Západoslovenská energetika, a.s.

Annual Report for the year ended 31 December 2019
and Independent Auditor's Report

April 2020

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.

Západoslovenská energetika, a.s.

Annual Report for 2019

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01 Introduction of the Západoslovenská energetika, a.s. Group

Profile and Structure of the Západoslovenská energetika, a.s. Group

The Západoslovenská energetika, a.s. Group (hereinafter the "**ZSE Group**") is a leading electro-energetic group in Slovakia whose parent company is Západoslovenská energetika, a.s.

The ZSE Group comprises the parent company Západoslovenská energetika, a.s. and its subsidiaries: Západoslovenská distribučná, a.s., ZSE Energia, a.s., ZSE Elektrárne, s.r.o, ZSE Development, s.r.o., ZSE Energy Solutions, s.r.o., ZSE MVE, s. r. o., ZSE Business Services, s. r. o. and ZSE Energetické služby, s.r.o.. ZSE Energia CZ, s.r.o. also belongs to the ZSE Group. ZSE Energia CZ, s.r.o. is the 100% subsidiary of ZSE Energia, a.s.

Západoslovenská energetika, a.s. is also the sole founder of Nadácia ZSE (ZSE Foundation). ZSE Foundation is the only shareholder in Elektrárňa Piešťany, s.r.o., which entered into liquidation on 18.02.2020.

ZSE Energia, a.s. has organizational unit in Czech Republic.

The parent company Západoslovenská energetika, a.s., Company ID: 35 823 551, with its seat at Čulenova 6, 816 47 Bratislava (hereinafter the "Company" or "ZSE"), was established on 15 October 2001 and incorporated in the Commercial Register on 1 November 2001. The Company is registered with the Commercial Register of the Bratislava I District Court, Section: Sa, File No.: 2852/B.

The mission of the ZSE Group is to carry out electricity and gas supplies and electricity distribution and to provide comprehensive energy-related services to all categories of customers – households, SMEs and strategic enterprises in the Slovak economy. Services are provided in the long-term and reliably, at affordable prices, in an environmentally-friendly manner and in accordance with the EU regulations. The ZSE Group provides services related to electricity distribution and electricity and gas supplies primarily in the region of western Slovakia. In addition to two small hydropower plants, the ZSE Group also has a steam-gas power plant near Malženice in western Slovakia with an installed capacity of 430 MW. Západoslovenská energetika, a.s. is also active in the field of electromobility.
Certain aspects of the relationship between the ZSE Group and its customers with respect to electricity distribution, and electricity and gas supplies, including the pricing of services provided to certain groups of customers, are regulated by the Regulatory Office for Network Industries (ÚRSO). Electricity distribution is subject to regulation, price or factual, to the largest extent.

Company Bodies

The structure of statutory and supervisory bodies of the Company during the year 2019 was as follows:

Statutory Body

Board of Directors	
As at 31 December 2019	
Chairman	Jochen Kley (start of office on 1 June 2016)
Vice-Chairman	Ing. Peter Adamec, PhD. (start of office on 16 November 2016)
Members	Ing. Pavol Viskupič (start of office on 16 November 2016)
	Marian Rusko (start of office on 1 July 2017)
	Mgr. Juraj Krajcár (start of office on 5 December 2017)

Supervisory Body

Supervisory Board	
As at 31 December 2019	
Chairman	Ing. Eva Milučká (start of office as a Member on 16 November 2016 and as the Chairman on 8 December 2016; end of office as a Member on 5 December 2019) Ing. Eva Milučká (start of office as a Member on 5 December 2019, as a Chairman on 12 December 2019)
Vice-Chairman	Markus Kaune (start of office as a Member on 5 December 2016 and as the Vice-Chairman on 8 December 2016; end of office as a Member on 5 December 2019) Markus Kaune (start of office as a Member on 5 December 2019 and as the Vice-Chairman on 12 December 2019)
Members	Silvia Šmátralová (start of office on 19 December 2017)
	Ing. Martin Mislovič (start of office on 19 December 2017)
	Ing. Juraj Nyulassy (start of office on 19 December 2017)
	Ing. Lucia Veselská (start of office on 16 November 2016; end of office on 5 December 2019) Ing. Lucia Veselská (start of office on 5 December 2019)
	Ing. Erna Dohnáliková (start of office on 16 November 2016; end of office on 5 December 2019) Ing. Erna Dohnáliková (start of office on 5 December 2019)
	Ing. Ján Rusnák (start of office on 16 November 2016; end of office on 5 December 2019))
	Mgr. Tomáš Galbavý (start of office on 16 November 2016; end of office on 5 December 2019) Mgr. Tomáš Galbavý (start of office on 5 December 2019)

Audit Committee

The Audit Committee was established by a decision of the Company's General Meeting dated 12 December 2014. The Audit Committee has three members elected and dismissed by the Company's General Meeting.

In year 2019, the Audit Committee of the Company had the following structure:

Ing. Ján Rusnák
Ing. Mgr. Juraj Bayer, PhD.
JUDr. Peter Hajduček

Shareholders' Structure

The shareholders' structure in Západoslovenská energetika, a.s. as at 31 December 2019 was as follows:

Shareholders' Structure			
As at 31 December 2019	Absolute amount in € thousand	Equity share in the share capital in %	Voting rights
Slovak Republic represented by the Ministry of Economy of the Slovak Republic	100,454	51%	51%
E.ON Slovensko, a.s.	76,818	39%	39%
E.ON Beteiligungen GmbH	19,697	10%	10%

Corporate Governance Declaration

The methods and principles of corporate governance are comprised in the Articles of Association of the Company. The Articles of Association are available in the Collection of Documents of the relevant court – District Court Bratislava I and on the website of the Company www.skupinazse.sk, section Investors – Regulated information.

The Organizational Manual of the Company sets out the principles of the Company´s organisation and internal management of the Company and is the basic and supreme organisational and managing document on the top level in the Company except for the Articles of Association of the Company.

The corporate governance model of the Company includes also internal managing documents which contains orders of the Board of Directors, orders of a member of the Board of Directors, orders of the Chief Executive Officer, orders of a director of a division, directives, manuals and procedures.

Description of Key Internal Control and Risk Management Systems in relation to Financial Statements

The Company has internal control and risk management system in place, relating financial statements. This system consists of various instruments, processes and activities which have been used in accounting and preparing the separate and consolidated financial statements (hereinafter jointly "financial statements") of the Company.

The activities within accounting and preparing financial statements are divided in individual functional steps. Automatic and manual controls are a part of every of these steps. The defined procedures ensure that all accounting transactions and preparation of the Company´s financial statements are recorded and processed in line with the accrual principle and documented in a complete, timely and precise manner.

The Company has introduced and has been using internal managing documentation which includes several directives and procedures. These documents focus mainly on the way of accounting in the Company, accounting procedures, signature rules, chart of accounts, account classification, inventory of assets and liabilities, activation and disposal of assets, impairment provisions, creation and use of reserves, preparation of financial statements, consolidation and calculation of direct and indirect taxes. Internal managing documentation is a binding document for all employees and represents the application of main accounting principles and accounting methods applied by the Company. In practice the Company follows the amendments to laws, new and amended accounting standards and other relevant documents that have impact on the accounting and financial statements and, if needed, updates internal managing documentation in a relevant way.

The Company has been using an accounting information system which contains pre-set automatic control mechanisms. Efficiency of these automatic controls within the accounting information system and other key applications is strengthened by other manual checks. Access rights and their extent are limited depending on the need and only for a specified group of employees.

The preparation of the Company´s financial statements requires for further qualitative and quantitative indicators and other information. Furthermore, in order to assess the correctness of this information, procedures for the relevant organisational units to assess completeness of this information on a regular basis.

The elementary elements of the internal control and risk management system in relation to the financial statements are: approving, review procedures, segregation of duties, four-eye principle, master data and access rights management, and specific requirements for risk management in many key areas and processes such as accounting, financial reporting, communication, planning and controlling and risk management.

Internal controls are an integral part of the Company´s accounting procedures. Internal managing documentation defines uniform requirements for reporting and accounting procedures for the entire ZSE Group. Adhering to these rules give sufficient certainty to prevent errors or fraud which may cause material misstatement in the Company´s financial statements.

The Company´s organisational unit in charge of accounting and taxes carries out, among other things, implementation, administration and setting of accounting information systems and ensures compliance of accounting, financial statements and tax calculations with the Slovak and European laws. Within this unit, individual accounting transactions and financial statements of the Company are subject to review by managers.

The Company´s organisation structure includes Controlling. Controlling unit processes create a part of internal control mechanism and risk management of the Company. Controlling ensures continuous control of accounting and financial statements.

The role and competences of Internal Audit, Audit Committee, Board of Directors, Supervisory Board and General Meeting of the Company in relation to internal control environment and risk management and to financial statements are presented below.

The organisational structure of the Company also includes the position of Compliance Manager and Department of Internal Audit whose roles are:

- assessment of adequacy and effectiveness of the system of internal supervision, financial, operational and information systems, corporate governance processes and the quality of tasks assigned and performed;
- identification and assessment of operational risks of the Company by using the adequate methodology;
- responsibility for planning and conducting audit of IT systems, their functionalities and equipment including diverse and global environment of information technologies, operation systems and applications;
- performance of audit of information systems and IT infrastructure safety;
- risk assessment and the conducting of investigations based on risk assessment;
- investigation of crucial suspicions of embezzlement and fraud within companies of the Group;
- responsibility for making and updating of the documentation in relation to Business Compliance Programme;
- elaboration and updating of the Company Code of Conduct;
- performance of the activities relating to verification of the breach of the Company Code of Conduct.

Results of their activities have been regularly assessed and proposals for improvements applied to individual areas of the governance of the Company. Efficiency of internal control and risk management systems in the Company have been also monitored by the Audit Committee of the Company.

Governance Methods and Bodies of the Company

The shareholders exercise their rights by means of the General Meeting in accordance with the regulation contained in the Commercial Code and the Articles of Association of the Company as follows:
General Meeting

1. The General Meeting is the supreme body of the Company. It shall take decisions on the issues relating to the activities of the Company which the Articles of Association, Commercial Code or a specific act place within its authority.

2. A shareholder may exercise its rights in the General Meeting in person or in representation under the written power of attorney.

3. The General Meeting shall be convened by the Board of Directors unless the Articles of Association or Commercial Code provide otherwise. The Board of Directors shall be obliged to convene an ordinary General Meeting within 2 months of the tax return submission. The Board of Directors shall be obliged to convene an extraordinary General Meeting especially due to reasons under Article XIII (3) of the Articles of Association. The Supervisory Board shall convene an extraordinary General Meeting due to reasons under Article XX(2) of the Articles of Association.

4. The Board of Directors shall convene the General Meeting by an invitation to the General Meeting that must be delivered to all shareholders in the form of a registered mail directly to the address specified in the list of shareholders at least 30 days prior the General Meeting. The invitation to the General Meeting must contain all formalities laid down by applicable laws including information that documents which will be discussed at the General Meeting will be available to shareholders for viewing in the seat of the Company no later than 3 calendar days prior to the meeting of the General Meeting. The invitation to the General Meeting with documents which will be discussed at the meeting shall be sent by the Board of Directors no later than 30 days prior to the General Meeting also to every member of the Supervisory Board to the address specified by him/her, or to the address specified as permanent residence in the Extract from the Companies´ Register of the Company.

5. The General Meeting is usually held in the Company´s seat, however, it may be organised in a different place too. The General Meeting is attended by the members of the Board of Directors, the Supervisory Board and/or other persons.

6. The number of votes of a shareholder is determined by the nominal value of their shares. One vote is attributed to every EUR 33.19.

7. The General Meeting shall take decisions with the two-thirds majority of votes of all the shareholders. Any decision made by the General Meeting on any alterations of the rights associated with a certain type of the shares shall require the approval of two-thirds votes of shareholders. For this reason, the shareholders, being the owners of such shares, simultaneously, at first, shall vote for changes in the rights and then it is the General Meeting of all the shareholders.

8. The General Meeting shall make decisions on the following corporate affairs:
   a. Change of the Articles of Association;
   b. Decisions concerning any increase and decrease in the share capital, empowering the Board of Directors to raise the capital stock in accordance with the Commercial Code and the issuance of bonds;
   c. Decisions concerning the revocation of the business entity by splitting, merging or transformation to a different form of business partnership or cooperative;
   d. Decisions concerning the revocation of the business entity by liquidation, appointment of the liquidator, setting the remuneration for the liquidator;
   e. Election and removal of members of the Supervisory Board, except for the members of the Supervisory Board elected and removed by employees;
   f. Election and removal of the members of the Board of Directors and designation of the Board Chairman and Vice-Chairman;
   g. Approval of ordinary, extraordinary or consolidated financial statements, decisions concerning profit distribution or loss coverage, including the fixing of directors' fees;
   h. Approval of the Annual Report;
   i. Approval of the rules of procedures of the Supervisory Board of the Company;
   j. Approval of the agreement on performance of responsibilities of board members and their rewarding based upon proposals made by the Board of Directors and the Supervisory Board;
   k. Decisions concerning the changes in rights attributed to the different types of shares;
   l. Decisions concerning the approval of the Company Transfer Agreement or the Partial Company Transfer Agreement;
   m. Decisions concerning the changes in the form of shares;
   n. Decisions concerning the approval of transfer of the Company assets, the market value of which exceeds 20% of the Company turnover in the immediate prior accounting period or the sale of which refers to 20% of Company employees;
   o. Decisions concerning the beginning or termination of trading with the Company stock at the stock exchange;
   p. Decisions concerning the emission of shares, options or other securities or financial instruments that provide the rights for shares or other equity stake in the Company, or right for their underwriting, or decisions allowing the Company to equity stakes in the Company;
   q. Approval of the share transfer in accordance with the Articles of Association;
   r. Appointment and removal of a decision-making person; i.e. auditor, managerial advisor;
   s. Approval of proposals rejected by the Supervisory Board in accordance with the Articles of Association;
   t. Decision concerning other matters that are subject to the performance of the General Meeting as stated by law or the Articles of Association;
   u. Pre- approval of the matters relating to Západoslovenská distribučná, a.s. and ZSE Energia, a.s. specified in more detail in the Articles of Association;
   v. Pre- approval with any changes/amendments/supplements in the Novation Agreement, whose full wording was approved by the General Meeting on 30 May 2014;

w. Election and removal of members of the Audit Committee of the Company, approval of the agreement on performance of individual functions by Audit Committee members and their remuneration and approval of the negotiation order for the Audit Committee of the Company.

Rights and Duties of Shareholders

1. A Company shareholder may be Slovak or foreign legal or natural person.
2. By making the entry of the Company or of an increase in the share capital in the Companies Register a share underwriter shall obtain the rights of a shareholder as a partner of the joint stock company corresponding to the shares underwritten.
3. Fundamental rights of a shareholder shall include the right to participate in Company´s management activities, in profit sharing and liquidation balance following the dissolution of the Company with liquidation. The right to participate in corporate governance shall be exercised by shareholders through their participation and voting at the General Meeting.
4. The rights and obligations of the shareholders are defined in detail in the Articles of Association and the Commercial Code.

The Board of Directors

1. The Board of Directors is a statutory body of the Company. It shall act on behalf of the Company in relation to the third persons. The Board shall control the corporate activities and take decisions in all the matters associated with the Company unless applicable laws or the Articles of Association place them within the authority of other bodies of the Company.
2. The Board of the Company consists of five (5) members. The members of the Board of Directors are elected and removed by the General Meeting, with Chairman and Vice-Chairman of the Board of Directors being appointed. The term of office of the members of the Board of Directors shall be four (4) years; the term of office is renewable. Any member of the Board of Directors shall have the right to give up his/her position; however, he/she shall be obliged to report such act to the Board of Directors and Supervisory Board in writing. A member of the Board of Directors of the Company mustn´t be a member of the Board of Directors of the subsidiary Západoslovenská distribučná, a.s. The performance of the office of the member of the Board of Directors may not be delegated.
3. If the number of members of the Board of Directors is not less than half, the Board of Directors shall have the right to appoint alternates until the time of the nearest General Meeting of the Company. The Board of Directors has a quorum if the absolute majority of its members are present at the meeting. The Board of Directors shall adopt resolutions by absolute majority of votes of the members present at the meeting. Neither Chairman nor Vice-Chairman shall have the casting vote in case of a tie. The members of the Supervisory Board may vote by this form of communication or by a written declaration if they are not present in person at a venue where the majority of members are gathered, whereas such venue shall be considered as a venue of the meeting. The resolutions of the Board of Directors may be adopted, in addition to meetings of the Board of Directors, by members of the Board of Directors, out of the meeting of the Board of Directors ("*per rollam* resolution").

4. E.ON, a shareholder of the Company, shall be obliged to exercise all its rights in order to make sure that the Board of Directors of the Company will not adopt any resolution if not a single member nominated by the Ministry of Economy of the Slovak Republic (only the "Ministry") as a shareholder of the Company is present at the relevant meeting. If a member nominated by the Ministry is absent from two consecutive, regularly convened meetings of the Board of Directors, the above stated shall not apply to the second of these meetings.

Structure and activities of the Board of Directors

In 2019 the Board of Directors of the Company had the following structure:

Chairman of the Board of Directors:	Jochen Kley
Vice-chairman of the Board of Directors:	Ing. Peter Adamec, PhD.
Members of the Board of Directors:	Ing. Pavol Viskupič
	Mgr. Juraj Krajcár
	Marian Rusko

The activities of the Board of Directors were performed in line with the Articles of Association and Commercial Code; in 2019 the Board of Directors held meetings regularly and in line with Articles of Association, and in line with Article XVIII(7) of the Articles of Association the Board of Directors adopted several resolutions out of the meeting of the Board of Directors ("per rollam resolutions") in 2019.

