Západoslovenská energetika, a.s.

Consolidated Financial Statements and Independent Auditor's Report 31 December 2018

March 2019

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.

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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 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 18 March 2019.

What we have audited

Consolidated financial statements of Západoslovenská energetika, a.s. comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year 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.

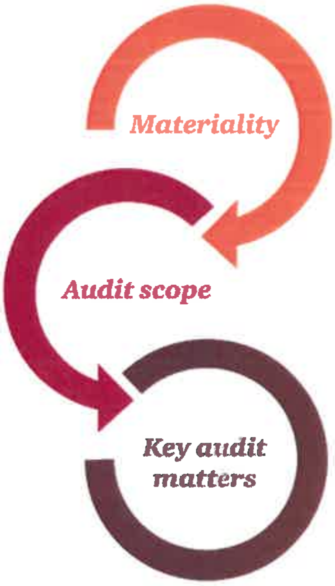
Independence

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 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.

The non-audit services that we have provided to the Group, in the period from 1 January 2018 to 31 December 2018 are disclosed in Note 24 to the consolidated financial statements.

Our audit approach



Overview

Overall group materiality is EUR 6,500 thousand (2017: EUR 6,500 thousand) which represents approximately 5% of consolidated profit before tax.

We conducted audit work at 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 together with bonds issue and related transaction costs 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. As in all of our audits, 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 (2017: EUR 6,500 thousand)
How we determined it	approximately 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.

Key audit matter	How our audit addressed the Key audit matter
Bonds issue and related transaction costs	
As described in Note 14, the Company issued bonds with a nominal value of EUR 315,000 thousand on 2 March 2018. The bonds are traded on the Irish Stock Exchange. We focused our attention on this transaction due to its materiality and impact on the financial statements.	We have obtained understanding of the terms and conditions of the issued bonds by inspecting the prospectus and other related documentation. We tested transactions costs that were deducted from the amortised cost of the liability for the issued bonds by tracing them to underlying documentation. We inspected bank statements and verified that the issue proceeds are correctly presented in the cash flow statement on a gross basis. The financial statements reflect the results of our work and no further adjustments or changes relating to this transaction are required in the accompanying financial statements.

Reporting on other information in the annual report

Management is responsible for annual report prepared in accordance with the Slovak Act on Accounting No. 431/2002 as amended (the "Accounting Act"). The annual report comprises (a) the consolidated financial statements and (b) other information. Management has not prepared the annual report by the date of our audit report.

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

When the 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 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 annual report with the consolidated financial statements, and whether the 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 will describe any material misstatements we identified in the annual report based on our knowledge and understanding of the Group and its environment, 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 an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 17 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 still be a public interest entity.

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

Mgr. Juraj Tučný, FCCA
UDVA licence No. 1059

Slovenská komora audítorov
SKAU
Č. licencie 161
PricewaterhouseCoopers Slovensko, s.r.o.

Bratislava, 20 March 2019

In thousands of EUR	Note	31 December 2018	31 December 2017
ASSETS			
Non-current assets			
Property, plant and equipment	6	834,030	780,798
Intangible assets	7	15,676	13,138
Equity method investments	8	558	558
Deferred income tax asset	15	8,254	12,499
Other non-current assets		703	703
Total non-current assets		**859,221**	**807,696**
Current assets			
Inventories	9	11,810	10,777
Trade and other receivables	10	140,302	108,043
Current income tax refund receivable		7,903	-
Cash and cash equivalents	11	43,783	95,438
Assets held for sale and discontinued operations	28	36,868	-
Total current assets		**240,666**	**214,258**
TOTAL ASSETS		**1,099,887**	**1,021,954**
EQUITY			
Share capital	12	196,969	196,969
Legal reserve fund	13	39,421	39,421
Retained loss		(156,792)	(186,164)
TOTAL EQUITY		**79,598**	**50,226**

In thousands of EUR	Note	31 December 2018	31 December 2017
LIABILITIES			
Non-current liabilities			
Issued bonds	14	626,911	314,396
Deferred income tax liabilities	15	34,079	30,306
Post-employment defined benefit obligations	16	8,692	9,752
Other long term employee benefits	17	2,230	2,408
Contract liabilities from connection fees and customer contributions	19	98,878	95,464
Total non-current liabilities		**770,790**	**452,326**
Current liabilities			
Issued bonds and accrued interest on issued bonds payable within one year	14	6,882	319,114
Trade and other payables	20	215,602	187,689
Current income tax liabilities		-	6,179
Provisions for liabilities and charges	18	19,972	-
Contract liabilities from connection fees and customer contributions	19	7,043	6,420
Total current liabilities		**249,499**	**519,402**
TOTAL LIABILITIES		**1,020,289**	**971,728**
TOTAL LIABILITIES AND EQUITY		**1,099,887**	**1,021,954**

These consolidated financial statements have been approved for issue by the Board of Directors on 19 March 2019.

....
Jochen Kley
Chairman of the Board of Directors and CEO

....
Marian Rusko
Member of the Board of Directors

In thousands of EUR	Note	2018	2017
Continuing operations			
Revenue from electricity and other related revenue	**21**	**1,030,138**	**966,088**
Revenue from natural gas	**21**	**94,364**	**98,909**
Purchases of electricity and related fees	22	(714,095)	(683,147)
Natural gas purchased		(88,296)	(90,119)
Employee benefits	23	(68,292)	(63,550)
Depreciation of property, plant and equipment	6	(45,243)	(44,830)
Amortization of intangible assets	7	(4,431)	(4,263)
Other operating expenses	24	(75,972)	(53,044)
Share of profit of equity method investments	8	259	762
Other operating income	25	7,381	6,506
Own work capitalised		18,080	17,644
Profit from operations		**153,893**	**150,956**
Finance income / (costs)			
Interest income		357	84
Interest and similar expense	26	(23,783)	(21,106)
Finance costs, net		**(23,426)**	**(21,022)**
Profit before tax		**130,467**	**129,934**
Income tax expense	15	(32,433)	(32,373)
Profit for the year from continuing operations		**98,034**	**97,561**
Profit for the year from discontinued operations	28	-	-
Profit for the year		**98,034**	**97,561**

In thousands of EUR	**Note**	**2018**	**2017**
Other comprehensive income			
Items that will not be subsequently reclassified to profit or loss			
Actuarial remeasurements of post-employment defined benefit obligations	16	1,413	11
Deferred tax on actuarial remeasurements of post-employment defined benefit obligations	15	(297)	(3)
Total other comprehensive income for the year		**1,116**	**8**
Total comprehensive income for the year		**99,150**	**97,569**
Total comprehensive income for the year from continuing operations		99,150	97,569
Total comprehensive income for the year from discontinued operations	28	-	-

In thousands of EUR	Share capital	Legal reserve fund	Accumulated deficit	Total equity
Balance at 1 January 2017	**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**
Change in accounting policies (Note 3)	-	-	712	**712**
Balance at 31 December 2017 revised	**196,969**	**39,421**	**(185,452)**	**50,938**
Profit for the year	-	-	98,034	**98,034**
Other comprehensive income for the year	-	-	1,116	**1,116**
Total comprehensive income for 2018	**-**	**-**	**99,150**	**99,150**
Dividends declared and paid (Note 12)	-	-	(70,490)	**(70,490)**
Balance at 31 December 2018	**196,969**	**39,421**	**(156,792)**	**79,598**

