basis]
[30E/360 (ISDA)]

16. Zero Coupon Note Provisions

[Applicable]/[Not Applicable]

(If not applicable, delete the remaining subparagraphs of this paragraph)

- (i) Accrual Yield: [] per cent. per annum
- (ii) Reference Price: []
- (iii) Day Count Fraction in relation to Early Redemption Amounts: [30/360][Actual/360]

PROVISIONS RELATING TO REDEMPTION

- 17. Notice periods for Condition 9(b) *(Redemption for tax reasons)* Minimum period: [30] days
Maximum period: [60] days

18. Call Option

[Applicable] / [Not Applicable]

(If not applicable, delete the remaining subparagraphs of this paragraph 18)

- (i) Optional Redemption Date(s) (Call): []
- (ii) Optional Redemption Amount(s) (Call) [] per Calculation Amount
- (iii) If redeemable in part:
- (iv) Minimum Redemption Amount: [] per Calculation Amount
- (v) Maximum Redemption Amount [] per Calculation Amount
- (vi) Notice period: Minimum period [15] days
Maximum period [30] days

(N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 5

clearing system business days' notice for a call) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Fiscal Agent.)

19. **Make-Whole Call Option**

[Applicable] / [Not Applicable]

(If not applicable, delete the remaining subparagraphs of this paragraph 19)

- (i) Benchmark Security: []
- (ii) Benchmark Screen Page: []
- (iii) Make-Whole Margin: [] per cent. per annum
- (iv) Notice period: Minimum period [15] days
Maximum period [30] days

(N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 5 clearing system business days' notice for a call) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Fiscal Agent.)

20. **Put Option**

[Applicable]/[Not Applicable]

(If not applicable, delete the remaining subparagraphs of this paragraph 20)

- (i) Optional Redemption Date(s) (Put): []
- (ii) Optional Redemption Amount(s) (Put): [] per Calculation Amount
- (iii) Notice period: Minimum period [15] days
Maximum period [30] days

(N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 5 clearing system business days' notice for a call) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Fiscal Agent.)

21. **Change of Control Put Option**

[Applicable]/[Not Applicable]

22. **Final Redemption Amount**

[] per Calculation Amount

23. **Early Redemption Amount**

Early Redemption Amount(s) per Calculation Amount [] per Calculation Amount
Amount payable on redemption for tax

reasons or on event of default:

GENERAL PROVISIONS APPLICABLE TO THE NOTES

24. **Form of Notes:**

[Bearer Notes:

[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the circumstances specified in the Permanent Global Note]

[Temporary Global Note exchangeable for Definitive Notes on [] day's notice]

[Permanent Global Note exchangeable for Definitive Notes in the circumstances specified in the Permanent Global Note]

(N.B. The option for an issue of Notes to be represented on issue by a Temporary Global Note exchangeable for Definitive Notes should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph 6 above includes language substantially to the following effect: "EUR 100,000 and integral multiples of EUR 1,000 in excess thereof up to and including EUR 199,000.".)]

[Registered Notes:

[Global Registered Note exchangeable for Individual Note Certificates in the circumstances described in the Global Registered Note]

[Global Registered Note registered in the name of a nominee for [a common depositary for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg (that is, held under the New Safekeeping Structure (NSS)).]]

25. New Global Note:

[Yes] [No]

26. Additional Financial Centre(s):

[Not Applicable]/ [give details]

27. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):

[Yes, as the Notes have more than 27 coupon payments, Talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made]/[No.]

28. Consolidation provisions:

Not Applicable/The provisions in Condition 18 (*Further Issues*) apply

Signed on behalf of Západoslovenská energetika, a.s.:

By:

Duly authorised

By:

Duly authorised

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

- (i) Listing: [Irish Stock Exchange]/[●]
- (ii) Admission to trading: [Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the regulated market of the Irish Stock Exchange with effect from [●]. [Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the regulated market of the Irish Stock Exchange with effect from [●]].
- (iii) Estimate of total expenses related to [] admission to trading

2. RATINGS:

Ratings: [The Notes to be issued [have been]/[are expected to be] rated]/[The following ratings reflect ratings assigned to Notes of this type issued under the Programme generally]:

Fitch Ratings Limited: []

Standard & Poor's Credit Market Services Europe Limited: []

Moody's Investors Service Limited: []

[Other Rating Agencies: []]

A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Each of [] is established in the European Union and is included in the list of credit rating agencies registered in accordance with Regulation (EC) No. 1060/2009 on Credit Rating Agencies as amended by Regulation (EU) No. 513/2011 [(the “**CRA Regulation**”)]. [] is not included in the list of credit rating agencies registered in accordance with the CRA Regulation.]

(The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)

3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE/OFFER

[Save for any fees payable to the [Managers]/[Dealers], so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial

banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business – *Amend as appropriate if there are other interests*]

[(When adding any other description, consideration should be given as to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)]

4. **[YIELD (Fixed Rate Notes only)**

Indication of yield: []

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

5. **[HISTORIC INTEREST RATES (Floating Rate Notes only)**

Details of historic [LIBOR/EURIBOR] rates can be obtained from [Reuters].]

6. **OPERATIONAL INFORMATION**

(i) ISIN Code: []

(ii) Common Code: []

(iii) Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking S.A. and the relevant identification number(s): [Not Applicable] / []
[Address(es)]

(iv) Delivery: Delivery [against/free of] payment

(v) Names and addresses of additional Paying Agent(s) (if any): []

(vi) Name of Calculation Agent, if different from the Fiscal Agent: []

(vii) Intended to be held in a manner which would allow Eurosystem eligibility: [Yes. Note that the designation “yes” simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper [(and registered in the name of a nominee of one of the ICSDs acting as common safekeeper,)]*[include this text for registered notes]* and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

[No. Whilst the designation is specified as “no” at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper [(and registered in the name of a nominee of one of the ICSDs acting as common safekeeper)]*[include this text for registered*

notes]. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

7. **DISTRIBUTION**

- | | | |
|-------|---|--|
| (i) | Method of distribution: | [Syndicated/Non-syndicated] |
| (ii) | If syndicated, names of Managers: | [Not Applicable/give names] |
| (iii) | Date of [Subscription] Agreement: | [] |
| (iv) | Stabilisation Manager(s) (if any): | [Not Applicable/ <i>give name</i>] |
| (v) | If non-syndicated, name of relevant Dealer: | [Not Applicable/ <i>give name</i>] |
| (vi) | U.S. Selling Restrictions: | [Reg. S Compliance Category 2; TEFRA D/TEFRA C/TEFRA not applicable] |
| (vii) | Prohibition of Sales to EEA Retail Investors: | [Applicable/Not Applicable] |

(If the Notes clearly do not constitute “packaged” products, “Not Applicable” should be specified. If the Notes may constitute “packaged” products and no KID will be prepared, “Applicable” should be specified.)

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

Clearing System Accountholders

In relation to any Tranche of Notes represented by a Global Note in bearer form, references in the Terms and Conditions of the Notes to “Noteholder” are references to the bearer of the relevant Global Note which, for so long as the Global Note is held by a depositary or a common depositary, in the case of a CGN, or a common safekeeper, in the case of an NGN for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, will be that depositary or common depositary or, as the case may be, common safekeeper.

In relation to any Tranche of Notes represented by a Global Registered Note, references in the Terms and Conditions of the Notes to “Noteholder” are references to the person in whose name such Global Registered Note is for the time being registered in the Register which, for so long as the Global Registered Note is held by or on behalf of a depositary or a common depositary or a common safekeeper for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, will be that depositary or common depositary or common safekeeper or a nominee for that depositary or common depositary or common safekeeper.

Each of the persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Global Note or a Global Registered Note (each an “**Accountholder**”) must look solely to Euroclear and/or Clearstream, Luxembourg and/or such other relevant clearing system (as the case may be) for such Accountholder’s share of each payment made by the Issuer to the holder of such Global Note or Global Registered Note and in relation to all other rights arising under such Global Note or Global Registered Note. The extent to which, and the manner in which, Accountholders may exercise any rights arising under the Global Note or Global Registered Note will be determined by the respective rules and procedures of Euroclear and Clearstream, Luxembourg and any other relevant clearing system from time to time. For so long as the relevant Notes are represented by a Global Note or Global Registered Note, Accountholders shall have no claim directly against the Issuer in respect of payments due under the Notes and such obligations of the Issuer will be discharged by payment to the holder of such Global Note or Global Registered Note.

Conditions applicable to Global Notes

Each Global Note and Global Registered Note will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Global Note or Global Registered Note. The following is a summary of certain of those provisions:

Payments: All payments in respect of the Global Note or Global Registered Note which, according to the Terms and Conditions of the Notes, require presentation and/or surrender of a Note, Note Certificate or Coupon, will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Global Note or Global Registered Note to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Global Note, the Issuer shall procure that in respect of a CGN the payment is noted in a schedule thereto and in respect of an NGN the payment is entered pro rata in the records of Euroclear and Clearstream, Luxembourg.

Payment Business Day: In the case of a Global Note or a Global Registered Note, the Payment Business Day shall be, if the currency of payment is euro, any day which is a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or, if the currency of payment is not euro, any day which is a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre.

Payment Record Date: Each payment in respect of a Global Registered Note will be made to the person shown as the Holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the “**Record Date**”) where “**Clearing System Business Day**” means a day on which each clearing system for which the Global Registered Note is being held is open for business.

Exercise of put option: In order to exercise the option contained in Condition 9(f) (*Redemption at the option of Noteholders*) the bearer of the Permanent Global Note or the holder of a Global Registered Note must, within the period specified in the Conditions for the deposit of the relevant Note and put notice, give written notice of such exercise to the Fiscal Agent specifying the principal amount of Notes in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

Partial exercise of call option: In connection with an exercise of the option contained in Condition 9(c) (*Redemption at the option of the Issuer*) in relation to some only of the Notes, the Permanent Global Note or Global Registered Note may be redeemed in part in the principal amount specified by the Issuer in accordance with the Conditions and the Notes to be redeemed will not be selected as provided in the Conditions but in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in principal amount, at their discretion).

Notices: Notwithstanding Condition 19 (*Notices*), while all the Notes are represented by a Permanent Global Note (or by a Permanent Global Note and/or a Temporary Global Note) or a Global Registered Note and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are), or the Global Registered Note is, deposited with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system or a common safekeeper, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 19 (*Notices*) on the date of delivery to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

USE OF PROCEEDS

The net proceeds of each issuance will be used for general corporate purposes of the Issuer or any member of the Group.

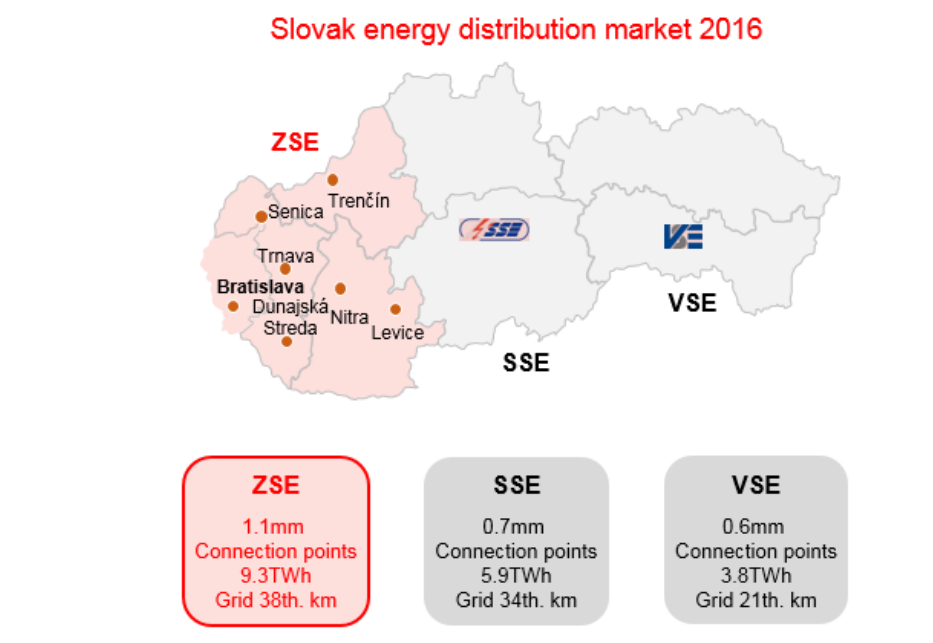
DESCRIPTION OF THE ISSUER

Introduction

The Issuer is the holding company of a group of companies (the “**Group**”) which are principally engaged in the regional distribution of electricity. The Group is also a dominant regional supplier of electricity in the Slovak Republic and also operates in the gas supply market. The Group owns the power distribution network in western Slovakia and is the largest power distributor in the Slovak Republic in terms of number of customers and volume of electricity distributed. ZSE is also the largest electricity supplier in Slovakia by total volume of electricity supplied.

ZSE is a private joint-stock company which is 51 per cent. owned by the Slovak Republic and 49 per cent. owned by E.ON group companies.

The Group operates approximately 38,000 km of power lines and over 8,000 transformer stations (including 58 high-to-medium voltage transformer stations and 8,100 medium-to-low voltage transformer stations). In 2017, approximately 9.7 TWh of electricity was distributed through its distribution network to customers. The Group is the monopoly electricity distributor and dominant electricity supplier in its distribution area of western Slovakia which includes the capital city, Bratislava, and approximately half of the Slovak population. The western region covers approximately 15,000 km² and has approximately 2.5 million inhabitants. The following map shows the Group’s distribution area as well as the areas of other Slovak regional distribution network operators:



Source: Based on data for 2016 disclosed by the relevant distribution system operators.

The Group is not involved in the electricity transmission business, which remains controlled by the state- owned national grid operator, and has no significant electricity generation capacities. For further details on the Slovak electricity and gas market, see “—*Competition*”.

The Group’s activities are almost exclusively focused on the Slovak market. The Slovak Republic joined the Eurozone in 2008. GDP grew (in real terms) by 2.8 per cent. in 2014 (EU28 average was 1.8 per cent.), by 3.9 per cent. in 2015 (EU28 average was 2.3 per cent.) and by 3.3 per cent. in 2016 (EU28 average was 2.0 per cent.). The main driver of the Slovak Republic’s economy has been the expansion of its export capacity and relatively mild fiscal consolidation. Slovak public debt reached 51.8 per cent. of GDP as of the end of 2016 (EU28 average was 83.2 per cent.). The budget deficit was 2.2 per cent. of GDP in 2016 and

2.7 per cent. in 2015, slightly above the EU28 averages of 1.70 and 2.4 per cent, respectively. The budget deficit is expected to reach 1.0 per cent. of GDP in 2018 compared to 1.6 per cent. forecasted for 2017 (in each case well below the 3.0 per cent. ceiling for member of the European Monetary Union).² The Slovak Republic is rated A+ with a stable outlook by S&P, A2 with a positive outlook by Moody's and A+ with a stable outlook by Fitch.

ZSE's principal wholly-owned subsidiaries, which were established in 2006 to meet EU unbundling requirements, are:

- Západoslovenská distribučná, a.s. ("**Západoslovenská distribučná**") which operates the electricity distribution network in western Slovakia and generates the majority of ZSE's profit; and
- ZSE Energia, a.s. ("**ZSE Energia**") which supplies power and gas mainly in western Slovakia and is the largest electricity supplier in the Slovak Republic by total volume of electricity supplied.

ZSE is incorporated under Slovak law and government resolution No. 4278/2001-1000-010 of 20 June 2001 on the privatisation of Západoslovenské energetické závody, š.p. and is registered with the Commercial Register of the District Court Bratislava I, Section: Sa, Insert No. 2852/B. ZSE's company identification number is 35 823 551 and its registered office is at Čulenova 6, 816 47 Bratislava. Its telephone number is +421 2 5061 4010.

History

ZSE is a successor of Západoslovenské energetické závody, š.p., which was in turn a successor of the business operated in the current area of Western Slovakia by Západoslovenská Elektrárna that was established in 1922. ZSE was incorporated on 1 November 2001 as a new joint-stock company after Západoslovenské energetické závody, š.p. was wound up on solvent basis on 31 October 2001. Most of the assets and liabilities of the prior state enterprise were contributed to the registered capital of ZSE and recorded by ZSE at historic carrying values.

E.ON Energie AG ("**E.ON Energie**") acquired a 49 per cent. stake in ZSE on 5 September 2002. The following year, the European Bank for Reconstruction and Development purchased a 9 per cent. stake in ZSE from E.ON Energie which it sold back to E.ON Energie on 21 August 2012. The current 49 per cent. stake of E.ON Group in ZSE is owned by E.ON Slovensko, a.s. (39 per cent.) and E.ON Beteiligungen GmbH (10 per cent.).

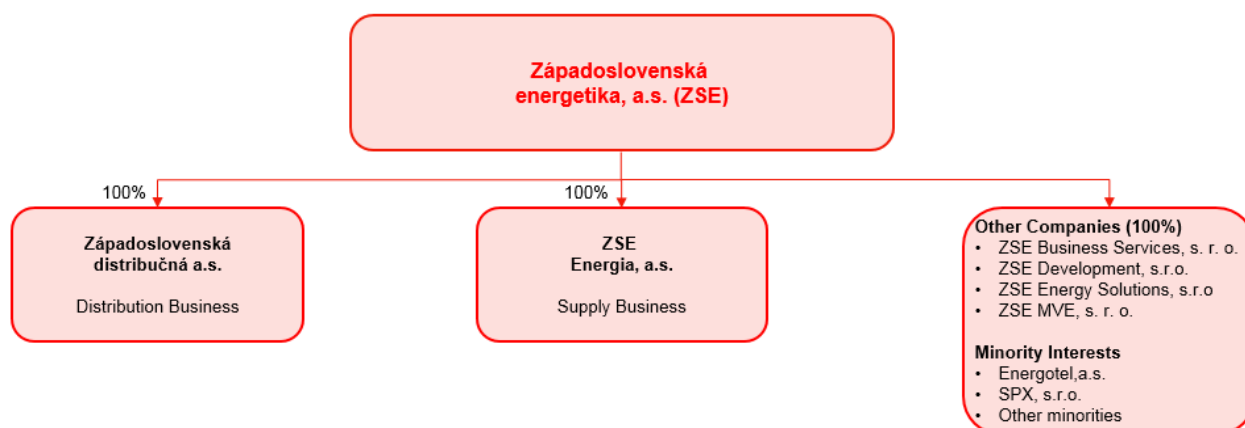
In order to comply with EU unbundling requirements, the distribution operations of ZSE were transferred to Západoslovenská distribučná and its electricity supply operations were transferred to ZSE Energia on 1 July 2007.

Structure of the Group

The Group comprises ZSE (as a service and holding company), two main subsidiaries engaged in the distribution and supply businesses and a number of smaller subsidiaries which are not material in terms of EBITDA.

ZSE is the holding company of the Group as well as the provider of shared services such as accounting, controlling and human resources for certain of its subsidiaries and other affiliated companies. As of 1 January 2015, the customer service centres have been allocated directly to Západoslovenská distribučná and ZSE Energia. Since 31 December 2015, the IT services have been insourced and operated directly by Západoslovenská distribučná and ZSE Energia. Západoslovenská distribučná also became an intragroup provider of selected IT services to all entities of the Group. On 1 January 2018, shared services such as billing, telco support services, health and safety services, facility management and quality and system support were transferred to Západoslovenská distribučná and ZSE Energia.

² Source: Eurostat.



Notes:

1. The shareholders of ZSE MVE, s. r. o. are ZSE (89 per cent.) and ZSE Energia (11 per cent.).
2. ZSE Energia is 100 per cent. shareholder of ZSE Energia CZ, s.r.o. which is an entity with no material transactions and therefore not depicted on the diagram above.

Strategy

The Group's strategy is aimed at supporting the core business, including electricity distribution and sales, the strategies of which are functionally decentralised in subsidiary companies. The Group's strategic plans and objectives fully endorse the strategy of E.ON Group especially in the area of energy networks and individual customer solutions.

Strategy of the Distribution Business

The main objective of Západoslovenská distribučná is to ensure the safe and reliable operation of the electricity distribution system at prices that provide an attractive return for shareholders.

As the majority of Západoslovenská distribučná's revenue is generated through regulated activities, the company intends to continue to take a proactive approach to dialogue with public authorities and other stakeholders in order to maintain a sustainable incentive-based regulatory framework allowing an attractive return. In other areas, Západoslovenská distribučná plans to continue to enhance internal process and grid system efficiencies and performance and improve risk-based asset management to optimise investments and grid development.

In the context of grid development, Západoslovenská distribučná is implementing Smart Grid systems. Smart Grid technology enables the automation of distribution grid elements including remote control and operation and remote identification of faults. Západoslovenská distribučná also intends to introduce smart meters for customers with an annual consumption of over 4 MWh. According to regulatory analysis, the introduction of smart meters for end consumers with the annual consumption over 4 MWh is economically feasible taking into account all the costs and benefits for each market player. Relevant secondary legislation setting out the technical and timeline details of the smart meter rollout was adopted by the Ministry of Economy in October 2013 with the ultimate target of equipping approximately 20 per cent. of distribution off-take points with smart meters by the end of 2020.

Strategy of the Supply Business

The primary business focus of ZSE Energia is to:

- maintain its leading position in power supply and strengthen its position in gas supply as a dual commodity supplier through enhanced efficiency of internal sales and care processes and implementing adjustment to its marketing strategy on the basis of market feedback;

- enhance its customer portfolio not only through fixed term contract strategies, but also through offering additional ancillary services with the potential to increase customers' loyalty; and
- strengthen the position of its brand as a reliable multi-commodity supplier offering high quality services and develop brand awareness with the launch of a new product sub-brand ZEON focusing on excellency in providing energy solutions.