Supervisory Board

1. The Supervisory Board is the supervisory body of the Company which oversees the activities of the Board of Directors and business activities of the Company. Resolutions and duties charged with the Board of Directors by the Supervisory Board were performed, and regularly reviewed and assessed at the meetings of the Supervisory Board. The activities of the Supervisory Board are explained in detail in Article XX of the Articles of Association.

2. The Supervisory Board of the Company has nine (9) members. Two thirds of members of the Supervisory Board shall be elected and removed by the General Meeting of the Company and one third by the Company's employees. The term of office of the members of the Supervisory Board shall be three (3) years. The term of office is renewable. The Chairman and Vice-chairman of the Supervisory Board of the Company shall be elected and removed by the members of the Supervisory Board; the persons concerned shall also vote. The office of the Chairman and Vice-chairman of the Supervisory Board shall commence on the day of their election and end upon their removal by the Supervisory Board. Neither Chairman nor Vice-Chairman shall have the casting vote in case of a tie. Performance of the office of the member of the Supervisory Board of the Company may not be delegated.

3. The meeting of the Supervisory Board of the Company shall be convened by a written invitation sent to every member of the Supervisory Board to the address specified by him/her or to the address of the seat of the Company no later than 15 days prior to every meeting. The invitation must include date, time, venue and the agenda of the meeting.

4. The Supervisory Board has a quorum if the absolute majority of its members are present at the meeting. The Supervisory Board shall adopt resolutions by absolute majority of votes of all members of the Supervisory Board. The members of the Supervisory Board may participate in the meetings of the Supervisory Board in any form of communication during which all participants hear one another. The members of the Supervisory Board may vote by this form of communication or by a written declaration if they are not present in person at a venue where the majority of members are gathered, whereas such venue shall be considered as a venue of the meeting. The resolutions of the Supervisory Board may be adopted, in addition to meetings of the Supervisory Board, by members of the Supervisory Board out of the meeting of the Supervisory Board ("per rollam resolution").

5. The Slovak Republic, a shareholder of the Company, shall be obliged to exercise all its rights in order to make sure that the Supervisory Board of the Company will not adopt any resolution if not a single member nominated by E.ON is present at the relevant meeting. If a member of the Supervisory Board of the Company nominated by E.ON Slovensko, a.s. is absent from two consecutive, regularly convened meetings of the Supervisory Board, the above stated shall not apply to the second of these meetings.

In 2019 the Supervisory Board of the Company held four regular meetings in line with the Articles of Association and one extraordinary session.
The Supervisory Board of the Company in accordance with Article XXII. (8) of the Articles of Association, adopted in 2019, a decision out of the meeting ("per rollam decision").

Audit Committee

1. Without prejudice to responsibilities of the members of the Board of Directors and the Supervisory Board of the Company, the Audit Committee is a body of the Company in charge of the following activities:
   a) monitors the drawing-up of the financial statements (separate and consolidated) and compliance with special regulations;
   b) monitors the efficiency of internal audits and risk management systems in the Company;
   c) monitors the audit of the separate and consolidated financial statements;
   d) verifies and oversees the independence of the auditor, in particular services provided by the auditor under the special regulation;
   e) recommends the auditor for the Company;
   f) sets him/her deadlines for presenting a declaration on honour on his/her independence.

The Audit Committee has three (3) members elected and removed by the General Meeting on a proposal from the Board of Directors or shareholders of the Company.

Information pursuant to Section 20(7) of the Act No 431/2002 Z. z. on Accounting as amended:

a) The share capital of the Company of EUR 196,969,174.86 is composed of 5,934,594 pieces of booked ordinary shares of the nominal value of EUR 33.19 per share. Shares are not publicly traded. The whole amount of share capital of the Company was issued and paid in full. The Company has no subscribed share capital which would not be listed in the Companies Register. The transferability of the Company's shares is limited to pre-emptive rights of shareholders in cases that do not fall under the permitted transfers.

b) The Company´s bonds are freely transferrable.

c) The following companies own qualified share in the share capital: (at least 10 % share):
   - Slovak Republic represented by the Ministry of Economy of the Slovak Republic - 51% share in the share capital of the Company;
   - E.ON Slovensko, a.s. - 39% share in the share capital of the Company;
   - E.ON Beteiligungen GmbH - 10% share in the share capital of the Company.

d) There are no persons exercising special control rights among the owners of the bonds.

e) The Articles of Association do not contain any provisions on restrictions of voting rights.

f) f) The Company is not familiar with any agreements among the owners of the bonds of the Company that might lead to any restrictions regarding the transferability of the bonds or restriction of voting rights.

g) The rules governing the appointment and removal of the members of the Board of Directors as a statutory body of the Company and changes to the Articles of Association:

Members of the Board of Directors as a statutory body of the Company shall be elected and removed by the General Meeting of the Company. The General Meeting may anytime remove any member of the Board of Directors of the Company. The General Meeting shall also appoint the Chairman or Vice-Chairman of the Board of Directors of the Company. The term of office of the members of the Board of Directors of the Company shall be four (4) years.

The General Meeting shall make decisions concerning the amendment of the Articles of Association by two thirds majority of votes of all shareholders. The full wording of the proposed amendments of the Articles of Association shall be available to shareholders for viewing at the Company´s seat within a period of time required for the convocation of the General Meeting, as stated in the Articles of Association. A Notarial Deed must be established about the resolution of the General Meeting to amend the Articles of Association. If the General Meeting adopts a resolution the consequence of which will be the amendment of the Articles of Association such resolution shall be considered the amendment of the Articles of Association provided that it was adopted in a manner which is by law or the Articles of Association required for the adoption of the resolution about the amendment of the Articles of Association. Following such amendment the Board of Directors shall be obliged to make without undue delay the full wording of the Articles of Association for the completeness and correctness shall be fully responsible.

h) Powers of the statutory body – the Board of Directors – are presented in the Commercial Code and the Articles of Association.

The Company´s Board of Directors shall exercise the right to act on behalf of the Company, represent the Company in relation to the third persons. The Board shall govern the activities performed by the Company and take decisions in all the relevant matters unless applicable laws or Articles of Association place them within the authority of other bodies of the Company.

The Company´s Board of Directors is mainly in charge of the following:
(i) Performing the business management of the Company and ensuring all its operational and organisational matters;
(ii) Exercising the employment rights and duties;
(iii) Convening the General Meeting;
(iv) Outlining the Strategy Plan of the Company and submitting the plan for approval to the Supervisory Board of the Company;
(v) Implementing the resolutions of the General Meeting;
(vi) Ensuring the prescribed accounting and other records, accounting books and other documents relevant for the Company;
(vii) Submitting for approval of the General Meeting:
- Proposals for amendments of the Articles of Association;
- Proposals for increasing and decreasing the share capital and issue of bonds;
- Ordinary, extraordinary and consolidated financial statements, proposal for profit distribution, including the setting of the size and manner of the paying out of the bonuses, in case of the loss recognized, proposal for its settlement;
- Proposal for dissolving the Company or alteration of its legal form;
- Proposal of the remuneration for performing the function of a board member;
- proposals related to the decisions concerning the matters of Západoslovenská distribučná, a.s. and ZSE Energia, a.s. where the relevant decision taken by the General Meeting of Západoslovenská distribučná, a.s. or the General Meeting of ZSE Energia, a.s. shall require the prior approval of the General Meeting of the Company to be made in accordance with relevant provisions of the applicable Articles of Association of the Company.

The Company´s Board shall have no right to make decision on the issue of shares or share re-acquisition.

i) The Company has no agreements concluded that are binding to amend its conditions in relation to a potential offer for takeover.

j) There are no agreements on reimbursement concluded between the Company and the body members, once their service term comes to an end. Reimbursement to Company´s employees whose employment contract is terminated is subject to the Labour Code, collective agreement and in-house employment directives.

The Company does not apply special diversity policy in relation to the members of bodies of the Company because their diversity is ensured indirectly through diversity in the structure of shareholders of the Company (state shareholder and non-state shareholders) who propose candidates for the positions of the members of the Board of Directors and Supervisory Board of the Company elected by the General Meeting (candidates for the positions of the members elected by employees are proposed by employees and diversity is ensured indirectly through diversity in the composition of employees who propose candidates and elect such members of the Supervisory Board). No discrimination is allowed in the Company. In proposing candidates for the members of the Board of Directors and Supervisory Board and selecting broader management of the Company, mainly education, competence, experience skills are taken into account.

Compliance

In 2019 special attention was paid to the development and implementation of "Compliance Programme", i.e. a set of processes focused on compliance with law and ethical conduct of employees of ZSE Group in all areas of the working life. The "Compliance Programme" has been gradually implemented in all subsidiaries of the ZSE Group, including Západoslovenská energetika, a.s.

The main objective of "Compliance Programme" is to prevent, reveal and respond to conduct which could be considered in conflict with internal and applicable laws.

Code of Conduct

The essential document of the "Compliance Programme" is the Code of Conduct which defines responsible business principles to which companies of the ZSE Group are committed. At the same time, it is a binding guideline on the conduct of employees, contractors and all who cooperate with the companies of the ZSE Group. In order to increase ethical awareness of the employees of ZSE Group, many educational activities were undertaken, scope of which was defined depending on the tasks and responsibilities of individual participants. In cooperation with Human Resources, the Company continues in providing an e-learning training to all employees.

ZSE Group has established the Ethical Line through which the employees may notify the breach of internal or applicable laws.

Zero Tolerance for Corruption

In line with ten principles of the Global Compact under which the companies and firms seek to prevent corruption in all its forms, the ZSE Group engages in the fight of corruption and this commitment is expressed in the Zero Tolerance for Corruption Plan. This Plan is a part of the Code of Conduct and was developed based on the analysis of activities most exposed to the risks of corruption and unfair practices.

- **Giving and accepting gifts**

Procedures for giving and accepting gifts are a part of anti-corruption measures included in the Code of Conduct. All gifts to be given, except for gifts within defined limits, must be approved and documented according to the defined procedures in the central register of gifts.

- **Contributions to political parties, donations to charity and sponsorship**

Programmes for donatin and sponsorship are transparent. As a sponsor, the ZSE Group supports specific projects and initiatives in the areas such as education, environment protection, innovation and community development, if they meet the following criteria:

- objectives are linked to the objectives and mission of the Company,
- the funds have clearly defined purposes, and their use is properly and transparently documented and verifiable anytime.

The ZSE Group does not finance political parties, their candidates or representative, either in Slovakia or abroad, nor does sponsor meetings or assemblies whose the only or main purpose is political promotion.

- **Money laundering**

In the fight on money laundering and terrorist financing, the ZSE Group proceeds in line with Slovak and European laws. The ZSE Group never excuses, facilitates or supports money laundering which means that:

- It respects laws concerning money laundering,
- It never engages in risk activities which could be focused on financing or supporting crime or terrorism,
- It adopts measures and mechanisms of assessment of potential and current business partners.

Internal control mechanism:

It is a continuous process which is performed by the Board of Directors through managers and experts of the Company, so that all stakeholders are provided with reasonable guarantees to achieve strategic objectives of the Company. For this purpose, the Company has established:

1. **Internal Control Mechanisms.** Internal control mechanisms have been implemented at the level of individual processes with the aim of identifying and preventing risks of fraud, corruption and unfair practices. The aim of the system of internal controls is prevention and timely identification of errors and incorrections which may occur as a result of intentional fraud and unintentional action or omission.

2. **Internal audit** is independent, impartial, assurance and advisory activity focused on adding value and improving processes in the Company. The ZSE Group has established Internal Audit unit which permanently controls the system of implemented control mechanisms, identifies shortcomings and proposes action plans to improve internal control system and make them more efficient.

3. Part of the organizational structure of the ZSE Group is also the position of the Compliance Manager, whose role includes not only the responsibility for drafting and updating documentation related to the Business Compliance Program, elaboration and updating of the Code of Conduct of the ZSE Group and carrying out activities related to the investigation of violation of the Code of Conduct.

02 Strategy and Innovation

The European context of energy and our strategy

Energy commodities have been going up in the last two years, however, electricity market experienced an opposite trend in the end of 2019. It was not a severe slump, but rather a correction of extremely high prices in the recent years. Electricity price on the energy exchange is affected by several factors and its significant fall at the turn of 2019 and 2020 was caused by slum of gas prices which were very low. Gas prices were affected by weather conditions. Winter was rather warm, and not only in Europe, which caused that demand for gas was not so big.

Another factor which significantly affects electricity price is the price of emission allowances. Simply said, prices of emission allowances were going up over the last two or three years with the aim of “pushing out” coal. This effect already happens. It means that as long as the gas price is low and coal price is high, prices of emission allowances do not rise.

However, considering the fact that other components do not fall down, we cannot consider lower prices of commodities as it was two years ago. It is only one factor and when the gas prices stop going down, the situation can change. With respect to big shutdowns of production facilities planned in Germany and the region in the near future, the long-term outlook in expected to go upward.

Within the European context, Slovakia is, following the adoption of the “Winter Package”, in the middle of the so-called “transition period”, when traditional energy business gets ready for a new market design. This change will affect all market players: producers, energy distributors, suppliers and even consumers themselves. The new market is aimed at strengthening the customer´s position and stressing its responsibility, development of renewable and generation decentralisation.

Our traditional business activities

Higher electricity distribution volumes as well as requirements for new connections and increasing capacities of existing connections can be seen in the growing volume of investments of Západoslovenská distribučná. In terms of energy supply, in 2019 ZSE Energia, a.s. continued in being a reliable supplier, delivering more than 6 TWh of electricity and up to 2.7 TWh of gas. These volumes mean that electricity supply keeps on rising and importance of ZSE Energia, a.s. as the gas supplier on the Slovak territory is still growing.

In addition to traditional business, ZSE Energia, a.s. was successful also in providing non-commodity services which we started offering in 2015. In 2019, the number of customers receiving these services or products kept on rising, benefitting from assistances services, air-conditioning or photovoltaics.

Expectations in 2020

In 2020, we expect that the implementation of the energy package of the Energy Union will continue. ZSE considers the Directive on Common Rules for the Internal Market for Electricity as a key document. This directive defines new market players such as active customer, aggregator or citizen energy community, since their introduction will have crucial impact on the functioning of the energy market.
Strategy of the ZSE Group reflects these trends and the ZSE Group will flexibly respond on less foreseeable changes in geopolitical or macroeconomic development, so that it is a reliable partner for energy solutions to its customers.

Risks and Uncertainties

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

ZSE Energia, a.s.:
The core business activity of ZSE Energia, a.s. is electricity and gas supply to end consumers. In relation to energy supply business, ZSE Energia, a.s. is exposed to several risks – especially credit and price commodity risk.
Credit risk is related to the liquidity risk of the company‘s business partners, in particular the electricity and gas consumers. The company has an internal credit risk assessment process, which involves assigning an individual credit rating to its customers based on a combination of independent financial information and their payment discipline. ZSE Energia, a.s. actively uses insurance of receivables, as an additional risk management tool.

Market risk is caused by changes of market variables as a result of commodity market supply and demand development. It takes a form of energy price fluctuations and economic environment dynamics. Price fluctuations can have impact on the closing price of the open position of the company. The company applies a conservative approach to managing commodity business by maintaining a limited open position and through back-to-back commodity buying (at the moment of the sales volume contracting).

Západoslovenská distribučná, a.s.:

The core business activity of Západoslovenská distribučná, a.s. is electricity distribution. The company is exposed to operational risks, which are related to the distribution system operation and management. It includes failures, unplanned supply disruptions and compliance with applicable laws. The main tool for eliminating these risks is ensuring of the continuous distribution network renewal as well as insurance of unplanned circumstances.

During the normal course of business, various claims against the Company Západoslovenská distribučná, a.s. may be received. Certain customers or their representatives contest fairness and appropriateness of decisions of the network industry regulator. The ZSE Group took these risks of the company into account in its Consolidated Financial Statements as at 31 December 2019.

Západoslovenská distribučná, a.s. is exposed also to credit risk. Due to the monopoly position of the company, the contractual relationship with the customer is strictly regulated. The company actively uses insurance of receivables, as an additional risk management tool.

COVID-19 We have adopted several measures aimed at protecting our employees from contracting the infection and minimising its spreading in the ZSE Group. As from 10 March 2020, all employees, whose job it allowed, worked from home office. Employees, who remained at work, received disinfection gels and personal protective equipment and had their temperature measured every day when arriving at work. Employees returning from abroad were ordered a 14-day stay outside the workplace, either as home office, or due to a barrier in work. The same rule applied also if an employee’s relative retuned from abroad.

Within our business activities, the following measures were adopted:

ZSE Energia shut down all its customer centres. Customer requests were managed either via the customer hotline, or via E-mail at kontakt@zse.sk. Customers were recommended to open a personal online account. All business activities in the field were suspended.

Západoslovenská distribučná – As a distribution system operator and an entity of economic mobilisation, all necessary measures were taken to ensure a sustainable operating system and a continuous electricity supply even in case of a worsened situation and a declared crisis state. Redundant workplaces, backup teams and equipment were prepared for the case of a crisis development. Dispatch centre officers and other related key functions were assigned to individual groups, which did not get into physical contact.

The dispatch centre operated in a special regime required to ensure continuous operation. Redundant workplaces were created and a third dispatch centre in Trnava was added to the two in Bratislava and Nitra. Dispatch centre officers were isolated from other employees to ensure their best possible protection from contracting the infection.

Field work was limited – as of 16 March primarily work was conducted, which was required for a continuous supply of electricity. Planned outages, which would result in the suspension of electricity supply to our customers and about which citizens were informed in advance, were cancelled until further notice. Field workers, who would meet customers, received respirators and instructions on a strict adherence to the general rules on preventing the spreading of the infection.

Financial impacts of this risk can not be currently estimated.

Significant events that occurred after the end of 2019 and require disclosure in the annual report

The Company is currently unable to assess the impact of COVID-19 virus on its future financial position and results of operations, however, depending on future developments, this impact may be negative and significant.