In thousands of EUR	Note	2018	2017
Cash flows from operating activities			
Profit before tax		130,467	129,934
Adjustments for non-cash items:			
- Depreciation of property, plant and equipment	6	45,243	44,830
- Loss on disposal of property, plant and equipment	6	201	295
- Amortisation of intangible assets	7	4,431	4,263
- Interest income		(357)	(84)
- Interest and similar expense		23,704	21,106
- Contract assets - external dealers' services in terms of IFRS 15		(293)	-
- Share of profit of equity method investments		(259)	(762)
- Other non-cash items		73	54
Cash generated from operations before changes in working capital		203,210	199,636
Changes in working capital:			
- Inventories		(1,033)	(2,947)
- Trade and other receivables		(31,255)	(3,458)
- Trade and other payables		14,320	(5,215)
- Receivables and liabilities from cash pooling		(27,770)	-
- Provisions for liabilities and charges and contract liabilities		12,368	(6,043)
Cash generated from operations before interest and taxes		**169,840**	**181,973**
Interest income received		357	84
Interest expense paid		(20,173)	(20,100)
Income tax paid	35	(38,793)	(35,727)
Net cash from operating activities		**111,231**	**126,230**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(81,596)	(62,510)
Dividend income received from equity method investees		259	450
Proceeds from sale of property, plant and equipment and intangible assets		551	469
Proceeds from reduction of other capital funds of an associate		-	540
Subsidiary acquired with a view to resale	28	(8,486)	-
Net cash used in investing activities		**(89,272)**	**(61,051)**
Cash flows from financing activities			
Dividends paid	12	(70,490)	(50,465)
Proceeds from issued bonds		312,556	-
Transaction costs related to issued bonds		(680)	-
Repayment of bonds		(315,000)	-
Net cash used in financing activities		**(73,614)**	**(50,465)**
Net change in cash and cash equivalents		**(51,655)**	**14,714**
Cash and cash equivalents at the beginning of the year		95,305	80,591
Cash and cash equivalents at the end of the year	11	**43,650**	**95,305**

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union for the year ended 31 December 2018 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 since year 2018 also the gas-steam power plant 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, ZSE Development, s.r.o., which is a company providing services and ZSE Elektrárne, s.r.o. (till 16 August 2018: E.ON Elektrárne s.r.o.), which operates gas-steam power plant. 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 2018 and 31 December 2017. 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 1,859 staff on average during 2018, of which 41 were management (2017: 1,811 employees on average, of which 36 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. Apart from the changes in accounting policies resulting from the adoption of IFRS 9 and IFRS 15 effective from 1 January 2018, 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.

Non-current assets classified as held for sale. Non-current assets and disposal groups, which may include both non-current and current assets, are classified in the statement of financial position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction, including loss of control of a subsidiary holding the assets, within twelve months after the end of the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

Non-current assets or disposal groups classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

2 Significant Accounting Policies (continued)

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the end of the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale premises and equipment are not depreciated or amortised.

Discontinued operations. A discontinued operation is a component of the Group that either has been disposed of, or that is classified as held for sale, and: (a) represents a separate major line of business or geographical area of operations; (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or (c) is a subsidiary acquired exclusively with a view to resale. Revenues, expenses and cash flows of discontinued operations, if any, are disclosed separately from continuing operations with comparatives being re-presented.

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

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

The residual value of an asset is the estimated amount that the 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.

2 Significant Accounting Policies (continued)

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.

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.

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.

Receivables from cash pooling. These receivables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

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.

Financial instruments – key measurement terms. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

2 Significant Accounting Policies (continued)

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost ("AC") is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses ("ECL"). Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to the maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of the related items in the consolidated statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the gross carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate. For assets that are purchased or originated credit impaired ("POCI") at initial recognition, the effective interest rate is adjusted for credit risk, i.e. it is calculated based on the expected cash flows on initial recognition instead of contractual payments.

Financial instruments – initial recognition. Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an ECL allowance is recognised for financial assets measured at AC and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

Financial assets – classification and subsequent measurement – measurement categories. The Group classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Group's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

Financial assets – classification and subsequent measurement – business model. The business model reflects how the Group manages the assets in order to generate cash flows – whether the Group's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model disclosed in statement of profit or loss and other comprehensive income and measured at FVTPL.

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Group undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Group in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected. Business model used by the Group is intended to hold financial assets until maturity and to collect contractual cash flows.

Financial assets – classification and subsequent measurement – cash flow characteristics. Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Group assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature. In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

2 Significant Accounting Policies (continued)

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed. The Group performs the SPPI test for its financial assets.

The Group holds only trade receivables, contract assets and cash and cash equivalents. The nature of financial assets is short-term, and the contractual cash flows represent principal and interest payment that takes into account the time value of money and therefore the Group recognizes these in amortized cost.

Financial assets – reclassification. Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. The Group did not change its business model during the current and comparative period and did not make any reclassifications.

Financial assets impairment – credit loss allowance for ECL. The Group assesses, on a forward-looking basis, the ECL for receivables measured at AC and for contract assets. The Group measures ECL and recognises net impairment losses on financial and contract assets at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Receivables measured at AC are presented in the consolidated statement of financial position net of the allowance for ECL.

The Group applies a simplified approach to trade receivables under IFRS 9, i.e. measures ECL using lifetime expected loss. The Group uses for the calculation of lifetime expected loss for trade receivables a matrix that takes into account the amount of receivables turnover during the current period, revenues for the current period and the amount of receivables written off.

In 2017 provision for impairment of receivables was established when there was 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) were considered objective evidence that the trade receivable was impaired.

The amount of the provision was 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 was reduced using an allowance account, and the amount of the loss was expensed within "other operating expenses".

Financial assets – write-off. Financial assets are written-off, in whole or in part, when the Group exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery.

Financial assets – derecognition. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets to an unrelated third party.

Financial liabilities – measurement categories. Financial liabilities are classified as subsequently measured at AC, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

2 Significant Accounting Policies (continued)

Financial liabilities – derecognition. Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

An exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

Financial liabilities designated at FVTPL. The Group may designate certain liabilities at FVTPL at initial recognition. Gains and losses on such liabilities are presented in profit or loss except for the amount of change in the fair value that is attributable to changes in the credit risk of that liability (determined as the amount that is not attributable to changes in market conditions that give rise to market risk), which is recorded in Other comprehensive income and is not subsequently reclassified to profit or loss. This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in credit risk of the liability are also presented in profit or loss.

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.

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 because they are held for collection of contractual cash flows and those cash flows represent SPPI.

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.

2 Significant Accounting Policies (continued)

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.

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 Group 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.

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.

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.

2 Significant Accounting Policies (continued)

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 2018. 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 2018 for all twelve billing cycles will be completed in December 2019. 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 Group split its household customer base to twelve billing cycles. The billing of gas supplied in 2018 for all twelve billing cycles will be completed in December 2019.

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.

2 Significant Accounting Policies (continued)

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 2018:

IFRS 9, Financial Instruments: Classification and Measurement (issued in July 2014 and effective for annual periods beginning on or after 1 January 2018). The Group adopted IFRS 9, Financial Instruments, from 1 January 2018. The Group elected not to restate comparative figures and recognised any adjustments to the carrying amounts of financial assets and liabilities in the opening balance of retained earnings as of the date of initial adoption of the standard, 1 January 2018. Consequently, the revised requirements of the IFRS 7, Financial Instruments: Disclosures, have only been applied to the current period. The comparative period disclosures repeat those disclosures made in the prior year.