ZSE Energia will continue its conversion from dual commodity supplier to established provider of high quality energy solutions with high operational efficiency and it is prepared for the upcoming challenges in the European energy market. ZSE Energia also plans to maintain a proactive approach and dialogue with RONI and other parties involved in energy regulation.

The current regulatory environment and market dynamics, together with an effective marketing strategy, help to keep churn rates in both the power and gas supply markets at reasonable levels. The launch of its gas supply services has enabled ZSE Energia to diversify away from its primary electricity supply business. Through gas supply and the ZEON brand covering energy solutions, ZSE Energia is continuing the expansion of its sales activities outside its traditional distribution areas.

Business Strengths

The Group's principal business strengths include:

Leading Position in the Slovak Electricity Market

The Group has a leading position in the electricity distribution and electricity supply market in the Slovak Republic. The Group distributed approximately 49.1 per cent.³ of all electricity distributed by the distribution system operators in the Slovak Republic in 2016 and supplied 6,212 GWh of electricity to approximately 927,000 electricity off-take points, giving it a market share of 32.3 per cent. of all electricity supplied in the Slovak Republic in 2016.⁴ In terms of 2016 market shares, the Group is the largest of the three distributors and the largest of approximately 20 active mass market suppliers of electricity in the Slovak Republic.

Strategic Asset Base

The Group owns and operates a significant distribution network in western Slovakia. The Group's distribution network provides the Group with a natural distribution monopoly in the region. The average age of the network assets is 29 years. The Group applies strict quality standards in the operation of its distribution network, which generates favourable results in terms of the quality and price of its distribution services.

Favourable Geography

Western Slovakia is the most economically developed region in the Slovak Republic. The region includes the capital city of Bratislava and approximately half of the population of the Slovak Republic (approximately 2.5 million). The territory is also less geographically diverse when compared to other Slovak regions and there is a lower number of RES located in the Group's territory (in particular solar plants which typically have the highest support costs), resulting in lower average costs for support of these sources.

Large and Stable Customer Base

As of the end of 2017, the Group had approximately 923,000 active off-take points to which it supplied electricity and 64,000 active off-take points to which it supplied gas. This large and stable customer base with relatively low churn rates represents significant potential for the cross- and up-selling activities of the Group and enables the Group to benefit from economies of scale when sourcing the commodities which it supplies.

³ Based on data for 2016 disclosed by the relevant distribution system operators.

⁴ RONI's Assessment of Regulatory Period 2012 – 2016.

Position in the Slovak Gas Market

The Group operates also on the gas supply market. The Group supplied 2,084 GWh of gas to approximately 56,000 gas off-take points, giving it a market share of 4 per cent. of all gas supplied in the Slovak Republic in 2016.⁵ As a result, the Group was the fourth largest gas supplier in the Slovak Republic.

Stable Market and Regulatory Environment

In the key electricity distribution segment, the Group retains a naturally dominant position due to its ownership of the largest distribution network in the Slovak Republic. RONI applies price regulation on distribution system operators through fixed prices which reflect economically justified costs and reasonable profits. The regulatory environment in the Slovak Republic is stable and the Group participates in consultations with the regulator and takes a proactive approach when responding to regulatory policy initiatives.

Stable Regulated Cash Flows and Financial Stability

The Group generates stable and predictable cash flows from regulated revenues under a transparent regulatory framework. The Group's financial stability is supported by a proven track record of positive cash flows, prudent management policies and supportive shareholders.

Strong Brand with Long Tradition on the Market

The Group's brand is well known, well established and reliable with a clear dominance in western Slovakia. The Group's brand and its reputation substantially support the Group's retention and acquisition activities and the Group believes that this could be a significant factor in helping ZSE Energia to establish itself as a stable and reliable multi-commodity supplier.

BUSINESS

The table below shows the breakdown of EBITDA between the Group's different businesses for each of 2016 and 2017.

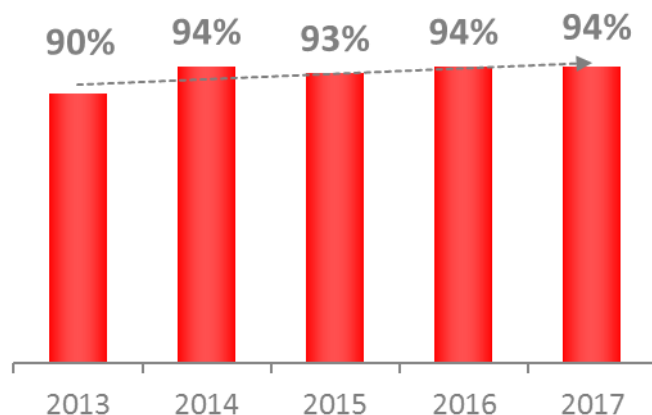
	Year ended 31 December 2016	Year ended 31 December 2017
	<i>EUR million</i>	<i>EUR million</i>
Electricity distribution	169.2	175.3
Electricity and gas supply	16.5	14.1
Other businesses ⁽¹⁾	8.8	10.6
TOTAL EBITDA	194.5	200.0

Note:

- (1) Represents the sum of EBITDA attributable to "Other" segment and to "Eliminations and consolidation adjustments", as presented in the note 26 to the Financial Statements.

⁵ RONI's Assessment of Regulatory Period 2012 – 2016.

Regulated tariffs generated 94 per cent. of the Group's EBITDA in 2017 and 94 per cent. in 2016. In 2017, 88 per cent. was generated directly from the distribution segment, 2 per cent. from the regulated supply of electricity and gas and 4 per cent. from the "other businesses" representing support services used by the distribution business.



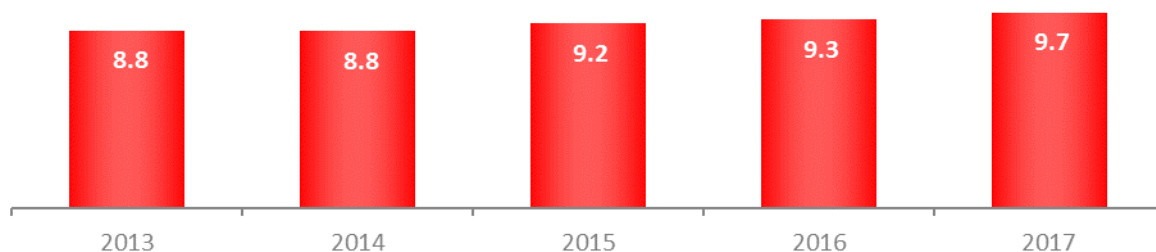
Distribution

Electricity distribution is the final stage in the delivery of electricity where the electricity supplied by an electricity supplier is carried from the nationwide transmission system and delivered to end consumers through the Group's regional distribution network.

Distribution is the Group's principal business. In 2017, the Group distributed 9,683 GWh of electricity compared to 9,347 GWh in 2016. The Group's revenues from electricity distribution fees in its own territory (Western Slovakia) in 2017 were EUR 681.3 million compared to EUR 628.8 million in 2016 and its electricity distribution EBITDA was EUR 175.3 million in 2017 and EUR 169.2 million in 2016, generating 88 per cent. and 87 per cent. of the Group's EBITDA, respectively.

When EBITDA generated from the "Other businesses" segment representing support services used by the distribution business is taken into account, the distribution activity generated 92 per cent. of the Group's EBITDA in 2017 (88 per cent. directly from the distribution segment and 4 per cent. from the "Other businesses" segment representing support services used by the distribution business) and 91 per cent. in 2016 (87 per cent. directly from the distribution segment and 4 per cent. from the "Other businesses" segment representing support services used by the distribution business).

The following chart shows the Group's total wheeling volumes (electricity distributed) in each of 2013, 2014, 2015, 2016 and 2017.



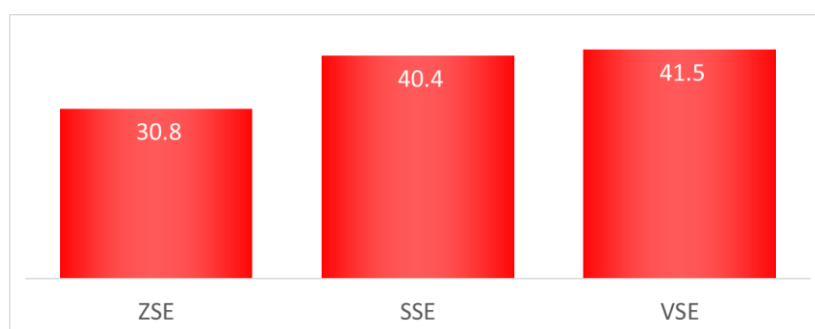
The Group, through Západoslovenská distribučná, operates the largest electricity distribution system in the Slovak Republic. Západoslovenská distribučná operates the regional electricity distribution system in western Slovakia, which is the most economically developed region in the Slovak Republic. The Group distributed

49.1 per cent. of all electricity distributed by distribution system operators in the Slovak Republic and served 44.8 per cent.⁶ of all off-take points in the Slovak Republic in 2016.

Based on the figures published by the Statistical Office of the Slovak Republic as of 31 July 2015, approximately 58.2 per cent. of all Slovak business companies were based in western Slovakia. Based on data published by the National Bank of Slovakia for 2015, 73 per cent. of all foreign direct investments were made in the region. Based on Eurostat data, the western Slovakia region has the lowest unemployment rate in the Slovak Republic (7.7 per cent. as of the end of 2016) and Bratislava region belongs to the top ten EU regions with the GDP per capita of EUR 54,400 representing 188 per cent. of the EU28 average in 2015.

The distribution network of Západoslovenská distribučná spans an area of approximately 15,000 km². As at 31 December 2017, the Group's distribution network comprised approximately 2,800 km of high voltage lines, approximately 13,300 km of medium voltage lines and approximately 20,900 km of low voltage lines. The total length of the Group's network of power lines increased from approximately 37,000 kilometres in 2012 to approximately 38,000 kilometres as of the end of 2017. The average age of the distribution network assets has remained relatively unchanged at approximately 29 years. As at 31 December 2017, the Group had over 1,133,000 off-take points from its distribution network compared to over 1,119,000 at 31 December 2016.

The capital expenditures of the Group to its network cover the depreciations and amortisation charges. The Group has a proactive maintenance strategy for its distribution network. The maintenance and development activities aim to preserve the quality, safety and reliability of the network and enable the Group to maintain the lowest distribution price among the three distribution system operators. The following chart shows the Group's EUR/MWh distribution unit price (including distribution, transmission and losses) in comparison with the prices of the remaining two regional distribution network operators in 2011 (which is the latest available data):



Source: This information is based on RONI's data from 2011 and there may have been material changes in the figures since that date.

The Group also applies strict quality standards, which enable the Group to achieve the lowest quality violation standard rate among the three distribution system operators (measured as a percentage of events with respect to which a distributor system operator has failed to comply with RONI requirements out of total count of monitored events):

⁶ Calculated based on 2016 figures disclosed by distribution system operators.



Source: RONI report on quality standards for 2016.

The table below shows the customer breakdown of the Group's distributed electricity in 2016 and 2017.

	2016		2017	
	Electricity Distributed	Share of Total	Electricity Distributed	Share of Total
	(GWh)	(per cent.)	(GWh)	(per cent.)
Commercial consumers - Wholesale.....	5,645	60	5,886	61
Commercial consumers - Retail.....	1,397	15	1,411	14
Residential consumers - Retail.....	2,305	25	2,386	25
Total.....	9,347	100	9,683	100

Subject to certain limited exemptions, Západoslovenská distribučná does not have a direct contractual relationship with the end customer and its electricity distribution and related services are provided mostly under standard framework distribution agreements entered into with electricity suppliers, including ZSE Energia. The electricity suppliers are obliged to pay the distribution tariffs notwithstanding whether and when they collect payment from the end customers. The distribution agreements are regulated by the Rules for Operation of the Electricity Market issued by RONI and other regulatory measures issued by RONI. According to the Group's standard practice, the framework distribution agreements have one calendar year terms.

The distribution tariff structure of Západoslovenská distribučná approved by RONI allows on average a maximum 65 per cent. of fixed capacity-based payment. The remaining smaller part of the tariff is consumption-based. Therefore, a significant part of the Group's revenues from electricity distribution are fixed and do not depend on the amount of electricity consumed. This mitigates the risks resulting from volatility in electricity consumption and makes the Group's key distribution revenues more resistant to economic cycles.

Electricity and Gas Supply

The supply business represents sales of electricity and gas to end consumers. The Group, through ZSE Energia, supplies electricity through the distribution network of Západoslovenská distribučná in its traditional distribution area of western Slovakia and through other regional distribution networks in central and eastern Slovak regions. Gas is supplied through the distribution system operated by SPP – distribúcia, a.s.

The supply business represents a smaller part of the Group's business in terms of EBITDA. The Group's revenues from the supply of electricity were EUR 272.3 million in 2017 compared to EUR 279 million in 2016 and the Group's revenues from the supply of gas were EUR 98.9 million in 2017 compared to EUR 81.3 million in 2016.⁷ The Group's commodity supply EBITDA was EUR 14.1 million in 2017 and EUR 16.5 million in 2016, representing 7 per cent. and 8 per cent. of the Group's total EBITDA in 2017 and 2016, respectively.

⁷ The supply revenues include recharges from distribution in the distribution territories outside the Group.

Electricity Supply

The Group, operating through ZSE Energia, is the largest electricity supplier in the Slovak Republic with a market share of 32.3 per cent. of the total electricity supplied in the Slovak Republic.⁸ ZSE Energia provides electricity to the capital city, Bratislava, and to approximately one half of the Slovak population in 2016. As at 31 December 2017, the Group had approximately 923,000 electricity customers (measured by off-take points) compared to approximately 927,000 at 31 December 2016.

In 2017, the Group supplied 6,253 GWh of electricity compared to 6,212 GWh in 2016. The table below shows the customer breakdown of the Group's supplied electricity in each of 2016 and 2017.

	2016		2017	
	Electricity Supplied	Share of Total	Electricity Supplied	Share of Total
	(GWh)	(per cent.)	(GWh)	(per cent.)
Commercial consumers.....	4,327	70	4,326	69
Residential consumers	1,885	30	1,927	31
Total.....	6,212	100	6,253	100

ZSE Energia supplies electricity to all customer segments. Supplies to (i) households and (ii) SMEs with consumption of up to 30 MWh per year represent approximately 33 per cent. of the electricity supply of ZSE Energia in 2017. The supply to these segments is subject to price cap regulation set by RONI. The supply to other customer segments is fully liberalised and is not subject to price regulation. For details concerning the calculation of the price cap, see "*Regulation, Environment and Health and Safety—Price Regulation*".

ZSE Energia's sales of electricity to regulated consumers are governed by its standard supply agreements and terms and conditions, which are regulated by RONI. Most of the contracts with regulated customers are for an indefinite period and can be terminated by either party with a one month notice period under the Energy Act.

The Group has introduced a fixed term contract strategy with the aim of protecting the Group's portfolio and reducing churn in the Group's most valuable customer groups. In return for signing a fixed term contract (usually for one year with an automatic renewal for another year), certain consumers are offered discounts and/or certain value added services, such as free or discounted insurance assistance services provided by a third party during the fixed contract term.

Sales to unregulated wholesale customers are governed by standard supply agreements, which are based on the Group's standard forms, with certain flexibility for accommodation of individually negotiated terms. As a market practice, wholesale electricity supply is typically contracted for one calendar year, although standard contracts for up to three years can be negotiated. In the public entities segment, the supply terms are often dictated by the public tender requirements set by the customers.

The Group's electricity generation facilities comprise only small hydroelectric power plants which provided less than 0.1 per cent. of the Group's total electricity supply in each of 2016 and 2017.

The electricity purchased by ZSE Energia is supplied by domestic electricity producers and traders with the most significant supplier being Slovenské elektrárne a.s. ("SE"). The Group's wholesale purchase portfolio is diversified. ZSE Energia has entered into approximately 50 standard General Agreements Concerning the Delivery and Acceptance of Electricity prepared by European Federation of Energy Traders or similar framework agreements. ZSE Energia has not entered into any long-term electricity supply contracts.

The Group's cost of purchasing electricity for supply was EUR 248.7 million in 2017 and EUR 248 million in 2016.

Gas Supply

At the end of 2011, ZSE Energia started supplying gas to the unregulated large industrial customer segment of the market. On 1 April 2012, ZSE Energia also entered the regulated mass market,⁹ thus covering all customer segments. The 2012 supplied volumes and market share were low but, based on the pilot phase and successful

⁸ RONI's Assessment of Regulatory Period 2012 – 2016.

⁹ Households and SMEs with total annual consumption up to 100 MWh (from 2013).

market entry, ZSE Energia reached a 4 per cent. share of the total Slovak gas supply market in 2016. Contracts for the supply of natural gas for the Group's household and SME customers are standard supply agreements and terms and conditions, which are regulated by RONI. Supplies to (i) households and (ii) SMEs with consumption of up to 100 MWh per year is subject to price cap regulation set by RONI. The supply to other customer segments is fully liberalised and is not subject to price regulation.

The natural gas purchased by ZSE Energia is supplied by wholesale gas traders under standard General Agreements Concerning the Delivery and Acceptance of Natural Gas prepared by European Federation of Energy Traders or similar framework agreements.

Managing Volatility of Commodity Prices

In order to manage volatility in the prices of the electricity which it supplies, the Group employs a comprehensive hedging and risk management strategy with a view to optimise its overall open position. In particular, the following principles are applied by the Group:

- a conservative open position with a maximum level of approximately 5 per cent. of total purchases is maintained;
- supplies to large customers are hedged on a back-to-back basis;
- the expected electricity consumption of regulated household and SME customers is purchased on a one-year-ahead basis taking into account the regulated prices set by RONI;
- supply tender offers include risk premiums based on the duration of the offers; and
- the open position is continuously optimised on both a long-term and short-term basis.

The Group does not use a significant portfolio of financially settled commodity derivatives in its hedging strategy. The above strategy is applied to both electricity and gas supply.

Trade Receivables

The majority of the Group's trade receivables represent payments owed by ZSE Energia's customers, which include payments for the supply services of ZSE Energia and the distribution services of Západoslovenská distribučná (or other distribution system operator if supply is made outside of the Group's distribution area) as well as other fees such as transmission fee which are re-invoiced and collected from the end customers by ZSE Energia.

The Group's trade receivables amounted to EUR 102.1 million (including receivables due and overdue net of provisions of EUR 29.2 million) at 31 December 2017.

Electro-mobility

The Group is one of the few market participants that is actively engaging in the nascent electro-mobility sector. The Slovak electro-mobility market is only in its infancy but the Group believes that it has future potential and growth capability. The Group has been developing low-carbon transport technology since 2011, making it one of the first movers in the Slovak market. The objective of the Group is to become a leader in the field of electro-mobility over the next three years. The Group's strategy is based on the following pillars: (i) acquisition of new localities and provision of charging infrastructure in locations with demand for public charging, (ii) provision of financial support to electro-mobility research and development projects and (iii) internal usage of electric vehicles in the Group's own fleet. In order to develop the charging infrastructure, the Group utilises its own funds as well as receiving co-financing from EU CEF funds. Currently, the Group is active in following electro-mobility projects, all of which benefit from EU co-financing: FAST-E, EAST-E, Next-E, and URBAN-E. All these initiatives are multi-national and multi-corporation projects and involve the participation of commercial entities from various EU states. The projects time periods range from 2014 to 2020.

Competition

Electricity Market

Overview

Since the 1990s, the Slovak electricity industry has undergone a major transformation. In 1990, three regional electricity distribution system operators, predecessors of: ZSE, Stredoslovenská energetika a.s. (“**SSE**”) and VSE, were separated from the state enterprise Slovenský energetický podnik, š.p. which originally held the entire assets of the Slovak electricity business. The core of Slovenský energetický podnik, š.p. was further transformed in 1994 into SE.

In 2000, the Slovak government resolved to complete the transformation of the electricity industry with a view to preparing the main companies for privatisation and complying with the requirements of the EU in the then ongoing accession negotiations.

This transformation entailed the conversion of ZSE, SSE and VSE into joint-stock companies, with the divestment of the residual heat generation assets, which were operated by ZSE and SSE. Following this conversion, 49 per cent. of the shares together with the management control of each of the three regional distribution system operators were sold in 2002. ZSE became part of the E.ON group, the successor of SSE became part of the EDF group and the successor of VSE became part of the RWE group.

Further, in 2002, SE was separated, in a three-way demerger, into three new companies:

- SE, which owns the generation assets;
- Slovenská elektrizačná prenosová sústava, a.s. (“**SEPS**”) which owns the national power transmission system (TSO – transmission system operator); and
- Tepláreň Košice, a.s., which owns a heat generation plant in eastern Slovakia.