Except for those events disclosed in consolidated financial statements, no other events occurred after 31 December 2019 that would require disclosure in this annual report.

03 Economy

Selected Data from the Separate Financial Statements

In 2019, the parent Company Západoslovenská energetika a.s. generated a profit of EUR 74,358 thousand and incurred costs totaling EUR 42,477 thousand from continuing and discontinued operations.

The Company's key figures according to the International Financial Reporting Standards as adopted by the European Union:

Key Figures as at 31 December		
€ thousand	2019	2018 restated
Non-current assets	972,682	961,400
Current assets	117,687	78,434
Total assets	**1,090,369**	**1,039,834**
Equity	355,385	345,004
Non-current liabilities	634,641	627,672
Current liabilities	100,343	67,158
Total equity and liabilities	**1,090,369**	**1,039,834**

Key Figures as at 31 December		
€ thousand	2019	2018
Continuing operations:		
Revenues	16,033	16,545
EBIT (profit from operations)	**74,676**	**64,716**
EBITDA	78,256	67,483
Total income	116,835	114,381
Total expenses	41,625	52,835
Profit before tax	75,210	61,546
Profit for the year from continuing operations	**74,358**	**62,336**
Profit for the year from discontinued operations	-	1,701
Profit for the year	**74,358**	**64,037**
Total other comprehensive income for the year	(148)	115
Total comprehensive income for the year	**74,210**	**64,152**
Total comprehensive income for the year from continuing operations	74,210	64,152
Capital expenditures	4,790	3,627
Average number of employees	166	166

Distribution of the 2018 Profit

The General Meeting of Západoslovenská energetika, a.s. held on 30 May 2019 approved the proposal for the distribution of the 2018 profit of EUR 64,037 thousand. In June 2019 the Company's shareholders were paid dividends from the 2018 profit in the total amount of EUR 63,829 thousand. Also, the amount of EUR 208 thousand from the 2018 profit was designated as a contribution to the social fund from profit. In 2019, the dividend per share amounted to EUR 10.76 (2018: EUR 11.88 per share).

Decision on the 2019 Profit Distribution

At its meeting on 26 March 2020 the Board of Directors of Západoslovenská energetika, a.s., acknowledged and recommended to the Supervisory Board of Západoslovenská energetika, a.s. to discuss the following proposal for the distribution of the Company's profit for 2019:

Proposal for Distribution of ZSE's 2019 Profit	
Submitted to the Board of Directors of ZSE on 26 March 2020	€ thousand
Result for the year	**74,358**
Contribution to the social fund	223
Dividends	74,135
Total distribution of profit	**74,358**

Selected Data from the Consolidated Financial Statements

In 2019, the ZSE Group generated a profit of EUR 119,851 thousand and incurred costs totaling EUR 1,153,277 thousand.

The ZSE Group's key figures according to the International Financial Reporting Standards as adopted by the European Union:

Key figures about the ZSE Group as at 31 December		
€ thousand	**2019**	**2018 restated**
Non-current assets	995,966	894,535
Current assets	253,564	208,435
Total assets	**1,249,530**	**1,102,970**
Equity	155,480	101,289
Non-current liabilities	807,488	772,664
Current liabilities	286,562	229,017
Total equity and liabilities	**1,249,530**	**1,102,970**
Revenues from sales	1,284,780	1,138,657
EBIT (profit from operations)	**177,171**	**153,893**
EBITDA	234,252	203,567

Total income	1,312,852	1,164,734
Total expenses	1,153,277	1,034,267
Profit before tax	159,575	130,467
Profit for the year	**119,851**	**98,034**
Other comprehensive income for the year	(1,831)	1,116
Total comprehensive income for the year	**118,020**	**99,150**
Average number of employees	**1,941**	**1,875**

Structure of Electricity Sources and Use of electricity

Structure of Electricity Distribution				
In GWh	As at 31 December 2019	Share (%)	As at 31 December 2018	Share (%)
Wholesale	5,847	60	6,015	61
Retail – businesses	1,427	15	1,430	14
Retail – households	2,498	25	2,421	25

Structure of Electricity Supplies				
In GWh	As at 31 December 2019	Share (%)	As at 31 December 2018	Share (%)
Volume of electricity supplied including losses (GWh)	6,374	100	6,555	100
Of which: supplies to households (GWh)	1,999	31	1,943	30
Of which: supplies excluding households (GWh)	4,375	69	4,612	70

Useful electricity supply (GWh)	
Year	Total
2019	6,374
2018	6,555

Distributed electricity (GWh)			
Year	Total	Of which: wholesale	Of which: retail
2019	9,772	5,847	3,925
2018	9,866	6,015	3,851

Information on sales in monetary and GWh terms from electricity distribution:

Indicators of Západoslovenská distribučná, a.s.		
As at 31 December	2019	2018
Volume of electricity distributed (GWh)	9,772	9,866
Revenues from electricity distribution (€ thousand)	479,863	493,561
Number of supply points	1,165,554	1,149,618

Information on sales in monetary and GWh terms from electricity supply to customers:

Indicators of ZSE Energia, a.s		
As at 31 December	2019	2018 restated
Volume of electricity sold (GWh)	6,374	6,555
Revenues from the sale of electricity (€ thousand)*	905,250	753,534
Volume of electricity purchased (GWh)	6,374	6,555
Number of supply points	931,836	923,545

Information on sales in monetary terms for the ZSE Group:

Indicators of the ZSE Group		
As at 31 December	2019	2018 restated
Volume of electricity sold (GWh)	6,374	6,555
Volume of electricity distributed (GWh)	9,772	9,866
Revenues from the sale and distribution of electricity (€ thousand)*	1,161,005	1,031,244
Volume of electricity purchased (GWh)	4,993	6,324
Volume of electricity generated (GWh)	1,381	231

Information on sales in monetary terms from gas supply to customers:

Indicators of ZSE Energia, a.s		
As at 31 December	2019	2018 restated
Revenues from the sale of gas (€ thousand)*	106,228	94,449
Volume of gas supplied (GWh)	2,756	2,723
Number of supply points	72,379	69,945

*Sales include distribution charges from distribution system operators outside the ZSE Group

04 Human Resources

In 2019, the ZSE Group employed 1,940,9 employees on average (excl. members of the Board of Directors and Supervisory Board and employees who worked on the basis of the agreement on performance of work). The number of employees in individual companies was as follows:

ZSE – 166.3 employees
ZSE – 272.3 employees
ZSE – 1,466.6 employees
ZSE MVE – 6.6 employees
ZSE BS - 1.4 employees
ZSE Elektrárne- 27.7 employees

Average age of employees
ZSE Group - 45.3 years
ZSE (parent Company) - 43 years
ZSE E - 41.8 years
ZSD - 46.2 years

Percentage of men and women working in the ZSE Group:
ZSE Group - women 27.4%; men 72.6%
ZSE (parent Company) - women 63%; men 37%
ZSS E - women 59%; men 41%
ZSD - women 18%; men 82%

University education:
ZSE Group – 36.6%
ZSE (parent Company) – 73.8%
ZSE E – 53.5%
ZSD – 29.4%

Remuneration and employee benefits

In line with the commitments resulting from the Collective Agreement, the companies of the ZSE Group raised the wage, consisting of the basic and variable part, by 4% on average.
The employees were remunerated based on their performance which directly affected the sum of the variable part of the wage and extraordinary bonuses.

All employees of the ZSE Group received the contribution from the Social Fund for recovery of labour force. Above standard preventive medical check-ups were also provided to employees.

In 2019 the employer continued in contributing to the supplementary pension savings scheme of employees. Every employee was entitled to 5 days of holidays beyond the Labour Code.

Development of employees and cooperation with schools

Education focuses mainly on development of skills. The biggest part of these educational and training activities concerned courses required by law. The emphasis was placed on individual approach to development needs of the employees. The Group also implemented an intensive development programme the "Talent Pool" focused on development of talented employees.

Great attention was paid to activities ensuring continuity of business, considering the fact that an increasing number of employees are about to get retired. The Company cooperated with universities, secondary and primary schools.

The Graduate Programme is a key programme for practical preparation of young generation. It is aimed at education of successors for technical positions through systematic development and work positions in selected units.

University students can participate in the scholarship programme within which they work in our Company during their last year of the study, with a prospect of taking up a specific work position.

Students of secondary vocational schools can participate in many projects, such as dual education, technical trainings or various competitions and events. Also in 2019 the Company organised a traditional, successful event "ZSE Open" for students of secondary vocational schools located in western Slovakia, to present them work of our technical colleagues.

Primary schools across all Slovakia could participate in a traditional competition "Finding Energy". Selected primary schools were offered the travelling exhibition "Energy Experience" which presents the students where energy comes from.

05 Occupational Health and Safety

Our Company has been focusing on systematic development and training of employees in occupational health and safety in the long-run. Considering the nature of works in energy business, observance of OHS rules is the top priority. In addition to standard trainings required by law in 2019, a defensive driving safety course continued, in which every employee driving a company car took part. 1086 employees were trained in two years. Traumatological exercises and trainings for the use of defibrillators were carried out. The OHS campaigns were also supported by internal communication. A sum of EUR 764,538 was invested for all ZSE Group companies into personal and protective work equipment and tools, obligatory training courses on occupational health and safety, and preventive medical check-ups.

The TRIF comb. indicator – a number of incidents incurred by the employees of the ZSE Group and of contractors per 1 million hours of work for the monitored period - is reported in the ZSE Group. In 2019, the TRIF comb. was 1.1. Four registered work accidents were reported in 2019, of which one accident was a high risk and 1 work accident was injuries of our contractors. In 2019, employees of contractors worked 458,018 hours at the sites or facilities of the ZSE Group.

Within the supervisory audit in 2019, the ZSE Group showed improvement of the established System of Integrated Management (SIM) and managed to keep international certificates ISO 9001, ISO 14001 and ISO 45 001. The re-certification agency identified SIM strengths and improvements and came to the conclusion that SIM is in line with the requirements of ISO 9001, ISO 14001 and ISO 45001 standards, applicable laws and achieves continuous improvement. The audit led to recommendations of the certification agency to continue with the certification.

06 Environmental Protection

Protection of environment is considered by all companies of the ZSE Group as a top priority of the sustainable development concept. All activities are accompanied by preventive measures in order to avoid water and soil pollution, and measures are taken to reduce noise in the surroundings of our own facilities. Environmental aspects of all activities including relating legal requirements are analysed and assessed on a regular basis.

In 2019, the companies of the ZSE Group invested EUR 399.8 thousand in environmental constructions and repairs. A sum of approx. EUR 709 thousand was dedicated to the environmental operation and maintenance of the facilities and repairs of the objects, including waste disposal. Specifically, sewage systems in the operated objects, new parking areas and transformer stations´ sites were modernised. Oil facilities were repaired. The operation of the facilities and services of the facilities was carried out in order to reduce the risk of groundwater and soil pollution and to reduce water consumption.

When repairing energy facilities and constructions, the ZSE Group observes thorough separation of waste and its subsequent disposal and recovery by authorised businesses. Special attention was paid to the maintenance of equipment containing SF_6 gas which is classified as a fluorinated greenhouse gas. Gas leaks are consistently monitored and recorded.

Západoslovenská distribučná, a.s. has been focusing on environmental care of its lines in the long-run. It cooperates with experts from the Raptor Protection Slovakia association, to set specific measures. In 2019 was finished the LIFE 13 - Energy in the Countryside project. As a part of the project, power lines were equipped with visible reflective elements in the critical spots, increasing visibility under bad weather conditions and eliminating death of birds when they collide with power lines. In addition to the installation of deflectors, the company has long been involved in the regular installation of protective elements on the brackets of electric poles of MV lines. In 2019, 225 points in the protected bird area of Dolné Považie and in the protected bird area of Záhorské Pomoravie, were treated with ecoprotectors. This initiative was supported by EUR 120,000. In addition to deflectors installation, we also installed protective elements on the consoles on the line masts. So far, more than 1,000km of older lines have been treated. When constructing new lines, ecological elements are applied automatically. In total, more than EUR 1 million was invested in the environmental improvement of the lines.

ZSE Energia offers its customers services supporting solutions, to save natural sources and use renewable energy sources. Also, in selling products, the Company meets its obligation of the importer of specified products concerning waste management.

07 Corporate Social Responsibility

In the area of corporate responsibility, the aim of ZSE Group aims to support education, foster innovation, protect environment and develop communities.

Education

The ZSE Group has been a partner of the **Green School** educational programme for many years. This programme is designed for kindergartens, primary and secondary schools. It focuses on support of school communities where their members can test both the magic and pitfalls of cooperation. The programme promotes long-term and practical initiatives with real positive impact on schools and environment.

The main coordinator of the programme is ŽIVICA - a centre of environmental and ethical education. The Green School programme has been in place in Slovakia since 2004. In the school year 2018/2019, up to 345 schools were engaged in the programme.

ZSE has been a partner to the **Socrates Institute** for some time. It is an official study for university active students and graduates, aimed at training Slovak future leaders. The Institute aims to create conditions for development of personalities, young people who are willing to work on themselves, bear responsibility for what they do and pursue their vision.

Improving the quality of education in Slovakia was supported by the ZSE Group through the Extraordinary Schools grant program, which was announced by the ZSE Foundation in 2019. The aim of the program is to support primary and secondary school teachers with an innovative approach throughout Slovakia. In 2019, a total of € 113,655 was allocated to support 47 projects under the Extraordinary Schools program.

Innovations

To support innovations, Impact Hub is our key partner. Impact Hub is a part of an international platform of experts, organisations, teams and individuals who pursue a common objective – **building better conditions for social business development** on local markets and worldwide.

A good example of effective cooperation is Hackhaton format which has been produced by, together with Impact Hub, Západoslovenská distribučná for the second time. It is a unique challenge of such type and scope on the Slovak energy market and in Central Europe, when energy business provided an analysis of anonymised data from real meter-readings to a free community of startupers. The teams involved ran the simulation of energy-sharing community development and alternative energy-sharing model focusing on end customers.

Community Development

Corporate social responsibility directly effects loyalty and satisfaction of employees. Employees can improve their surroundings and develop communities they live in by engaging themselves in a grant programme. The employees - as volunteers - selflessly help directly in schools, community centres or other organizations with trimming courts and gardens, cleaning parks and public spaces, beautifying interiors and in other various activities.

ZSE Foundation
ZSE carries out corporate responsibility activities by its foundation too. ZSE wishes to create inspiring and innovative environment, making real changes in schools, local communities and society. In 2018 the ZSE Foundation announced the 3rd annual open grant programme **Making Regions Move**, with the intention of supporting community and cultural life in the West Slovakia municipalities. The programme supported local cultural, social, sport and other events, connecting local communities and contributing to the local life, improving personal relationships, mobilizing communities and connecting generations. The sum of EUR 120,000 was allocated and 144 projects were completed within the programme.

In cooperation with the association for helping the handicapped APPA, in 2019 ZSE Foundation opened the third year of grant **We Remove Barriers.** Individuals, informal groups of citizens and non-governmental organizations with the intention to organize their own charity event, sports, cultural or public collection in the region of Western Slovakia may apply for support from the program. Financial support of EUR 1,000 was designed for organizational and technical support of the charity events.
Proceeds could have been used for rehabilitation, medicaments, compensation and medical aids, barrier-free reconstructions of flats and other needs to improve life quality.

Elektrárňa Piešťany
In 2014, ZSE put in operation the renovated Elektrárňa Piešťany, as a unique centre for theme education in the area of science, research and arts. Education consists of two programmes. The first programme focuses on the promotion of science for schools, done mainly through interactive exhibitions accompanied by various workshops, quizzes and competitions. The second programme is aimed at laic and technical public. Through interactive installations and exhibits, students and visitors are shown in an entertaining way how electricity, magnetic, solar and water power works. Energy of creative people and artists is presented through discussions, exhibitions, concerts and less traditional forms of theatre art.

Annexes

Individual Financial Statements and Independent Auditor's Report - 31 December 2019
Consolidated Financial Statements and Independent Auditor's Report - 31 December 2019

Západoslovenská energetika, a.s.

Separate Financial Statements and Independent Auditor's Report

31 December 2019

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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 separate financial statements

Our opinion

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of Západoslovenská energetika, a.s. (the "Company") as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 27 March 2020.

What we have audited

The Company's separate financial statements comprise:

- the separate statement of financial position as at 31 December 2019;
- the separate statement of profit or loss and other comprehensive income for the year then ended;
- the separate statement of changes in equity for the year then ended;
- the separate statement of cash flows for the year then ended; and
- the notes to the separate 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 (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the separate 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 Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants issued by the International Federation of Accountants ("Code of Ethics") and the ethical requirements of the Slovak Act on Statutory Audit No. 423/2015 and on amendments and supplements to Slovak Act on Accounting No. 431/2002, as amended (hereafter the "Act on Statutory audit") that are relevant to our audit of the separate financial statements in the Slovak Republic. We have fulfilled our other ethical responsibilities in accordance with the Code of Ethics and the ethical requirements of Act on Statutory Audit.

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 Company, in the period from 1 January 2019 to 31 December 2019, are disclosed in Note 27 to the separate financial statements.

Our audit approach

Overview

Materiality	• Overall materiality: EUR 3,700 thousand, which represents approximately 5% of profit before tax.
Key audit matters	• Initial application of IFRS 16, *Leases.*

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the separate 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 separate financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the separate 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 separate financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Company materiality for the separate 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, if any, both individually and in aggregate on the separate financial statements as a whole.