The significant new accounting policies applied in the current period are described in Note 10. Accounting policies applied prior to 1 January 2018 and applicable to the comparative information are disclosed in Note 10.

The following table reconciles the carrying amounts of each class of financial assets as previously measured in accordance with IAS 39 and the new amounts determined upon adoption of IFRS 9 on 1 January 2018:

	Measurement category		Carrying value under IAS 39 – 31 December 2017	Effect of adopting IFRS 9				Carrying value under IFRS 9 - 1 January 2018
				Reclassification		Remeasurement		
In thousands of EUR	IAS 39*	IFRS 9*		Mandatory	Voluntary	ECL	Other	
Cash and cash equivalents	L&R	AC	95,438	-	-	-	-	95,438
Trade and other receivables	L&R	AC	108,043	-	-	-	-	108,043
Total financial assets			**203,481**	**-**	**-**	**-**	**-**	**203,481**

* Explanatory Notes: L&R – Loans & Receivables
AC – Amortised costs

(a) Cash and cash equivalents

All classes of cash and cash equivalents as disclosed in Note 11 were reclassified from loans and receivables ("L&R") measurement category under IAS 39 to AC measurement category under IFRS 9 at the adoption date of the standard. The ECLs for cash and cash equivalents balances were insignificant.

(b) Trade and other receivables

All classes of trade and other receivables as disclosed in Note 10 were reclassified from loans and receivables ("L&R") measurement category under IAS 39 to AC measurement category under IFRS 9 at the adoption date of the standard. The ECLs for cash and cash equivalents balances were insignificant.

The impact of the standard on provision for trade and other receivables and cash and cash equivalents on the Group's consolidated financial statements is not material.

At 31 December 2018, all Group's financial liabilities were measured at amortized cost.

3 Adoption of New or Revised Standards and Interpretations (continued)

IFRS 15, Revenue from Customer Contracts (Standard issued on 28 May 2014 and effective in the EU for accounting periods beginning on or after 1 January 2018). This new standard introduces the principle that revenues are to be recorded at the transaction price at the time the goods or services are transferred to the customer. Any bundled goods or services that are distinguishable must be billed separately and discounts or pay-backs from the sales price must be allocated to individual items. If the price is for any reason variable, a minimum value that is highly unlikely to be derecognised must be posted. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed by the Group.

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 applied the practical expedient available for simplified transition method. The Group applies IFRS 15 retrospectively only to contracts that were not completed at the date of initial application (1 January 2018).

The adoption of IFRS 15 resulted 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 2018, 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 Group assessed impact of this standard on its consolidated financial statements as significant, in particular from capitalization of commissions paid to external agents selling the Group`s products as contract assets. The impact of IFRS 15 adoption including income tax on equity at 1 January 2018 in amount of EUR 712 thousand is shown in the consolidated statement of changes in equity.

The following amended standards and interpretations became effective for the Group from 1 January 2018 but did not have a material impact on the Group:

- Amendment to IFRS 15, Revenue from contracts with customers (issued on 12 April 2016 and effective in the EU for accounting periods beginning on or after 1 January 2018).
- Amendment to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective in the EU for annual accounting periods beginning on or after 1 January 2018).
- Improvements to International Financial Reporting Standards for the Period 2014-2016 - Amendments to IFRS 1 and IAS 28 (Amendment issued December 8, 2016 and effective for the EU for annual periods beginning on or after 1 January 2018).
- IFRIC 22, Foreign Currency Transactions and Advance Accounts (Interpretation issued on December 8, 2016 and effective in the EU for annual periods beginning on or after January 1, 2018).

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 2019, and which the Group has not early adopted:

IFRS 16, Leases (issued on 13 January 2016 and effective in the EU for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the 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 impact of IFRS 16 on the Group´s consolidated financial statements

The Group has created a project team that has reviewed the Group's lease contracts for the previous period in view of the new lease accounting rules in IFRS 16. This Standard will have an impact on accounting for the group of Operating Leases. At the balance sheet date, the Group has irrevocable commitments of future payments from operating leases of EUR 14,200 thousand (Note 34). Of these commitments, the short-term rentals and low value leases are insignificant.

4 New Accounting Pronouncements (continued)

For the remaining leases, the Group expects to recognize an asset with a right of use of approximately of EUR 14,200 thousand (excluding the effect of discounting) as of 1 January 2019 and a lease liability of EUR 14,200 thousand (excluding the effect of discounting). Total net assets will not change.

The Group expects the net profit after tax to be reduced by approximately EUR 0 thousand as a result of the adoption of new accounting policies. It is expected that adjusted EBITDA will increase by approximately EUR 2,566 thousand, since operating lease expenses were included in EBITDA, but the depreciation of the asset with the right to use and interest on the lease liability are excluded in the calculation of this indicator.

Cash flows from operating activities will increase and cash flows from financial activities will decrease by approximately EUR 2,566 thousand, since repayments of principal as parts of a lease liability are classified as cash flows from financing activities.

The activities of the Group as a lessor are not material and therefore the Group does not expect material impact on its consolidated financial statements.

The following table presents the comparison of future payments from operating leases disclosed in Note 34 to lease liability:

In thousands of EUR	**31 December 2018**
Total future payments from non-cancellable operating leases (Note 34)	14,200
Payables from finance leasing (Note 20)	3,426
Total lease liability	**17,626**

First-time adoption of IFRS 16

The Group will apply the new standard since its mandatory date of the adoption on 1 January 2019.

The Group intends to apply a simplified transition approach and will not review comparative information for the year before the date of first admission. Assets with a right of use will be measured at the amount of the lease liability at the date of initial application (adjusted for any pre-emptive or operative lease commitments).

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

4 New Accounting Pronouncements (continued)

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).
- 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).
- 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).
- Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).
- Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).
- Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).

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 21.

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 (2017: 10 GWh), with other parameters unchanged, the revenues for commodity and distribution services would increase by EUR 902 thousand (2017: EUR 850 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 2018, the Group would have recognised an additional depreciation of network assets of EUR 4,400 thousand (2017: EUR 4,483 thousand).

ECL measurement of receivables. The Group applies a simplified approach to trade receivables under IFRS 9, i.e. measures ECL using lifetime expected loss. The Group uses for the calculation of lifetime expected loss for trade receivables a matrix that takes into account the amount of receivables turnover during the current period, revenues for the current period and the amount of receivables written off. The Group has considered the expected GDP development in Slovakia and the expected payment discipline for the next 12 months. Based on these indicators, it was decided that the creation of impairment provisions for trade receivables based on historical data is sufficient, as the development of the indicators corresponds to the development of previous years. The expected development of individual macroeconomic indicators has an insignificant impact on the value of expected credit losses.