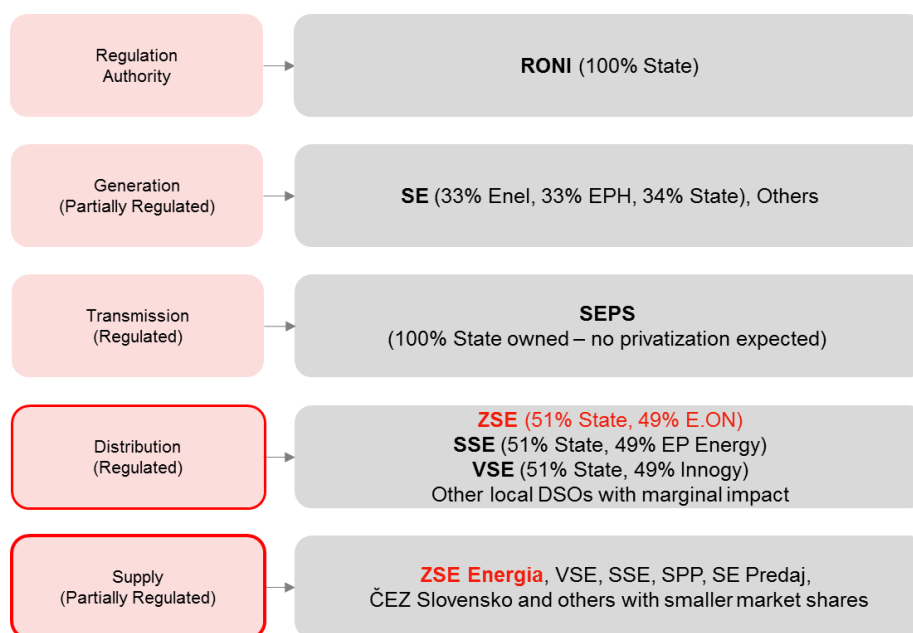
In 2006, 66 per cent. of the shares in SE were sold to Enel S.p.A. The current shareholders of SE are the Slovak Republic (with 34 per cent. of the shares) and Slovak Power Holding BV (with 66 per cent. of the shares) whose shareholders are Enel Group with 50 per cent. of the shares and EPH Group with 50 per cent. of the shares.¹⁰ SE owns electricity generation facilities (including two nuclear power plants) with an installed capacity of 4,176 MW, representing a 52.5 per cent. share of the total installed generation capacity in the Slovak Republic in 2016.¹¹

SEPS remains 100 per cent. owned by the Slovak Republic. Since 1 January 2011, responsibility for the organisation of the short-term electricity market and imbalance settlement was transferred from SEPS to a newly created joint-stock company, OKTE, a.s., which is a wholly-owned subsidiary of SEPS. Since 1 January 2014, OKTE, a.s. has taken over the central invoicing process and acts as a clearing centre for system operation tariff (“**SOT**”) (see below) and tariff for system services.

¹⁰ Acquisition of a 50 per cent. stake in Slovak Power Holding BV by EPH Group represented the first phase of acquisition of shares all shares of Enel Group in SE by EPH Group which was completed in July 2016.

¹¹ SE Annual Report 2016.

The following chart shows the overview of key stakeholders in the electricity market and their positions in the supply chain:



Electricity Distribution

The Slovak Republic has three regional distribution power networks operated by three vertically integrated groups: the Group (western Slovakia), SSE group (central Slovakia) and VSE group (eastern Slovakia).

All these groups are partially privatised and, as part of the unbundling process under the second EU energy package, each created wholly-owned subsidiaries that operate their distribution systems. These subsidiaries are:

- Západoslovenská distribučná, a.s.;
- Stredoslovenská energetika - Distribúcia, a.s., which is part of the EPH group; and
- Východoslovenská distribučná, a.s., which is part of the innogy group.

Each of these companies retains a natural monopoly position in its respective territory.

Electricity Supply

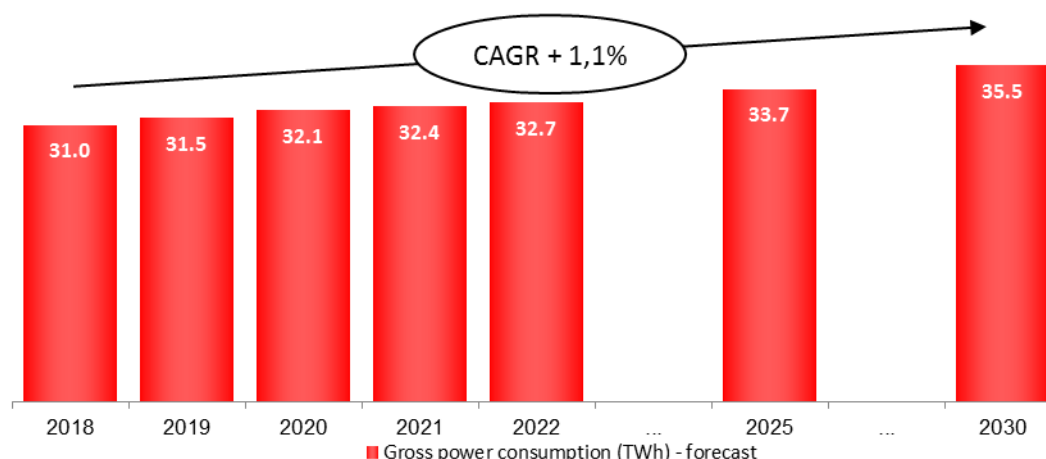
There are around 20 electricity suppliers with material activity on the Slovak market, most of which also supply gas. They follow different market strategies and some of them focus on selected customer segments only. There were six suppliers with market shares over 5 per cent. in the industry of electricity supply in 2016. The largest electricity suppliers (by volume of electricity supplied) are ZSE Energia (with a market share of 32.3 per cent. in 2016), SSE (with a market share of 23.6 per cent. in 2016), VSE (with a market share of 18.5 per cent. in 2016), SE Predaj, s.r.o. (a subsidiary of SE, the dominant electricity producer in the Slovak Republic and a member of the Enel Group, with a market share of 5.1 per cent. in 2016), ČEZ Slovensko, s.r.o. (a member of the ČEZ Group, the leading electricity generator in the Czech Republic, with a market share of 5.3 per cent. in 2016) and SLOVAKIA ENERGY, s.r.o. (with a market share of 6.7 per cent. in 2016).¹²

There are a number of other electricity suppliers in the Slovak Republic, although their market shares are negligible. In 2012, the dominant gas supplier, SPP, also entered the electricity supply market; however, its market share in the electricity supply market represented only 2.9 per cent. in 2016.

¹² RONI's Assessment of Regulatory Period 2012 – 2016.

According to RONI, 73,008 electricity consumers (2.9 per cent.) changed their supplier in 2016 compared to 70,278 customers (2.8 per cent.) in 2015 and 68,066 customers (2.8 per cent.) in 2014.¹³ The Group seeks to minimise the number of its customers who change supplier by adopting a fixed-term contract strategy for household and SME customers based on a controlled discounts programme as well as cross-selling and ensuring that it offers competitive prices to its large customers along with related value added services.

The liberalisation of the electricity supply markets presents challenges but also opportunities for the Group, including the possibility to penetrate territories of other traditional suppliers. In terms of overall power market development, the Ministry of Economy expects that electricity consumption in the Slovak Republic will increase steadily in the upcoming years as shown in the following chart:



Source: Ministry of Economy, 2017.

Gas Market

The Group is active only in the gas supply market and is not involved in production, transmission or the distribution of gas.

The Slovak gas market is a relatively stable market with 51 TWh total consumption¹⁴ delivered to over 1.5 million off-take points in 2016.¹⁵ The market is dominated by SPP. However, SPP's market share continued to decrease from 77 per cent. in 2011¹⁶ to 55.5 per cent. in 2016.¹⁷

The Slovak gas supply market first opened to new entrants in 2009 and a number of new suppliers, mostly local affiliates of large international groups, started offering their supply services to industrial off-takers. There are 25 gas suppliers on the Slovak market,¹⁸ which follow different market strategies and focus on different customer segments. The number of gas consumers who switched their supplier, decreased from 94,388 (6.3 per cent.) in 2013 to 47,031 (3.1 per cent.) in 2016.¹⁹

¹³ RONI's Assessment of Regulatory Period 2012 – 2016.

¹⁴ RONI Annual Report 2016.

¹⁵ RONI Annual Report 2016.

¹⁶ RONI Annual Report 2011.

¹⁷ RONI Annual Report 2016.

¹⁸ RONI Annual Report 2016.

¹⁹ RONI Annual Report 2016.

Borrowings and Capital Expenditure

Borrowings

The Group currently has two series of debt securities in issue, the EUR 315 million 2.875 per cent. notes due on 14 October 2018 and the EUR 315 million 4.0 per cent. notes due on 14 October 2023. These debt securities were issued under the Programme.

The Group has certain overdraft facilities with a total amount of EUR 75 million for the purpose of managing operating liquidity. In 2016 and 2017, no drawings have been made under the overdraft facilities.

Capital Expenditure

The Group's capital expenditure programme relates mostly to the maintenance and development of its distribution network. The following table shows the capital expenditure of the Group for 2016 and 2017.

	Year ended 31 December 2016	Year ended 31 December 2017
	(EUR thousand)	
Group's capital expenditure (cash basis)	68,843	62,510

Shareholders

The table below shows ZSE's shareholders as at the date of this Base Prospectus.

	Percentage of capital	Percentage of voting rights
Slovak Republic (acting through the Ministry of Economy)	51.0	51.0
E.ON Slovensko, a.s.	39.0	39.0
E.ON Beteiligungen GmbH	10.0	10.0

Each of E.ON Slovensko, a.s. and E.ON Beteiligungen GmbH is ultimately controlled by E.ON SE, the parent company of the E.ON group of companies.

The Slovak Republic holds 51 per cent. of the shares and voting rights in ZSE through the Ministry of Economy of the Slovak Republic (the "**Ministry of Economy**") which exercises the rights of the Slovak Republic as a shareholder.

The shareholders of the Issuer entered into an amended and restated shareholders' agreement dated 11 June 2007, as amended (the "**Shareholders' Agreement**"), which provides for details of the Issuer's corporate governance structure and governs the exercise of shareholder rights by the shareholders, including the process for approval of certain reserved matters and exercise of veto rights by the shareholders in certain limited circumstances.

As of the date of this Base Prospectus, the share capital of ZSE was EUR 196,969,174.86 divided into 5,934,594 shares with a par value of EUR 33.19 each. The entire share capital is fully paid up. ZSE's shares are ordinary, dematerialised and registered non-preferential voting shares. The shares are not publicly traded.

Related Party Transactions

The Group's related party transactions principally comprise transactions with its shareholders and companies controlled by them. These transactions are described in note 33 to the Financial Statements.

Information Technology

The Group's IT systems support the technological processes within the Group, such as remote grid management, meter reading and power outage management, as well as the Group's business and revenue generating processes, such as billing, invoicing, customer care and procurement. The IT solutions used by the Group include various bespoke and third party IT systems owned or licenced by the Group companies.

A material part of the operation and maintenance of the Group's IT systems is provided by E.ON Business Services GmbH, an E.ON Group IT provider. Certain IT services and processes are provided through E.ON's

shared data centres in Europe. The contract was entered into for an indefinite period and can be terminated by either party with 12 months' notice. The contract provides for an orderly hand-over of the relevant IT systems and related intellectual property rights to the Group upon termination.

Insurance

The Group and its principal subsidiaries maintain comprehensive insurance cover in respect of loss or damage to property. This cover includes, but is not limited to, fire, explosion, lightning, wind storms, hurricanes, vandalism, malicious damage, riots, strikes, locked out workers, labour disturbances, civil unrest, electrical damage and theft. The Group's property insurance limit is over 1 billion EUR, which significantly exceeds the book value of the Group's property, plant, equipment and inventories.

The Group's insurance does not cover damage to power lines as ZSE believes that maintaining such cover would not be efficient taking into account the costs and relatively low potential damage. The Group also does not carry any insurance cover for business interruption, terrorism, war or nuclear contamination as obtaining and maintaining such insurance cover is not considered economically efficient taking into account the costs and nature of the Group's operations.

The Group also has insurance coverage for third party liability which provide cover against legal liability for causing any accidental bodily injury or death to third parties or damage to their property, as well as cover for environmental liability with industry standard terms and coverage ratios.

Legal Proceedings

The Group may from time to time be party to administrative, court or arbitral proceedings. A relatively large number of the Group's ongoing civil and commercial disputes relate to the collection of the Group's receivables from its customers and other counterparties. As of the date of this Base Prospectus, only a small number of disputes, including those described below, involve some of the Group companies as defendants.

Proceedings relating to the G-component

Západoslovenská distribučná is a defendant in legal proceedings brought by some of the electricity producers relating to payments for the access to the distribution system (so-called generation (G) - component of network charges) which are collected by Západoslovenská distribučná from the electricity producers connected to its distribution network. The G-component was introduced by RONI in 2013 and has been paid by electricity producers to distribution operators from 2014. The rationale for introduction of the G-component by RONI was for the electricity producers to share certain costs of developing and maintaining the grid. In 2016, the Constitutional Court of the Slovak Republic held that whilst charging of such G-component is not per se illegal, it cannot be applied solely on the basis of the RONI's regulations. Such payment may only be charged if the access to the distribution grid is agreed in a contract on access to the distribution grid, or if it is imposed by primary legislation (either directly by a statute or indirectly, if the statute explicitly delegates on RONI the power to impose such payment). Since such legislation is not in force, the electricity producers may only be bound to pay the G-component by a valid contract on access to the distribution network with the distribution system operator. Západoslovenská distribučná entered into contracts on access to distribution grid with a majority of the electricity producers connected to its distribution network. However, a certain part of electricity producers connected to the distribution network of Západoslovenská distribučná did not enter into such contracts mainly due to the fact they were connected before the launch of RES support and before the contracts on the connection/access to the distribution grid were established in the legislation. In addition, some of the producers who entered into contracts on access to the distribution grid claim that this contract is illegal and thus invalid and therefore there is no legal basis for charging of the G-component.

As of the date of this Base Prospectus, the Issuer is aware of 10 proceedings commenced by electricity producers claiming the return of these G-component payments from Západoslovenská distribučná (the last one was filed in December 2017). The aggregate amount claimed by the claimants in these proceedings is approximately EUR 500,000. As of the date of this Base Prospectus, no decision has been made by the competent court in any of these cases. Západoslovenská distribučná may in the future become subject to further claims brought on the same basis by other electricity producers, especially if the courts decide in favour of some of the current claimants. In such a case, it is also possible that some producers will refuse to

continue paying the G-component in the future, because the reasons why the producers claim that charging of the G-component is illegal still persist.

Court Proceedings relating to the SOT

The Group is also involved in a dispute initiated by Európsky inštitút pre ochranu spotrebiteľa a právny štát, a non-profit organisation, which is suing only three regional electricity suppliers in Slovakia (i.e. not all electricity suppliers) and is challenging the payment regime of the system operation tariff (SOT) payable by households (although all consumers including businesses pay the SOT). The SOT system is described in more detail in “*Description of the Issuer – Regulation, Environment and Health and Safety – Regulation – Energy Regulation in the Slovak Republic - Support of Renewable Energy*”. The claimant generally argues that households should not be obliged to pay the SOT because the SOT was introduced by RONI in violation of the energy regulation and of the Slovak Constitution, and hence breaches consumer rights. The claim was filed in 2015 but no hearing has been scheduled. The amount of claim has not been stipulated in the claim – the claimant requests the court to order the regional electricity suppliers to refrain from charging the SOT to households.

Management and Employees

Management

Management Board (Board of Directors)

The members of the Board of Directors are appointed and replaced by the General Meeting. The Board of Directors is comprised of five members. Pursuant to the Shareholders’ Agreement, three of the five members of the Board of Directors are nominated by E.ON Slovensko, a.s. and the remaining two members are nominated by the Slovak Republic.

The Board of Directors acts and signs on behalf of the Issuer, through at least two members acting jointly.

The Board of Directors takes decisions in accordance with the applicable domestic and international regulations, the Articles of Association, the internal rules of procedure, the company by-laws and the Shareholders’ Agreement.

The Board of Directors adopts decisions by a simple majority, thus giving E.ON Slovensko, a.s. effective control over the day-to-day management of the Group. However, pursuant to the Shareholders’ Agreement, the Board of Directors may not adopt any resolution unless at least one member nominated by the Ministry of Economy is present at the relevant Board of Directors meeting. This restriction does not apply if both members nominated by the Ministry of Economy are not present at two consecutive, regularly convened Board of Directors meetings.

The Board of Directors is comprised of the following individuals:

Name	Position
Jochen Kley	Chairman ⁽¹⁾⁽²⁾
Peter Adamec	Vice-Chairman ⁽³⁾
Pavol Viskupič	Member ⁽³⁾
Marian Rusko	Member ⁽²⁾
Juraj Krajčár	Member ⁽²⁾

Notes:

- (1) Mr Jochen Kley is also the Chief Executive Officer of ZSE.
- (2) Nominees of E.ON.
- (3) Nominees of the Ministry of Economy.

The contact address of each member of the Board of Directors is Čulenova 6, 816 47 Bratislava. There are no actual or potential conflicts of interest between their ZSE-related duties and their private interests and/or other duties.

A résumé for each member of the Board of Directors is set out below:

Jochen Kley

Mr Kley has been a Member of the Board of Directors and the CEO of the Issuer since 2012 and was re-elected in 2016. He is responsible for the overall management of the business of the Group. He has a master's degree in Business Administration from the University of Mannheim, Germany, and has served as a financial and controlling expert in the energy sector since 1993, when he joined Preussen Elektra AG in Hannover, the energy arm of Veba AG, and one of the two companies which formed E.ON Group in 2000. He became the Managing Director there in 1998, and in 2000 he was appointed Managing Director of E.ON Netz Bayreuth. In 2006, he moved to the E.ON headquarters in Dusseldorf to become Senior Vice President of E.ON for corporate planning and controlling. Mr Kley is also the Chair of the Board of Directors of E.ON Slovensko, a.s., which is a shareholder of the Issuer and a wholly-owned subsidiary of E.ON SE and the Vice-Chair of the Supervisory Board of ZSE Energia.

Peter Adamec

Mr Adamec has been the Vice-Chair of the Board of Directors of the Issuer since 2012 and was re-elected in 2016. He worked for the Issuer after he graduated from the Slovak Technical University's Faculty of Electrical Engineering. Mr Adamec then served in various management positions in the Slovak grid and as the Chair of the Board of Directors of SEPS between 2006 and 2010. He is also a Director of P.A. EnergoConsulting s.r.o. in the Slovak Republic.

Pavol Viskupič

Mr Viskupič was appointed to the Board of Directors of the Issuer in 2016. He graduated from the Slovak Technical University's Faculty in the field of chemical engineering. He serves in a technical position responsible for technology development in SLOVNAFT, a.s. Mr Viskupič previously also served as chief technical advisor of Honeywell UOP.

Marian Rusko

Mr Rusko, who is responsible for the distribution business, was appointed to the Board of Directors of the Issuer in 2013 and was re-elected in 2017. After studying corporate economics at the University of Giessen, Germany, he joined Bayernwerk AG in 1998. Until 2004, he worked in various management positions focusing on company restructuring and acquisitions and as a Member of the Supervisory Boards of the acquired gas businesses in the Czech Republic. Since 2005 he has worked for E.ON Czech Republic as a procura holder and managing director of grid asset and grid IT management and of new business development in the regions of South Bohemia and Moravia. Mr Rusko was the Chair of the Supervisory Board of LUMEN DISTRIBUCE s.r.o., Czech Republic; the Supervisory Board of LUMEN DISTRIBUČNÍ SOUSTAVY s.r.o., Czech Republic; and the Supervisory Board Teplárna Tábor a.s., Czech Republic. He also served as a Member of the Supervisory Board of Energetika Malenovice, a.s., Czech Republic. Mr Rusko is also a Vice-Chair of the Supervisory Board of Západoslovenská distribučná, a.s.

Juraj Krajcár

Mr Krajcár, who is responsible for the supply business, was appointed to the Board of Directors of the Issuer in 2013 and was re-elected in 2017. Mr Krajcár is also a Chairman of the Board of ZSE Energia (since July 2013) and director of sales operations (since April 2011). Mr Krajcár obtained degree in geography and physical education from the Comenius University in Bratislava. Between 2002 and 2009, Mr Krajcár worked in held various sales positions at GE Capital Leasing and Slovak Telekom. Mr Krajcár thereafter joined VSE as head of sales, a position in which he remained until immediately prior to joining the Group in 2011.

Supervisory Board

The Supervisory Board is the supreme supervisory body of the Issuer. It supervises the exercise of the powers of the Board of Directors and the business activities of the Issuer. In addition to the powers vested in it by

Slovak corporate law, the Supervisory Board must approve certain material transactions of the Issuer, including substantial reorganisations and the setting up and acquisition of subsidiaries under the Shareholders' Agreement and Articles of Association. The Supervisory Board also approves the Issuer's annual strategic plan. All investments, transactions and expenditures and the provision of guarantees and securities must also be approved by the Supervisory Board, if the financial impact of any such transaction is more than EUR 5 million greater than the value envisaged by the strategic plan.

The Supervisory Board consists of nine members. Six members are elected and removed by the General Meeting of the Issuer and three members are elected by the employees of ZSE pursuant to the relevant provisions of the Commercial Code.

The Supervisory Board is comprised of the following individuals:

Name	Position
Eva Milučká	Chair
Markus Kaune	Vice-Chair
Lucia Veselská	Member
Erna Dohnáliková	Member
Tomáš Galbavý	Member
Ján Rusnák	Member
Silvia Šmátralová	Member
Martin Mislovič	Member
Juraj Nyulassy	Member

A résumé for each member of the Supervisory Board is set out below:

Eva Milučká

Mrs Milučká was appointed Chair of the Supervisory Board of the Issuer in 2016. She graduated from the Economic University in Bratislava in the field of financial management. She serves as executive director or financial manager in other business companies.

Markus Kaune

Mr Kaune was appointed Vice-Chair of the Supervisory Board of the Issuer in 2016. He graduated from the Ruhruniversität Bochum (Germany) and Rijksuniversiteit Leiden (Netherlands) in the field of law. Since 2011 he has also served as Vice President of the Business Excellence Energy Networks in E.ON SE, Essen.

Lucia Veselská

Mrs. Veselská was appointed to the Supervisory Board of the Issuer in 2016. She also serves as an advisor to the director of the Slovak Business Agency and the director of TIPOS, národná lotériová spoločnosť, a. s. for public procurement.

Erna Dohnáliková

Mrs. Dohnáliková was appointed to the Supervisory Board of the Issuer in 2016. She graduated from the Slovak Technical University's Civil Engineering Faculty in the field of water constructions. She also serves as director of the implementation department of Operational Programme Informatisation of Society procured by the Deputy Prime Minister's Office for Investments and Informatisation of the Slovak Republic..