Overall materiality	EUR 3,700 thousand (2018: EUR 3,300 thousand).
How we determined it	Approximately 5% of profit before tax.
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because the performance of the Company is most commonly measured by users based on the Company’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 separate financial statements of the current period. These matters were addressed in the context of our audit of the separate 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
Initial application of IFRS 16, *Leases*.	
As further explained in Note 3 to the separate financial statements, the Company adopted IFRS 16, *Leases*, from 1 January 2019. Application of this standard, primarily the assessment of options to extend or terminate lease contracts in determining the lease term required considerable judgment. Implementation of changes in accounting policies for leases required our significant attention during the audit.	We obtained an understanding of internal processes around identification of leases and obtained the related lease contracts data from the reporting entity. We tested lease contracts data by inspecting a sample of contracts or other supporting documentation. We assessed the methodology developed by management and applied to calculate the right of use assets and the related lease liabilities. We tested the input data and assumptions on which these calculations were based, including reconciling input parameters to source data, or evaluating assessment of lease term based on assumptions whether lease extension (or termination) options are reasonably certain to be exercised. We obtained written management representations from both the lessor and lessee where office premises lease extension rights were agreed verbally between related parties. Our findings, primarily in the area of presentation and disclosures, were implemented in the accompanying separate financial statements.

Reporting on other information included in the Annual Report

Management is responsible for the other information. The other information comprises the Annual Report (but does not include the separate and consolidated financial statements and our auditor's reports thereon).

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

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

With respect to the Annual Report, we considered whether it includes the disclosures required by the Slovak Act on Accounting No. 431/2002, as amended (hereafter the "Accounting Act".

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

- the information given in the Annual Report for the financial year for which the separate financial statements are prepared, is consistent with the separate financial statements; and
- the Annual Report has been prepared in accordance with the Accounting Act.

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

Responsibilities of management and those charged with governance for the separate financial statements

Management is responsible for the preparation and fair presentation of the separate 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 separate financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate 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 ISAs 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 separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 separate 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

Appointment as an independent auditor

We were first appointed as auditors of the Company in 2002. Our appointment has been renewed annually by shareholders resolution representing a total period of uninterrupted engagement appointment of 18 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.

The engagement partner on the audit resulting in this independent auditor's report is Juraj Tučný.

PricewaterhouseCoopers Slovensko, s.r.o.

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

PricewaterhouseCoopers Slovensko, s.r.o.	Mgr. Juraj Tučný, FCCA
SKAU licence No. 161	UDVA licence No. 1059

Bratislava, 27 March 2020, except for section of our report "Reporting on other information included in the Annual Report", for which the date of our report is 16 April 2020.

In thousands of EUR	Note	31 December 2019	31 December 2018 (restated)
ASSETS			
Non-current assets			
Property, plant and equipment	6	34,368	32,412
Intangible assets	7	1,006	637
Investment properties	8	15,412	13,681
Right-of-use assets	9	3,490	-
Investments in subsidiaries and joint venture	10	293,228	293,222
Finance lease receivables	11	1,809	-
Loans provided	12	623,369	621,281
Deferred income tax asset	19	-	167
Total non-current assets		**972,682**	**961,400**
Current assets			
Inventories	13	335	262
Loans provided and accrued interest on loans provided	12	8,534	4,875
Trade and other receivables	14	4,310	5,648
Current income tax refund receivable	19	-	622
Finance lease receivables	11	182	-
Receivables from cash pooling	23	34,029	29,649
Cash and cash equivalents	15	70,297	37,378
Total current assets		**117,687**	**78,434**
TOTAL ASSETS		**1,090,369**	**1,039,834**
EQUITY			
Share capital	16	196,969	196,969
Legal reserve fund	17	39,421	39,421
Retained earnings		118,995	108,614
TOTAL EQUITY		**355,385**	**345,004**
LIABILITIES			
Non-current liabilities			
Issued bonds	18	627,363	626,911
Lease liabilities	9	6,123	-
Deferred income tax liabilities	16	170	-
Post-employment defined benefit obligations	20	815	604
Other long term employee benefits	21	170	157
Total non-current liabilities		**634,641**	**627,672**
Current liabilities			
Issued bonds and accrued interest on issued bonds payable within one year	18	6,881	6,882
Lease liabilities	9	1,051	-
Trade and other payables	22	7,702	8,109
Income tax liabilities	19	98	-
Liabilities from cash pooling	23	84,611	52,167
Total current liabilities		**100,343**	**67,158**
TOTAL LIABILITIES		**734,984**	**694,830**
TOTAL LIABILITIES AND EQUITY		**1,090,369**	**1,039,834**

These separate financial statements have been approved for issue by the Board of Directors on 26 March 2020.

....	....
Jochen Kley	Marian Rusko
Chairman of the Board of Directors and CEO	Member of the Board of Directors

In thousands of EUR	**Note**	**2019**	**2018**
Continuing operations			
Revenues from customer contracts	24	**16,033**	**16,545**
Raw material, energy and other consumption	25	(1,583)	(1,477)
Employee benefits	26	(8,870)	(7,767)
Depreciation of property, plant and equipment and investment properties	6, 8	(3,045)	(2,633)
Amortisation of intangible assets	7	(102)	(134)
Depreciation of right-of-use assets	9	(433)	-
Other operating expenses	27	(8,617)	(15,508)
Dividend income	28	72,056	66,560
Income from subleases		188	
Other operating income	29	8,624	9,130
Capitalisation		425	-
Profit from operations		**74,676**	**64,716**
Finance income / (costs)			
Interest income calculated using the effective interest method	31	19,509	22,146
Interest costs	30	(18,975)	(25,316)
Finance income / (costs), net		**534**	**(3,170)**
Profit before tax		**75,210**	**61,546**
Income tax	19	(852)	790
Profit for the year from continuing operations		**74,358**	**62,336**
Profit for the year from discontinued operations	40	-	1,701*
Profit for the year		**74,358**	**64,037**
Other comprehensive (loss) / income from continuing operations			
Items that will not be subsequently reclassified to profit or loss			
Actuarial remeasurements of post-employment defined benefit obligations	20	(187)	146
Deferred tax on actuarial remeasurements of post-employment defined benefit obligations	19	39	(31)
Total other comprehensive income for the year from continuing operations		**(148)**	**115**
Total comprehensive income for the year		**74,210**	**64,152**

* The Company presented gain on sale of discontinued operations of EUR 2 153 thousand before tax as other income from continuing operations in its financial statements for the year ended 31 December 2018 and corrected this matter in these financial statements.

In thousands of EUR	Share capital	Legal reserve fund	Retained earnings	Total equity
Balance at 1 January 2018	**196,969**	**39,421**	**114,952**	**351,342**
Profit for the year	-	-	64,037	64,037
Other comprehensive income for the year	-	-	115	115
Total comprehensive income for 2018	**-**	**-**	**64,152**	**64,152**
Dividends declared and paid (Note 16)	-	-	(70,490)	(70,490)
Balance at 31 December 2018	**196,969**	**39,421**	**108,614**	**345,004**
Profit for the year	-	-	74,358	74,358
Other comprehensive income for the year	-	-	(148)	(148)
Total comprehensive income for 2019	**-**	**-**	**74,210**	**74,210**
Dividends declared and paid (Note 16)	-	-	(63,829)	(63,829)
Balance at 31 December 2019	**196,969**	**39,421**	**118,995**	**355,385**

In thousands of EUR	**Note**	**2019**	**2018**
Cash flows from operating activities			
Profit before tax		75,210	63,699
Adjustments for non-cash items:			
- Depreciation of property, plant and equipment and investment properties	6, 8	3,045	2,633
- Loss / (gain) on disposal of property, plant and equipment	6	(26)	(386)
- Amortisation of intangible assets	7	102	134
- Gain on disposal part of business	40	-	(2,153)
- Depreciation of right-of-use assets	9	433	-
- Interest income		(19,509)	(22,146)
- Interest and similar expense		18,758	25,113
- Dividend income	28	(72,056)	(66,560)
- Provision for impairrment ECL loan provided		(846)	4,312
- Other non-cash items		132	66
Cash generated from operations before changes in working capital		5,243	4,712
Changes in working capital:			
- Inventories		(73)	(235)
- Trade and other receivables		1,338	(3,259)
- Receivables and liabilities from cash pooling	23	26,822	(44,427)
- Trade and other payables		(758)	(1,491)
- Lease liabilities		(188)	-
- Provisions for liabilities and charges and deferred income		28	(719)
Cash generated from operations before interest and taxes		**32,412**	**(45,419)**
Interest income received		15,850	22,104
Interest expense paid		(18,298)	(21,697)
Income tax paid	41	244	(914)
Net cash from operating activities		**30,208**	**(45,926)**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(4,790)	(3,627)
Dividend income received	28	72,056	66,560
Receipts from finance lease receivables		370	-
Proceeds from sale of property, plant and equipment and intangible assets	6	93	606
Proceeds from sale of part of the business	40	-	9,902
Proceeds from decrease of financial investments in subsidiaries	10	-	2,000
Payment for acquisition of subsidiary	10	(5)	(8,486)
Net cash used in investing activities		**67 724**	**66,955**
Cash flows from financing activities			
Dividends paid	16	(63,829)	(70,490)
Proceeds from issued bonds		-	312,556
Other expenditure related to issued bonds		-	(680)
Expenditure on repayment of issued bonds		-	(315,000)
Repayment of lease liabilities		(1,051)	-
Net cash used in financing activities		**(64 880)**	**(73,614)**
Net change in cash and cash equivalents		**33,052**	**(52,585)**
Cash and cash equivalents at the beginning of the year		37,245	89,830
Cash and cash equivalents at the end of the year	15	**70,297**	**37,245**

1 Introduction

These separate financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union for the year ended 31 December 2019 for Západoslovenská energetika, a.s. (hereinafter “The Company” or “ZSE”).

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 Company provides supporting services for its subsidiaries and other related parties as accounting, controlling and general administration services, as well as in area of finance services, planning and HR services.

The Company‘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. and ZSE Energetické služby, s.r.o. which are companies providing services , 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 separate 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 2019 and 31 December 2018. 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 16.

List of members of the Company’s board of directors and of the supervisory board is publicly available from the Commercial Register operated by the Ministry of Justice of the Slovak Republic at www.orsr.sk.

Number of employees. The Company employed 166 staff on average during 2019, of which 9 were management (2018: 166 employees on average, of which 8 were management).

2 Significant Accounting Policies

Basis of preparation. These separate 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 separate financial statements are set out below. These policies have been consistently applied to all the periods presented except for the accounting policy changes resulting from the adoption of IFRS 16, *Leases*, from 1 January 2019 .

The Board of Directors may propose to the Company’s shareholders to amend the separate 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.

2 Significant Accounting Policies (continued)

These separate financial statements have been prepared in addition to the consolidated financial statements of the Západoslovenská energetika, a.s. Group. The separate financial statements should be read in conjunction with the consolidated financial statements to obtain a complete understanding of the Company's results of operations and financial position. These consolidated financial statements can be obtained from the Company at its registered address.

Subsidiaries and joint ventures. Subsidiaries are those investees, including structured entities, that the Company controls because the Company (i) has power to direct 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 investor's returns. The existence and effect of substantive voting rights, including substantive potential voting rights, are considered when assessing whether the Company has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Company 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 Company 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 Company from controlling an investee.

Jointly controlled entities ("joint ventures") are those in which the Company shares control of the operations with its joint venture partners.

Investments in subsidiaries and joint ventures are carried at cost in these separate financial statements. The cost is represented by the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire the subsidiaries, associates and joint ventures at the time of their acquisition. Impairment losses are recognized using an allowance account. Allowances are recognized to write down the investment to present value of estimated expected future cash flows.

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

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

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

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

Investment property. Investment property represents the building premises (and related part of the land on which the building stands), which is leased out to subsidiaries. Investment property is carried at cost less accumulated depreciation, calculated using straight line method to depreciate the asset to its residual value, based on estimate useful life of 30 to 50 years, similar to buildings held for own use.

Right-of-use assets. The Company leases buildings, energy equipment and vehicles. Contracts may contain both lease and non-lease components. The Company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Company is a lessee, Company has elected not to separate lease and non-lease components and instead accounts for these as a single lease component. Assets that represent right-of-use of the underlying leased assets are initially measured at the present value of the future lease payments.

2 Significant Accounting Policies (continued)

Right-of-use assets are measured at cost at the commencement date of a lease, comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct (transaction) costs, and
- costs to restore the asset to the conditions required by lease agreements upon handover to the lessor at the end of the lease.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying assets' useful lives. Depreciation on the items of the right-of-use assets is calculated using the straight-line method over their estimated useful lives as follows:

	Useful lives in years
Office buildings	4-10 years
Optical fibres (KZL)	10 years
Vehicles	2-5 years

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 Company'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.

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 Company 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.

2 Significant Accounting Policies (continued)

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
Office buildings and halls	30 – 50 years
Building sites	40 years
Machinery	4 – 20 years
Fixtures, fittings and equipment	4 – 30 years
Vehicles	4 – 15 years
Other non-current tangible assets	4 – 30 years

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

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

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

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

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

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

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

Loans provided. Loans provided are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

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 cost of completion and selling expenses.

Trade receivables. Trade receivables are recognised initially at nominal value and subsequently measured at amortised cost using the effective interest method, net of the allovance for ECL.

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".

2 Significant Accounting Policies (continued)

Finance lease receivables. Where the Company is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable at amount equal to the net investment in the lease. At the commencement date, the net investment in the lease measurement includes the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives payable,
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date,
- amounts expected to be receivable by the Company under residual value guarantees,
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Finance lease receivables are initially recognised at commencement of lease period, using a discount rate implicit in the lease to measure net investment in the lease.

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within other income in profit or loss for the year.

Credit loss allowance is recognised using a simplified approach at lifetime ECL. The ECL is determined in the same way as for trade receivables. The ECL is recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

Operating lease income. Where the Company is a lessor in a lease which does not transfer substantially all the risks and rewards incidental to ownership to the lessee (operating lease), the operating lease payments are recognised on a straight line basis as other income.

Lease liabilities. Liabilities arising from a lease are initially measured on a the basis of present value of future payments. Lease liabilities include the net present value of the following lease payments:

- fixed payments, less any lease incentives receivable,
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date,
- amounts expected to be payable by the Company under residual value guarantees,
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

Extension and termination options are included in a number of property and equipment leases. These terms are used to maximise operational flexibility in terms of managing the assets used in the Company's operations. The majority of extension and termination options are exercisable only by the Company and not by the respective lessor. Extension options (or period after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determinable, which is generally the case for leases of the Company, the Company's incremental borrowing rate is used, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of a value similar to the right-of-use asset in a similar economic environment with similar contract terms and conditions and collateral.

2 Significant Accounting Policies (continued)

To determine the incremental borrowing rate, the Company:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since the third party financing was received,
- uses a method adjusting risk-free interest rate by a credit risk margin, and
- makes adjustments specific to the lease, e.g. term, country, currency and collateral.

The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance costs. The finance costs are charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

To optimise lease costs during the contract period, the Company sometimes provides residual value guarantees in relation to equipment leases. The Company initially estimates and recognises amounts expected to be payable under residual value guarantees as part of the lease liability. Typically the expected residual value at lease commencement date is equal to or higher than the guaranteed amount, and so the Company does not expect to pay anything under the guarantees. At the end of each reporting period, the expected residual values are reviewed, and adjusted if appropriate, to reflect actual residual values achieved on comparable assets and expectations about future prices.

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.

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.

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.

2 Significant Accounting Policies (continued)

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 separate 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.

Financial instruments – initial recognition. All the entity's 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 amortised cost ("AC"), resulting in an immediate accounting loss.

Financial assets – classification and subsequent measurement – measurement categories. The Company classifies financial assets only in the amortised cost category. The classification and subsequent measurement of financial assets depends on: (i) the Company'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 Company manages the assets in order to generate cash flows – whether the Company'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 and measured at fair value through profit or loss ("FVTPL").

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Company undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Company 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. The purpose of the business model of the Company is to hold the financial assets to collect 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 Company 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 Company 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 Company 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 reflect the time value of money and therefore the Company measures them at amortised 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 entity 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 Company assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts, for contract assets. The Company 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 financial statement of financial position net of the allowance for ECL.

The Company applies a simplified approach to trade receivables under IFRS 9, i.e. measures ECL using lifetime expected loss. The Company uses a matrix approach for the calculation of lifetime expected loss on trade receivables which considers the ageing of the receivables, the amount of receivables recovered and amounts written off. Given that almost all receivables are due from group companies, the Company has considered the expected payment discipline for the next 12 months. On the basis of these indicators, it was decided that the creation of provisions for trade receivables based on historical data is sufficient, as the development of forward looking indicators corresponds to the development in previous years. Receivables from third parties are insignificant.

The amount of the loss allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset was reduced using an allowance account, and the amount of the loss is expensed within "other operating expenses".

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

Financial assets - derecognition. The Company derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Company has transferred the rights to the cash flows from these financial assets as well as substantially all the related risks and rewards 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.

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 Company 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 Company 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 OCI 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.

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 solely payments of principal and interest (“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 amortised cost using the effective interest method. The liabilities are classified as current liabilities unless the Company has a right to defer settlement of the liability for at least 12 months after the end of the reporting period.

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

2 Significant Accounting Policies (continued)

Income taxes. Income taxes have been provided for in the separate 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 separate financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within other operating expenses.

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.

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

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

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

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

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

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

2 Significant Accounting Policies (continued)

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

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

Offsetting. Financial assets and liabilities are offset and the net amount reported in the separate 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.

Operating leases with the Company as a lessee until 31 December 2018. Leases, in which a significant portion of the risks and rewards incidental to ownership is retained by the lessor, are classified as operating leases. Payments made under operating leases (including incentives received from the lessor) were expensed on a straight-line basis over the period of the lease until 31 December 2018.

Financial leases with the Company is a lessee until 31 December 2018. Leases of property, plant and equipment where the Company has substantially all the risks and rewards of the ownership of the asset are classified as financial leases. Finance leases were recognized at the commencement date of the lease at the lower of the fair value of the leased asset or the present value of the minimum lease payments.