6 Property, Plant and Equipment

Movements in the carrying amount of property, plant and equipment were as follows during 2018:

In thousands of EUR	Land	Network buildings	Power lines	Switching stations and network equipment	Other assets*	Capital work in progress	Total
Cost at 1 January 2018	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 1 January 2018	21,608	54,235	417,309	191,576	44,747	51,323	**780,798**
Additions	-	-	-	-	-	97,686	**97,686**
Capitalised borrowing costs**	-	-	-	-	-	1,614	**1,614**
Transfers	438	12,496	43,718	21,012	4,892	(82,556)	**-**
Depreciation charge	-	(2,946)	(17,218)	(19,438)	(5,641)	-	**(45,243)**
Disposals	(6)	-	(26)	(630)	(90)	(73)	**(825)**
Cost at 31 December 2018	**22,040**	**115,612**	**717,011**	**393,565**	**137,698**	**67,994**	**1,453,920**
Accumulated depreciation and impairment losses	**-**	**(51,827)**	**(273,228)**	**(201,045)**	**(93,790)**	**-**	**(619,890)**
Carrying amount at 31 December 2018	**22,040**	**63,785**	**443,783**	**192,520**	**43,908**	**67,994**	**834,030**

* Other assets comprise machinery, non-network and administrative buildings, vehicles and other assets.

** Capitalisation rate of borrowing costs was approximately 3.59% p.a. till 31 October 2018 and 3.07% p.a. since 1 November 2018.

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:

In thousands of EUR	**2018**	**2017**
Net book value of disposals	825	1,097
Gain/(Loss) on sale of property, plant and equipment (Note 25)	(201)	(295)
Other non-cash movements	(73)	(333)
Proceeds from disposals	**551**	**469**

Movements in the carrying amount of property, plant and equipment were as follows during 2017:

In thousands of EUR	**Land**	**Network buildings**	**Power lines**	**Switching stations and network equipment**	**Other assets***	**Capital work in progress**	**Total**
Cost at 1 January 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.

The Group holds insurance against damages caused by natural disasters up to EUR 565 095 thousand for buildings and up to amount of EUR 613 426 thousand for machinery, equipment, fixtures, fittings and other assets (2017: EUR 558,022 thousand and 582,272 thousand, respectively).

6 Property, Plant and Equipment (continued)

At 31 December 2018 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 7,306 thousand, accumulated depreciation of EUR 566 thousand and carrying amount of EUR 6,740 thousand (2017: cost of EUR 5,552 thousand, accumulated depreciation of EUR 380 thousand and carrying amount of EUR 5,172 thousand).

The property, plant and equipment disclosed in movement table above include carrying value of assets leased out under operating leases as follows:

In thousands of EUR	**2018**	**2017**
Equipment, vehicles and other assets – optical lines and related technology	7,323	8,727
Total carrying value of assets leased out under operating leases	**7,323**	**8,727**

Rental income is presented in Note 25. Future rental income due within one year from non-cancellable operating leases is EUR 980 thousand (2017: EUR 224 thousand), amount due from two to five years is EUR 1,960 thousand (2017: EUR 0 thousand) and the amount due after five years is EUR 0 thousand (2017: EUR 0 thousand).

7 Intangible Assets

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

In thousands of EUR	**Software and similar assets**	**Assets not yet available for use**	**Total**
Cost at 1 January 2017	53,313	3,556	**56,869**
Accumulated amortisation and impairment losses	(44,719)	-	**(44,719)**
Carrying amount at 1 January 2017	**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 including impairment charge	(48,983)	-	**(48,983)**
Carrying amount at 31 December 2017	**8,546**	**4,592**	**13,138**
Additions	-	6,969	**6,969**
Transfers	4,514	(4,514)	**-**
Amortisation charge	(4,431)	-	**(4,431)**
Cost at 31 December 2018	61,393	7,047	**68,440**
Accumulated amortisation and impairment losses	(52,764)	-	**(52,764)**
Carrying amount at 31 December 2018	**8,629**	**7,047**	**15,676**

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

In thousands of EUR	2018	2017
Energotel, a.s. - 20% investment in joint venture	525	525
SPX, s.r.o.	33	33
Total equity method investments	**558**	**558**

9 Inventories

In thousands of EUR	2018	2017
Natural gas	10,555	9,677
Materials and spare parts	881	833
Merchandise	374	267
Total inventories	**11,810**	**10,777**

The inventory items are shown after provision for slow-moving materials and spare parts of EUR 101 thousand (2017: EUR 10 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

In thousands of EUR	2018	2017
Trade receivables	162,644	131,330
Less impairment provision for trade receivables	(26,074)	(29,232)
Trade receivables, net	**136,570**	**102,098**
Commodity contracts at FVTPL	858	3,384
Contract assets - dealers commision costs	1,004	-
Excise tax receivables	-	30
Prepayments	1,870	2,531
Total trade and other receivables	**140,302**	**108,043**

10 Trade and Other Receivables (continued)

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

In thousands of EUR	2018	2017
Provision for impairment at 1 January	**29,232**	**29,692**
Impairment loss expense (Note 24)	(615)	1,183
Amounts written off during the year as uncollectible	(1,139)	(1,643)
Receivables sold*	(1,404)	-
Provision for impairment at 31 December	**26,074**	**29,232**

* In 2018, the Group sold trade receivables at gross value of EUR 1,433 thousand with impairment provision of EUR 1,404 thousand created at the date of sale, while the proceeds from the sale of these receivables amounted to EUR 202 thousand.

The credit quality of trade receivables is as follows:

In thousands of EUR	2018	2017
Neither past due nor impaired		
- collected by 31 January after the reporting period	43,121	35,888
- not collected by 31 January after the reporting period and not overdue	85,973	56,277
- amounts that became overdue after the reporting period	5,119	4,625
Total neither past due nor impaired	134,213	96,790
Individually impaired		
1 to 30 days past due	3,702	6,118
31 to 60 days past due	894	592
61 to 90 days past due	237	433
91 to 120 days past due	141	229
121 to 180 days past due	172	597
181 to 360 days past due	311	676
Over 360 days past due	22,974	25,895
Total individually impaired before provision for impairment	28,431	34,540
Less provision for impairment	(26,074)	(29,232)
Total trade receivables, net of provision	**136,570**	**102,098**

The Group has a concentration of credit risk towards related parties of the Slovak Government. Refer to Note 35.

10 Trade and Other Receivables (continued)

More details of ECL in relation to trade receivables at 31 December 2018 are as follows:

In % of gross value at 31 December 2018 in thousands of EUR	Loss rate	Gross carrying amount	Lifetime ECL
Trade receivables			
neither past due	1.70%	134,213	2,278
1 to 30 days past due	4.89%	3,702	181
31 to 60 days past due	9.84%	894	88
61 to 90 days past due	40.51%	237	96
91 to 120 days past due	51.77%	141	73
121 to 180 days past due	52.91%	172	91
181 to 360 days past due	94.21%	311	293
Over 360 days past due	100.00%	22,974	22,974
Total trade receivables (gross carrying amount)		**162,644**	**26,074**
Credit loss allowance		(26,074)	
Total trade receivables, net of provision (carrying amount)		**136,570**	

Movements in contract assets are as follows:

In thousands of EUR	31 December 2018	Additions	Amortization	At 1 January 2018	31 December 2017
Contract assets - dealers commision costs	**1004**	785	493	**712**	**-**
Loss allowance	**-**	-	-	**-**	**-**
Total contract assets	**1004**	**785**	**493**	**712**	**-**

The maturity analysis of contract assets at 31 December 2018 is as follows:

In thousands of EUR	Less than 12 months	From 12 months to 5 years	Over 5 years	Total
Contract assets - dealers commision costs	628	376	-	**1,004**
Total contract assets	**628**	**376**	**-**	**1,004**

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for contract assets. To measure the expected credit losses, contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to services of external vendors. The expected loss rates are calculated based on historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors. The loss allowance calculated based on the expected loss rates was concluded as not material.