Tomáš Galbavý

Mr Galbavý was appointed to the Supervisory Board of the Issuer in 2016. He graduated from the Constantine the Philosopher University in Nitra in the field of politology. From 1998 to 2012 he served as a Member of Slovak Parliament.

Ján Rusnák

Mr Rusnák was appointed to the Supervisory Board of the Issuer in 2016. Previously he served as a Member of the Board of Directors of the Issuer. He is an energy expert by trade. He graduated from the Slovak Technical University's Faculty of Electrical Engineering in 1988. He has worked as an energy auditor and later as an independent energy equipment inspector/auditor since 1995.

Silvia Šmátralová

Mrs. Šmátralová was appointed to the Supervisory Board of the Issuer after being elected by the employees of the Issuer in 2017. She also serves as a Member of the Supervisory Board of Západoslovenská distribučná appointed by its employees. She is the statutory representative of Odborová organizácia Západoslovenskej energetiky, the largest union organization active at the Issuer.

Martin Mislovič

Mr Mislovič was appointed to the Supervisory Board of the Issuer after being elected by the employees of the Issuer in 2017. He is employed by the Issuer in the position of customer rights ombudsman.

Juraj Nyulassy

Mr Nyulassy was appointed to the Supervisory Board of the Issuer after being elected by the employees of the Issuer in 2017. He is employed by Západoslovenská dsitribučná in the position of head of and balances and prices.

Employees

The Group had on average 1,811 full time employees in 2017 compared to 1,793 in 2016. The number of full time employees does not include members of statutory bodies and part time workers. The majority of the employees (73 per cent. at 31 December 2017) are men. The average age of the Group's employees was 45.5 in 2017.

Most of the Group's employees are represented by five union organisations, the largest of which is Odborová organizácia Západoslovenskej energetiky. The Group companies have entered into collective bargaining agreements with these unions. The current agreements will expire at the end of 2020. The collective bargaining agreements apply to all employees of the Group, notwithstanding their union membership. Under the agreements, employees are entitled to certain benefits above statutory minimum requirements, relating *inter alia* to remuneration, notice periods and social support. These benefits are provided in line with the Group's social policy and strategy and are considered comparable to those provided by other energy companies in the Slovak Republic.

Regulation, Environment and Health and Safety

Regulation

European Energy Regulation Framework

Third EU Energy Package

The Third EU Energy Package measures were adopted in 2009 through the new Electricity and Gas Directives and Regulations. The two new Directives were required to be implemented into national law by 3 March 2011, with some exceptions. The Regulations became directly applicable as of 3 March 2011.

The Third EU Energy Package increased the ability of the European Commission to influence national energy choices and to steer national regulation of energy markets. In addition, on certain issues such as:

- the new unbundling regime;
- the new definition of the role and duties of national regulators, which are required to act independently of national governments;
- the creation of a new “Agency for Co-operation of Energy Regulators” (“**ACER**”) which excludes governmental participation; and
- the new rules on cross-border infrastructure,

EU Member States lost important powers to regulate their national markets.

European Regulation on Market Integrity and Transparency

On 28 December 2011, the new Regulation on Wholesale Energy Market Integrity and Transparency (“**REMIT**”) came into effect. REMIT is designed to combat market abuse, by prohibiting insider trading as well as market manipulation in relation to the wholesale energy markets for gas and electricity. As REMIT is an EU Regulation, it is enforceable directly against EU enterprises, regardless of whether the relevant Member State has introduced national implementation measures.

Trading activity in the wholesale energy markets is monitored by ACER, which is entitled to receive complete transaction data from market participants. The identification of market participants is facilitated by the registration requirements - any market participant that enters into transactions which are required to be reported must register with the national regulatory authority in the relevant Member State.

Market monitoring may be followed up by an investigation carried out by the national regulatory authorities (and not by ACER). Member States are required to grant these authorities the necessary investigative and enforcement powers to ensure that the prohibitions on insider trading and market manipulation can be applied. These powers include the right to inspect documents, carry out on-site inspections and to access existing telephone and data traffic records.

European Legislation on Renewable Energy Sources

The EU Renewable Energy Directive (the “**Renewables Directive**”),²⁰ which had to be implemented by Member States by December 2010, requires that renewable energy sources should meet 20 per cent. of the EU’s overall energy consumption by 2020 and 10 per cent. of each Member State’s transport energy consumption. Each Member State has a specific target for increasing its renewable energy share.

Greater emphasis is being placed on the promotion of economic schemes, such as direct price support. The European Commission estimates that annual capital investment in renewable technology would have to increase to EUR 70 billion in order to reach the targets and that much of this financing will have to come from the private sector. Investment incentives are therefore viewed as important in driving renewable energy uptake. The Renewables Directive requires Member States to introduce systems to certify the origin of electricity generated from renewables so that it can be easily identified and verified.

The Renewables Directive also proposes reductions in the current regulatory and market barriers to generation from renewable energy sources. These include streamlining the procedures for obtaining authorisations for renewable energy projects, improving the co-ordination between, and the expertise of, the administrative bodies responsible for granting authorisations, improving the planning guidelines for renewables projects and improving access for renewable energy to electricity transmission systems. The Renewables Directive also permits Member States to co-operate on joint renewable energy projects where the energy produced can count towards each country’s national target.

²⁰ Directive 2009/28/EC on the promotion of the use of energy from renewable sources and amending and subsequently repealing Directives 2001/77/EC and 2003/30/EC.

On 30 November 2016, the European Commission published a proposal for a revision of the Renewables Directive with a goal to ensure that the target of at least 27 per cent. renewables in the final energy consumption in the EU is met by 2030.²¹

Energy Regulation in the Slovak Republic

Overview

The electricity and gas industry in the Slovak Republic is regulated mainly by the following primary legislation:

- the Act No. 250/2012 Coll. on Regulation in Network Industries, as amended (the “**Regulation Act**”), which defines the Slovak national regulatory authority – RONI, its structure and responsibilities, and sets out key parameters of price regulation and the pricing procedure and procedure for issuing permits, licences and other instruments required for carrying out business in the energy sector;
- the Act No. 251/2012 Coll. on the Energy Industry, as amended (the “**Energy Act**”), which sets out in detail the terms of doing business in the energy sector, establishing the licensing requirements, rights and obligations of particular types of electricity and gas market participants and instituting state supervision over compliance with the applicable legislation; and
- the Act No. 309/2009 Coll. on Promotion of Renewable Energy Sources and High-Efficiency Cogeneration, as amended (the “**Renewable Energy Act**”), which sets out specific incentives for RES.

The primary legislation is supplemented by a variety of secondary legislation,²² quality standards and technical requirements.

The Slovak Republic has also signed and ratified the Energy Charter Treaty and the Protocol to the Energy Charter Treaty concerning Energy Efficiency and Related Environmental Aspects.

Regulatory Bodies

RONI

The energy sector (including the electricity, gas and heat sub-sectors) is mainly regulated by RONI. According to the Regulation Act, RONI must perform its duties impartially and independently and public bodies or any other persons must not interfere with the RONI's competencies. RONI is headed by a Chairman who is appointed and removed by the Slovak Government.

RONI is responsible for the following main activities in the electricity and gas sectors:

- issuing secondary legislation;
- performing price regulation (issuing price regulation decrees and price decisions);
- issuing general licences for doing business in the energy sector and various permits, consents and certificates (e.g. certificates of origin of electricity produced by RES);

²¹ Proposal for a Directive on the promotion of the use of energy from renewable sources (recast) published under No. COM/2016/0767 final/2 - 2016/0382 (COD).

²² Such secondary legislation comprising in particular of:

- RONI Decree No. 24/2013 Coll. setting out rules for the functioning of the internal electricity and gas market, as amended;
- RONI Decree No. 189/2011 Coll., setting out the principles of the extent and manner of the price regulation in the network industries (energy) sector, as amended;
- RONI Decrees No. 225/2011 Coll. and 18/2017 Coll., each as amended, setting out detailed rules for the price regulation in the electricity sub-sector; and
- RONI Decree No. 216/2011 Coll. and 223/2016 Coll., as amended, setting out detailed rules for price regulation in the gas sub-sector.

- setting the rules for determining suppliers of last resort;
- granting exemptions (such as exemptions from the regulatory regime and exemptions from the third parties access obligation) to energy undertakings;
- setting out and supervising quality standards; and
- supervising compliance with the energy legislation and RONI's decisions and carrying out inspections for that purpose, including the power to impose sanctions or withdraw a licence.

The Regulatory Council of RONI (the “**Regulatory Council**”) is the supreme body of RONI responsible for the strategic management and principal regulatory policy in the network industries (energy) sector. The Regulatory Council is vested with the following principal powers:

- reviewing appeals against the decisions issued by RONI in the first instance save for the first instance decisions imposing fines (which are reviewed by RONI's Chairman); and
- adopting regulatory policy and providing comments on drafts of the energy legislation instruments.

The Regulatory Council consists of six members. The members of the Regulatory Council are appointed and removed by the President of the Slovak Republic after the nomination of six candidates by the Slovak Parliament and six candidates by the Government, so that three members nominated by the Slovak Parliament and three members nominated by the Government are finally appointed. Based on the nomination by the Regulatory Council, the President of the Slovak Republic appoints one of its members as the Chairman of the Regulatory Council.

The Ministry of Economy

The Ministry of Economy of the Slovak Republic is responsible for:

- developing the national energy policy and reviewing the regulatory policy of RONI in certain areas;
- issuing secondary legislation (e.g. on the smart metering roll-out and on the emergencies measures in the electricity and gas sector, etc.);
- monitoring the safety of the electricity and gas supply and adopting measures designed to secure the safety of the electricity and gas supply and the safety, reliability and integrity of the supply network;
- issuing compliance certificates for the construction of new electricity and gas facilities (including new power plants) and selected electricity and gas transmission/distribution facilities; and
- imposing obligations in the general interest and deciding on the application of such obligations.

Slovak Trade Inspection

The Slovak Trade Inspection together with RONI are generally responsible for overseeing compliance with the energy legislation with a particular focus on the fulfilment of the obligations imposed on energy undertakings in the general interest, the security and reliability of the electricity and gas supply and the prevention of critical situations in the gas and electricity markets.

General Licensing

The generation, transmission, distribution and supply of electricity and gas, as well as the storage of gas and organising the short term electricity market, are all subject to licensing requirements in the Slovak Republic.

Licences are issued by RONI on the basis of an application by a prospective licensee and satisfaction of a broad range of requirements (which also depend on the type of energy business being licensed).

Licences are generally granted for an indefinite period of time, unless the applicant requests otherwise. Any refusal of an application must be reasoned and the reasons must be well founded, objective and non-discriminatory.

Certain activities in the energy sector are exempt from the licensing procedure. These include:

- the generation and sale of electricity that is produced by facilities having a total installed capacity of up to 1 MW;
- electricity/gas production or distribution for own needs; and
- the supply of electricity (including securing transmission, distribution and other services related to the supply of electricity) and the supply of gas (including securing transmission, distribution and other services related to the supply of gas) without any margin.

Where a licence is not required for a particular activity, the person performing that activity has a notification obligation towards RONI.

Any licence granted terminates upon the expiry of the period for which the licence was granted (if it was granted for a defined period) or if the licence holder ceases to exist. In addition, RONI is obliged to withdraw the licence if the licensee:

- ceases to comply with the conditions required for granting a licence;
- fails to comply with the measures imposed by RONI to remedy breaches identified by RONI; and
- requests the withdrawal of the licence or does not carry out the activity for which the licence was granted.

Currently, the Group holds all required licences for an indefinite period and no proceedings before RONI are pending which could threaten any of the Group's material licences.

Because the Group owns the regional distribution network, it would be difficult in practical terms for RONI to issue a licence to any new region-wide distribution system operator in western Slovakia.

Individual Licensing for Facilities

In addition to obtaining the general licences required to carry out certain types of regulated activity in the energy sector, the construction and operation of an electricity or gas facility is subject to several procedures/permits, including:

- a compliance certificate issued by the Ministry of Economy which confirms the proposed facility's compliance with the long term energy policy of the Slovak Republic, which in turn is based on the positive opinion of a distribution system operator or transmission system operator to which the facility is to be connected or RONI;
- an environmental impact assessment approval which assesses the proposed facility's impact on the environment (if the applicable installed capacity thresholds under EIA legislation are met);
- a zoning permit which determines the proposed facility's location and conditions for the location's adjustment;
- a construction permit which states the conditions for the proposed facility's construction and is required for all projects; and
- an occupational permit which allows the facility's operation.

A compliance certificate issued by the Ministry of Economy is not required for certain facilities which are relevant for the Group:

- any construction of the electricity distribution facility which in its nature represents expansion, reconstruction or modernisation of the existing distribution system, except for very high voltage facilities (110kV and above) and cross-border facilities; and

- new gas generation facilities and electricity generation facilities with an installed capacity below 100 kW (in the case of photovoltaic generation facilities placed on a roof construction or external walls of a building) or 1 MW (in the case of other generation facilities).

Price Regulation

According to the current regulatory policy adopted by the Regulatory Council for the regulatory period 2017 to 2021 (the “**Regulatory Policy 2017-2021**”), RONI sets the following maximum and/or fixed prices in the electricity sector which are relevant for the Group’s business:

- access to the transmission system and electricity transmission;
- access to the distribution system and electricity distribution;
- connection to the transmission and distribution systems;
- provision of system services (ancillary services) and support services;
- organisation of short term electricity market;
- production of electricity from RES;
- supply of electricity by last-resort supplier; and
- supply of electricity to regulated SMEs and households.

In the current regulatory period (2017-2021) RONI also sets the following maximum and/or fixed prices in the gas sector which are relevant for the Group’s business:

- access to the distribution system and gas distribution;
- connection to the transmission and distribution systems; and
- supply of gas to regulated SMEs and households.

All of the Group’s electricity distribution business and a material part of its electricity and gas supply business is subject to price regulation. 94 per cent. of the Group’s EBITDA in 2017 was generated in these regulated sectors (88 per cent. directly from the distribution segment, 4 per cent. from the “Other businesses” segment representing support services used by the distribution business and additional 2 per cent. representing regulated supply of electricity to households and small and medium enterprises with consumption up to 30 MWh of electricity and 100 MWh of gas, who are subject to regulation). The only non-price-regulated activities carried under energy licences are supplies of electricity and gas to medium and large enterprises, in which the prices are set by the market. In addition, the provision of services by ZSE to Západoslovenská distribučná and ZSE Energia is also outside the scope of energy (including pricing) regulation.

The basic formula for the maximum price a distribution system operator may charge for access to its system and for electricity distribution is:

$$MP = (OC + DC + AP) / AV$$

where:

MP = maximum price (price cap) set for each voltage level (i.e. high voltage, medium voltage and low voltage);

OC = operational costs (determined by RONI);²³

²³ Operational costs applicable to the regulatory period 2012-2016 were determined in 2010. Such costs are subject to potential increase by an escalation index $I = 1 + CI - X$, where CI stands for annual average core inflation, and X is set at 3.5 per cent. If $CI < 3.5$ per cent. then operational costs as determined in the preceding year apply.

DC = depreciation charges (the initial value of the depreciation charges is determined based on RAB value and is increased by the planned depreciation charges from the planned investments in the regulatory year (t-1) approved by RONI);

AP = adequate profit, which is calculated as the product of the RAB value and the weighted average cost of capital (“WACC”)²⁴ (both RAB and WACC are approved or determined by RONI); and

AV = average volume of transported/distributed electricity for five years (t-3, t-2, t-1, t, t+1).

The RAB value is based on the assets value of the regulated entity as of 2005, increased by the value of investments made in the period 2006-2010 and decreased by the sum of the depreciation amounts for that period, i.e. the RAB value as of 2010 is applied.

RONI has certain discretion when considering eligibility of certain costs and determining the variables including without limitation value of RAB, technical lifetimes of assets and costs of capital, as it is allowed to use its own methodology for the determinations. However, any methodology applied by RONI has to be transparent and justified.

RONI also sets the allowed grid losses level including technical and non-technical (business) losses or thefts. Actual grid losses of Západoslovenská distribučná have not exceeded the allowed grid losses set by RONI. The revenues from the sanctions for thefts actually paid by customers will decrease the allowed revenues of Západoslovenská distribučná after 2014 (based on (t-2) actual results) together with actual revenues from grid connections and sanctions for exceeding the reserved capacity.

The regulated price of the electricity supply is based on the market price of electricity and is subject to applying the “price cap” method. The maximum price of the regulated electricity supplies is calculated according to the following simplified formula:

$$MP = ExP * (1 + X/100) + IC + OC + AP$$

where

MP = maximum price (price cap);

ExP = average price of the daily prices of the standard forward product F PXE CZ BL Cal for year t²⁵ (i.e. cash settlement baseload for the Czech Republic for year t) at the Prague Power Exchange Central Europe during a period from 1 January to 30 June of the year preceding the year for which the price is to be set;

X = co-efficient determined by RONI taking into account diagram of planned deliveries, subject to 12 per cent. cap;

IC = costs of the supplier related to deviation of the regulated consumers as approved by RONI;

OC = operational costs related to supplies, subject to cap of EUR 0.65 per connection point per month;

AP = adequate profit, which is subject to cap:

- of 8 per cent. of $ExP * (1 + X/100)$ but in any case not exceeding EUR 3/MWh in the households segment; and
- of 16 per cent. of $(ExP * (1 + X/100) + IC)$ but in any case not exceeding EUR 8/MWh in the small enterprises segment.

The specific price for individual services provided by a licence holder is determined separately for each licence holder and each regulated service in an individual price decision issued by RONI (the “**Individual Price Decision**”). Each Individual Price Decision is based on a price proposal submitted to RONI by the individual licence holder for the regulatory period (in cases stipulated by the law, the individual licence holder

²⁴ Pre-tax WACC is calculated based on the formula set out in the applicable RONI decrees. Pre-tax WACC set by RONI for 2012-2013 was 6.04 per cent. Pre-tax WACC set by RONI for 2014 was 6.03 per cent. 6.08 per cent. for 2015, 6.12 per cent. for 2016, 6.04 per cent. for 2017 and 6.27 per cent. for 2018.

²⁵ F PXE SK BL Cal product will be used in 2014 and following regulatory years.

may ask for the change of the Individual Price Decision or such change may be even adopted by the RONI *ex officio*). The price proposal (including changes thereto) must be approved by the general meeting (shareholders) of the respective licensee. The price proposal must comply with the applicable pricing regulations issued by RONI for the relevant price regulatory period.

Further Aspects of Regulatory Policy 2017 – 2021

Regulatory policy represents a strategy which elaborates regulatory measures to be implemented during a specified regulatory period, in particular with regard to the price regulation. The regulatory policy is drafted and adopted by the Regulatory Council and is subject to public consultations prior to its adoption. The regulatory policy may be subject to change even during the regulatory period if such change is necessary to achieve the purpose of regulation.

The current Regulatory Policy 2017-2021 aims to set up the conditions for unification of distribution charges in the whole territory of the Slovak Republic.

Support of Renewable Energy

Currently there are three main incentives offered to RES under the Renewable Energy Act:

- priority rights (i.e., priority connection to the regional distribution system and transmission network, priority transmission and distribution and priority off-take of electricity);
- the compulsory assumption of liability for the RES's imbalance (that is, the difference between the amount of electricity that the RES is expected to supply and the amount actually supplied to the system) by the distribution system operator. This form of support is only available to RES with a total installed capacity lower than 1 MW, or 30 kW in respect of facilities using solar energy²⁶;
- the supply of electricity under a feed-in tariff – RES which fulfil the requirements set out in the Renewable Energy Act (RES with pre-determined installed capacity²⁷) also receive support in the form of a feed-in tariff. The amount of feed-in tariff varies depending on the source of renewable energy or use of cogeneration technology, type of technology employed, installed capacity of the facility and when the facility was put into operation.

The feed-in tariff, including the premium component, is applicable to eligible RES for a period of 15 years from the year in which the RES began to operate. In case of RES with a total installed capacity below 500 kW, the guaranteed purchase of electricity for a price to cover losses (the first component of the feed-in tariff) is applicable for the whole lifetime of the generation facility.

Západoslovenská distribučná is obliged to provide the above incentives to RES. In principle, the costs of Západoslovenská distribučná incurred as a result of payment of the applicable feed-in tariffs to the eligible producers are reimbursed through a system operation tariff (SOT) payable to Západoslovenská distribučná through the market operator who bills (i) the suppliers of all end consumers of electricity in proportion to the electricity purchased by them and (ii) the “self-producers” of electricity in proportion to the electricity they produced and consumed. The amount of the SOT is determined on an annual basis by RONI.

The SOT system may lead to losses or reduced cash flow for Západoslovenská distribučná, mainly for the following reasons:

- Forecasted production element of the SOT calculation: the SOT is set by RONI based on forecasted volumes of future production of “green electricity” notified by the respective producers as well as on the forecasted production of new facilities to be connected to the distribution system. The difference between forecasted and actual production is subject to reconciliation on two years basis. If the actual

²⁶ In the past, the installed capacity criterion was set at 4 MW but was later reduced to 1 MW and 30 kW for solar power facilities. Nevertheless, the general principle is that the installed capacity criterion is assessed under the laws in force at the time when the facility was put into operation.

²⁷ These include (i) generally RES with the installed capacity of up to 125 MW; (ii) RES with the installed capacity of up to 200 MW in case of highly efficient cogeneration with the energetic share of the fuel originating from renewable sources exceeding 30 per cent or the energetic share of the gases originating in the fuel metallurgical process exceeding 40 per cent; and (iii) hydro-energy facilities with the installed capacity of up to 5 MW.

production of electricity is greater than forecasted (which has always been the case in recent years), Západoslovenská distribučná may incur temporary cash flow issues as it makes payments to eligible producers based on the actual production but receives SOT payments based on the lower forecasted production.