Each lease payment was 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, were included in borrowings. The interest costs were charged to profit and loss over the lease term using the effective interest method applied to the balance of lease liabilities for each period. Property, plant and equipment acquired under finance leases are depreciated over their useful life. If the Company was not reasonably certain that it would obtain ownership, plant, property and equipment were depreciated over the lease term.

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

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

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

Contingent liabilities are not recognised in the separate financial statements. They are disclosed in the notes to the separate 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 goods and services in the ordinary course of the Company's activities. Revenue is shown, net of value-added tax, estimated returns, rebates and discounts.

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

2 Significant Accounting Policies (continued)

The Company provides supporting services to its subsidiaries Západoslovenská distribučná, a.s. and ZSE Energia, a.s. such as accounting, controlling and general administration services. These services are provided also to the other subsidiaries ZSE Energy Solutions, s.r.o., ZSE Development, s.r.o., ZSE Business Services, s. r. o., ZSE Elektrárne, s.r.o. (till 16 August 2018: E.ON Elektrárne s.r.o.) and ZSE MVE, s. r. o. and to the shareholder E.ON Slovensko, a.s.

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. This is because customers simultanously receive and consume the benefits from the services.

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.

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

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

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 Company in preparing its separate statement of profit or loss and other comprehensive income.

Changes in presentation. During the year, the Company has changed clasification of the financial investment in the company ZSE Elektrárne, s.r.o. that was acquired with the view to resale and which was presentated as assets held for sale in the separate financial statements at 31 December 2018. The Company presented this investment using the short-cut method in accordance with IFRS 5.

As the Company's management reviewed the intention to sell ZSE Elektrárne during 2019, the Company retrospectively reclassified the investment and cash pooling receivables due from this subsidiary that were previously presented as assets held for sale. The company ZSE Elektrárne, s.r.o. also became part of the ZSE Group and was included in its consolidated financial statements. Due to this change in presentation, the comparatives for the previous reporting period were restated to reflect the presentation in the current reporting period.

This change has been made retrospectively and the comparatives have been restated in these financial statements and in the Notes 10 and 23.

The impact of the change in the presentation of assets classified as held for sale and discontinued operations was as follows:

In thousands of EUR	**31 December 2018**
Impact on items in the statement of financial position	
Decrease in item "Assets held for sale and discontinued operations"	(36,868)
Increase in item "Investments in subsidiaries and joint ventures"	8,486
Increase in item "Receivables from cash pooling"	28,382

3 Adoption of New or Revised Standards and Interpretations

The following amended standards became effective for the Company from 1 January 2019:

IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the commencement date of a lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates classification of leases as either operating leases or finance leases as was required by IAS 17 Leases, and, instead, introduces a single lessee accounting model. Lessees are 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.

<u>*The impact of IFRS 16 on the Company´s consolidated financial statements*</u>

The Company decided to apply the standard from its mandatory adoption date of 1 January 2019 using the modified retrospective method and applying a simplified transition approach when the initial right-of-use assets are measured at the amount of the lease liability adjusted for all accrued lease payments or provisions. Comparatives for the previous reporting period that ended before the date of initial adoption of the Standard were not adjusted. This means that the data presented in the financial periods 2019 and 2018 are not comparable. The Company also decided to apply some practical simplifications.

In accordance with the requirements of the standard, the Company applied a simplified transition approach consistently to all leases in which it is a lessee.

After the adoption of IFRS 16, the Company recognised lease liabilities that were previously (i. e. under IAS 17) classified as operating leases. These liabilities were measured at the present value of the remaining lease payments discounted by the Company's incremental borrowing rate that would be applicable to new borrowings at 1 January 2019. The weighted average discount rate applied on 1 January 2019 to the lease liabilities was 1.697% p.a..

An explanation of the difference between future lease payments for non-cancellable operating leases as at 31 December 2018 when IAS 17 was applied and the lease liabilities reported as at 1 January 2019 is shown in the following table:

In thousands of EUR	**31 December 2018 / 1 January 2019**
Total future minimum lease payments for non-cancellable* operating leases as at 31 December 2018 (Note 40)	3,424
- Future lease payments that are a result of a different assessment of lease extension or termination options	1,022
- Effect of discounting to present value	(460)
Total lease liabilities recognised as at 1 January 2019	**3,986**
Of which are:	
Short-term lease liabilities	433
Long-term lease liabilities	3,553

* Non-cancellable leases include those cancellable only: (a) upon the occurrence of some contingency, (b) with the permission of the lessor, (c) if the lessee enters into a new lease for the same or an equivalent asset with the same lessor; or (d) upon payment by the lessee of such an additional amount that, at inception of the lease, continuation of the lease is reasonably certain.

Right-of-use assets were measured at the amount of the lease liabilities adjusted for all accrued lease payments for those leases that were recognized on the balance sheet as at 31 December 2018. There were no onerous leasing contracts for which it would have been necessary to adjust the amount of right-of-use assets as at 1 January 2019.

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

The initial application of IFRS 16 did not have an impact on deferred tax on 1 January 2019, because the Company considers a lease to be a single transaction with asset and liability being connected thus not resulting in any temporary difference at the date of initial application. In Slovakia, lease costs are tax dedictible when paid.

Upon the initial application of IFRS 16, the Company has applied the following practical simplifications permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics,
- relying on previous assessments whether leases are onerous in accordance with IAS 37,
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases,
- excluding initial direct costs from the measurement of the right-of-use asset as at 1 January 2019.

The Company has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Company relied on its assessment made applying IAS 17, *Leases*, and IFRIC 4, *Determining whether an Arrangement contains a Lease*.

The Company further changed the assessment of its subleases as a lessor and classifies subleases as a finance leases or an operating leases under the new standard by comparing the future sublease income with the value of right-of-use asset and not with the value of the underlying asset. The Company therefore recognised office premises subleased to its subsidiaries as finance leases. In prior reporting period, before the application of IFRS 16, *Leases*, this sublease was considered an operating lease.

The impact of application of IFRS 16 on the statement of financial position as at 1 January 2019 is set out in the following table:

In thousands of EUR	**1 January 2019**
Increase in item “Right-of-use assets”	3,986
Increase in item “Investment properties”	1,833
Increase in item long-term “Finance lease receivables”	2,018
Increase in item short-term “Finance lease receivables”	182
Increase in item long-term “Lease liabilities“	6,964
Increase in item short-term “Lease liabilities“	1,055

The following amended standards became effective from 1 January 2019, but did not have any material impact on the Company:

- IFRIC 23 “Uncertainty over Income Tax Treatments” (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).
- 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).
- Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures” (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).

4 New Accounting Pronouncements

The following standards, interpretations and amendments are not expected to have any material impact on the Company`s 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).

4 New Accounting Pronouncements (continued)

- IFRS 17 "Insurance Contracts"(issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021).
- 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).
- Interest rate benchmark reform - Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020).
- Classification of liabilities as current or non-current – Amendment to IAS 1 (issue don 23 January 2020 and effective for annual periods beginning on or after 1 January 2022).

The Company does not expect that the above standards or amendments could have a material impact on its separate financial statements.

5 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

ECL measurement of receivables. The Company applies a simplified approach to trade receivables under IFRS 9, i.e. measures ECL using lifetime expected loss. The Company uses for the calculation of lifetime expected loss for trade receivables a matrix that considers ageing of receivables, recoverability of receivables and amount of receivables written off. The Company has considered the expected payment discipline for the next 12 months. Based on these indicators, it was decided that the expected loss allowance for trade receivables based on historical data is sufficient, as the development of the forward looking indicators corresponds to the development of previous years. The expected development of macroeconomic indicators has an insignificant impact on the value of expected credit losses.

Modification of financial assets. When financial assets are contractually modified (e.g. renegotiated), the Company assesses whether the modification is substantial and should result in derecognition of the original asset and recognition of a new asset at fair value. This assessment is based primarily on qualitative factors, described in the relevant accounting policy and it requires significant judgment. The derecognition assessment depends on whether the risks and rewards, that is, the variability of expected (rather than contractual) cash flows, change as a result of such modifications. Management determined that risks and rewards did not change significantlz as a result of modifying loans contracts. Refer to Note 12.

Lease extension and termination options. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of offices, equipment and vehicles, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Company is typically reasonably certain to extend (or not terminate) the lease.
- If any leasehold improvements are expected to have a significant residual value, the Company is typically reasonably certain to extend (or not terminate) the lease.

The Company considers also other factors including historical lease term and the costs and business disruption required to replace the leased asset. The majority of extension and termination options held are exercisable only by the Company and not by the respective lessor.

4 New Accounting Pronouncements (continued)

As at 31 December 2019, potential future cash outflows of EUR 0 thousands (undiscounted) have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated).

The lease term is reassessed if an option is actually exercised (or not exercised) or the Company becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee. The estimated lease term was not revised during the current reporting period.

Residual value guarantees. The Company estimated that residual value guarantees of the leased assets are not significant.

6 Property, Plant and Equipment

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

In thousands of EUR	**Land**	**Buildings**	**Equip-ment, vehicles and other assets**	**Equip-ment, vehicles and other assets leased to third parties**	**Capital work in progress**	**Total**
Cost at 1 January 2018	4,135	25,991	5,445	27,619	3,778	66,968
Accumulated depreciation and impairment losses	-	(8,911)	(3,650)	(20,572)	-	(33,133)
Carrying amount at 1 January 2018	**4,135**	**17,080**	**1,795**	**7,047**	**3,778**	**33,835**
Transfer to investment property	-	(1,709)	-	-	-	(1,709)
Additions	-	-	-	-	2,511	2,511
Transfers	3	1,469	830	-	(2,302)	-
Depreciation charge	-	(581)	(459)	(1,120)	-	(2,160)
Disposals	-	-	-	-	(65)	(65)
Cost at 31 December 2018	4,138	24,740	6,270	27,619	3,922	66,689
Accumulated depreciation and impairment losses	-	(8,481)	(4,104)	(21,692)	-	(34,277)
Carrying amount at 31 December 2018	**4,138**	**16,259**	**2,166**	**5,927**	**3,922**	**32,412**
Transfer to investment property	-	(201)	-	-	-	(201)
Additions	-	-	-	-	4,287	4,287
Transfers	100	2,061	1,001	335	(3,497)	-
Depreciation charge	-	(648)	(463)	(952)	-	(2,063)
Disposals	(6)	(1)	(1)	-	(59)	(67)
Cost at 31 December 2019	4,232	26,494	7,263	27,954	4,653	70,596
Accumulated depreciation and impairment losses	-	(9,024)	(4,560)	(22,644)	-	(36,228)
Carrying amount at 31 December 2019	**4,232**	**17,470**	**2,703**	**5,310**	**4,653**	**34,368**

6 Property, Plant and Equipment (continued)

The Company holds insurance against damages caused by natural disasters up to EUR 253,360 thousand for buildings and up to amount of EUR 41,418 thousand for equipment, fixtures, fittings and other assets (2018: EUR 244,278 thousand and EUR 42,881 thousand).

Above stated rental income is presented in Note 29. Future rental income from non-cancellable operating leases are payable as follows:

In thousands of EUR	**2019**
Due within:	
- 1 year	980
- 2 year	980
Total operating lease payments receivable under non-cancellable leases	1,960

As at 31 December 2018 future rental income from non-cancellable operating leases due within one year was EUR 980 thousand, amount due from two to five years was EUR 1,960 thousand and the amount due later than five years was EUR 0 thousand.

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

In thousands of EUR	**2019**	**2018**
Net book value of assets disposed of	67	65
(Loss) / gain on disposal of property, plant and equipment	26	386
Net book value of assets related to business disposed of	-	220
Other	-	(65)
Proceeds from disposals	**93**	**606**

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 2018	27,075	98	27,173
Accumulated amortisation and impairment losses	(26,875)	-	(26,875)
Carrying amount at 1 January 2018	**200**	**98**	**298**
Additions	-	473	473
Transfers	107	(107)	-
Amortisation charge	(134)	-	(134)
Cost at 31 December 2018	27,181	464	27,645
Accumulated amortisation and impairment losses	(27,008)	-	(27,008)
Carrying amount at 31 December 2018	**173**	**464**	**637**

7 Intangible Assets (continued)

In thousands of EUR	Software and similar assets	Assets not yet available for use	Total
Cost at 1 January 2019	27,181	464	27,645
Accumulated amortisation and impairment losses	(27,008)	-	(27,008)
Carrying amount at 1 January 2019	**173**	**464**	**637**
Additions	-	471	471
Transfers	211	(211)	-
Amortisation charge	(102)	-	(102)
Cost at 31 December 2019	27,392	724	28,116
Accumulated amortisation and impairment losses	(27,110)	-	(27,110)
Carrying amount at 31 December 2019	**282**	**724**	**1,006**

8 Investment Properties

The Company leases out part of its administrative and operational buildings as well as subleases office premises primarily to its subsidiaries. Movements in the carrying amount of the investment properties, including properties held under lease agreements were as follows:

	2019			2018		
In thousands of EUR	Investment properties owned by Company	Right-of-use property that was subleased	Total	Investment properties owned by Company	Right-of-use property that was subleased	Total
Cost at 1 January	20,137	-	20,137	15,777	-	15,777
Accumulated depreciation and impairment losses	(6,456)	-	(6,456)	(5,122)	-	(5,122)
Carrying amount at 1 January	**13,681**	**-**	**13,681**	**10,655**	**-**	**10,655**
Initial application of IFRS 16, *Leases*	-	1,833	1,833	-	-	-
Transfer from property, plant and equipment to investment property	201	-	201	1,709	-	1,709
Additions	383	302	685	1,790	-	1,790
Depreciation charge	(546)	(436)	(982)	(473)		(473)
Impairment	-	(6)	(6)	-	-	-
Cost at 31 December	20,821	2,135	22,956	20,137	-	20,137
Accumulated depreciation and impairment losses	(7,102)	(442)	(7,544)	(6,456)	-	(6,456)
Carrying amount at 31 December	**13,719**	**1,693**	**15,412**	**13,681**	**-**	**13,681**

8 Investment Properties (continued)

The Company's management estimates that fair value of the investment properties at the balance sheet date is not materially different from their carrying amount.

The Company has verbally agreed with its lessees Západoslovenská distribučná, a.s. and ZSE Energia, a.s., that it will allow them to annually renew the office leases at the then prevailing market level rent for up to 15 years. These leases were classified as operating leases.

Rental income of investment properties is presented in Note 29. The future rental income from these leases for the lease term based on the above verbal agreement is receivable as follows:

In thousands of EUR	**2019**
Due within:	
- 1 year	843
- 2 year	900
Total operating lease payments of investment properties	1,743

As at 31 December 2018 the future rental income from non-cancellable operating leases due within one year was EUR 770 thousand, amount due from two to five years is EUR 1,477 thousand and the amount due later than five years is EUR 86 thousand.

9 Right-of-use assets and lease liabilities

The Company leases buildings, energy equipment and vehicles. Rental contracts are typically made for fixed periods of 6 months to 10 years but may have extension options as described below.

Until 31 December 2018 leases of property, energy equipment and vehicles were classified as either finance lesse or operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability from the date when the leased asset becomes available for use by the Company. Movements in right-of-use assets:

In thousands of EUR	**Energy equipment**	**Vehicles**	**Total**
Carrying amount at 1 January 2019	**3,696**	**290**	**3,986**
Additions	-	10	10
Disposals	-	(5)	(5)
Depreciation charge	(342)	(91)	(433)
Impairment charge	(62)	(6)	(68)
Carrying amount at 31 December 2019	**3,292**	**198**	**3,490**

The Company recognised lease liabilities as follows:

In thousands of EUR	**31 December 2019**	**1 January 2019**
Short-term lease liabilities	1,051	1,055
Long-term lease liabilities	6,123	6,964
Total lease liabilities	**7,174**	**8,019**

Interest expense included in finance costs of 2019 was EUR 134 thousand.

9 Right-of-use assets and lease liabilities (continued)

Expenses relating to short-term leases and to leases of low-value assets other than short-term leases:

In thousands of EUR:	**2019**
Expense relating to short-term leases	57
Expense relating to leases of low-value assets that are not as short-term leases	49

Total cash outflows for leases were as follows:

In thousands of EUR:	**2019**
Short-term lease payments	57
Payments for leases of low-value assets other than short-term leases	49
Repayment of lease liabilities	1,051
Interest from leasing paid	134
Total cash outflows for leases in total	**1,291**

The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as collateral for borrowings.

As at 31 December 2019, potential future cash outflows of EUR 0 thousand (undiscounted) have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated).

10 Investments in Subsidiaries and Joint Venture

In thousands of EUR	**2019**	**2018 (restated)**
Total investments at the beginning of the year	**293,222**	**286,736**
Additions	5	8,486
Disposals	-	(2,000)
Other	1	-
Total investments at the end of the year	**293,228**	**293,222**

On 26 July 2018, the Company acquired, originally for purpose of further resale, a 100% interest in ZSE Elektrárne, s.r.o. (until 16 August 2018: E.ON Elektrárne s.r.o.) from its shareholder E.ON Slovensko, a.s. at acquisition cost EUR 8,486 thousand. The change of shareholder was registered in the Commercial Register on 16 August 2018. Due to the primary intention to sell the equity investment in this subsidiary in the short term, this investment was recognized as assets held for sale in the financial statements as at 31 December 2018. However, in 2019, based on a decision of the Company's management to discontinue the sale process, ZSE Elektrárne, s.r.o became a fully consolidateds subsidiary of ZSE. In view of this fact, the Company reclassified this investment into long-term investments in subsidiaries and changed this presentation retrospectively also in the 2018 comparative period.