11 Cash and Cash Equivalents

In thousands of EUR	2018	2017
Current accounts with banks	43,783	95,438
Total cash and cash equivalents in the statement of financial position	**43,783**	**95,438**
Less restricted cash balances	(133)	(133)
Total cash and cash equivalents in the statement of cash flows	**43,650**	**95,305**

The Group has a concentration of cash and cash equivalents balances towards five banks (2017: six banks).

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

In thousands of EUR	2018	2017
Neither past due nor impaired		
Credit rating A1 by Moody's	589	101
Credit rating A2 by Moody's	5,575	54,031
Credit rating A3 by Moody's	35,668	39,598
Credit rating Baa1 by Moody's	1,529	975
Credit rating A- by Fitch	422	233
Unrated	-	500
Total cash and cash equivalents	**43,783**	**95,438**

As at 31 December 2018, the Group has agreements with banks about revolving credit facilities amounting to EUR 75,000 thousand (2017: EUR 75,000 thousand). As at 31 December 2018 the Group has drawn EUR 0 thousand from these facilities (2017: EUR 0 thousand).

The Group did not account for the expected losses on cash and cash equivalents because, considering the probability of bankruptcy of bank institutions, the impact of such expected losses on the Group's financial statements would be insignificant.

12 Share Capital

The Company issued and has outstanding 5,934,594 ordinary shares (2017: 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 70,490 thousand or EUR 11.88 per share (2017: dividends of EUR 50,465 thousand or EUR 8.50 per share). Slovak legislation identifies distributable reserves as retained earnings reported in the separate financial statements of the Company which amount to EUR 108,614 thousand (2017: EUR 118,434 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: XS0979598462) of EUR 315,000 thousand are due on 14 October 2023 and carry a coupon of 4.00% p.a. The series two of issued bonds (ISIN: XS1782806357) of EUR 315,000 thousand are due on 2 March 2028 and carry a coupon of 1.75% p.a. The bonds are traded on the Irish Stock Exchange, Dublin.

On 2 March 2018, the Group issued bonds (ISIN: XS1782806357) of EUR 315,000 thousand and on 11 October 2018 repaid the bonds (ISIN: XS0979598207) at the same nominal value, including the corresponding coupon.

Amortised cost carrying value of the bonds is as follows:

In thousands of EUR	2018	2017
Issued bonds – non-current	**626,911**	**314,396**
Issued bonds – current	-	315,000
Accrued interest payable within one year and transaction costs	6,882	4,114
Issued bonds – current and accrued interest payable within one year	**6,882**	**319,114**
Amortised cost of the bonds	**633,793**	**633,510**

15 Income Taxes

Income tax expense comprises the following:

In thousands of EUR	2018	2017
Current tax at standard rate of 21% (2017: 21%)	20,290	29,683
Income tax related to prior periods	(1,271)	(2)
Special levy on profits from regulated activities	5,692	5,461
Deferred tax	7,722	(2,769)
Income tax expense/(credit) for the year	**32,433**	**32,373**

In 2018, the applicable standard income tax rate was 21% (2017: 21%). 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). 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.

15 Income Taxes (continued)

As a result, the income tax rate applicable to regulated activities is as follows:

	2018	2017
Standard income tax rate for the year	21.000%	21.000%
Special levy rate	8.712%	8.712%
Effect of deductibility of special levy from standard rate*	(2.381%)	(2.381)%
Tax rate applicable on profits generated by regulated industry operations	**27.331%**	**27.331%**

* 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 23.542% (2017: 24.667%) 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:

In thousands of EUR	2018	2017
Profit before tax	**130,467**	**129,934**
Theoretical tax charge at applicable tax rate of 23,542% (2017: 24.667%)	30,715	32,051
Non-deductible expenses /(non-taxable income) for which deferred tax was not recognised		
- income from equity method investees not subject to standard tax	(54)	(162)
- expenses not deductible for standard tax but deductible for special levy purposes	1,106	(525)
Income tax related to prior periods	-	(2)
Effect on deferred taxes of extension of special levy for indefinite period	(51)	905
Other	717	106
Income tax expense for the period	**32,433**	**32,373**

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 2018, that will become current tax in 2019, will be settled in 2020 upon filing the 2019 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:

In thousands of EUR	2018	2017
Differences between tax base and carrying value of property, plant and equipment	46,313	42,466
Differences between tax base and carrying value of property, plant and equipment (deferred tax related to special levy)	(635)	(644)
Post-employment defined benefit obligation	(1,261)	(1,450)
Other long term employee benefits	(299)	(332)
Other liabilities	(3,474)	(8,091)
Provision for impairment of trade receivables	(187)	(291)
Other	(6,378)	(1,352)
Total net deferred tax liability	**34,079**	**30,306**

In thousands of EUR	2018	2017
Differences between tax base and carrying value of property, plant and equipment	(2,441)	39
Differences between tax base and carrying value of property, plant and equipment (deferred tax related to special levy)	5,241	5,181
Post-employment defined benefit obligation	268	125
Other long term employee benefits	77	33
Other liabilities	2,655	6,144
Provision for impairment of trade receivables	591	790
Other	1,863	187
Total net deferred tax asset	**8,254**	**12,499**

The movements in deferred taxes for temporary differences were recognised in profit or loss except for EUR (297) thousand (2017: EUR (3) 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 Group. The movements in the present value of defined benefit obligation are:

	2018	2017
Present value of unfunded post-employment defined benefit obligations at the beginning of the year	**9,752**	**9,507**
Current service cost	588	518
Interest cost	124	94
Past service costs due to changes in the defined benefit plan rules	-	(70)
Total expense (Note 23)	712	542
Actuarial remeasurements:		
- attributable to changes in financial assumptions	(1,100)	(173)
- attributable to changes in demographic assumptions	(865)	140
- attributable to experience adjustments	552	22
Total actuarial remeasurements recognised in other comprehensive income	(1,413)	(11)
Benefits paid during the year	(391)	(286)
Other	32	-
Present value of unfunded post-employment defined benefit obligations at the end of the year	**8,692**	**9,752**

The principal actuarial assumptions were as follows:

	2018	2017
Number of employees at 31 December	1,911	1,854
Staff turnover	5.29% p.a.	4.55% p.a.
Expected salary increases short-term	4.00% p.a.	5.00% p.a.
Expected salary increases long-term	2.00% p.a.	4.00% p.a.
Discount rate	1.50% p.a.	1.30% p.a.

In 2018, Slovak legislation also increased a cap on social security tax payable on the post-employment benefits, 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 social security tax assumptions.

17 Other Long Term Employee Benefits

The Group makes EUR 1,400 (2017: EUR 1,400) payment to each employee at the age of 50, subject to 5 year service vesting condition (2017: 5 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 (2017: between EUR 400 to EUR 1,250).

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

18 Provisions for Liabilities and Charges

In thousands of EUR	2018	2017
Provisions for legal proceedings	19,972	-
Total current provisions for liabilities and charges	**19,972**	**-**

As of 31 December 2018, the Group has recognized a current provision for known and quantifiable risks relating to disputes against the Group, that represent the best possible estimate of amounts that are more likely to be paid. Actual amounts of performance, if at all, are subject to a number of different circumstances that will occur in the future and the outcome of which is uncertain and therefore the amount of the reserve may change in the future. Of the above-mentioned provision, the amount of EUR 3 450 ths. was posted as decrease of revenue in 2018.