- Forecasted consumption element of the SOT calculation: the support costs reflected in the calculation of the SOT are allocated by RONI into the tariff (i.e. the price in EUR/MWh is determined) based on the planned consumption of the customers and “self-producers” (as predicted by the distribution system operators). If the actual consumption is lower than that predicted, Západoslovenská distribučná will face the issue of insufficient revenue collected through SOT to cover the costs incurred by Západoslovenská distribučná (when paying the costs of RES support).

The cash flow issues related to the SOT should, however, be of a temporary nature, since any deficit or surplus resulting from the RES support concerning both the revenue side (i.e. forecasted consumption) as well as the costs side (i.e. forecasted production) is reconciled via the correction mechanism in two years. The mechanism means that when setting the SOT by RONI in year $t-1$ for year t , RONI will reflect the deficit or surplus resulting from the RES support in year $t-2$.

Net deficit (including both costs and revenues) from the SOT system in 2011 reflected in 2013 tariff setting by RONI via the $t-2$ correction mechanism was EUR 10.9 million. Net deficit (including both costs and revenues) from the SOT system in 2012 which was reflected in 2014 tariff setting by RONI via the $t-2$ correction mechanism was EUR 12.3 million. Net deficit (including both costs and revenues) from the SOT system in 2013 which was reflected in 2015 tariff setting by RONI via the $t-2$ correction mechanism was EUR 26.8 million. Net deficit (including both costs and revenues) from the SOT system in 2014 which was reflected in 2016 tariff setting by RONI via the $t-2$ correction mechanism was EUR 27.4 million. Net deficit (including both costs and revenues) from the SOT system in 2015 which was reflected in 2017 tariff setting by RONI via the $t-2$ correction mechanism was EUR 27.6 million. Net deficit (including both costs and revenues) from the SOT system in 2016 which was reflected in 2018 tariff setting by RONI via the $t-2$ correction mechanism was EUR 39.8 million. The expected net deficit from the SOT system (containing both costs and revenues) in 2017 is approximately EUR 46 million and it is expected to be corrected via the $t-2$ regulatory correction mechanism in 2019. The expected higher deficit from the SOT system in 2017 compared to the deficits in previous years is caused by the higher volume of produced electricity and developments in electricity prices. There are ongoing discussions between the distribution operators and the Ministry of Economy with a view to resolve this issue by changing the current SOT system. However, it is unclear if any such change will be adopted and implemented.

Impact of the Third EU Energy Package on the Group

The core energy legislation in the Slovak Republic which implemented the Third EU Energy Package (i.e. the Energy Act and Regulation Act) became effective as of 1 September 2012.

The Energy Act provides strong protection of electricity consumers and “vulnerable customers” whose living functions are dependent on electricity. Západoslovenská distribučná, as a distribution system operator, is required to maintain a list of vulnerable customers which are connected to its network. Západoslovenská distribučná must inform these vulnerable customers in writing about every planned restriction or interruption of the energy distribution into their off-take points and can only proceed with the restriction or interruption after the vulnerable customer has confirmed the receipt of such information. It is also obliged to enable communication between the vulnerable customers and Západoslovenská distribučná in order to report outages. Západoslovenská distribučná is also required to make reasonable efforts to prevent damage caused by any restriction or interruption of electricity distribution to its customers.

The Energy Act requires Západoslovenská distribučná to connect energy facilities or electricity supply equipment to the distribution network within five working days, *provided that* all technical conditions and business terms and conditions for such connection are met. It must be noted that after 1 September 2012 there were some issues with the application of the Energy Act’s new provision which explicitly defines the obligation to conclude contract on connection with the owner of the electricity supply equipment or energy facility.

The Energy Act and Regulation Act also stipulate stricter independence requirements for distribution system operators within a vertically integrated enterprise and certain other pro-customer changes. The most important aspects include:

- an obligation to have the resources, including human, technical, material and financial, necessary for the operation, maintenance and development of the distribution system;
- a requirement that the persons responsible for distribution system operation must not have any direct or mediated equity share in the undertaking of any other entity which is a part of the same integrated undertaking as the distribution system operator itself and must not receive any profit share or other kinds of consideration;
- the rewards of persons responsible for the distribution system operation must not in any way depend on the economic results of entities other than the distribution system operator itself;
- an obligation to appoint a compliance officer to ensure compliance with Section 32(4) to 32(8) of the Energy Act;
- an obligation to act in a way so that the company cannot be interchanged with the energy supplier or energy producer that are a part of the same vertically integrated undertaking;
- an obligation to submit to RONI each contract concluded between the distribution system operator and any other entity that is a part of the same vertically integrated undertaking within 15 days after its conclusion;
- 21 calendar days for the supplier switching process and physical meter reading within the supplier switching process;
- an obligation to submit to RONI for approval each service level agreement (or any changes thereto) through which a distribution system operator or supplier ensures performance of regulated activities, if such agreement is concluded with an entity that is part of the same vertically integrated undertaking and if such service level agreement is worth more than EUR100,000. Such agreement or any change to it is invalid without the prior approval of RONI. However, RONI will only approve a service level agreement if the terms and conditions of such agreement (or change thereto) comply with usual terms and conditions in normal business relations;
- an obligation of the regulated undertaking that is a part of the vertically integrated enterprise to procure any contract for supply of goods or services with a value EUR 100,000 via the business tender (under Slovak Commercial Code), unless the procurement is carried out under the public procurement rules;
- the price regulation of electricity and gas supply for household customers and certain SMEs; and
- the automatic compensation mechanism for a failure to comply with the quality standards.

The Group complies with the regulatory requirements in order maintain compliance with the Third EU Energy Package and Slovak energy legislation.

Quality Standards Requirements

The Group complies with the quality standards requirements in accordance with the applicable legislation (i.e., RONI Decree No. 236/2016 Coll. regulating the quality standards with respect to transmission, distribution and supply of electricity and RONI Decree No. 278/2012 Coll. regulating the quality standards with respect to storage, transport, distribution and supply of gas, as amended).

The new regulatory regime stipulates automatic compensation payments to customers for any failure to comply with required quality standards. The Group believes that because of its sustained improvement in electricity distribution quality and related services, these automatic compensation payments do not pose a material risk. In 2017, the amount of the compensation payments was EUR 240,000 for the distribution business, while there was no compensation for the electricity supply business and for the gas supply business.

Environment

Protecting the environment is a priority for the Group. ZSE, Západoslovenská distribučná and ZSE Energia are certificated in accordance with ISO standards 14 001:2015 – Environmental management.

The Group is part of the EU LIFE Project – Energy in the land with the aim to protect bird territories. In 2017, the Group installed deflectors on overhead lines as part of this project. During 2017, three external interferences with a distribution transformer caused an oil leakage into the ground. One of them was classified as an extraordinary threat to underground water sources and was reported and subsequently investigated by the Slovak Environmental Inspection.

The Group incurred considerable costs (in 2017: EUR 1.102 million) for ecological operation, maintenance and repair of equipment (including waste processing).

Health and Safety

The Group sets annual health and safety targets which are designed to create safe working environments for the Group's employees and strengthen a culture within the Group that emphasises safety. Regular training is provided to employees and, in 2017, the Group invested approximately EUR 819,000 in health and safety matters, including personal and preventive work equipment, legislative training courses and preventive health check-ups. In 2017, there was one registered work accident in the Group and, while contractors spent 209,523 hours working at workplaces or facilities of the Group, there were no registered work accidents of contractors employees. ZSE, Západoslovenská distribučná and ZSE Energia are certificated in accordance with the Occupational Health and Safety Advisory Services (OHSAS) 18 001 standards.

TAXATION

The following is a general description of certain tax considerations related to the Notes. However, it does not purport to be a complete analysis of all the tax considerations relating to the Notes. It does not consider every aspect of taxation that may be relevant to a particular holder of the Notes under special circumstances or who is subject to special treatment under the applicable law. Prospective purchasers should consult their own tax advisers as to which countries tax laws could be relevant for acquiring, holding and disposing of the Notes and for receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. This summary is based on the law in effect on the date of this Base Prospectus and is subject to any change in the law that may take effect after such date.

The Slovak Republic

This taxation summary solely addresses the principal Slovak tax consequences of the acquisition, ownership and disposition of the Notes issued by the Issuer after the date hereof to the holder of the Notes. It does not consider every aspect of taxation that may be relevant to a particular holder of the Notes under special circumstances or who is subject to special treatment under the applicable law. Where English terms and expressions are used in this summary to refer to Slovak concepts, the meaning to be attributed to such terms and expressions shall be the meaning to be attributed to the equivalent Slovak concepts under Slovak tax law.

This summary is based on the tax laws of the Slovak Republic in force and in effect on the date of this Base Prospectus and their prevailing interpretations available on or before this date. All of the foregoing are subject to changes in the law which could apply retroactively and which could therefore affect the continued validity of this summary, which will not be updated to reflect any such change. This summary assumes that each transaction with respect to the Notes is conducted at arm's length.

Income Tax

Slovak Individuals

Interest income on the Notes received by an individual who is considered to be a Slovak tax resident (a “**Slovak Individual**”) is subject to Slovak withholding tax at the rate of 19 per cent. The tax withheld is considered as final and thus does not need to be reflected in the individual's tax return. If the Note is issued with a coupon and for a lower than nominal amount, only the interest income (coupon) is subject to withholding tax. The income representing the difference between the nominal amount of the Note payable to an individual (investor) upon its redemption and the issue price of the Note upon its issuance is not subject to withholding tax, but the individual must include such income in his/her separate tax base as a taxable income subject of fixed rate of 19 per cent.

The Issuer is obliged to withhold tax at source except in cases in which the Notes are held for such person by a securities broker as a client; in such case, this securities broker is obliged to withhold the tax.

Capital gains (i.e., the difference between (i) the sale price and (ii) the acquisition price of the Notes, increased by related fees for trading on the capital market and costs connected with the sale) of the Slovak Individual from the sale of the Notes are subject to personal income tax and must be included in his/her personal income tax base.

The capital gains of a Slovak Individual is subject to progressive taxation with the tax rate of 19 per cent. applicable to income not exceeding a multiple of 176.8 times the minimum standard of living applicable as at January 1 of the relevant year, and a tax rate of 25 per cent. applicable to an income exceeding such threshold.

Depending on the Slovak Individual's overall tax position, he/she may be entitled to a tax exemption up to the amount of EUR 500 from income from the sale of the Notes in one tax period. In general, any loss by a Slovak Individual is tax non-deductible except for specific exemptions defined in the Slovak tax law.

Capital gains of a Slovak Individual from the sale of the Notes are exempt from taxation for as long as the Notes are traded on a regulated market (such as the Main Listed Market of the Bratislava Stock Exchange) and the holder holds the Notes for more than a year; however, the exemption does not apply if the holder holds the Notes as part of his/her business assets.

Interest on the Notes of a Slovak Individual with mandatory health insurance in the Slovak Republic should not be subject to health insurance contributions. However, with regard to repeated recent changes of the withholding tax regime and levies on interest arising from the Notes, each holder of the Note must assess his/her own potential obligations in this field pursuant to the relevant legislation, including the applicable transitional provisions. Health insurance contributions related to capital gains from the Notes should be assessed separately for specific cases.

Slovak Corporations (Legal Entities)

A corporation which is considered to be a Slovak tax resident (a “**Slovak Business**”) is subject to corporate income tax on interest income received on the Notes and on capital gains (i.e., the difference between the sale price and the accounting value of the Notes) from the sale of the Notes. In general, the income derived from the Notes would be included in the tax base of the Slovak Business and taxed at a corporate income tax rate of 21 per cent.

Any loss incurred by a Slovak Business upon the sale of the Notes is generally tax non-deductible except for certain exceptions, such as (i) losses up to the amount of the income from the Notes already included in the tax base, or (ii) if the Slovak Business is a licensed security trader.

Slovak Non-for-profit Organizations and the National Bank of Slovakia

Any interest income from the Notes attributable to (i) a legal person tax resident in the Slovak Republic established for purposes other than engaging in business activities or (ii) the National Bank of Slovakia (each a “**Slovak Non-Business Entity**”) will be subject to a self-assessed 19 per cent. withholding tax that is payable by the Slovak Non-Business Entity by the end of the calendar month following the tax period when the interest income was received.

Capital gains of the Slovak Non-Business Entity from the sale of the Notes are subject to a self-assessed 19 per cent. withholding tax that is payable by the Slovak Non-Business Entity by the end of the calendar month following the tax period when that income was received.

Non-Slovak Tax Residents with a Slovak Permanent Establishment

If an individual or a corporation, which is not considered to be a Slovak tax resident (a “**Non-Slovak Tax Resident**”) has a permanent establishment in the Slovak Republic, receives any interest income on the Notes or has capital gains from the sale of the Notes that is attributable to its Slovak permanent establishment, such income is subject to income tax in the Slovak Republic at the relevant tax rates applicable to individuals or corporations. This income should be included in the tax base of the Slovak permanent establishment as a result of its business activities performed in the Slovak Republic and taxed in its income tax return. Any loss incurred upon the sale of the Notes is generally tax non-deductible except for certain exceptions, such as (i) losses up to the amount of the income from the Notes already included in the tax base, or (ii) if the Slovak permanent establishment is conducting business in the Slovak Republic as a licensed security trader.

Non-Slovak Tax Residents without a Slovak Permanent Establishment

Interest income received on the Notes by a Non-Slovak Tax Resident without a Slovak permanent establishment to which the interest income could be attributed is not subject to Slovak taxation.

Capital gains of a Non-Slovak Tax Resident (Individual or Corporation) without a Slovak permanent establishment to which the capital gains from the sale of the Notes to a Slovak tax resident or a Slovak permanent establishment of another Non-Slovak Tax Resident could be attributed are subject to 21 per cent. corporate income tax or to progressive personal income tax (19 per cent./25 per cent.) in the Slovak Republic, unless provided differently by the applicable Double Tax Treaty. This income should be included in the tax base of the Non-Slovak Tax Resident (Individual or Corporation) and taxed in its Slovak income tax return. Any loss incurred upon the sale of the Notes is generally tax non-deductible. In addition, if the capital gain is realised by the resident of the country outside the EU and EEA such capital gain is subject to tax securement of 19 per cent. or 35 per cent. (if resident in the country with which the Slovak Republic did not conclude Double Tax Treaty or Tax Information Exchange Agreement). Tax securement is considered as final tax in case the Slovak tax return is not filed.

Capital gains of a Non-Slovak Tax Resident without a Slovak permanent establishment to which the capital gains could be attributed from the sale of the Notes to another Non-Slovak Tax Resident without a Slovak permanent establishment to which the purchased Notes could be attributed is not subject to Slovak taxation. Notwithstanding the above, holders of the Notes should seek advice from a qualified tax advisor in their country of residence concerning the particular tax consequences of the payments under the Notes.

Accounting Aspects

Slovak Tax Residents that are subject to Slovak Accounting Standards are required to declare interest income on an accrual basis for accounting purposes and, accordingly, include this income in their general tax base for Slovak income tax purposes in the given period.

Slovak Tax Residents that prepare their financial statements under Slovak Accounting Standards for Entrepreneurs or under International Financial Reporting Standards may be required to re-value the Notes to a fair value for accounting purposes on the balance sheet date, whereby the revaluation would be accounted for as revenue or expense. Such revenue is generally taxable and the corresponding expense should be generally tax deductible for Slovak tax purposes.

Other Applicable Taxes

No Slovak gift, inheritance or estate tax, stamp duty, registration, transfer or similar taxes are payable in connection with the acquisition, ownership, sale or disposal of the Notes ***Foreign Account Tax Compliance Act***

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a “**foreign financial institution**” (as defined by FATCA) may be required to withhold on certain payments it makes (“**foreign passthru payments**”) to persons that fail to meet certain certification, reporting or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (“**IGAs**”), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as Notes, such withholding would not apply prior to 1 January 2019 and Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining foreign passthru payments are filed with the U.S. Federal Register generally would be grandfathered for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the Issuer). However, if additional Notes (as described under Condition 18 (*Further Issues*)) that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisers regarding how these rules may apply to their investment in Notes.

The proposed financial transactions tax (“FTT”)

On 14 February 2013, the European Commission published a proposal (the “**Commission's Proposal**”) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and the Slovak Republic (the “**participating Member States**”). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in Notes (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Regulation (EC) No 1287/2006 are expected to be exempt.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at

least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

SUBSCRIPTION AND SALE

Notes may be sold from time to time by the Issuer to any one or more of Citigroup Global Markets Limited and UniCredit Bank AG (the “**Dealers**”). The arrangements under which Notes may from time to time be agreed to be sold by the Issuer to, and purchased by, Dealers are set out in an amended and restated dealer agreement dated 15 February 2018 (the “**Dealer Agreement**”) and made between the Issuer and the Dealers. Any such agreement will, *inter alia*, make provision for the form and terms and conditions of the relevant Notes, the price at which such Notes will be purchased by the Dealers and the commissions or other agreed deductibles (if any) payable or allowable by the Issuer in respect of such purchase. The Dealer Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche of Notes.

United States of America

The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

The Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code of 1986 and regulations promulgated thereunder.

Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that, except as permitted by the Dealer Agreement, it will not offer, sell or deliver Notes, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Notes comprising the relevant Tranche, as certified to the Fiscal Agent or the Issuer by such Dealer (or, in the case of a sale of a Tranche of Notes to or through more than one Dealer, by each of such Dealers as to the Notes of such Tranche purchased by or through it, in which case the Fiscal Agent or the Issuer shall notify each such Dealer when all such Dealers have so certified) within the United States or to, or for the account or benefit of, U.S. persons, and such Dealer will have sent to each dealer to which it sells Notes during the distribution compliance period (as defined in Regulation S) relating thereto a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons (Reg. S Compliance Category 2).

In addition, until 40 days after the commencement of the offering of Notes comprising any Tranche, any offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

Prohibition of sales to EEA Retail Investors

Unless the Final Terms or the Drawdown Prospectus in respect of any Notes specifies “Prohibition of Sales to EEA Retail Investors” as “Not Applicable”, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by the Base Prospectus as completed by the Final Terms (or are the subject of the offering contemplated by a Drawdown Prospectus, as the case may be) in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

- (a) the expression “**retail investor**” means a person who is one (or more) of the following:
 - (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); or
 - (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the “**Insurance Mediation Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

- (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the “**Prospectus Directive**”); and
- (b) the expression an “**offer**” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes.

If the Final Terms or the Drawdown Prospectus in respect of any Notes specifies “Prohibition of Sales to EEA Retail Investors” as “Not Applicable”, in relation to each Member State of the EEA which has implemented the Prospectus Directive (each, a “**Relevant Member State**”), each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “**Relevant Implementation Date**”) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms or the Drawdown Prospectus in relation thereto (or are the subject of the offering contemplated by a Drawdown Prospectus, as the case may be) to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (a) *Qualified investors*: at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) *Fewer than 150 offerees*: at any time to fewer than 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (c) *Other exempt offers*: at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive.

provided that no such offer of Notes referred to in (a) to (c) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “**offer of Notes to the public**” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “**Prospectus Directive**” means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

The United Kingdom

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that:

- (a) *No deposit-taking*: in relation to any Notes having a maturity of less than one year:
 - (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and:
 - (ii) it has not offered or sold and will not offer or sell any Notes other than to persons:
 - (A) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or
 - (B) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses,

where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the “**FSMA**”) by the Issuer;

- (b) *Financial promotion*: it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- (c) *General compliance*: it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

The Slovak Republic

No public offering of the Notes has been made or will be made within the meaning of the Slovak Act No. 566/2001 Coll. on Securities and Investment Services, as amended (the “**Slovak Securities Act**”) and no application for an approval of a prospectus for any of the Notes has been filed with the National Bank of Slovakia. Under the Slovak Securities Act, “public offering” means any communication to a wider group of persons containing information on the securities to be offered and the terms of their acquisition, which is sufficient for an investor to make a decision to purchase or subscribe to such securities.

None of the Notes have been or will be, based on an application by the Issuer, admitted to trading on any regulated market in the Slovak Republic. The Notes are intended to be issued as bonds issued abroad within the meaning of the Slovak Act No. 530/1990 Coll. on bonds, as amended.

Each Dealer has represented, warranted and undertaken, and each further Dealer appointed under the Programme will be required to represent, warrant and undertake, that it has taken and will take no action which would result in an approval of the National Bank of Slovakia (or any organiser of a regulated market in the Slovak Republic) being required in respect of the Notes in accordance with the Slovak Bonds Act or the Slovak Securities Act and it has complied and will comply with all other applicable provisions (if any) of the Slovak Bonds Act, the Slovak Securities Act and other laws of the Slovak Republic (as they may be further amended or superseded from time to time) with respect to anything done by it in relation to the Notes in, from or otherwise involving the Slovak Republic.

General

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has complied and will comply with all applicable laws and regulations in each country or jurisdiction in or from which it purchases, offers, sells or delivers Notes or possesses, distributes or publishes this Base Prospectus or any Final Terms or Drawdown Prospectus or any related offering material, in all cases at its own expense. Other persons into whose hands this Base Prospectus or any Final Terms or Drawdown Prospectus comes are required by the Issuer and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Base Prospectus or any Final Terms or Drawdown Prospectus or any related offering material, in all cases at their own expense.

The Dealer Agreement provides that the Dealers shall not be bound by any of the restrictions relating to any specific jurisdiction (set out above) to the extent that such restrictions shall, as a result of change(s) or change(s) in official interpretation, after the date hereof, of applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealers described in the paragraph headed “*General*” above.