The additions during the year 2019 represent subsidiary ZSE Energetické služby, s.r.o. that was established by its Founding Charter dated 19 November 2019, with the Company becoming its sole shareholder. This subsidiary was incorporated in the Commercial Register on 3 December 2019.

10 Investments in Subsidiaries and Joint Venture (pokračovanie)

Disposals during 2018 represent a reduction in the registered capital of the subsidiary ZSE Energy Solutions, s.r.o. The reduction of the registered capital was registered in the Commercial Register on 27 November 2018.

In thousands of EUR	% *	Activities	2019	2018 restated
Západoslovenská distribučná, a.s.	100	Distribution of electricity	276,684	276,684
ZSE Energia, a.s.	100	Trade in electricity / gas	6,725	6,725
ZSE Energy Solutions, s.r.o.	100	Engineering	200	200
ZSE MVE, s. r. o.	11.3**	Electricity production	1	1
ZSE Development, s.r.o.	100	Trading activities	564	564
ZSE Business Services, s. r. o.	100	Services	5	5
ZSE Elektrárne, s.r.o.	100	Electricity production	8,486	8,486
ZSE Energetické služby, s.r.o.	100	Trading activities	5	-
Total investments in subsidiaries			**292,670**	**292,665**
Energotel, a.s.	20	Telecommunication services	525	525
Total investments in joint ventures			**525**	**525**
Other investments			33	32
Total investments in subsidiaries and joint venture			**293,228**	**293,222**

* Ownership interest and voting rights held.
** The Company directly owns only 11.3% in ZSE MVE, s. r. o. but has in total 100% control over this company through its subsidiary ZSE Energia, a.s. which holds the remaining 88.7% in ZSE MVE, s. r. o. Therefore, ZSE MVE, s. r. o. was classified as subsidiary in these separate financial statements.

11 Finance Lease Receivables

The maturity analysis of the finance lease receivable is as follows at 31 December 2019:

In thousands of EUR	31 December 2019
Due during	
- the 1st year	209
- the 2nd year	209
- the 3rd year	209
- the 4th year	209
- the 5th year	209
Later than 5 years	1,143
Total undiscontinued finance lease payments receivable at 31 December 2019	**2,188**
Unearned finance income	(197)
Finance lease receivable at 31 December 2019	**1,991**

The finance lease receivables are not collateralised by the leased assets in case of the counterparty's default. The receivables are from subsidiaries and since the ECL provision for the risk of possible default is insignificant, it was not accounted for.

12 Loans Provided

An overview of loans provided is as follows:

In thousands of EUR	2019	2018
Loan 1 provided to Západoslovenská distribučná, a.s. - principal	315,000	315,000
Loan 2 provided to Západoslovenská distribučná, a.s. - principal	315,000	315,000
Provisions for impairment recognised for expected credit losses of long term asset (ECL)	(6,631)	(8,719)
Total loans provided – non-current	**623,369**	**621,281**
Accrued interest on loans receivable within one year	8,534	4,875
Total loans provided – current	**8,534**	**4,875**
Total loans provided	**631,903**	**626,156**

The movements in impairment of loans provided were as follows:

In thousands of EUR	Credit loss allowance	Gross carrying amount
At 1 January 2018	**4,407**	**630,000**
Additions ECL due to loans prolongation	4,586	-
Reassessment of ECL during the accounting period	(274)	-
At 31 December 2018	**8,719**	**630,000**
Reassessment of ECL during the accounting period	(2,088)	-
At 31 December 2019	**6,631**	**630,000**

Both loans provided to the subsidiary Západoslovenská distribučná, a.s. are in amount of EUR 315,000 thousand each. The loan 1 with original maturity dated on 1 October 2018 and bearing interest rate of 3.04 % p.a. was extended to 2 March 2028 by the Amended Agreement dated 27 September 2018 and carries interest rate of 2.00% p.a. The loan 2 is due on 1 October 2023 and carries interest rate of 4.14 % p.a. The loans are neither past due nor impaired and management of the Company considers this related party as creditworthy without an increased credit risk. However, in line with the IFRS 9, the Company recognised a provision for long-term loans of EUR 6,631 thousand at 31 December 2019 (2018: EUR 8,719 thousand). Based on the fact that the loan is provided to a related party where the Company assessed low risk of default, the expected loss was calculated on a 12-month basis. The potential effect of netting arrangements is disclosed in Note 36.

13 Inventories

The inventory items included material, spare parts and goods and are shown after provision for slow-moving materials and spare parts of EUR 0 thousand (2018: EUR 3 thousand). The cost of inventories recognized as expense and included in ‘Raw materials, energy and other consumption’ is disclosed in Note 25.

14 Trade and Other Receivables

In thousands of EUR	2019	2018
Trade receivables	3,724	5,197
Less impairment provision for trade receivables	(90)	(109)
Trade receivables, net	**3,634**	**5,088**
Prepayments	676	560
Total trade and other receivables	**4,310**	**5,648**

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

In thousands of EUR	2019	2018
Provision for impairment at 1 January	**109**	**134**
Impairment loss expense	(14)	(20)
Amounts written off during the year as uncollectible	(5)	(5)
Provision for impairment at 31 December	**90**	**109**

Impairment provision for trade receivables is calculated in the amount of 100% of the value of individual receivables from companies in bankruptcy and receivables subject to court proceedings. Impairment provision for other receivables is calculated based on ageing analysis of individual receivables and the type of the customer.

The Company has a concentration of credit risk towards its subsidiaries and other related parties. Refer to Note 42. The percentage of expected losses for each category of receivables was determined in the model on the basis of the expected settlement, which is based on the ageing analysis for the previous periods, taking into account the probability of repayment in subsequent periods.

The credit loss allowance for trade and other receivables is presented below:

	31 December 2019				31 December 2018			
At 31 December 2019	**Loss rate**	**Gross carrying amount**	**Lifetime ECL**	**Net carrying value**	**Loss rate**	**Gross carrying amount**	**Lifetime ECL**	**Net carrying value**
Current	0.01%	3,554	-	3,554	0.01%	4,134	-	4,134
Past due:								
- less than 30 days overdue	4.55%	44	2	42	0.40%	509	2	507
- 31 to 60 days overdue	20.00 %	40	8	32	0.01%	428	-	428
- 61 to 90 days overdue	50.00%	2	1	1	0.01%	1	-	1
- 91 to 120 days overdue	66.67%	3	2	1	61.12%	18	11	7
- 121 to 180 days overdue	50.00%	4	2	2	0.00%	-	-	0
- 181 to 360 days overdue	66.67%	6	4	2	62.07%	29	18	11
- over 360 days overdue	100.00%	71	71	-	100.00%	78	78	0
Total trade receivables		**3,724**	**90**	**3,634**		**5,197**	**109**	**5,088**

15 Cash and Cash Equivalents

In thousands of EUR	2019	2018
Current accounts with banks	35,297	37,378
Short term bank deposits	35,000	-
Total cash and cash equivalents in the statement of financial position	**70,297**	**37,378**
Less restricted cash balances	-	(133)
Total cash and cash equivalents in the statement of cash flows	**70,297**	**37,245**

The Company has a concentration of cash and cash equivalents balances towards 4 banks (2018: 4 banks).

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

In thousands of EUR	2019	2018
Neither past due nor impaired		
Credit rating Aa3 by Moody's	10	-
Credit rating A1 by Moody's	-	22
Credit rating A2 by Moody's	45,241	5,549
Credit rating A3 by Moody's	25,046	31,672
Credit rating A- by Fitch	-	2
Total cash and cash equivalents	**70,297**	**37,245**

The Company 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 Company's financial statements would be insignificant.

As at 31 December 2019, the Company has agreements with banks about revolving credit facilities amounting to EUR 75,000 thousand (2018: EUR 75,000 thousand). As at 31 December 2019 the Company has drawn EUR 0 thousand from these facilities (2018: EUR 0 thousand).

As at 31 December 2019, the Company issued guarantees in favour of its subsidiaries in total amount of EUR 112,100 thousand (2018: 61,800 thousand). Given that the issued guarantees were issued in favor of the subsidiaries, the risk was assessed as negligible and therefore the Company neither estimated nor recognised a provision for the guarantees and also considers the ECL for potential losses as immaterial and therefore did not account for it.

16 Share Capital

The Company issued and has outstanding 5,934,594 ordinary shares (2018: 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 jointly 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.

16 Share Capital (continued)

The general meeting of the Company's shareholders approved the Company's prior year separate financial statements and declared dividends of EUR 63,829 thousand or EUR 10.76 per share (2018: dividends of EUR 70,490 thousand or EUR 11.88 per share). Slovak legislation identifies distributable reserves as retained earnings reported in these separate financial statements of the Company.

17 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.

18 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 Company 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	**2019**	**2018**
Issued bonds – non-current	627,363	626,911
Accrued interest on issued bonds payable within one year and amortised transaction costs of the bonds	6,881	6,882
Total carrying value of the bonds	**634,244**	**633,793**

19 Income Taxes

Income tax expense comprises the following:

In thousands of EUR	**2019**	**2018**
Current tax at standard rate of 21% (2018: 21%)	476	414
Deferred tax	376	(752)
Total Income tax expense	**852**	**(338)***

*Including the income tax expenses on discontinued operations of EUR 452 thousand.

19 Income Taxes (continued)

In 2019, the applicable standard income tax rate was 21% (2018: 21%). 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	2019	2018
Profit before tax from continuing operations	75,210	61,546
Profit before tax from discontinued operations	-	2,153
Profit before tax	**75,210**	**63,699**
Theoretical tax charge at applicable tax rate of 21% (2018: 21%)	15,794	13,377
Non-deductible expenses / (non-taxable income) for which deferred tax was not recognised		
- dividend income not subject to tax	(15,132)	(13,978)
- expenses not deductible for tax purposes	227	294
Other	(37)	(31)
Income tax expense for the period	**852**	**(338)**

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 2019, that will become current tax in 2020, will be settled in 2021 upon filing the 2020 tax return. The corporate tax advance payments are calculated based on prior year taxes and are thus unrelated to deferred tax balances or the current tax expense expected for subsequent years.

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

Deferred taxes are attributable to the following temporary differences:

In thousands of EUR	2019	2018
Differences between tax base and carrying value of property, plant and equipment	2,533	2,440
Post-employment defined benefit obligation and other long term and short term employee benefits	(402)	(339)
Other liabilities	(158)	(367)
Provision for impairment of trade receivables and loans	(1,656)	(1,840)
Other	(147)	(61)
Total net deferred tax assets / liability, net	**170**	**(167)**

The movements in deferred taxes for temporary differences were recognised in profit or loss except for EUR (39) thousand (2018: EUR 31 thousand) for actuarial remeasurements of post-employment defined benefit obligation, which was recognised in other comprehensive income.

In November 2016, the Slovak parliament enacted a tax on dividend income from profits earned on or after 1 January 2017. The Company has not recorded a deferred tax liability in respect of investments in subsidiaries because (a) it expects that any future dividends will be paid only from future profits and (b) the tax is not applicable to dividends from Slovak subsidiaries, joint ventures and associates. In addition, the Company is able to control the timing of the reversal of such temporary differences and does not intend to reverse them in the foreseeable future, e.g. through taxable dividend income from subsidiaries.

20 Post-Employment Defined Benefit Obligations

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

In thousands of EUR	**2019**	**2018**
Present value of unfunded post-employment defined benefit obligations at the beginning of the year	**604**	**761**
Current service cost from continuing operations	54	67
Interest cost from continuing operations	9	9
Total expense from continuing operations (Note 26)	63	76
Total expense	**63**	**76**
Actuarial remeasurements from continuing operations:		
attributable to changes in financial assumptions	143	(97)
attributable to changes in demographic assumptions	44	(64)
attributable to experience adjustments	-	15
Total actuarial remeasurements from continuing operations recognised in other comprehensive income	187	(146)
Total actuarial remeasurements recognised in other comprehensive income	**187**	**(146)**
Benefits paid during the year	(39)	(32)
Other changes	-	(55)
Present value of unfunded post-employment defined benefit obligations at the end of the year	**815**	**604**

20 Post-Employment Defined Benefit Obligations (continued)

The principal actuarial assumptions were as follows:

	2019	2018
Number of employees at 31 December	164	168
Staff turnover	4.87%	5.29% p.a.
Expected salary increases short-term	4.00%	4.00% p.a.
Expected salary increases long-term	2.00%	2.00% p.a.
Discount rate	0.70%	1.50% 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.

21 Other Long Term Employee Benefits

The Company makes EUR 1,400 (2018: EUR 1,400) payment to each employee at the age of 50, subject to 5 year continuous service (2018: 5 years) vesting condition. In addition, the Company pays regular long term work anniversary bonuses in general every 10 years in amounts between EUR 400 to EUR 1,250 (2018: between EUR 400 to EUR 1,250).

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

22 Trade and Other Payables

In thousands of EUR	2019	2018
Trade payables	3,472	3,105
Other accrued liabilities	1,183	2,254
Other financial liabilities	208	609
Total financial instruments within trade and other payables	**4,863**	**5,968**
Employee benefits payable	316	339
Social security on employee benefits	234	239
Accrued staff costs	1,202	1,147
Advance payments	17	19
Value added tax payable	621	191
Other payables	449	206
Total trade and other payables	**7,702**	**8,109**

The Company had overdue trade payables of EUR 137 thousand (2018: EUR 24 thousand).

23 Receivables and Liabilities from Cash Pooling

In thousands of EUR	**2019**	**2018 restated**
ZSE MVE, s. r. o.	1,096	1,088
ZSE Business Services, s. r. o.	242	179
ZSE Elektrárne, s.r.o.	33,933	28,382
Total receivables from cash pooling gross	35,271	29,649
Credit loss allowance for ECL	(1,242)	-
Total receivables from cash pooling	**34,029**	**29,649**
ZSE Energia, a.s.	43,392	6,587
ZSE Energy Solutions, s.r.o.	97	98
ZSE Development, s.r.o.	576	612
Západoslovenská distribučná, a.s.	40,546	44,870
Total liabilities from cash pooling	**84,611**	**52,167**

The Company has concluded with its subsidiaries and associate a cash pooling agreement. Based on this agreement the available cash is managed by the Company. If the case of additional financing needs the cash from the cash pool of the Company is made available to subsidiaries and associate. The interest rate on receivables from cash pooling was 0.4 % p.a. (2018: 0.4% p.a.). The interest rate on liabilities from cash pooling was 0.05% p.a. (2018: 0.05% p.a.).

As a result of the change in presentation described in Note 2, the financial investment in ZSE Elektrárne, s.r.o. was reclassified in these separate financial statements as receivables from cash pooling due from a subsidiary from the assets held for sale of EUR 28,382 thousand that were presented in the previous 2018 reporting period and a corresponding ECL allowance was recognized.

The cash pooling receivables are neither past due nor impaired and are presented above in descending order of their credit quality. The Company does not analyse these receivables according to their credit ratings. Under IFRS 9, the Company recognised a provision for impairment of receivable from cash pooling due from the subsidiary ZSE Elektrárne, s.r.o. in total amount of EUR 1,242 thousand. The Company assessed other cash pooling receivables as receivables due on demand and as the counterparties are subsidiaries with sufficient assets, the non-performance risk was assessed as negligible.

Movements in the credit loss allowance for receivables from cash pooling was follows:

In thousands of EUR	**Credit loss allowance**	**Gross carrying amount**
At 1 January 2019	**-**	**29,649**
New receivables from cash pooling	198	5,622
Reassessment of ECL	1,044	-
At 31 December 2019	**1,242**	**35,271**

24 Revenues

Revenues comprise the following:

In thousands of EUR	2019	2018
Services provided to subsidiaries, joint venture and to the shareholder	14,742	15,601
Other revenues	1,291	944
Total revenues*	**16,033**	**16,545**

* The revenues shown in the table above are included in segment other in the segmen reporting (Note 32)

Timing of revenue recognition (for each revenue stream) is as follows:

In thousands of EUR	2019	2018
At a point in time	99	13
Over time	15,934	16,532
Total revenue	**16,033**	**16,545**

25 Raw Materials, Energy and Other Consumption

The following amounts have been charged to consumption of material, energy and other consumption:

In thousands of EUR	2019	2018
Energy consumption	1,105	1,004
Purchases of eletricity for resale	204	41
Consumption of other materials and spare parts	274	432
Total raw materials, energy and other consumption	**1,583**	**1,477**

26 Employee Benefits

In thousands of EUR	2019	2018
Wages and salaries	5,624	5,161
Defined contribution pension costs	949	335
Post-employment defined benefit plan expense (Note 20)	63	76
Other long-term employee benefit plans - current service and interest cost	19	25
Actuarial remeasurements of other long-term employee benefit plans	8	(11)
Other social costs	2,207	2,181
Total employee benefits expense	**8,870**	**7,767**

27 Other Operating Expenses

In thousands of EUR	**2019**	**2018**
Information technology and software maintenance costs	750	639
Repairs and maintenance costs	680	717
Operating lease expense	-	984
Postal and telecommunication services	20	27
Security services	1,352	1,167
Advertising services	468	553
Facility management expenses	732	542
Project management expenses	851	1,109
Travel expenses	123	153
Gifts	379	467
Insurance	108	105
Advisory services	553	986
Statutory audit	132	116
Non-audit services provided by the audit firm	22	176
Services related to issued bonds	-	459
Central services	399	480
Communication services	256	261
Other operating expenses	175	285
Property and motor vehicle tax	147	153
Impairment loss expenses on loans provided and receivable from cash pooling	(846)	4,312
Expenses relating to short-term leases	49	-
Expenses relating to leases of low-value assets	57	-
Other purchased services	2,210	1,817
Total other operating expenses	**8,617**	**15,508**

The PwC network provided the following non-audit services during the current reporting period:

- 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 the amount of EUR 48 thousand (2018: EUR 236 thousand) was for the Company;
- consulting services in the area of human resources in the amount EUR 3 thousand (2018: EUR 14 thousand) for the Company, which was not a cost control service;
- trainings in the amout of EUR 2 thousand (2018: EUR 2 thousand) for the Company.