19 Contract Liabilities from Connection Fees and Customer Contributions

The Group has the following liabilities arising from contract with customers:

In thousands of EUR	At 31 December 2018	At 1 January 2018	At 31 December 2017
Non-current			
Contract liabilities - customer contributions	33,020	31,533	31,533
Contract liabilities - connection fees	65,858	63,931	63,931
Total non-current contract liabilities	**98,878**	**95,464**	**95,464**
Current			
Contract liabilities - customer contributions	1,678	1,678	1,678
Contract liabilities - connection fees	5,365	4,742	4,742
Total current contract liabilities	**7,043**	**6,420**	**6,420**

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 Contract Liabilities from Connection Fees and Customer Contributions (continued)

Movements in contract liabilities are as follows:

In thousands of EUR	31. December 2017	Additions	Transfer	Utilization	31 December 2018
Non-current					
Contract liabilities - customer contributions	31,533	3,577	(2,090)	-	33,020
Contract liabilities - connection fees	63,931	6,872	(4,945)	-	65,858
Total non-current contract liabilities	**95,464**	**10,449**	**(7,035)**	**-**	**98,878**
Current					
Contract liabilities - customer contributions	1,678	-	1,678	(1,678)	1,678
Contract liabilities - connection fees	4,742	-	5,357	(4,734)	5,365
Total current contract liabilities	**6,420**	**-**	**7,035**	**(6,412)**	**7,043**

The maturity analysis of contract liabilities at 31 December 2018 is as follows:

In thousands of EUR	Less than 12 months	From 12 months to 5 years	Over 5 years	Total
Non-current				
Contract liabilities - customer contributions	-	6,758	26,262	33,020
Contract liabilities - connection fees	-	20,293	45,565	65,858
Total non-current contract liabilities	**-**	**27,051**	**71,827**	**98,878**
Current				
Contract liabilities - customer contributions	1,678	-	-	1,678
Contract liabilities - connection feesa	5,365	-	-	5,365
Total current contract liabilities	**7,043**	**-**	**-**	**7,043**

20 Trade and Other Payables

In thousands of EUR	2018	2017
Trade payables	92,749	18,893
Other accrued liabilities	18,189	66,367
Commodity contracts at FVTPL	3,127	9,050
Payables from leasing	3,426	3,006
Other financial liabilities	2,751	2,984
Total financial instruments within trade and other payables	**120,242**	**100,300**
Contract liabilities – electricity and distribution fees for electricity	46,555	42,988
Employee benefits payable	2,619	2,418
Social security on employee benefits	2,184	1,613
Accrued staff costs	10,214	9,645
Advance payments	26,878	22,088
Value added tax payable	2,236	5,068
Other payables	4,568	3,569
Excise duty payable	106	-
Total trade and other payables	**215,602**	**187,689**

The Group had overdue trade payables of EUR 276 thousand (2017: EUR 106 thousand). None of the payables are overdue more than 30 days at 31 December 2018.

Details of contract liabilities and reclassifications at 1 January 2018:

In thousands of EUR	At 31 December 2018	At 1 January 2018	At 31 December 2017
Current			
Deferred revenues – electricity and distribution fees for electricity	-	-	42,988
Contract liabilities – electricity and distribution fees for electricity	46,555	42,988	-
Total current contract liabilities	**46,555**	**42,988**	**42,988**

Movements in contract liabilities are as follows:

In thousands of EUR	1 January 2018	Additions	Transfer	31 December 2018
Current				
Contract liabilities – electricity and distribution fees for electricity	42,988	46,555	42,988	46,555
Total current contract liabilities	**42,988**	**46,555**	**42,988**	**46,555**

20 Trade and Other Payables (continued)

The maturity analysis of contract liabilities at 31 December 2018 is as follows:

In thousands of EUR	Less than 12 months	From 12 months to 5 years	Over 5 years	Total
Current				
Contract liabilities – electricity and distribution fees for electricity	46,555	-	-	**46,555**
Total current contract liabilities	**46,555**	**-**	**-**	**46,555**

21 Revenue from Electricity and Other Related Revenue and Revenue from Natural Gas

	2018				2017			
In thousands of EUR	Distribution	Supply	Other	Total	Distribution	Supply	Other	Total
Electricity to industrial and commercial customers	242,406	480,110	-	**722,516**	236,557	425,945	-	**662,502**
Electricity to residential customers	55,246	233,184	-	**288,430**	55,909	224,037	-	**279,946**
Gas	-	94,364	-	**94,364**	-	98,909	-	**98,909**
Other revenue	2,359	4,716	659	**7,734**	2,362	4,180	1,287	**7,829**
Revenue for reserved capacity	6,143	-	-	**6,143**	11,127	-	-	**11,127**
Revenues for connection work and testing fees	5,315	-	-	**5,315**	4,684	-	-	**4,684**
Total revenue from external customers	**311,469**	**812,374**	**659**	**1,124,502**	**310,639**	**753,071**	**1,287**	**1,064,997**

21 Revenue from Electricity and Other Related Revenue and Revenue from Natural Gas (continued)

Revenue comprises the following:

In thousands of EUR	2018	2017
Sales of electricity to industrial and commercial customers	229,077	191,734
Sales of electricity to residential customers	88,983	80,563
Total sales of electricity	318,060	272,297
Distribution fees for electricity to industrial and commercial customers	493,439	470,768
Distribution fees for electricity to residential customers	199,447	199,383
Revenue for reserved capacity	6,143	11,127
Total distribution fees	699,029	681,278
Revenue from natural gas	94,364	98,909
Revenues for connection work and testing fees	5,315	4,684
Other revenue	7,734	7,829
Total revenue from electricity and other related revenue and revenue from natural gas	**1,124,502**	**1,064,997**

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.

Timing of recognition for revenue from electricity and other related revenue and revenue from natural gas of the Group is as follows:

In thousands of EUR	2018	2017
Revenue recognised at a point in time	2,487	1,860
Revenue recognised over time	1,122,015	1,063,137
Total revenue from electricity and other related revenue and revenue from natural gas	**1,124,502**	**1,064,997**

22 Purchases of Electricity and Related Fees

The following amounts have been charged to purchases of electricity and related fees:

In thousands of EUR	2018	2017
Purchase of electricity from: Slovenské elektrárne ("SE")	80,138	73,502
Purchase of electricity from other domestic producers and traders	125,622	110,600
Purchase of electricity on the spot market	73,555	64,639
Total electricity purchases	**279,315**	**248,741**
Electricity transmission fees, system access and ancillary service charges and tariff for system operation and system services and renewable sources feed-in tariffs	434,780	434,406
Total purchases of electricity and related fees	**714,095**	**683,147**

23 Employee Benefits

In thousands of EUR	2018	2017
Wages and salaries	45,597	42,193
Defined contribution pension costs	8,249	7,545
Post-employment defined benefit plan expense (Note 16)	712	542
Other long-term employee benefit plans – current service and interest cost (Note 17)	177	(34)
Actuarial remeasurements of other long-term employee benefit plans (Note 17)	(183)	39
Other social costs	13 740	13,265
Total employee benefits expense	**68,292**	**63,550**