GENERAL INFORMATION

Authorisation

1. The establishment of the Programme was authorised by resolution of the Extraordinary General Meeting of the Issuer passed on 27 September 2013 and the update of the Programme was authorised by resolution of the Extraordinary General Meeting of the Issuer passed on 18 December 2017. The Issuer has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes.

Legal and Arbitration Proceedings

2. Save as disclosed in “*Description of the Issuer – Legal Proceedings*”, there are no governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Issuer is aware), which may have, or have had during the 12 months prior to the date of this Base Prospectus, a significant effect on the financial position or profitability of the Issuer and its Subsidiaries.

Significant/Material Change

3. Since 31 December 2017, there has been no material adverse change in the prospects of the Issuer or the Issuer and its Subsidiaries nor any significant change in the financial or trading position of the Issuer or the Issuer and its Subsidiaries.

Auditors

4. The consolidated financial statements of the Group for the years ended 31 December 2017 and 31 December 2016 have been audited by PricewaterhouseCoopers Slovensko, s.r.o., with its registered office at Karadžičova 2/A, 815 32 Bratislava.

PricewaterhouseCoopers Slovensko, s.r.o. is registered in the register of auditors held by the Audit Oversight Authority.

Documents on Display

5. Physical copies of the following documents may be inspected during normal business hours at the offices of the Fiscal Agent for as long as any Notes are listed on the Official List of the Irish Stock Exchange and admitted to trading on the Main Securities Market of the Irish Stock Exchange:
 - (a) the constitutive documents of the Issuer;
 - (b) the audited consolidated financial statements of the Issuer for the years ended 31 December 2017 and 31 December 2016;
 - (c) the Agency Agreement;
 - (d) the Deed of Covenant;
 - (e) the Programme Manual (which contains the forms of the Notes in global and definitive form); and
 - (f) the Issuer-ICSDs Agreement.

Clearing of the Notes

6. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate common code and the International Securities Identification Number in relation to the Notes of each Tranche will be specified in the relevant Final Terms or the relevant Drawdown Prospectus. The relevant Final Terms or the relevant Drawdown Prospectus shall specify any other clearing system as shall have accepted the relevant Notes for clearance together with any further appropriate information. The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium, the address of Clearstream, Luxembourg is 42 Avenue John F. Kennedy L-1855

Luxembourg, Luxembourg and the address of SIS is Baslerstrasse 100, CH-4600 Olten. The address of any alternative clearing system will be specified in the relevant Final Terms or the relevant Drawdown Prospectus.

Language

7. The language of this Base Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

Listing Agent

8. Arthur Cox Listing Services Limited is acting solely in its capacity as Irish listing agent for the Issuer in connection with the Notes and is not itself seeking admission of the Notes to the official list or to trading on the Main Securities Market of the Irish Stock Exchange for the purposes of the Prospectus Directive.

FINANCIAL STATEMENTS AND AUDITORS' REPORT

Západoslovenská energetika, a.s.

**Consolidated Financial Statements
and Independent Auditor's Report
31 December 2017 and 2016**

February 2018

Translation note:

This version of our report is a translation from the original, which was prepared in Slovak. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Independent Auditor's Report

To the Shareholders, Supervisory Board, and Board of Directors of
Západoslovenská energetika, a.s.

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Západoslovenská energetika, a.s. and its subsidiaries (together the "Group") as at 31 December 2017 and 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee.

What we have audited

Consolidated financial statements of Západoslovenská energetika, a.s. comprise:

- the consolidated statements of financial position as at 31 December 2017 and 31 December 2016;
- the consolidated statements of profit or loss and other comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Group are in accordance with the applicable law and regulations in the Slovak Republic and that we have not provided non-audit services that are prohibited under Regulation (EU) No. 537/2014.

PricewaterhouseCoopers Slovensko, s.r.o., Twin City/A, Karadžičova 2, 815 32 Bratislava, Slovak Republic
T: +421 (0) 2 59350 111, F: +421 (0) 2 59350 222, www.pwc.com/sk

The firm's ID No. (IČO): 35 739 347.

Tax Identification No. of PricewaterhouseCoopers Slovensko, s.r.o. (DIČ): 2020270021.

VAT Reg. No. of PricewaterhouseCoopers Slovensko, s.r.o. (IČ DPH): SK2020270021.

Spoločnosť je zapísaná v Obchodnom registri Okresného súdu Bratislava I, pod Vložkou č.: 16611/B, Oddiel: Sro.

The firm is registered in the Commercial Register of Bratislava I District Court, Ref. No.: 16611/B, Section: Sro.

Our audit approach



Overview

Overall group materiality is EUR 6,500 thousand (2016: EUR 6,100 thousand) which represents 5% of consolidated profit before tax.

We conducted audit work at all three reporting units consolidated in the Group's financial statements:

- Západoslovenská energetika, a.s.
- Západoslovenská distribučná, a.s.
- ZSE Energia, a.s.

The Group estimates its revenue and receivables from sale of electricity to retail and certain other customers because the amount of electricity consumed by these customers is measured over a period of several months after the end of the reporting period. This matter required our significant attention during the audit.

Audit scope

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

Overall group materiality

EUR 6,500 thousand (2016: EUR 6,100 thousand)

How we determined it

5% of consolidated profit before tax

Rationale for the materiality benchmark applied

We chose profit before tax as the benchmark because the performance of the Group is most commonly measured by users based on the group's profitability. We chose 5% which is within the range of acceptable quantitative materiality thresholds set out in our firm's internal guidance.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

How our audit addressed the Key audit matter

Estimated revenue from sale of electricity

As explained in Notes 2 and 5 to the financial statements, management estimated revenue from its retail and certain other customers, because measurement of the amount consumed is performed only after the reporting period.

The estimate is complex and is calculated by a bespoke software with inputs both from management and an external data provider. For details refer to Note 5 of Notes to the Consolidated Financial Statements.

We have tested design of the bespoke application for estimating electricity consumption by comparing its projections against actually measured electricity consumption.

We have tested how management made the estimate and the **data** on which the estimate is based including reconciliation of the input parameters to source information provided by management and an independent data provider.

We have evaluated whether the **method** of measurement used by management is appropriate with conclusion that management selected appropriate measurement basis for the measurement and the estimate is reasonable in the context of IFRS.

We have tested whether the **assumptions** used are reasonable in light of the measurement objectives of IFRS. We assessed reasonableness of the resulting estimate by considering the level of network transmission losses that are determined by the difference between the volumes of electricity purchased and sold.

We have tested operating effectiveness of controls over process how management made the estimate together with substantive procedures. We determined that any subsequent application changes are subject to internal control processes, including testing by a specialist independent from the software developer.

We have evaluated based on our procedures whether management appropriately applied the requirements of IFRS in recognizing the accounting estimate in the consolidated financial statements.

Our work did not result in any adjustment to management's estimate of revenue and corresponding receivables.

Reporting on other information in the consolidated annual report

Management is responsible for consolidated annual report prepared in accordance with the Slovak Act on Accounting No. 431/2002 as amended (the "Accounting Act"). The consolidated annual report comprises (a) the consolidated financial statements and (b) other information. Management has not prepared the consolidated annual report by the date of our audit report.

Our opinion on the consolidated financial statements does not cover the other information. When the consolidated annual report becomes available to us, our responsibility will be to read the other information identified above and, in doing so, to consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the consolidated annual report, we will also consider whether it includes the disclosures required by the Accounting Act, when it becomes available to us. This will include checking the consistency of the consolidated annual report with the consolidated financial statements, and whether the consolidated annual report has been prepared in accordance with the Accounting Act.

In addition, our updated report will either state that we have nothing to report in respect of the above or describe any material misstatements identified by us in the consolidated annual report based on our knowledge of the reporting entity and its circumstances, which we obtained during our audit.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

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



As part of our audit, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

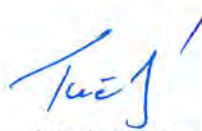
Our appointment as independent auditors

We were first appointed as auditors of the Group in 2002. Our appointment has been renewed annually by shareholders resolution representing a total period of uninterrupted engagement appointment of 15 years. Under the transitional provisions of the EU Regulation 537/2014, our appointment cannot be renewed from 17 June 2023, provided the Company will then be a public interest entity.


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

Bratislava, 6 February 2018




Mgr. Juraj Tučný, FCCA
UDVA licence No. 1059

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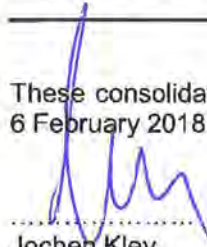
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Západoslovenská energetika, a.s.
Consolidated Statements of Financial Position

<i>In thousands of EUR</i>	<i>Note</i>	31 December 2017	31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	6	780,798	748,203
Intangible assets	7	13,138	12,150
Equity method investments	8	558	1,127
Deferred income tax asset	15	12,499	8,947
Other non-current assets		703	740
Total non-current assets		807,696	771,167
Current assets			
Inventories	9	10,777	7,830
Trade and other receivables	10	108,043	104,273
Cash and cash equivalents	11	95,438	80,724
Total current assets		214,258	192,827
TOTAL ASSETS		1,021,954	963,994
EQUITY			
Share capital	12	196,969	196,969
Legal reserve fund	13	39,421	39,421
Retained loss		(186,164)	(233,268)
TOTAL EQUITY		50,226	3,122
LIABILITIES			
Non-current liabilities			
Issued bonds	14	314,396	628,828
Deferred income tax liabilities	15	30,306	29,520
Post-employment defined benefit obligations	16	9,752	9,507
Other long term employee benefits	17	2,408	2,404
Deferred connection fees and customer contributions	18	95,464	82,660
Total non-current liabilities		452,326	752,919
Current liabilities			
Issued bonds and accrued interest on issued bonds payable within one year	14	319,114	4,114
Trade and other payables	19	187,689	191,524
Deferred connection fees and customer contributions	18	6,420	5,551
Current income tax liabilities		6,179	6,764
Total current liabilities		519,402	207,953
TOTAL LIABILITIES		971,728	960,872
TOTAL LIABILITIES AND EQUITY		1,021,954	963,994

These consolidated financial statements have been approved for issue by the Board of Directors on 6 February 2018.


Jochen Kley
Chairman of the Board of Directors and CEO


Marian Rusko
Member of the Board of Directors

Západoslovenská energetika, a.s.
Consolidated Statements of Profit or Loss and Other Comprehensive Income

<i>In thousands of EUR</i>	Note	2017	2016
Revenue from electricity and other related revenue	20	966,088	919,449
Revenue from natural gas		98,909	81,257
Purchases of electricity and related fees	21	(683,147)	(640,932)
Natural gas purchased		(90,119)	(74,566)
Employee benefits	22	(63,550)	(60,213)
Depreciation of property, plant and equipment	6	(44,830)	(44,960)
Amortization of intangible assets	7	(4,263)	(3,830)
Other operating expenses	23	(53,044)	(56,509)
Share of profit of equity method investments	8	762	235
Other operating income	24	6,506	7,415
Own work capitalised		17,644	18,361
Profit from operations		150,956	145,707
Finance income / (costs)			
Interest income		84	89
Interest and similar expense	25	(21,106)	(23,795)
Finance costs, net		(21,022)	(23,706)
Profit before tax		129,934	122,001
Income tax expense	15	(32,373)	(23,379)
Profit for the year		97,561	98,622
Other comprehensive income			
<i>Items that will not be subsequently reclassified to profit or loss</i>			
Actuarial remeasurements of post-employment defined benefit obligations	16	11	1,398
Deferred tax on actuarial remeasurements of post-employment defined benefit obligations	15	(3)	(294)
Total other comprehensive income for the year		8	1,104
Total comprehensive income for the year		97,569	99,726

Západoslovenská energetika, a.s.
Consolidated Statements of Changes in Equity

<i>In thousands of EUR</i>	Share capital	Legal reserve fund	Accumulated deficit	Total equity
Balance at 1 January 2016	196,969	39,421	(275,425)	(39,035)
Profit for the year	-	-	98,622	98,622
Other comprehensive income for the year	-	-	1,104	1,104
Total comprehensive income for 2016	-	-	99,726	99,726
Dividends declared and paid (Note 12)	-	-	(57,570)	(57,570)
Other	-	-	1	1
Balance at 31 December 2016	196,969	39,421	(233,268)	3,122
Profit for the year	-	-	97,561	97,561
Other comprehensive income for the year	-	-	8	8
Total comprehensive income for 2017	-	-	97,569	97,569
Dividends declared and paid (Note 12)	-	-	(50,465)	(50,465)
Balance at 31 December 2017	196,969	39,421	(186,164)	50,226

Západoslovenská energetika, a.s.
Consolidated Statements of Cash Flows

<i>In thousands of EUR</i>	<i>Note</i>	2017	2016
Cash flows from operating activities			
Profit before tax		129,934	122,001
Adjustments for non-cash items:			
- Depreciation of property, plant and equipment	6	44,830	44,960
- Loss on disposal of property, plant and equipment	6	295	224
- Amortisation of intangible assets	7	4,263	3,830
- Interest income		(84)	(89)
- Interest and similar expense		21,106	23,795
- Share of profit of equity method investments		(762)	(235)
- Other non-cash items		54	(36)
Cash generated from operations before changes in working capital		199,636	194,450
Changes in working capital:			
- Inventories		(2,947)	1,816
- Trade and other receivables		(3,458)	(11,518)
- Trade and other payables		(5,215)	32,564
- Provisions for liabilities and charges and deferred income		(6,043)	(6,069)
Cash generated from operations before interest and taxes		181,973	211,243
Interest income received		84	89
Interest expense paid		(20,100)	(20,394)
Income tax paid	33	(35,727)	(19,961)
Net cash from operating activities		126,230	170,977
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(62,510)	(68,843)
Dividend income received from equity method investees		450	235
Proceeds from sale of property, plant and equipment and intangible assets		469	929
Proceeds from reduction of other capital funds of an associate		540	537
Other investing cash flows		-	(5)
Net cash used in investing activities		(61,051)	(67,147)
Cash flows from financing activities			
Dividends paid	12	(50,465)	(57,570)
Net cash used in financing activities		(50,465)	(57,570)
Net change in cash and cash equivalents		14,714	46,260
Cash and cash equivalents at the beginning of the year		80,591	34,331
Cash and cash equivalents at the end of the year	11	95,305	80,591

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union for the years ended 31 December 2017 and 2016 for Západoslovenská energetika, a.s. (hereinafter "The Company" or "ZSE") and its subsidiaries (the "Group").

The Company was incorporated and is domiciled in the Slovak Republic. The Company is a joint stock company limited by shares and was set up in accordance with Slovak legislation in its current legal form on 15 October 2001. The Company was incorporated in the Commercial Register of the District Court Bratislava I on 1 November 2001.

Principal activity. The Group provides electricity distribution and supply services primarily in the Western Slovakia region. At the end of 2011, the Group's supply business commenced offering gas to large industrial customers and since April 2012 to SMEs and households in addition to electricity. The Group also operates two small hydroelectric plants and is engaged in some ancillary activities such as small-scale electricity network construction and maintenance related projects for third parties.

The Regulatory Office of Network Industries ("RONI") regulates certain aspects of the Group's relationships with its customers, including the pricing of electricity and gas and services provided to certain classes of the Group's customers.

The Group's principal subsidiaries are as follows: Západoslovenská distribučná, a.s. which operates electricity distribution network in Western Slovakia, ZSE Energia, a.s., which supplies electricity and gas to its retail and wholesale customers, ZSE Energy Solutions, s.r.o. which is in engineering business, ZSE MVE, s.r.o. which operates two small hydroelectric plants, ZSE Business Services, s.r.o. which is a trading company and ZSE Development, s.r.o., which is a company providing services. All of the subsidiaries are incorporated in the Slovak Republic and are wholly owned by the Company.

Registered address and place of business. The Company's registered address is Čulenova 6, Bratislava 816 47, Slovak Republic. Its identification number (IČO) is: 35 823 551 and its tax identification number (IČ DPH) is: SK2020285256.

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

Ownership structure. Ministry of Economy of the Slovak Republic owns 51% of the Company's shares, E.ON Slovensko, a.s. owns 39% and E.ON Beteiligungen GmbH owns 10% of the Company's shares at 31 December 2017 and 31 December 2016. The Company is jointly controlled by E.ON and the Slovak Government as a result of a shareholders agreement, which requires the parties to act jointly together to direct the activities that significantly affect the returns of the reporting entity. Refer to Note 12.

List of members of the Company's board of directors and of the supervisory board is publicly available from the Commercial Register operated by the Ministry of Justice of the Slovak Republic at www.orsr.sk.

Number of employees. The Group employed 1,811 staff on average during 2017, of which 36 were management (2016: 1,793 employees on average, of which 38 were management).

2 Significant Accounting Policies

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

2 Significant Accounting Policies (continued)

The Board of Directors may propose to the Company's shareholders to amend the consolidated financial statements until their approval by the general shareholders meeting. However, § 16, points 9 to 11 of the Accounting Act No 431/2002 prohibit reopening an entity's accounting records after the financial statements are approved by the general shareholders' meeting. If, after the financial statements are approved, management identifies that comparative information would not be consistent with the current period information, the Accounting Act allows entities to restate comparative information in the reporting period in which the relevant facts are identified.

Consolidated financial statements. Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct the relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of the investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have a practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than the majority of the voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of the investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated upon consolidation; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

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

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

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

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

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

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

2 Significant Accounting Policies (continued)

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

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

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

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

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

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

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

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

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

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

2 Significant Accounting Policies (continued)

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

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

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

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

Provision for loss contracts (measured at fair value through profit or loss (FVTPL)). Provision for loss contracts represents contracts for delivery or supply of a commodity that is readily convertible to cash, and which are not held for own use, as evidenced by an open market exposure, which was subsequently closed at a loss. These contracts have all three of the following characteristics: (a) the contract's value changes in response to the change in market price of commodity, which is not specific to a party to the contract; (b) it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and (c) it is settled at a future date. The liability is carried at fair value through profit or loss.

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

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

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

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

Issued bonds, loans and other borrowings. Issued bonds, loans and other borrowings are recognised initially at fair value, net of transaction costs incurred. Issued bonds, loans and other borrowings are carried at amortized cost using the effective interest method. The liabilities 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.

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

2 Significant Accounting Policies (continued)

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

Current income tax also includes a special levy on profits in regulated industries at a rate of 8.712% per annum on profits from regulated activities. From 2017 new methodology for calculating of the special levy applies, where the basis for the special levy is calculated as profit before tax * (revenues from regulated activities/total revenues). In 2016 the special levy applied to profits over EUR 3 million from regulated activities at a rate of 4.356% p.a. The rate of special levy used for the calculation for 2017 and 2018 is 8.712% p.a., then for the years 2019 - 2020 the rate 6.54% p.a. applies and 4.356% will apply from 2021. The levy is a deductible expense for the purposes of applying the standard corporate income tax rate.

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

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

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

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

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

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

2 Significant Accounting Policies (continued)

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

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

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

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

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

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

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

Leases. The Group is a lessee.

(i) Operating lease

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

(ii) Financial lease

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

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

2 Significant Accounting Policies (continued)

Construction contracts. The Group has an ancillary business related to construction of energy assets for third parties. When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. Contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

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

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

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

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

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

The Group recognises 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 will be met for each of the Group's activities as described below. The amount of revenue is not considered reliably measurable until all contingencies relating to the sale have been resolved.

Revenue from sale and distribution of electricity. Revenue from the sale and distribution of electricity is recognised when the electricity is delivered to the customer. Consumption of wholesale customers is metered and billed on a monthly basis. The consumption of retail customers in the segment of small businesses was metered during December 2017. The consumption of retail customers in the households' segment is metered and billed on an annual basis and the Group split its household customer base to twelve billing cycles. The billing of electricity supplied in 2017 for all twelve billing cycles will be completed in December 2018. The Group uses the Enersim demand profile data for estimating the delivered but unbilled accrued revenue. Network losses are included in the cost of purchased electricity.

Revenue from the sale of electricity on the spot market and the settlement of variations in consumption and cross - border profile recharges represent sales of electricity purchased on the short-term market for regular customers due to short-term deviations in their consumption diagrams and fees paid by the regular customers for deviating from the planned consumption curve. All these revenues realised on the spot market are recognised when the electricity is delivered or the contract is fulfilled.

Revenue from sale of gas. Revenue from the sale of gas is recognised when the gas is delivered to the customer. Consumption to wholesale customers is metered and billed on a monthly basis. The consumption of retail customers in the households' segment is metered and billed on an annual basis and the Company split its household customer base to twelve billing cycles. The billing of gas supplied in 2017 for all twelve billing cycles will be completed in December 2018.

2 Significant Accounting Policies (continued)

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

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

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

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

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

Foreign currency translation. These financial statements are presented in thousands of EUR, which is the Group's presentation currency. The functional currency of all entities within the Group is EUR.

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

Segment information. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors that makes strategic decisions.

Segment result is measured in accordance with accounting policies that are consistent with those applied by the Group in preparing its consolidated statement of profit or loss and other comprehensive income.

3 Adoption of New or Revised Standards and Interpretations

The following amended standards became effective for the Group from 1 January 2017, but did not have any material impact on the Group:

- Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The new disclosures are included in Note 29.
- Recognition of Deferred Tax Assets for Unrealised Losses – Amendment to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Amendments to IFRS 12 included in Annual Improvements to IFRSs 2014-2016 Cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017).

4 New Accounting Pronouncements

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

IFRS 9, Financial Instruments: Classification and Measurement (issued in July 2014 and effective for annual periods beginning on or after 1 January 2018).

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 (FVTPL).
- 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 FVTPL (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.

Based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2017 and on the basis of the facts and circumstances, magnitude, volumes, methodology that exist at that date, the management of the Group is expecting an impact as of 1 January 2018 in the areas of impairment provisions against trade and other receivables and cash in banks. The expected impact is not material.