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

28 Dividend Income

In thousands of EUR	**2019**	**2018**
Západoslovenská distribučná, a.s.	57,257	56,771
ZSE Energia, a.s.	14,517	9,530
Energotel, a.s.	282	259
Total dividend income	**72,056**	**66,560**

29 Other Operating Income

In thousands of EUR	2019	2018
Operating lease income from investment properties (Note 8)	1,202	1,081
Operating lease income – related services	3,606	3,245
Operating lease income from other assets (Note 6)	1,916	2,183
(Loss) / gain on disposal of property, plant and equipment	26	386
Grants	789	1,067
Other rental	1,085	1,168
Total other operating income	**8,624**	**9,130**

30 Interest and Similar Expenses

In thousands of EUR	2019	2018
Interest expense on bonds	18,113	24,302
Amortisation of bonds transaction costs and similar costs	586	868
Interest expense on leasing	134	-
Other interest expense	50	51
Other finance costs	92	95
Total interest and similar expenses	**18,975**	**25,316**

31 Interest Income Calculated Using the Effective Interest Method

In thousands of EUR	2019	2018
Interests income from loans due from Západoslovenská distribučná, a.s.	19,341	21,791
Other interest income	168	355
Total interest revenue calculated using the effective interest method	**19,509**	**22,146**

32 Segment Reporting

The operating segments are those used by the Board of Directors to manage the business of the Company and its subsidiaries (together the “Group”), allocate resources and make strategic decisions. The segments are therefore reported for the Group as a whole; management does not review component financial information of the Company standing alone. 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 Regulatory Office for Network Industries “RONI”.

32 Segment Reporting (continued)

Electricity and gas supply. Supply of electricity and gas to wholesale and retail customers in Slovakia and supply of electricity to wholesale customers in abroad. This business is open to competition by other suppliers. Pricing for certain classes of customers of the segment is regulated by RONI.

As a result of regulation of the distribution business and partial regulation of the supply business approximately 91% (2018: 94%) of the Group's EBITDA and 90% of the Group's EBIT (2018: 92%) were generated from sales to customers who are subject to the price regulation.

Electricity production. Electricity production in combined cycle power plant. This segment has been part of the Group since 2019.

Other. Segment Other includes activities provided by the Company together with its subsidiaries ZSE Energy Solutions, s.r.o., ZSE MVE, s. r. o. , ZSE Business Services, s. r. o and ZSE Energetické služby, 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 segment information for 2019 is as follows:

In thousands of EUR	**Distribution**	**Supply**	**Production**	**Other**	**Eliminations and consolidation adjustments**	**Total Group**
Revenue from external customers	298,677	983,308	1,840	955	-	**1,284,780**
Inter-segment revenues	191,397	35,242	102,869	17,929	(347,437)	-
Total segment revenues	490,074	1,018,550	104,709	18,884	(347,437)	**1,284,780**
Purchases of electricity and related fees	(213,555)	(864,472)	(96,601)	(3,977)	330,164	**(848,441)**
Purchases of natural gas	-	(102,287)	-	-	27	**(102,260)**
Employee benefits expense	(54,096)	(11,270)	(1,174)	(9,188)	2	**(75,726)**
Other operating expenses	(44,420)	(15,252)	(2,602)	(8,990)	19,130	**(52,134)**
Share of profit of equity method investees	-	-	-	72,056	(71,774)	**282**
Other operating income	4,791	2,050	193	8,888	(7,528)	**8,394**
Income from subleases	-	-	-	188	-188	**-**
Own work capitalized	18,420	-	-	425	512	**19,357**
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**201,214**	**27,319**	**4,525**	**78,286**	**(77,092)**	**234,252**
Depreciation of property, plant and equipment and investment properties	(66,210)	(20)	(1,736)	(3,113)	21,697	**(49,382)**
Amortisation of intangible assets	(2,879)	(1,721)	(5)	(102)	69	**(4,638)**
Depreciation of right-of-use assets	(6,890)	(866)	-	(433)	5,128	**(3,061)**
Earnings before interest and taxes (EBIT)	**125,235**	**24,712**	**2,784**	**74,638**	**(50,198)**	**177,171**
Capital expenditures	**96,494**	**1,284**	**5,354**	**5,141**	**601**	**108,874**

32 Segment Reporting (continued)

Reportable segment information for 2018 (restated) is as follows:

In thousands of EUR	**Distribution**	**Supply**	**Production**	**Other**	**Eliminations and consolidation adjustments**	**Total Group**
Revenue from external customers	311,469	826,529	-	659	-	1,138,657
Inter-segment revenues	192,237	26,235	13,599	17,197	(249,268)	-
Total segment revenues	503,706	852,764	13,599	17,856	(249,268)	1,138,657
Purchases of electricity and related fees	(224,945)	(718,719)	(12,801)	(2,358)	230,573	(728,250)
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)	(76)	(15,882)	31,853	(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 amortisation (EBITDA)	**174,719**	**21,817**	**722**	**69,613**	**(63,304)**	**203,567**
Depreciation of property, plant and equipment and investment properties	(64,410)	(13)	(722)	(2,701)	22,603	(45,243)
Amortisation 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**	**32,638**	**4,774**	**(5,873)**	**134,710**

The total segment items are measured using the entity's accounting policies for its external reporting and hence, the only reconciling item from segment information to the Company's amounts under IFRS are eliminations of effects of consolidating subsidiaries.

Reconciliation of EBIT for all segments to profit before tax is as follows:

In thousands of EUR	**2019**	**2018**
Total EBIT for all operating segments	**177,171**	**153,893**
Interest income of the Group	39	357
Interest and similar expense of the Group	(17,635)	(23,783)
Elimination of impact of consolidation of subsidiaries	(84,365)	(66,768)
Profit before tax of the Company	**75,210**	**63,699**

32 Segment Reporting (continued)

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

In thousands of EUR	**2019**	**2018 restated**
Total capital expenditures for all operating segments	**108,874**	**134,710**
Carbon dioxide emissions quota purchases	24,337	2,676
Assets acquired but not paid for	(30,461)	(31,654)
Payments for assets acquired in prior periods	23,726	11,178
Payments for purchases of property, plant and equipment and intangible assets	**126,476**	**116,910**

Entity wide information. Revenue is analysed by type of product or service in Note 24. Substantially all of the Company's revenues are from customers in the Slovak Republic and all of the Company's property, plant and equipment and intangible assets are located in the Slovak Republic.

33 Financial Risk Management

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

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

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

Interest rate risk. The Company 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 Company's profit or loss for the year.

Commodity price risk. The Company is not exposed to significant commodity price risk because it does not have material commodity contracts.

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

Exposure to credit risk arises as a result of the Company's sales of 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 customers, including outstanding receivables and transactions made. From 1 July 2007 after legal unbundling, the subsidiaries Západoslovenská distribučná, a.s. and ZSE Energia, a.s. are the main customers of the Company.

As for the banks and financial institutions, the Company has relationships only with those that have a high independent rating assessment.

The credit quality of outstanding balances with banks is presented in Note 15 and credit quality information about trade receivables is included in Note 14.

33 Financial Risk Management (continued)

The maximum exposure to credit risk is limited by the carrying value of receivables. As of 31 December 2019 and 2018, there is a significant concentration of credit risk with respect of receivables of the Company towards Západoslovenská distribučná, a.s. and ZSE Energia, a.s. The Company manages this exposure through cash-pooling agreements. The collection of receivables could be influenced by economic factors; management believes that there is no significant risk of loss to the Company beyond the provisions already recorded.

To determine the level of credit risk, The Company uses Expected credit loss (“ECL”) measurement, which reflects the probability-weighted estimate of the present value of future expected credit losses. The Company applies a simplified approach to trade receivables under IFRS 9, i.e. measures ECL using lifetime expected loss. The Company 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 liabilities from guarantees provided, it is the contractual period over which an entity has a present contractual obligation.

When assessment is performed on a portfolio basis, the Company determines the staging of the exposures and measures the loss allowance on a collective basis. The Company analyses its exposures by segments determined on the basis of shared credit risk characteristics, such that exposures within a Company 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.

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

The Company regularly monitors its liquidity position and uses cash pooling with subsidiaries to optimize the use of cash balances within the Company. The Company also uses the advantages of commercial terms between the Company and its suppliers to secure sufficient financing funds to cover its needs. The maturity of supplier’s invoices is 60 days, on average. Expected cash flows forecast is prepared weekly as follows: (a) expected future cash inflows from main operation of the Company, and (b) expected future cash outflows securing operation of the Company and leading to settlement of all liabilities of the Company, including tax payables. The cash flow forecast identifies the immediate need for cash and, if funds are available, it enables the Company to make short-term bank deposits.

The table below analyses the Company’s undiscounted amount of financial liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date. The maturity analysis is as follows at 31 December 2019:

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	59,850	22,050	100,013
Lease liabilities	88	176	787	4,204	1,919	7,174
Trade payables (Note 22)	2,664	808	-	-	-	3,472
Other accrued liabilities (Note 22)	878	280	25	-	-	1,183
Other financial liabilities (Note 22)	208	-	-	-	-	208
Liabilities from cash pooling (Note 23)	84,611	-	-	-	-	84,611
Issued guarantees	112,100	-	-	-	-	112,100
Total future payments, including future principal and interest payments	**200,549**	**6,777**	**13,412**	**379,054**	**338,969**	**938,761**

33 Financial Risk Management (continued)

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 22)	2,090	1,015	-	-	-	3,105
Other accrued liabilities (Note 22)	2,141	113	-	-	-	2,254
Other financial liabilities (Note 22)	609	-	-	-	-	609
Liabilities from cash pooling (Note 23)	52,167	-	-	-	-	52,167
Issued guarantees	61,800	-	-	-	-	61,800
Total future payments, including future principal and interest payments	**118,807**	**6,641**	**12,600**	**387,450**	**342,562**	**868,060**

34 Management of Capital

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders, and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. The Company manages capital reported under IFRS as equity amounting to EUR 355,385 thousand at 31 December 2019 (2018: EUR 345,004 thousand). In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders or return capital to shareholders.

In managing the capital, the Company's management focuses on maximizing return on invested capital.

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

35 Reconciliation of movements in liabilities from financing activities

The table below presents an analysis of debt and the movements in the debt for each of the periods presented:

In thousands of EUR	Issued bonds	Lease liabilities	Total
At 1 January 2018	**633,510**	**-**	**633,510**
Non-cash changes			
Interest expense on bonds (Note 30)	24,302	-	24,302
Amortisation of bonds transaction costs	761	-	761
Cash payments			
Interest expense paid	(21,656)	-	(21,656)
Issued bonds	312,556	-	312,556
Other costs related to issued bonds	(680)		(680)
Repayment of bonds issued	(315,000)	-	(315,000)
At 31 December 2018	**633,793**	**-**	**633,793**

35 Reconciliation of movements in liabilities from financing activities (continued)

In thousands of EUR	**Issued bonds**	**Lease liabilities**	**Total**
At 31 December 2018	**633,793**	**-**	**633,793**
Non-cash changes			
Recognition of lease liabilities upon initial application of IFRS 16 at 1 January 2019	-	8,019	8,019
New leases	-	312	312
Interest expense	18,113	134	18,247
Amortisation of bonds transaction costs	452	-	452
Other	(1)	(106)	(107)
Cash payments			
Interest expense paid	(18,113)	(134)	(18,247)
Lease principal repayments	-	(1,051)	(1,051)
At 31 December 2018	**634,244**	**7,174**	**641,418**

36 Offsetting Financial Assets and Financial Liabilities

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2019:

In thousands of EUR	**Gross amounts before offsetting in the statement of financial position**	**Gross amounts set off in the statement of financial position**	**Net amount after offsetting in the statement of financial position**	**Amounts not set off in the statement of financial position**		**Net amount of exposure**
				Financial instruments	**Cash collateral received**	
	(a)	**(b)**	**(c) = (a) - (b)**	**(d)**	**(e)**	**(c) - (d) - (e)**
ASSETS						
Loans provided	631,903	-	631,903	40,546	-	591,357
Receivables from cash pooling	34,029	-	34,029	34,029	-	-
TOTAL ASSETS SUBJECT TO POSSIBLE OFFSETTING AND SIMILAR ARRANGEMENT	**665,932**	**-**	**665,932**	**74,575**	**-**	**591,357**
LIABILITIES						
Liabilities from cash pooling	84,611	-	84,611	74,575	-	10,036
TOTAL LIABILITIES SUBJECT TO POSSIBLE OFFSETTING, AND SIMILAR ARRANGEMENT	**84,611**	**-**	**84,611**	**74,575**	**-**	**10,036**

36 Offsetting Financial Assets and Financial Liabilities (continued)

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2018 (restated):

	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position	Amounts not set off in the statement of financial position		Net amount of exposure
				Financial instruments	Cash collateral received	
In thousands of EUR	(a)	(b)	(c) = (a) - (b)	(d)	(e)	(c) - (d) - (e)
ASSETS						
Loans provided	626,156	-	626,156	44,870	-	581,286
Receivables from cash pooling	29,649	-	29,649	7,297	-	22,352
TOTAL ASSETS SUBJECT TO POSSIBLE OFFSETTING AND SIMILAR ARRANGEMENT	**655,805**	**-**	**655,805**	**52,167**	**-**	**603,638**
LIABILITIES						
Liabilities from cash pooling	52,167	-	52,167	52,167	-	-
TOTAL LIABILITIES SUBJECT TO POSSIBLE OFFSETTING, AND SIMILAR ARRANGEMENT	**52,167**	**-**	**52,167**	**52,167**	**-**	**-**

The amount set off in the statement of financial position reported in column (b) is the lower of (i) the gross amount before offsetting reported in column (a) and (ii) the amount of the related instrument that is eligible for offsetting. Similarly, the amounts in columns (d) and (e) are limited to the exposure reported in column (c) for each individual instrument in order not to understate the ultimate net exposure.

The Company has master netting arrangements, which are enforceable in case of default. In addition, applicable legislation allows an entity to unilaterally set off trade receivables and payables that are due for payment, denominated in the same currency and outstanding with the same counterparty.

37 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.

37 Fair Value Disclosures (continued)

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 2019			31 December 2018 (restated)		
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						
Loans provided including accrued interest (Note 12)	-	702,762	631,903	-	675,732	626,156
Trade receivables, net (Note 14)	-	3,634	3,634	-	5,088	5,088
Finance lease receivable (Note 11)	-	1,880	1,880	-	-	-
Receivables from cash pooling (Note 23)	-	34,029	34,029	-	29,649	29,649
Cash and cash equivalents (Note 15)	-	70,297	70,297	-	37,378	37,378
TOTAL ASSETS	**-**	**812,602**	**741,743**	**-**	**747,847**	**698,271**
LIABILITIES						
Issued bonds (Note 18)	702,762	-	634,244	675,732	-	633,793
Trade payables (Note 22)	-	3,472	3,472	-	3,105	3,105
Other accrued liabilities (Note 22)	-	1,183	1,183	-	2,254	2,254
Other financial liabilities (Note 22)	-	208	208	-	609	609
Liabilities from cash pooling (Note 23)	-	84,611	84,611	-	52,167	52,167
TOTAL LIABILITIES	**702,762**	**89,474**	**723,718**	**675,732**	**58,135**	**691,928**

The fair value of lease liabilities is not disclosed in accordance with paragraph 29 of IFRS 7.

The fair value of provided loans (Note 12) was estimated based on the price development of the related issued bonds on the financial markets.

The fair value of issued bonds was determined at the quoted market price of the bonds (Note 18).

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

38 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. All financial assets and liabilities of the Company are measured at amortized cost (“AC”). Leases were measured and accounted for under IFRS 16, *Leases*.

39 Contingencies and Commitments

Tax contingencies. Slovak tax law contains certain provisions that allow for more than one interpretation. Management's interpretation of the Company's business activities may not coincide with the interpretation of these activities by the tax authorities, but the extent of this risk cannot be reasonably quantified. The fiscal years from 2015 to 2019 remain open to tax inspection, however, for transfer pricing issues of cross-border transactions, earlier periods are also subject to tax inspection.

Capital expenditure commitments. At 31 December 2019, the Company had outstanding contractual commitments for purchases of property, plant and equipment of EUR 4,783 thousand (2018: EUR 2,182 thousand). Outstanding contractual commitments for purchases of intangible assets were EUR 801 thousand (2018: EUR 80 thousand).

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	579
Later than one year and no later than five years	2,191
Later than five years	655
Total	**3,424**

The above future minimum payments are over lease term that was estimated by considering the contractual lease extension rights that are reasonably certain to be exercised by the Company. Minimum future payments that cannot be avoided, for example, by not extending the lease term were EUR 3,129 thousand as at 31 December 2018.

Operating lease expense is disclosed in Note 27.

40 Sale of Part of the Business

On 18 December 2017, the Company concluded, with its subsidiary Západoslovenská distribučná, a.s., an agreement on the sale of part of a business related to transfer of Facility Management department, and activities and tasks of organizational units dealing with billing services, quality control and logistics. The agreement became effective on 1 January 2018.