24 Other Operating Expenses

In thousands of EUR	2018	2017
Information technology and software maintenance costs	13,283	12,196
Repairs and maintenance costs	7,503	6,273
Operating lease expense	4,971	3,718
Postal and telecommunication services	2,248	2,415
Call centre services	2,696	2,528
Security services	1,679	1,366
Advertising services	1,650	1,234
Travel expenses	1,113	976
Statutory audit	257	264
Other services	6,564	6,057
Personal leasing and external dealers commission	933	2,164
Project management	1,109	1,377
Advisory services	1,694	1,024
Marketing	982	1,130
Operation and maintenance of telecommunication network	618	668
Provisions for legal proceedings	16,522	-
Facility management expenses	1,182	982
Impairment loss on trade and other receivables (Note 10)	(615)	1,183
Bad debt write-offs	1,202	-8
Property and motor vehicle tax	624	607
Gifts	612	554
Insurance	626	625
Other operating expenses	8,519	5,711
Total other operating expenses	**75,972**	**53,044**

In year 2018, the PwC network provided to the Group the following non-audit services:

- consulting services under the Article 5 (1) (a) (i) of Regulation (EU) No. 537/2014 which are allowed by paragraph 33 of the Act No. 423/2015 in amount of EUR 236 thousand (2017: EUR 17 thousand),
- services in area of job grading and benchmarking in amount EUR 14 thousand (2017: EUR 12 thousand), which was not a cost control service,
- trainings in amount of EUR 2 thousand (2017: EUR 1 thousand).

The above-mentioned services were approved by the Audit Committee of the Company.

25 Other Operating Income

In thousands of EUR	2018	2017
Customer contributions to their connection costs	1,678	1,678
Operating lease income (Note 6)	1,186	1,208
Gain/(loss) on disposal of fixed assets (Note 6)	(201)	(295)
Income from contractual penalties	630	452
Income from unauthorized consumption of electricity	249	285
Fees for payment reminders	1,427	1,303
Other	2,412	1,875
Total other operating income	**7,381**	**6,506**

26 Interest and Similar Expense

In thousands of EUR	2018	2017
Interest expense on bonds	24,302	21,656
Amortisation of bonds transaction costs and similar expense	868	667
Other interest expense	227	346
Less capitalised borrowing costs (Note 6)	(1,614)	(1,563)
Total interest and similar expense	**23,783**	**21,106**

27 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.

27 Segment Reporting (continued)

As a result of regulation of the distribution business and partial regulation of the supply business approximately 94% (2017: 94%) of the Group's EBITDA and 92% (2017: 94%) 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 2018 is as follows:

In thousands of EUR	**Distribution**	**Supply**	**Other**	**Eliminations and consolidation adjustments**	**Total**
Revenue from external customers	311,469	812,374	659	-	**1,124,502**
Inter-segment revenues	192,237	26,235	17,197	(235,669)	**-**
Total segment revenues	503,706	838,609	17,856	(235,669)	**1,124,502**
Purchases of electricity and related fees	(224,945)	(704,564)	(2,358)	217,772	**(714,095)**
Purchases of natural gas	-	(88,381)	-	85	**(88,296)**
Employee benefits expense	(49,966)	(10,258)	(8,068)	-	**(68,292)**
Other operating expenses	(75,873)	(15,994)	(15,882)	31,777	**(75,972)**
Share of profit of equity method investees	-	-	66,560	(66,301)	**259**
Other operating income	4,171	2,405	11,505	(10,700)	**7,381**
Own work capitalized	17,626	-	-	454	**18,080**
Earnings before interest, taxes, depreciation and amortization (EBITDA)	**174,719**	**21,817**	**69,613**	**(62,582)**	**203,567**
Depreciation of property, plant and equipment	(64,410)	(13)	(2,701)	21,881	**(45,243)**
Amortization of intangible assets	(2,639)	(1,747)	(134)	89	**(4,431)**
Earnings before interest and taxes (EBIT)	**107,670**	**20,057**	**66,778**	**(40,612)**	**153,893**
Capital expenditures	**101,452**	**1,719**	**4,774**	**(5,873)**	**102,072**

27 Segment Reporting (continued)

Reportable segments information for 2017 is as follows:

In thousands of EUR	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**

27 Segment Reporting (continued)

Entity wide information. Revenue is analysed by type of product or service in Note 21. Substantially all 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:

In thousands of EUR	**2018**	**2017**
Total EBIT for all operating segments	**153,893**	**150,956**
Interest income	357	84
Interest and similar expense	(23,783)	(21,106)
Profit before tax	**130,467**	**129,934**

Reconciliation of capital expenditures to payments for purchases of property, plant and equipment and intangible assets is as follows:

In thousands of EUR	**2018**	**2017**
Total capital expenditures for all operating segments	**102,072**	**80,941**
Assets acquired but not paid for	(31,654)	(27,518)
Payments for assets acquired in prior periods	11,178	9,087
Payments for purchases of property, plant and equipment and intangible assets	**81,596**	**62,510**

28 Assets Held for Sale and Discontinued Operations

On 26 July 2018, the Group acquired with a view to resale a 100% shareholding in company ZSE Elektrárne, s.r.o. (till 16 August 2018: E.ON Elektrárne s.r.o.) from its shareholder E.ON Slovensko, a.s. The change of shareholder was registered in the Commercial Register on 16 August 2018. The Group has an intention to sell its subsidiary ZSE Elektrárne, s.r.o. during the year 2019 and therefore this Group's investment was classified as held for sale in its consolidated financial statements. As ZSE Elektrárne, s.r.o. was acquired during the year 2018 with a view to resale, the Group in accordance with the IFRS 5 Standard decided to disclose this investment using the short-cut method. In 2018, ZSE Elektrárne, s.r.o. generated loss amounted to EUR 5,624 thousand (2017: EUR 2,372 thousand).

Assets classified as held for sale and discontinued operations are as follows:

In thousands of EUR	**2018**	**2017**
Financial investment in subsidiary acquired with a view to resale (ZSE Elektrárne, s.r.o.)	8,486	-
Receivables from cash pooling to subsidiary held for sale (ZSE Elektrárne, s.r.o.)	28,382	-
Total assets held for sale and discontinued operations	**36,868**	**-**

29 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.

Commodity price risk. In 2018, the Group identified and recognised a provision for certain commodity contracts at FVTPL. In general, management aims to match electricity demand with corresponding purchase contracts. In order to manage market risk, the Group has implemented a system of conservative volume and financial limits for open positions in commodities which protect the Group from unexpected changes in market commodity prices on wholesale markets.

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.

To determine the level of credit risk, The Group uses Expected credit loss ("ECL") measurement, which reflects the probability-weighted estimate of the present value of future expected credit losses. The Group applies a simplified approach to trade receivables under IFRS 9, i.e. measures ECL using lifetime expected loss. The Group uses for the calculation of lifetime expected loss for trade receivables a matrix that takes into account the amount of receivables turnover during the current period, revenues for the current period and the amount of receivables written off. Expected credit losses are modelled over instrument's lifetime period. The lifetime period is equal to the remaining contractual period to maturity of debt instruments, adjusted for expected prepayments, if any. For loan commitments contracts, it is the contractual period over which an entity has a present contractual obligation to extend credit.