No significant changes are expected for financial liabilities, other than changes in the fair value of financial liabilities designated at FVTPL that are attributable to changes in the instrument's credit risk, which will be presented in other comprehensive income.

4 New Accounting Pronouncements (continued)

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.

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

In accordance with the transition provisions in IFRS 15 the Group has elected simplified transition method with the effect of transition to be recognised as at 1 January 2018 in the consolidated financial statements for the year-ending 31 December 2018 which will be the first year when the Group will apply IFRS 15.

The Group plans to apply the practical expedient available for simplified transition method. The Group applies IFRS 15 retrospectively only to contracts that are not completed at the date of initial application (1 January 2018).

The adoption of IFRS 15 will result in changes in accounting policies and adjustments to be recognised in the consolidated financial statements. Based on the analysis of the Group's revenue streams for the year ended 31 December 2017, individual contracts' terms and on the basis of the facts and circumstances that exist at that date, in view of simplified transition method application, the management of the Group is expecting a non-significant impact on its consolidated financial statements from the adoption of the new standard on 1 January 2018, in particular from capitalization of commissions paid to external agents selling the Group's products as contract assets.

IFRS 16, Leases (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the statement of profit or loss and other comprehensive income. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the new standard on its financial statements.

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.

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

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28* (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- 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)
- Amendments to IFRS 2, Share-based Payment* (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).

4 New Accounting Pronouncements (continued)

- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).
- Annual Improvements to IFRSs 2014-2016 Cycle* (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018 for amendments to IFRS 1 and IAS 28).
- IFRIC 22 - Foreign Currency Transactions and Advance Consideration* (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Transfers of Investment Property - Amendments to IAS 40* (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- IFRS 17, Insurance Contracts* (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021).
- 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).
- 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).
- 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).

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

5 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

Unbilled electricity. The unbilled revenue from delivery and distribution represent an accounting estimate based on estimated volume of delivered and distributed electricity expressed in MWh for low voltage network and estimated unit price that will be billed in the future.

The Group uses a bespoke customer application Enersim to estimate the unbilled deliveries based on assumed customer demand profiles. This accounting estimate is based on:

- (a) the estimated volume delivered and distributed to households in technical units (MWh) between the date of the last meter reading and the end of the reporting period;
- (b) the consumption estimate utilising the time patterns of consumption of various customer profiles observed on a sample basis;
- (c) the estimated losses in the distribution network; and
- (d) the unit price in EUR/MWh, that will be applied to billing the electricity delivery and distribution. Refer to Note 20.

The Group also engaged an independent expert to estimate network losses. Should the estimate of total network losses be lower by 0.1%, representing approximately 10 GWh of electricity (2016: 10 GWh), with other parameters unchanged, the revenues for commodity and distribution services would increase by EUR 850 thousand (2016: EUR 913 thousand).

5 Critical Accounting Estimates and Judgements in Applying Accounting Policies (continued)

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

Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. The following primary factors are considered: (a) the expected usage of the assets; (b) the expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) the technical obsolescence, if any.

If the estimated useful life of network assets had been shorter by 10% than management's estimates at 31 December 2017, the Group would have recognised an additional depreciation of network assets of EUR 4,483 thousand (2016: EUR 4,496 thousand).

6 Property, Plant and Equipment

Movements in the carrying amount of property, plant and equipment were as follows during 2017:

<i>In thousands of EUR</i>	Land	Network buildings	Power lines	Switching stations and network equipment	Other assets*	Capital work in progress	Total
Cost at 1 January 2017	21,266	100,793	637,688	353,252	110,958	46,081	1,270,038
Accumulated depreciation and impairment losses	-	(46,687)	(243,170)	(168,008)	(63,970)	-	(521,835)
Carrying amount at 1 January 2017	21,266	54,106	394,518	185,244	46,988	46,081	748,203
Additions	-	-	-	-	-	76,959	76,959
Capitalised borrowing costs**	-	-	-	-	-	1,563	1,563
Transfers	349	3,434	39,322	25,287	4,342	(72,734)	-
Depreciation charge	-	(3,303)	(16,528)	(18,589)	(6,410)	-	(44,830)
Disposals	(7)	(2)	(3)	(366)	(173)	(546)	(1,097)
Cost at 31 December 2017	21,608	103,370	675,338	375,380	108,835	51,323	1,335,854
Accumulated depreciation and impairment losses	-	(49,135)	(258,029)	(183,804)	(64,088)	-	(555,056)
Carrying amount at 31 December 2017	21,608	54,235	417,309	191,576	44,747	51,323	780,798

* Other assets comprise machinery, non-network and administrative buildings, vehicles and other assets.

** Capitalisation rate of borrowing costs was approximately 3.59% p.a. for 2017.

6 Property, Plant and Equipment (continued)

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

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

<i>In thousands of EUR</i>	2017	2016
Net book value of disposals	1,097	1,153
Gain/(Loss) on disposal of property, plant and equipment (Note 24)	(295)	(224)
Other non-cash movements	(333)	-
Proceeds from disposals	469	929

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

<i>In thousands of EUR</i>	Land	Network buildings	Power lines	Switching stations and network equipment	Other assets*	Capital work in progress	Total
Cost at 1 January 2016	20,970	95,997	602,060	336,118	115,520	40,011	1,210,676
Accumulated depreciation and impairment losses	-	(43,243)	(228,843)	(152,933)	(66,865)	-	(491,884)
Carrying amount at 1 January 2016	20,970	52,754	373,217	183,185	48,655	40,011	718,792
Additions	-	-	-	-	-	74,093	74,093
Capitalised borrowing costs**	-	-	-	-	-	1,431	1,431
Transfers	327	5,105	38,020	20,775	5,227	(69,454)	-
Depreciation charge	-	(3,288)	(16,717)	(18,121)	(6,834)	-	(44,960)
Disposals	(31)	(465)	(2)	(595)	(60)	-	(1,153)
Cost at 31 December 2016	21,266	100,793	637,688	353,252	110,958	46,081	1,270,038
Accumulated depreciation and impairment losses	-	(46,687)	(243,170)	(168,008)	(63,970)	-	(521,835)
Carrying amount at 31 December 2016	21,266	54,106	394,518	185,244	46,988	46,081	748,203

* Other assets comprise machinery, non-network and administrative buildings, vehicles and other assets.

** Capitalisation rate of borrowing costs was 3.59% p.a. for 2016.

The Group holds insurance against damages caused by natural disasters up to EUR 558,022 thousand for buildings and up to amount of EUR 582,272 thousand for machinery, equipment, fixtures, fittings and other assets (2016: EUR 550,080 thousand and 571,549 thousand, respectively).

6 Property, Plant and Equipment (continued)

At 31 December 2017 the Group holds power lines and switching stations and network equipment acquired through finance lease (where the Group is the lessee) with cost of EUR 5,552 thousand, accumulated depreciation of EUR 380 thousand and carrying amount of EUR 5,172 thousand (2016: cost of EUR 4,639 thousand, accumulated depreciation of EUR 232 thousand and carrying amount of EUR 4,406 thousand).

The property, plant and equipment disclosed in movement table above include carrying value of assets leased out under operating leases as follows:

<i>In thousands of EUR</i>	2017	2016
Equipment, vehicles and other assets – optical lines and related technology	8,727	8,178
Total carrying value of assets leased out under operating leases	8,727	8,178

Rental income is presented in Note 24. Future rental income due within one year from non-cancellable operating leases is EUR 224 thousand (2016: EUR 268 thousand), amount due from two to five years is EUR 0 thousand (2016: EUR 0 thousand) and the amount due after five years is EUR 0 thousand (2016: EUR 0 thousand).

7 Intangible Assets

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

<i>In thousands of EUR</i>	Software and similar assets	Assets not yet available for use	Total
Cost at 1 January 2016	49,177	3,784	52,961
Accumulated amortisation and impairment losses	(40,903)	-	(40,903)
Carrying amount at 1 January 2016	8,274	3,784	12,058
Additions	-	3,922	3,922
Transfers	4,150	(4,150)	-
Amortisation charge	(3,830)	-	(3,830)
Cost at 31 December 2016	53,313	3,556	56,869
Accumulated amortisation including impairment charge	(44,719)	-	(44,719)
Carrying amount at 31 December 2016	8,594	3,556	12,150
Additions	-	5,251	5,251
Transfers	4,215	(4,215)	-
Amortisation charge	(4,263)	-	(4,263)
Cost at 31 December 2017	57,529	4,592	62,121
Accumulated amortisation and impairment losses	(48,983)	-	(48,983)
Carrying amount at 31 December 2017	8,546	4,592	13,138

7 Intangible Assets (continued)

Assets not yet available for use primarily include software upgrades and improvement of functionality of the customer and the graphical information system. Software and similar assets disclosed in table above include individual projects, which are partially purchased and partially developed by own employees therefore it is not possible to separate the disclosed amounts to those two categories.

8 Equity Method Investments

<i>In thousands of EUR</i>	2017	2016
Energotel, a.s. - 20% investment in joint venture	525	525
E.ON Business Services Slovakia, spol. s r.o. in liquidation – 49% investment in an associate	-	569
SPX, s.r.o.	33	33
Total equity method investments	558	1,127

Disposals during the year 2017 represent completion of the liquidation of the associated company E.ON Business Services Slovakia spol. s r. o. in liquidation on 30 November 2017.

9 Inventories

<i>In thousands of EUR</i>	2017	2016
Natural gas	9,677	6,708
Materials and spare parts	1,100	1,122
Total inventories	10,777	7,830

The inventory items are shown after provision for slow-moving materials and spare parts of EUR 10 thousand (2016: EUR 9 thousand).

Natural gas is held in an underground gas storage facility controlled by a related party under significant influence of the Slovak Government.

10 Trade and Other Receivables

<i>In thousands of EUR</i>	2017	2016
Trade receivables	131,330	132,472
Less impairment provision for trade receivables	(29,232)	(29,692)
Trade receivables, net	102,098	102,780
Commodity contracts at FVTPL	3,384	715
Excise tax receivables	30	-
Prepayments	2,531	778
Total trade and other receivables	108,043	104,273

10 Trade and Other Receivables (continued)

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

<i>In thousands of EUR</i>	2017	2016
Provision for impairment at 1 January	29,692	29,805
Impairment loss expense (Note 23)	1,183	281
Amounts written off during the year as uncollectible	(1,643)	(394)
Provision for impairment at 31 December	29,232	29,692

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

	2017	2016
<i>In thousands of EUR</i>	Trade receivables	Trade receivables
Total neither past due nor impaired	96,790	99,496
<i>Individually impaired</i>		
1 to 30 days past due	6,118	3,400
31 to 60 days past due	592	574
61 to 90 days past due	433	370
91 to 120 days past due	229	204
121 to 180 days past due	597	359
181 to 360 days past due	676	796
Over 360 days past due	25,895	27,273
Total individually impaired before provision for impairment	34,540	32,976
Less provision for impairment	(29,232)	(29,692)
Total trade receivables and amounts due from customers for contract work, net of provision	102,098	102,780

The Group has internal credit risk processes that include the assignment of individual credit rating to its customers based on the mix of external financial information as well as their payment discipline. Out of the receivables neither past due nor impaired as of 31 December 2017, approximately 89% is of considered of high credit quality by the Group based on the rating assigned (2016: from the receivables neither past due nor impaired were as at 31 January 2017 EUR 91,217 thousand collected, EUR 2,003 thousand not collected and not overdue and EUR 6,276 thousand became overdue). The Group has a concentration of credit risk towards related parties of the Slovak Government. Refer to Note 33.

11 Cash and Cash Equivalents

<i>In thousands of EUR</i>	2017	2016
Current accounts with banks	95,438	80,724
Total cash and cash equivalents in the statement of financial position	95,438	80,724
Less restricted cash balances	(133)	(133)
Total cash and cash equivalents in the statement of cash flows	95,305	80,591

The Group has a concentration of cash and cash equivalents balances towards six banks (2016: six banks).

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

<i>In thousands of EUR</i>	2017	2016
<i>Neither past due nor impaired</i>		
Credit rating A1 by Moody's	101	1,034
Credit rating A2 by Moody's	54,031	65,094
Credit rating A3 by Moody's	39,598	-
Credit rating Baa1 by Moody's	975	14,214
Credit rating A- by Fitch	233	-
Credit rating BBB+ by Fitch	-	332
Unrated	500	50
Total cash and cash equivalents	95,438	80,724

As at 31 December 2017, the Group has agreements with banks about revolving credit facilities amounting to EUR 75,000 thousand (2016: EUR 75,000 thousand). As at 31 December 2017 the Group has drawn EUR 0 thousand from these facilities (2016: EUR 0 thousand).

12 Share Capital

The Company issued and has outstanding 5,934,594 ordinary shares (2016: 5,934,594 shares) with a par value of EUR 33.19 each. All issued shares are fully paid in.

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

The general meeting of the Company's shareholders approved the Company's prior year separate financial statements and declared dividends of EUR 50,465 thousand or EUR 8.50 per share (2016: dividends of EUR 57,570 thousand or EUR 9.70 per share). Slovak legislation identifies distributable reserves as retained earnings reported in the separate financial statements of the Company which amount to EUR 118,434 thousand (2016: EUR 98,315 thousand).

13 Legal Reserve Fund

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

14 Issued Bonds

The issued bonds (ISIN: XS0979598207) of EUR 315,000 thousand are due on 14 October 2018 and carry a coupon of 2.875% p.a. The series two issued bonds (ISIN: XS0979598462) of EUR 315,000 thousand are due on 14 October 2023 and carry a coupon of 4.000% p.a. The bonds are traded on the Irish Stock Exchange, Dublin.

Amortised cost carrying value of the bonds is as follows:

<i>In thousands of EUR</i>	2017	2016
Issued bonds – non-current	314,396	628,828
Issued bonds – current	315,000	-
Accrued interest payable within one year and transaction costs	4,114	4,114
Issued bonds – current and accrued interest payable within one year	319,114	4,114
Amortised cost of the bonds	633,510	632,942

15 Income Taxes

Income tax expense comprises the following:

<i>In thousands of EUR</i>	2017	2016
Current tax at standard rate of 21% (2016: 22%)	29,683	24,804
Income tax related to prior periods	(2)	121
Special levy on profits from regulated activities	5,461	3,786
Deferred tax	(2,769)	(5,332)
Income tax expense/(credit) for the year	32,373	23,379

In 2017, the applicable standard income tax rate was 21% (2016: 22%). From 2017 new methodology for calculating of the special levy applies, where the basis for the special levy is calculated as profit before tax per Slovak GAAP * (revenues from regulated activities/total revenues). In 2016 the special levy applied to profits over EUR 3 million from regulated activities at a rate of 4.356% p.a. The rate of special levy used for the calculation for 2017 and 2018 is 8.712% p.a., then for the years 2019 – 2020 the rate 6.54% p.a. applies and 4.356% will apply from 2021.

15 Income Taxes (continued)

The levy is a deductible expense for the purposes of applying the standard corporate income tax rate.

	2017	2016
Standard income tax rate for the year	21.000%	22.000%
Special levy rate	8.712%	4.356%
Effect of deductibility of special levy from standard rate*	(2.381)%	(1.100)%
Tax rate applicable on profits generated by regulated industry operations	27.331%	25.256%

* the effect is calculated as special levy rate in %*((1- income tax rate in %)/(1+ special levy rate in%)-1)

The Group includes activities or subsidiaries taxed at the standard tax rate of 21% or at the 27.331% rate applicable to regulated industry operations. The applicable tax rate of 24.667% (2016: 24.095%) is used in the below effective tax reconciliation and represents a weighted average of the tax rates for regulated and unregulated industries. The applicable tax rate changed compared to prior year due to changes in the special levy rate and in the mix of profits from regulated and unregulated industry operations. A reconciliation between the reported income tax charge and the theoretical amount that would arise using the applicable tax rates is as follows:

<i>In thousands of EUR</i>	2017	2016
Profit before tax	129,934	122,001
Theoretical tax charge at applicable tax rate of 24.667% (2016: 24.095%)	32,051	29,396
Non-deductible expenses /(non-taxable income) for which deferred tax was not recognised		
- income from equity method investees not subject to standard tax	(162)	(52)
- expenses not deductible for standard tax but deductible for special levy purposes	(525)	982
Income tax related to prior periods	(2)	121
Effect of the first EUR 3 million exempt from special levy (for two consolidated entities)	-	(196)
Effect on deferred taxes of change in standard tax rate to 21% from 1 January 2017	-	(980)
Effect on deferred taxes of extension of special levy for indefinite period	905	(6,730)
Other	106	838
Income tax expense for the period	32,373	23,379

The deferred taxes are expected to be recovered or settled after more than twelve months after the end of the reporting period because income tax returns are due annually, that is, the deferred tax outstanding at 31 December 2017, that will become current tax in 2018, will be settled in 2019 upon filing the 2018 tax return. The corporate tax advance payments are calculated based on prior year taxes and are thus unrelated to deferred tax balances or the current tax expense expected for subsequent years.

Deferred income tax assets and liabilities are not offset.

15 Income Taxes (continued)

Deferred taxes are attributable to the following temporary differences:

<i>In thousands of EUR</i>	2017	2016
Differences between tax base and carrying value of property, plant and equipment	42,466	36,362
Differences between tax base and carrying value of property, plant and equipment (deferred tax related to special levy)	(644)	(653)
Post-employment defined benefit obligation	(1,450)	(1,198)
Other long term employee benefits	(332)	(251)
Other liabilities	(8,091)	(3,521)
Provision for impairment of trade receivables	(291)	(166)
Other	(1,352)	(1,053)
Total net deferred tax liability	30,306	29,520

<i>In thousands of EUR</i>	2017	2016
Differences between tax base and carrying value of property, plant and equipment	39	44
Differences between tax base and carrying value of property, plant and equipment (deferred tax related to special levy)	5,181	6,077
Post-employment defined benefit obligation	125	91
Other long term employee benefits	33	22
Other liabilities	6,144	1,726
Provision for impairment of trade receivables	790	708
Other	187	279
Total net deferred tax asset	12,499	8,947

The movements in deferred taxes for temporary differences were recognised in profit or loss except for EUR (3) thousand (2016: EUR (294) thousand) for actuarial remeasurements of post-employment defined benefit obligation, which was recognised in other comprehensive income.

Slovak parliament enacted a tax on dividend income from profits earned on or after 1 January 2017. The Group has not recorded a deferred tax liability in respect of investments in subsidiaries because (a) the tax is applicable to future profits and thus temporary differences, if any, may only arise in the future, and (b) the tax is not applicable to dividends from Slovak subsidiaries, associates and joint ventures of the Group.

In addition, the Group is able to control the timing of the reversal of such temporary differences in respect of subsidiaries and does not intend to reverse them in the foreseeable future, e.g. through taxable dividend income from subsidiaries.

16 Post-Employment Defined Benefit Obligations

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

	2017	2016
Present value of unfunded post-employment defined benefit obligations at the beginning of the year	9,507	10,638
Current service cost	518	391
Interest cost	94	187
Past service costs due to changes in the defined benefit plan rules	(70)	14
Total expense (Note 22)	542	592
<i>Actuarial remeasurements:</i>		
- attributable to changes in financial assumptions	(173)	1,196
- attributable to changes in demographic assumptions	140	(2,828)
- attributable to experience adjustments	22	234
Total actuarial remeasurements recognised in other comprehensive income	(11)	(1,398)
Benefits paid during the year	(286)	(325)
Present value of unfunded post-employment defined benefit obligations at the end of the year	9,752	9,507

The principal actuarial assumptions were as follows:

	2017	2016
Number of employees at 31 December	1,854	1,805
Staff turnover	4.55% p.a.	4.55% p.a.
Expected salary increases short-term	5.00% p.a.	2.50% p.a.
Expected salary increases long-term	4.00% p.a.	3.00% p.a.
Discount rate	1.30% p.a.	1.10% p.a.

In 2016, Slovak legislation has changed and the retirement age will depend on expected longevity of the population. This effect, along with staff turnover, resulted in an actuarial gain presented within actuarial remeasurements attributable to changes in demographic assumptions. In 2016, Slovak legislation also removed a cap on social security tax payable on the post-employment benefits with effect from 2017, which in combination with salary level assumptions resulted in an actuarial loss presented above as a loss attributable to changes in demographic assumptions. Management applied its judgement in determining that the changes in legislation are not past service costs caused by changes in the benefit plan rules and thus recognised the effects in other comprehensive income as an actuarial remeasurement caused by changes in retirement age, salary level and social security tax assumptions.

17 Other Long Term Employee Benefits

The Group makes EUR 1,400 (2016: EUR 1,700) payment to each employee at the age of 50, subject to 5 year service vesting condition (2016: 10 year). In addition, the Group pays regular long term work anniversary bonuses in general every 10 years in amounts between EUR 400 to EUR 1,250 (2016: between EUR 370 to EUR 1,150).

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

18 Deferred Connection Fees and Customer Contributions

<i>In thousands of EUR</i>	2017	2016
Non-current		
Customer contributions	31,533	30,990
Connection fees	63,931	51,670
Total non-current deferred income	95,464	82,660
Current		
Customer contributions	1,678	1,678
Connection fees	4,742	3,873
Total current deferred income	6,420	5,551

Customer contributions are paid primarily for capital expenditures made on behalf of customers and include access network assets transferred to the Group by its customers free of charge. The contributions are non-refundable and are recognised as other operating income over the useful lives of the related assets.

Connection fees are paid by customers to connect them to the electricity network. The fees are recognised as deferred income and are released to revenues over the useful lives of related assets of approximately 20 years.

19 Trade and Other Payables

<i>In thousands of EUR</i>	2017	2016
Trade payables	18,893	76,504
Other accrued liabilities	66,367	15,594
Commodity contracts at FVTPL	9,050	6,392
Payables from leasing	3,006	3,135
Other financial liabilities	2,984	5,793
Total financial instruments within trade and other payables	100,300	107,418
Deferred electricity and distribution fees	42,988	36,962
Employee benefits payable	2,418	2,288
Social security on employee benefits	1,613	1,861
Accrued staff costs	9,645	9,064
Advance payments	22,088	20,051
Value added tax payable	5,068	5,864
Other payables	3,569	7,895
Excise duty payable	-	121
Total trade and other payables	187,689	191,524

The Group had overdue trade payables of EUR 106 thousand (2016: EUR 192 thousand). None of the payables are overdue more than 30 days at 31 December 2017.

20 Revenue from Electricity and Other Related Revenue

Revenue from electricity comprises the following:

<i>In thousands of EUR</i>	2017	2016
Sales of electricity to industrial and commercial customers	191,734	188,761
Sales of electricity to residential customers	80,563	90,234
Total sales of electricity	272,297	278,995
Distribution fees for electricity to industrial and commercial customers	470,768	429,909
Distribution fees for electricity to residential customers	199,383	188,764
Revenues for reserved capacity	11,127	10,146
Total distribution fees	681,278	628,819
Revenues for connection work and testing fees	4,684	3,981
Other revenue	7,829	7,654
Total revenue from electricity and other revenue	966,088	919,449

Comparative amounts were reclassified to conform to the presentation in the current period. In particular EUR 580 thousand was reclassified from other purchases of electricity and related fees to other revenues. The changes in the presentation did not have an impact on the total amount of assets, equity or the result of operations of the previous period

The Group provides access to its electricity distribution network at regulated prices. Slovakia has implemented the European Union electricity market directive, which resulted in a complete liberalisation of the market whereby all customers, including households, became eligible to buy electricity in the open market from 1 July 2007. However, price regulation applies to certain protected groups of customers.

21 Purchases of Electricity and Related Fees

The following amounts have been charged to purchases of electricity and related fees:

<i>In thousands of EUR</i>	2017	2016
Purchase of electricity from: Slovenské elektrárne ("SE")	73,502	114,688
Purchase of electricity from other domestic producers and traders	110,600	97,916
Purchase of electricity on the spot market	64,639	35,429
Total electricity purchases	248,741	248,033
Electricity transmission fees, system access and ancillary service charges and tariff for system operation and system services and renewable sources feed-in tariffs	434,406	392,899
Total purchases of electricity and related fees	683,147	640,932

21 Purchases of Electricity and Related Fees (continued)

Comparative amounts were reclassified to conform to the presentation in the current period. In particular EUR 137,769 thousand was reclassified from purchase of electricity from other domestic producers and traders to electricity transmission fees, system access and ancillary service charges and tariff for system operation and system services as such classification better reflects the nature of the costs. Further, EUR 580 thousand was reclassified from purchases of electricity and related fees to other revenues. The changes in the presentation did not have an impact on the total amount of assets, equity or the result of operations of the previous period.

22 Employee Benefits

<i>In thousands of EUR</i>	2017	2016
Wages and salaries	42,193	39,855
Defined contribution pension costs	7,545	7,065
Post-employment defined benefit plan expense (Note 16)	542	592
Other long-term employee benefit plans – current service and interest cost (Note 17)	(34)	(108)
Actuarial remeasurements of other long-term employee benefit plans (Note 17)	39	256
Other social costs	13,265	12,553
Total employee benefits expense	63,550	60,213

23 Other Operating Expenses

<i>In thousands of EUR</i>	2017	2016
Information technology and software maintenance costs	12,196	10,258
Repairs and maintenance costs	6,273	8,847
Operating lease expense	3,718	3,710
Postal and telecommunication services	2,415	2,652
Call centre services	2,528	2,667
Security services	1,366	1,197
Advertising services	1,234	1,249
Travel expenses	976	997
Statutory audit	264	257
Other services	7,426	9,026
Personal leasing and external dealers commission	2,164	2,632
Advisory services	1,024	1,571
Marketing	1,130	1,276
Operation and maintenance of telecommunication network	668	678
Facility management expenses	982	1,013
Impairment loss on trade and other receivables (Note 10)	1,183	281
Property and motor vehicle tax	607	603
Gifts	554	529
Insurance	625	598
Other operating expenses	5,711	6,468
Total other operating expenses	53,044	56,509

24 Other Operating Income

<i>In thousands of EUR</i>	2017	2016
Customer contributions to their connection costs	1,678	1,678
Operating lease income (Note 6)	1,208	1,311
Gain/(loss) on disposal of fixed assets (Note 6)	(295)	(224)
Income from contractual penalties	452	661
Income from unauthorized consumption of electricity	285	249
Fees for payment reminders	1,303	1,632
Other	1,875	2,108
Total other operating income	6,506	7,415

25 Interest and Similar Expense

<i>In thousands of EUR</i>	2017	2016
Interest expense on bonds	21,656	21,656
Amortisation of bonds transaction costs	667	677
Other interest expense	346	2,893
Less capitalised borrowing costs (Note 6)	(1,563)	(1,431)
Total interest and similar expense	21,106	23,795

26 Segment Reporting

The Group's operating segments are those used by the Board of Directors to manage the Group's business, allocate resources and make strategic decisions. The Group identifies its segments according to the nature of products and services provided by each segment. The Group's operating segments are (i) electricity distribution, (ii) electricity and gas supply and (iii) other activities as described below. The Group's activities are concentrated in Slovakia.

The main indicators used by the Board of Directors in their decision making are earnings before interest and taxes (EBIT) and capital expenditures. The Board of Directors separately monitor the operating results of the segments to take decisions on how to allocate the resources, to evaluate the effects of the allocation and to evaluate performance. Segment income and costs are measured in a manner consistent with that in the consolidated statement of profit or loss and other comprehensive income. The Group does not analyse assets and liabilities by operating segments.

The types of products and services from which each reportable operating segment derives its operating results are:

Electricity distribution. Distribution of electricity using the distribution networks in Western Slovakia. The distribution business is regulated and the Group is required to provide access to its network to third parties on terms approved by RONI.

Electricity and gas supply. Supply of electricity and gas to wholesale and retail customers in Slovakia. This business is open to competition by other suppliers. Pricing for certain classes of customers of the segment is regulated by RONI.

26 Segment Reporting (continued)

As a result of regulation of the distribution business and partial regulation of the supply business approximately 94% (2016: 94%) of the Group's EBITDA and 94% (2016: 93%) of the Group's EBIT were generated from sales to customers who are subject to the price regulation.

Other. Segment Other includes activities provided by the Company together with its subsidiaries ZSE Energy Solutions, s.r.o., ZSE MVE, s. r. o. and ZSE Business Services, s. r. o. Board of Directors does not assess activities and results of the Company separately but within segment Other. Segment Other provides mainly headquarter type functions, as central services, accounting, controlling, HR and other services, to both supply and distribution businesses. The segment realizes also electricity production in two small hydroelectric plants, trading activities and generates also some external revenues from projecting and engineering activities in investment construction for third parties.

Reportable segments information for 2017 is as follows:

<i>In thousands of EUR</i>	Distribution	Supply	Other	Eliminations and consolidation adjustments	Total
Revenue from external customers	310,639	753,071	1,287	-	1,064,997
Inter-segment revenues	191,546	27,536	38,768	(257,850)	-
Total segment revenues	502,185	780,607	40,055	(257,850)	1,064,997
Purchases of electricity and related fees	(243,355)	(652,915)	(3,330)	216,453	(683,147)
Purchases of natural gas	-	(90,183)	-	64	(90,119)
Employee benefits expense	(42,198)	(8,336)	(13,028)	12	(63,550)
Other operating expenses	(61,044)	(17,140)	(20,149)	45,289	(53,044)
Share of profit of equity method investees	-	-	67,175	(66,413)	762
Other operating income	1,917	2,112	5,096	(2,619)	6,506
Own work capitalized	17,815	-	-	(171)	17,644
Earnings before interest, taxes, depreciation and amortization (EBITDA)	175,320	14,145	75,819	(65,235)	200,049
Depreciation of property, plant and equipment	(65,503)	(12)	(3,644)	24,329	(44,830)
Amortization of intangible assets	(2,627)	(1,314)	(394)	72	(4,263)
Earnings before interest and taxes (EBIT)	107,190	12,819	71,781	(40,834)	150,956
Capital expenditures	74,812	2,029	4,648	(548)	80,941

26 Segment Reporting (continued)

Reportable segments information for 2016 is as follows:

<i>In thousands of EUR</i>	Distribution	Supply	Other	Eliminations and consolidation adjustments	Total
Revenue from external customers	275,875	723,197	1,634	-	1,000,706
Inter-segment revenues	199,255	24,547	38,558	(262,360)	-
Total segment revenues	475,130	747,744	40,192	(262,360)	1,000,706
Purchases of electricity and related fees	(223,656)	(634,564)	(3,015)	220,303	(640,932)
Purchases of natural gas	-	(74,638)	-	72	(74,566)
Employee benefits expense	(39,965)	(7,396)	(12,862)	10	(60,213)
Other operating expenses	(62,671)	(17,317)	(22,193)	45,672	(56,509)
Share of profit of equity method investees	-	-	51,190	(50,955)	235
Other operating income	1,948	2,672	5,269	(2,474)	7,415
Own work capitalized	18,443	-	-	(82)	18,361
Earnings before interest, taxes, depreciation and amortization (EBITDA)	169,229	16,501	58,581	(49,814)	194,497
Depreciation of property, plant and equipment	(67,487)	(7)	(3,679)	26,213	(44,960)
Amortization of intangible assets	(2,638)	(770)	(494)	72	(3,830)
Earnings before interest and taxes (EBIT)	99,104	15,724	54,408	(23,529)	145,707
Capital expenditures	71,980	2,087	4,854	(585)	78,336

26 Segment Reporting (continued)

Entity wide information. Revenue is analysed by type of product or service in Note 20. Substantially all of the Group's revenues are from customers in the Slovak Republic and all of the Group's property, plant and equipment and intangible assets are located in the Slovak Republic.

Reconciliation of EBIT for all segments to profit before tax is as follows:

<i>In thousands of EUR</i>	2017	2016
Total EBIT for all operating segments	150,956	145,707
Interest income	84	89
Interest and similar expense	(21,106)	(23,795)
Profit before tax	129,934	122,001

Reconciliation of capital expenditures to payments for purchases of property, plant and equipment and intangible assets is as follows:

<i>In thousands of EUR</i>	2017	2016
Total capital expenditures for all operating segments	80,941	78,336
Assets acquired but not paid for	(27,518)	(17,575)
Payments for assets acquired in prior periods	9,087	8,082
Payments for purchases of property, plant and equipment and intangible assets	62,510	68,843

27 Financial Risk Management

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

Foreign exchange risk. The Group operates in the domestic market, and its sales, purchases and short-term deposits are denominated in EUR. Management does not consider foreign exchange risk as a significant exposure for the Group's operations as it has only an immaterial volume of transactions in currency other than EUR.

A reasonably possible change in spot exchange rate of EUR against foreign currencies as of the end of the reporting period, would not have any impact on the Group's profit or loss for the year.

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

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

27 Financial Risk Management (continued)

Commodity price risk. In 2017, the Group identified and recognised a provision for certain loss making commodity contracts. The Group does not have formal policies and processes in place for managing commodity price risks. In general, management aims to match electricity demand with corresponding purchase contracts. Should electricity price change by \pm EUR 5 per MWh, the net impact on profit from revaluation of the commodity contracts, that are measured as financial instruments at fair value through profit or loss, would be negligible as the Group's net notional open amount is close to nil at the end of the reporting period.

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

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

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

The Group uses a system of reminders, which may culminate in a service disconnection, as the prevailing contract enforcement. The collection of receivables could be influenced by economic factors; management believes that there is no significant risk of loss to the Group beyond the provisions already recorded. The credit quality of outstanding balances with banks is presented in Note 11 and credit quality information about trade receivables is included in Note 10.

Liquidity risk. Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Prudent liquidity risk management implies maintaining sufficient cash balances, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group aims to maintain flexibility in funding by keeping committed credit lines available. In addition, the Group relies on liquidity of financial markets and its ability to refinance its outstanding bonds. The Group's strategy is to secure the financing at least 6 months before the existing debt becomes due. The process of refinancing of the bonds maturing in October 2018 has already been launched.

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

27 Financial Risk Management (continued)

The table below analyses the Group's undiscounted amount of financial liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date. The maturity analysis is as follows at 31 December 2017:

<i>In thousands of EUR</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Issued bonds – principal due	-	-	315,000	-	315,000	630,000
Issued bonds – future interest payments	-	-	21,656	50,400	12,600	84,656
Trade payables (Note 19)	9,443	9,450	-	-	-	18,893
Other accrued liabilities (Note 19)	65,684	681	2	-	-	66,367
Gross finance lease liability	-	-	1,153	1,853	-	3,006
Other financial liabilities (Note 19)	2,984	-	-	-	-	2,984
<i>Commodity contracts at FVTPL:</i>						
- gross notional amount payable*	35,898	-	-	-	-	35,898
- gross notional amount receivable**	(30,232)	-	-	-	-	(30,232)
Total future payments, including future principal and interest payments	83,777	10,131	337,811	52,253	327,600	811,572

* The notional amounts payable include the gross pay leg of commodity contracts at FVTPL. The related non-cash commodity inflow is not included in the analysis.

** The notional amounts receivable represents the gross receivable leg of commodity contracts at FVTPL. The related non-cash commodity outflow is not included in the above liquidity analysis.

The maturity analysis is as follows at 31 December 2016:

<i>In thousands of EUR</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Issued bonds – principal due	-	-	-	315,000	315,000	630,000
Issued bonds – future interest payments	-	-	21,656	59,457	25,200	106,313
Trade payables (Note 19)	65,728	10,751	25	-	-	76,504
Other accrued liabilities (Note 19)	2,871	9,678	3,045	-	-	15,594
Gross finance lease liability	-	-	615	2,520	-	3,135
Other financial liabilities (Note 19)	5,793	-	-	-	-	5,793
<i>Commodity contracts at FVTPL:</i>						
- gross notional amount payable*	37,397	-	-	-	-	37,397
- gross notional amount receivable**	(31,720)	-	-	-	-	(31,720)
Total future payments, including future principal and interest payments	80,069	20,429	25,341	376,977	340,200	843,016

* The notional amounts payable include the gross pay leg of commodity contracts at FVTPL. The related non-cash commodity inflow is not included in the analysis.

** The notional amounts receivable represents the gross receivable leg of commodity contracts at FVTPL. The related non-cash commodity outflow is not included in the above liquidity analysis.

28 Management of Capital

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders, and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. The Group manages capital reported under IFRS as equity amounting to EUR 50,226 thousand at 31 December 2017 (31 December 2016: EUR 3,122 thousand). In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders or return capital to shareholders.

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

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

29 Debt Reconciliation

The table below sets out an analysis of our debt and the movements in our debt for each of the periods presented.

<i>In thousands of EUR</i>	Issued bonds
At 1 January 2016	632,301
Payments of interest	(21,656)
Interest expense	20,394
Capitalised interest costs (Note 6)	1,431
Transaction costs utilization	472
At 31 December 2016	632,942
Payments of interest	(21,656)
Interest expense	20,100
Capitalised interest costs (Note 6)	1,563
Transaction costs utilization	561
At 31 December 2017 (Note 14)	633,510

30 Fair Value Disclosures

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

a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period:

Financial instruments carried at fair value. The provision for loss contracts represents financial instruments carried in the statement of financial position at fair value. The fair value measurement belongs to level 2 in the fair value hierarchy and the key input is the spot and forward electricity price per MWh.

30 Fair Value Disclosures (continued)**b) Assets and liabilities not measured at fair value but for which fair value is disclosed**

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

In thousands of EUR	31 December 2017			31 December 2016		
	Level 1 fair value	Level 2 fair value	Carrying value	Level 1 fair value	Level 2 fair value	Carrying value
ASSETS						
Trade receivables, net (Note 10)	-	102,098	102,098	-	102,780	102,780
Cash and cash equivalents (Note 11)	-	95,438	95,438	-	80,724	80,724
TOTAL ASSETS	-	197,536	197,536	-	183,504	183,504
LIABILITIES						
Issued bonds (Note 14)	695,066	-	633,510	714,231	-	632,942
Trade payables (Note 19)	-	18,893	18,893	-	76,504	76,504
Liabilities from finance leasing (Note 19)	-	3,006	3,006	-	3,135	3,135
Other accrued liabilities (Note 19)	-	66,367	66,367	-	15,594	15,594
Other financial liabilities (Note 19)	-	2,984	2,984	-	5,793	5,793
TOTAL LIABILITIES	695,066	91,250	724,760	714,231	101,026	733,968

31 Presentation of Financial Instruments by Measurement Category

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

32 Contingencies and Commitments

Tax contingencies. Slovak tax law contains certain provisions that allow for more than one interpretation. Management's interpretation of the Group's business activities may not coincide with the interpretation of these activities by the tax authorities, but the extent of this risk cannot be reasonably quantified. The fiscal years from 2012 to 2017 remain open to tax inspection.

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

Capital expenditure commitments. At 31 December 2017, the Group had outstanding contractual commitments for purchases of property, plant and equipment of EUR 2,696 thousand (2016: EUR 8,517 thousand). Outstanding contractual commitments for purchases of intangible assets were EUR 1,775 thousand (2016: EUR 937 thousand).

32 Contingencies and Commitments (continued)

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

<i>In thousands of EUR</i>	2017	2016
No later than one year	2,580	2,834
Later than one year and no later than five years	5,818	6,806
Later than five years	857	2,406
Total	9,255	12,046

Operating lease expense for the year is disclosed in Note 23.

33 Balances and Transactions with Related Parties

The primary related parties of the Group are (a) its shareholders which have joint control over the Group as explained in Notes 1 and 12: (i) the Slovak Government and (ii) E.ON, as well as (b) key management personnel. The Group applies the exemption from disclosing transactions with the Slovak Government and entities over which it has control, joint control or significant influence. The exemption does not apply to individually significant transactions, such as taxes incurred and paid, purchases of electricity from an entity in which the Slovak Government has a significant shareholding and other transactions presented below.

The related party transactions and outstanding balances were as follows for 2017:

<i>In thousands of EUR</i>	Ministry of Economy of the Slovak Republic	E.ON Slovensko, a.s.	E.ON Group**	Slovak Government*	Associate (Note 8)	Joint venture (Note 8)
Revenue	32	268	294	203,205	-	996
Purchases and expenses	-	(11)	8,445	415,196	-	2,434
Receivables other than taxes	-	14	51	2,652	-	-
Payables other than taxes	-	-	2,576	28,799	-	138
Dividends declared and paid	25,737	19,681	5,047	-	-	-

* The Slovak Government caption represents individually material transactions with entities under control, joint control or significant influence of the Slovak Government.

** E.ON Group caption represents transactions with entities under control, joint control or significant influence of the E.ON Group.

Income taxes are disclosed in the statement of financial position, statement of profit or loss and other comprehensive income, in the statement of cash flows and are also analysed in Note 15. Outstanding value added tax payable is presented in Note 19. Property and motor vehicle taxes are disclosed in Note 23.

33 Balances and Transactions with Related Parties (continued)

The income tax paid was as follows:

<i>In thousands of EUR</i>	2017	2016
Current income tax expense at standard rate of 21% (2016: 22%) – refer to Note 15	29,681	24,925
Special levy on profits from regulated activities (Note 15)	5,461	3,786
Income tax refund receivable/liability at the beginning of the period	(6,764)	1,986
Income tax refund receivable/liability at the end of the reporting period	(6,179)	(6,764)
Income tax paid	(35,727)	(19,961)

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

<i>In thousands of EUR</i>	Ministry of Economy of the Slovak Republic	E.ON Slovensko, a.s.	E.ON Group**	Slovak Government*	Associate (Note 8)	Joint venture (Note 8)
Revenue	-	508	704	199,277	-	1,130
Purchases and expenses	-	11	11,493	432,467	-	2,593
Receivables other than taxes	-	8	253	21,972	-	108
Payables other than taxes	-	11	4,256	27,379	1,180	324
Dividends declared and paid	29,360	22,452	5,758	-	-	-

* The Slovak Government caption represents individually material transactions with entities under control, joint control or significant influence of the Slovak Government.

** E.ON Group caption represents transactions with entities under control, joint control or significant influence of the E.ON Group.

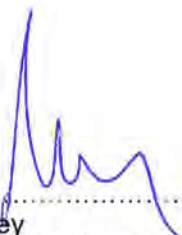
The tables with related party transactions above and on the previous page exclude individually immaterial transactions such as supplies of electricity to hospitals, schools, to the government ministries and many other government controlled or otherwise government related enterprises on normal commercial terms and conditions. Management did not identify other government related transactions that are collectively, but not individually, significant. Key management personnel comprises (a) members of the Board of Directors, (b) members of the supervisory board and (c) divisional directors. Key management personnel remuneration comprised:

<i>In thousands of EUR</i>	2017	2016
<i>Board of directors and other key management personnel</i>		
Salaries and other short-term employee benefits	1,602	1,925
Defined contribution pension costs	189	155
Total remuneration of board of directors and other key management personnel	1,791	2,080
<i>Supervisory board</i>		
Salaries and other short-term employee benefits	281	359
Defined contribution pension costs	44	51
Total remuneration of supervisory board	325	410

34 Events after the End of the Reporting Period

After 31 December 2017, no significant events have occurred that would require recognition or disclosure in the 2017 financial statements.

Management authorised these financial statements for issue on 6 February 2018:



.....
Jochen Kley
Chairman of the Board of Directors and CEO



.....
Marian Rusko
Member of the Board of Directors

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