When assessment is performed on a portfolio basis, the Group determines the staging of the exposures and measures the loss allowance on a collective basis. The Group analyses its exposures by segments determined on the basis of shared credit risk characteristics, such that exposures within a Group have homogeneous or similar risks. The key shared credit characteristics considered are: [type of customer (such as wholesale or retail), product type. In general, ECL is the sum of the multiplications of the credit risk parameters.

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, the Group assesses the credit quality of customer, taking into account its financial position, past experience and other factors. 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. To reduce the risk of selected wholesalers, the Group uses insurance products. 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.

29 Financial Risk Management (continued)

To manage the credit risk of wholesale activities, the Group has implemented a system of conservative volume and financial credit limits that ensure diversification of credit risk across multiple wholesale partners and use financial guarantees to secure business relations.

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. Due to the dynamic nature of the activities, 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 issued bonds. The Group's strategy is to secure the financing at least 6 months before the existing debt becomes due.

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.

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 2018:

In thousands of EUR	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Issued bonds – principal due	-	-	-	315,000	315,000	**630,000**
Issued bonds – future interest payments	-	5,513	12,600	72,450	27,562	**118,125**
Trade payables (Note 20)	68,093	24,656	-	-	-	**92,749**
Other accrued liabilities (Note 20)	12,616	1,606	3,967	-	-	**18,189**
Gross finance lease liability	-	-	1,552	1,874	-	**3,426**
Other financial liabilities (Note 20)	2,751	-	-	-	-	**2,751**
Commodity contracts at FVTPL:						
- gross notional amount payable*	3,127	-	-	-	-	**3,127**
- gross notional amount receivable**	(858)	-	-	-	-	**(858)**
Total future payments, including future principal and interest payments	**85,729**	**31,775**	**18,119**	**389,324**	**342,562**	**867,509**

* 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.

29 Financial Risk Management (continued)

The maturity analysis is as follows at 31 December 2017:

In thousands of EUR	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Liabilities						
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 20)	9,443	9,450	-	-	-	**18,893**
Other accrued liabilities (Note 20)	65,684	681	2	-	-	**66,367**
Gross finance lease liability	-	-	1,153	1,853	-	**3,006**
Other financial liabilities (Note 20)	2,984	-	-	-	-	**2,984**
Commodity contracts at FVTPL:						
- 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.

30 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 79,598 thousand at 31 December 2018 (2017: EUR 50,226 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.

31 Debt Movements Reconciliation

The table below sets out an analysis of debt movements for each of the periods presented:

In thousands of EUR	**Issued bonds**
At 1 January 2017	**632,942**
Payments of interest	(21,656)
Interest expense (Note 26)	20,100
Capitalised interest costs (Note 6)	1,563
Amortisation of bonds transaction costs	561
At 31 December 2017	**633,510**
Issued bonds	315,000
Payment of bonds	(315,000)
Payments of interest	(21,656)
Interest expense (Note 26)	22,688
Capitalised interest costs (Note 6)	1,614
Transaction costs related to issued bonds	(3,124)
Amortisation of bonds transaction costs	761
At 31 December 2018 (Note 14)	**633,793**

32 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.

32 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:

	31 December 2018			31 December 2017		
In thousands of EUR	Level 1 fair value	Level 2 fair value	Carrying value	Level 1 fair value	Level 2 fair value	Carrying value
ASSETS						
Trade receivables, net	-	136,570	136,570	-	102,098	102,098
Cash and cash equivalents	-	43,783	43,783	-	95,438	95,438
TOTAL ASSETS	**-**	**180,353**	**180,353**	**-**	**197,536**	**197,536**
LIABILITIES						
Issued bonds (Note 14)	675,732	-	633,793	695,066	-	633,510
Trade payables (Note 20)	-	92,749	92,749	-	18,893	18,893
Liabilities from finance leasing (Note 20)	-	3,426	3,426	-	3,006	3,006
Other accrued liabilities (Note 20)	-	18,189	18,189	-	66,367	66,367
Other financial liabilities (Note 20)	-	2,751	2,751	-	2,984	2,984
TOTAL LIABILITIES	**675,732**	**117,115**	**750,908**	**695,066**	**91,250**	**724,760**

33 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IFRS 9 "Financial Instruments" classifies financial assets into the following categories: (a) financial assets at FVTPL; (b) debt instruments at FVOCI, (c) equity instruments at FVOCI and (c) financial assets at AC. Financial assets at FVTPL have two sub-categories: (i) assets mandatorily measured at FVTPL, and (ii) assets designated as such upon initial recognition or subsequently. In addition, finance lease receivables form a separate category.

34 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 2013 to 2018 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. These circumstances led the Group to create a provision for the potential impact of legal proceedings (Note 18).

Capital expenditure commitments. At 31 December 2018, the Group had outstanding contractual commitments for purchases of property, plant and equipment of EUR 6,769 thousand (2017: EUR 2,696 thousand). Outstanding contractual commitments for purchases of intangible assets were EUR 1,692 thousand (2017: EUR 1,775 thousand).

34 Contingencies and Commitments (continued)

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

In thousands of EUR	**2018**
No later than one year	3,148
Later than one year and no later than five years	7,947
Later than five years	3,105
Total	**14,200**

The above mentioned are the future minimum payments extended during the estimated rental period determined by taking into account the contractual right if the extension is considered sufficiently certain by the Company. Minimum future payments that cannot be avoided, for example, by not extending the lease term were EUR 11,154 thousand (2017: EUR 9,255 thousand).

Operating lease expense for the year is disclosed in Note 24.

35 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 2018:

In thousands of EUR	**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, other operating and interest income	36	180	1,952	254,651	-	966
Dividend income	-	-	-	-	-	259
Purchases and expenses	11	-	23,409	467,580	-	1,548
Receivables other than taxes	3	195	29,533	13,155	-	91
Payables other than taxes	-	-	4,948	27,452	-	311
Dividends declared and paid	35,950	27,491	7,049	-	-	-

* 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 20. Property and motor vehicle taxes are disclosed in Note 24.

35 Balances and Transactions with Related Parties (continued)

The income tax paid was as follows:

In thousands of EUR	2018	2017
Current income tax expense at standard rate of 21% (2017: 21%) – refer to Note 15	19,019	29,681
Special levy on profits from regulated activities (Note 15)	5,692	5,461
Income tax refund receivable/liability at the beginning of the period	(6,179)	(6,764)
Income tax refund receivable/liability at the end of the reporting period	7,903	(6,179)
Income tax paid	**(38,793)**	**(35,727)**

The related party transactions and outstanding balances were as follows for 2017:

In thousands of EUR	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, other operating and interest income	32	268	294	203,205	-	996
Dividend income	-	-	-	-	-	782
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.

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.

35 Balances and Transactions with Related Parties (continued)

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:

In thousands of EUR	2018	2017
Board of directors and other key management personnel		
Salaries and other short-term employee benefits	1,615	1,602
Defined contribution pension costs	201	189
Total remuneration of board of directors and other key management personnel	**1,816**	**1,791**
Supervisory board		
Salaries and other short-term employee benefits	291	281
Defined contribution pension costs	44	44
Total remuneration of supervisory board	**335**	**325**

36 Events after the End of the Reporting Period

After 31 December 2018, no significant events have occurred that would require recognition or disclosure in these consolidated financial statements.

Management authorised these financial statements for issue on 19 March 2019:

....
Jochen Kley
Chairman of the Board of Directors and CEO

....
Marian Rusko
Member of the Board of Directors