Assets and liabilities related to the disposal of part of business were presented separately as held for sale and as discontinued operations of the Company in the financial statements for the year ended 31 December 2017 and were derecognised on 1January 2018. The details of the assets and liabilities sold within the sale of part of the business transaction and the selling price are presented in the following table:

In thousands of EUR	**At 1 January 2018**
The carrying amounts of assets and liabilities sold	
Property, plant and equipment	5,246
Intangible assets	18
Trade and other receivables	3,217
Trade and other payables	(528)
Pension and other provisions for liabilities and charges	(204)
Net assets	**7,749**
Gain on sale of part of the business, before tax (Note 26)	**2,153**
Proceeds from sale of part of the business	**9,902**

41 Balances and Transactions with Related Parties

The primary related parties of the Company are (a) its shareholders which have joint control over the Company as explained in Notes 1 and 16: (i) the Slovak Government and (ii) E.ON, as well as (b) key management personnel. The Company applies the exemption from disclosing transactions with the Slovak government and entities over which it has control, joint control or significant influence. The exemption does not apply to individually significant transactions, such as taxes incurred and paid, other purchases 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 2019:

In thousands of EUR	**Ministry of Economy of the Slovak Republic**	**E.ON Slovensko, a.s.**	**E.ON Group****	**Slovak govern-ment***	**Subsi-diaries (Note 10)**	**Joint venture (Note 10)**
Revenue, finance and other income	-	267	58	21	41,453	1,007
Dividend income	-	-	-	-	71,774	282
Purchases and expenses	-	-	975	185	2,909	73
Receivables other than taxes	-	150	4	33	678,022	-
Payables other than taxes	-	-	32	19	89,280	17
Dividends declared and paid	32,553	24,893	6,383	-	-	-

* 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 19. Outstanding value added tax payable is presented in Note 22. Property and motor vehicle taxes are disclosed in Note 27.

Information on loans provided to the subsidiary is presented in Note 10. Information on receivables and liabilities from cash pooling is presented in Note 23.

The Company´s revenues related mainly to supporting services provided to subsidiaries. The services sold to the subsidiaries and to the shareholder are provided based on service level agreements concluded for indefinite time period with cancellation notice of 3 months.

There are no other sales commitments with related parties as of 31 December 2019 and 2018 other than disclosed.

The income tax paid was as follows:

In thousands of EUR	**2019**	**2018**
Current income tax expense at standard rate of 21% (2018: 21%) – refer to Note 19	476	414
Income tax refund (receivable) / liability at the beginning of the period	622	122
Income tax refund receivable at the end of the reporting period	(98)	622
Tax refund / income tax paid	**244**	**(914)**

41 Balances and Transactions with Related Parties (continued)

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 govern-ment***	**Subsi-diaries (Note 10)**	**Joint venture (Note 10)**
Revenues, financie and other income	3	154	107	-	54,713	928
Dividend income	-	-	-	-	66,301	259
Purchases and expenses	-	-	1,291	-	2,843	49
Receivables other than taxes	-	182	785	-	667,199	91
Payables other than taxes	-	-	751	-	53,030	9
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.

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

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

In thousands of EUR	**2019**	**2018**
Board of directors and other key management personnel		
Salaries and other short-term employee benefits	635	615
Defined contribution pension costs	73	63
Total remuneration of board of directors and other key management personnel	**708**	**678**
Supervisory board		
Salaries and other short-term employee benefits	112	103
Defined contribution pension costs	19	17
Total remuneration of supervisory board	**131**	**120**

42 Events after the End of the Reporting Period

The Company is currently unable to assess the impact of COVID-19 virus on its future financial position and results of operations, however, depending on future developments, this impact may be negative and significant.

After 31 December 2019, no other significant events have occurred that would require recognition or disclosure in these separate financial statements.

Management authorised these financial statements for issue on 26 March 2020:

....	....
Jochen Kley	Marian Rusko
Chairman of the Board of Directors and CEO	Member of the Board of Directors

Západoslovenská energetika, a.s.

Consolidated Financial Statements and Independent Auditor’s Report

31 December 2019

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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. (the "Company") and its subsidiaries (together - the "Group") as at 31 December 2019, 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 27 March 2020.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2019;
- 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 (ISAs). 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

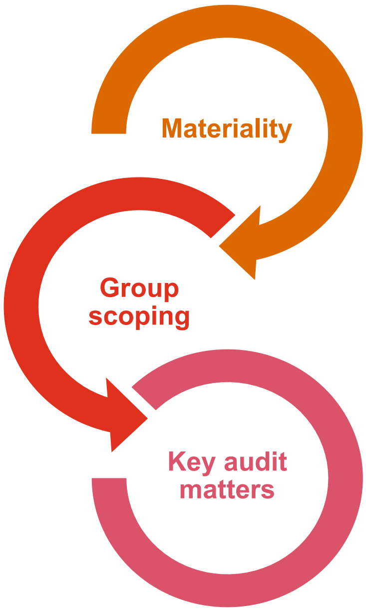
We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants issued by the International Federation of Accountants (Code of Ethics) and the ethical requirements of the Slovak Act on Statutory Audit No. 423/2015 and on amendments and supplements to Slovak Act on Accounting No. 431/2002, as amended (hereafter the "Act on Statutory audit") 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 the Code of Ethics and the ethical requirements of Act on Statutory audit.

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 2019 to 31 December 2019, are disclosed in Note 25 to the consolidated financial statements.

Our audit approach

Overview



Overall Group materiality is EUR 7,900 thousand which represents approximately 5% of consolidated profit before tax.

We conducted audit work at four reporting units consolidated in the Group's financial statements:

- Západoslovenská energetika, a.s.
- Západoslovenská distribučná, a.s.
- ZSE Energia, a.s.
- ZSE Elektrárne, s.r.o.

The Group estimates outstanding balances with its customers and its revenue 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 the initial application of IFRS 16, *Leases*, required our significant attention during the audit.

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.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated 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, if any, both individually and in aggregate on the consolidated financial statements as a whole.

Overall Group materiality	EUR 7,900 thousand (2018: 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 of the current period. 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 consolidated 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, since consumption meters are read gradually over the whole year. The revenue was based on expert report calculation, estimating losses in the distribution grid, that were disclosed in the prior years' consolidated financial statements. The estimate is complex and is calculated by a software with inputs both from management and an external data provider. In addition, management restated the estimated balances with these customers at 31 December 2018 and 1 January 2018. This matter therefore required our increased attention during the audit.	The estimated revenue for 2019 was tested primarily by the following procedures: • We tested accuracy of the software application for estimating electricity consumption by comparing its projections against electricity consumption that was actually measured. • We reconciled input parameters provided by independent data provider to verify whether the estimate for the year 2019 is based on up-to-date inputs. We assessed whether the assumptions used are reasonable in the 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 also tested operating effectiveness of controls over process how management made the estimate. Any subsequent software application changes are subject to internal control processes, including testing by a specialist independent from the software developer. In relation to the correction of 2018 balances with customers, we obtained calculations summarizing past advance payments received and final balance clearing invoices issued during the years 2019 and 2018. We updated our understanding of the billing cycle - all final balance clearing invoices related to 2017 were issued during 2018 and all final balance clearing invoices related to 2018 were issued during 2019, depending on the measurement cycle applied to the individual retail and other similar customers. We assessed and tested calculations in relation to balance sheet position of advance payments collected and final clearing invoices issued to customers. We assessed that the identified prior period differences between the calculations obtained and the amounts reported in the prior year's consolidated financial statements required a correction of an error and not accounting as a change in an estimate because the Group could have considered the data that it had available (though not in the data warehouse) when it was preparing its consolidated financial statements for the year 2018 and could have determined that the overall liability towards the customers was materially overstated at 1 January 2018. The Group thus did not have to carry over this error to the balance at 31 December 2018. We did not identify material error in revenue and profit for 2018.

Key audit matter	How our audit addressed the key audit matter
Initial application of IFRS 16, *Leases*.	
As further explained in Note 3 to the consolidated financial statements, the Group adopted new IFRS 16, *Leases*, from 1 January 2019. Implementation of changes in accounting policies for leases required our significant attention during the audit.	We obtained an understanding of internal processes around identification of leases and obtained the related lease contracts data from the reporting entity. We tested lease contracts data by inspecting a sample of contracts or other supporting documentation. We assessed the methodology and applied by management to calculate the right of use assets and the related lease liabilities. We tested the input data and assumptions on which these calculations were based, including reconciling input parameters to source data, or evaluating assessment of lease term. Our findings, primarily in the area of presentation and disclosures, were implemented in the accompanying consolidated financial statements.

How we tailored our Group audit scope

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.

We performed full scope audit work of all four material subsidiaries consolidated by the Group: Západoslovenská energetika, a.s., Západoslovenská distribučná, a.s., ZSE Energia, a.s. and ZSE Elektrárne, s.r.o.

Reporting on other information included in the Annual Report

Management is responsible for the other information. The other information comprises the Annual Report (but does not include the separate and consolidated financial statements and our auditor's report thereon).

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, 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 considered whether it includes the disclosures required by the Slovak Act on Accounting No. 431/2002, as amended (hereafter the "Accounting Act".

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

- the information given in the Annual Report for the financial year for which the consolidated financial statements are prepared, is consistent with the consolidated financial statements; and
- the Annual Report has been prepared in accordance with the Accounting Act.

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

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 ISAs 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 ISAs, 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

Appointment as an independent auditor

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 18 years. Under the transitional provisions of the Regulation (EU) 537/2014, our appointment cannot be renewed from 17 June 2023, provided the Company will then still be a public interest entity.

The engagement partner on the audit resulting in this independent auditor's report is Juraj Tučný.

PricewaterhouseCoopers Slovensko, s.r.o.

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

Tučný

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

Mgr. Juraj Tučný, FCCA
UDVA licence No. 1059

Bratislava, 27 March 2020, except for section of our report "Reporting on other information included in the Annual Report", for which the date of our report is 16 April 2020.

In thousands of EUR	Note	31 December 2019	31 December 2018 (restated)	31 December 2017 (restated)
ASSETS				
Non-current assets				
Property, plant and equipment	6	918,260	866,575	780,798
Intangible assets	7	44,095	18,445	13,138
Right-of-use assets		25,908	-	-
Equity method investments	9	558	558	558
Deferred income tax assets	16	6,441	8,254	12,499
Other non-current assets		704	703	703
Total non-current assets		**995,966**	**894,535**	**807,696**
Current assets				
Inventories	10	13,892	12,033	10,777
Loans provided		202	200	200
Trade and other receivables	11	157,254	145,064	113,734
Current income tax refund receivable		-	6,441	-
Cash and cash equivalents	12	82,216	44,697	95,438
Total current assets		**253,564**	**208,435**	**220,149**
TOTAL ASSETS		**1,249,530**	**1,102,970**	**1,027,845**
EQUITY				
Share capital	13	196,969	196,969	196,969
Legal reserve fund	14	39,421	39,421	39,421
Retained loss		(80,910)	(135,101)	(164,847)
TOTAL EQUITY		**155,480**	**101,289**	**71,543**
LIABILITIES				
Non-current liabilities				
Issued bonds	15	627,363	626,911	314,396
Lease liabilities (2018, 2017: Finance lease liabilities)		22,720	1,874	1,853
Deferred income tax liabilities	16	43,340	34,079	30,306
Post-employment defined benefit obligations	17	11,156	8,692	9,752
Other long term employee benefits	18	2,307	2,230	2,408
Contract liabilities from connection fees and customer contributions	20	100,602	98,878	95,464
Total non-current liabilities		**807,488**	**772,664**	**454,179**
Current liabilities				
Issued bonds and accrued interest on issued bonds	15	6,881	6,882	319,114
Lease liabilities (2018, 2017: Finance lease liabilities)		3,383	1,552	1,153
Trade and other payables	21	230,174	191,931	168,241
Current income tax liabilities		5,179	-	7,195
Provisions for liabilities and charges	19	33,474	21,609	-
Contract liabilities from connection fees and customer contributions	20	7,471	7,043	6,420
Total current liabilities		**286,562**	**229,017**	**502,123**
TOTAL LIABILITIES		**1,094,050**	**1,001,681**	**956,302**
TOTAL LIABILITIES AND EQUITY		**1,249,530**	**1,102,970**	**1,027,845**

These consolidated financial statements have been approved for issue by the Board of Directors on 26 March 2020.

....	....
Jochen Kley	Marian Rusko
Chairman of the Board of Directors and CEO	Member of the Board of Directors

In thousands of EUR	Note	2019	2018 (restated)*
Revenue from electricity and other related revenue	**22**	**1,178,579**	**1,044,293**
Revenue from natural gas	**22**	**106,201**	**94,364**
Purchases of electricity, natural gas for electricity production and related fees	23	(848,441)	(728,250)
Natural gas purchased for sale		(102,260)	(88,296)
Employee benefits	24	(75,726)	(68,292)
Depreciation of property, plant and equipment	6	(49,382)	(45,243)
Amortization of intangible assets	7	(4,638)	(4,431)
Depreciation of right-of-use assets	8	(3,061)	-
Other operating expenses	25	(52,134)	(75,972)
Share of profit of equity method investments	9	282	259
Other operating income	26	8,394	7,381
Own work capitalised		19,357	18,080
Profit from operations		**177,171**	**153,893**
Finance income / (costs)			
Interest income calculated using the effective interest method		39	357
Interest and similar expense	27	(17,635)	(23,783)
Finance costs, net		**(17,596)**	**(23,426)**
Profit before tax		**159,575**	**130,467**
Income tax expense	16	(39,724)	(32,433)
Profit for the year		**119,851**	**98,034**
Other comprehensive (loss) / income			
Items that will not be subsequently reclassified to profit or loss			
Actuarial remeasurements of post-employment defined benefit obligations	17	(2,318)	1,413
Deferred tax on actuarial remeasurements of post-employment defined benefit obligations	16	487	(297)
Total other comprehensive (loss) / income for the year		**(1,831)**	**1,116**
Total comprehensive income for the year		**118,020**	**99,150**

* Note 2 on page 16.

In thousands of EUR	**Share capital**	**Legal reserve fund**	**Retained loss**	**Total equity**
Balance at 1 January 2018	**196,969**	**39,421**	**(186,164)**	**50,226**
Correction of prior period errors (Note 2)	-	-	21,317	21,317
Balance at 1 January 2018 (restated)	**196,969**	**39,421**	**(164,847)**	**71,543**
Impact of adoption of IFRS 15, *Revenue from Contracts with Customers*	-	-	712	**712**
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 13)	-	-	(70,490)	**(70,490)**
Other movements	-	-	374	**374**
Balance at 31 December 2018 (restated)	**196,969**	**39,421**	**(135,101)**	**101,289**
Profit for the year	-	-	119,851	**119,851**
Other comprehensive loss for the year	-	-	(1,831)	**(1,831)**
Total comprehensive income for 2019	-	-	**118,020**	**118,020**
Dividends declared and paid (Note 13)	-	-	(63,829)	**(63,829)**
Balance at 31 December 2019	**196,969**	**39,421**	**(80,910)**	**155,480**

In thousands of EUR	**Note**	**2019**	**2018 (restated)**
Cash flows from operating activities			
Profit before tax		159,575	130,467
Adjustments for non-cash items:			
- Depreciation of property, plant and equipment	6	49,382	45,243
- Depreciation of right-of-use assets	8	3,061	-
- (Gain) / loss on disposal of property, plant and equipment	6	(305)	201
- Transfer of emission quotas to National registry of emission quotas	7	1,639	-
- Amortisation of intangible assets	7	4,638	4,431
- Interest income calculated using the effective interest method		(39)	(357)
- Interest and similar expense		17,814	23,704
- Contract assets - external dealers’ services in terms of IFRS 15		(814)	(293)
- Share of profit of equity method investees		(282)	(259)
- Other non-cash items		124	(938)
Cash generated from operations before changes in working capital		234,793	202,199
Changes in working capital:			
- Inventories		(1,859)	(1,256)
- Trade and other receivables		(11,376)	(28,114)
- Trade and other payables		39,139	10,328
- Other		634	76
- Provisions and contract liabilities		4,627	14,349
Cash generated from operations before interest and taxes		**265,958**	**197,582**
Interest income received		39	357
Interest expense paid		(17,236)	(20,173)
Income tax paid	35	(16,543)	(38,793)
Net cash from operating activities		**232,218**	**138,973**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(127,260)	(115,390)
Dividend income received from equity method investees		282	259
Proceeds from sale of property, plant and equipment and intangible assets		361	551
Net cash used in investing activities		**(126,617)**	**(114,580)**
Cash flows from financing activities			
Dividends paid	13	(63,829)	(70,490)
Proceeds from issued bonds		-	312,556
Transaction costs related to issued bonds		-	(680)
Repayment of bonds	15	-	(315,000)
Repayment of principal of lease liabilities (2018: finance lease liabilities)	8	(4,120)	(1,520)
Net cash used in financing activities		**(67,949)**	**(75,134)**
Net change in cash and cash equivalents		**37,652**	**(50,741)**
Cash and cash equivalents at the beginning of the year		44,564	95,305
Cash and cash equivalents at the end of the year	12	**82,216**	**44,564**

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 2019 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. and ZSE Energetické služby, s. r. o., which are companies 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 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 2019 and 31 December 2018. 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 13.

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 1,941 staff on average during 2019, of which 42 were management (2018: 1,875 employees on average, of which 42 were management).

2 Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union under the historical cost convention.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These accounting 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 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 rate 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.

The Group releases emissions into the air when it generates electricity. The related emission quotas are not obtained free of charge by the Group, but the Group purchases them from third parties at market prices. The Group initially recognizes the purchased emission quotas as intangible assets. Purchased emission quotas are measured upon their acquisition and also subsequently at cost. Emission quotas are not amortised. The disposal of emission quotas represents the transfer of the emission quotas to the National registry of emission quotas in amount equal to the product of the verified volume of released emissions for the previous reporting period and the purchase price of the respective emission quotas, that Group designated to be transferred.

At the end of each reporting period, the Group recognises a provision for the released emissions equal to a product of known volume of the emissions released in the current reporting period and the cost of the respective emission quotas that were used. If the Group does not have sufficient emission quotas to be transferred as of the end of the reporting period, the Group uses an estimated amount required to purchase the absent emission quotas to measure the provision for the shortfall in emission quotas and measures it at the market price of emission quotas at the end of the current reporting period.

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.

Right-of-use assets. The Group leases land, buildings, energy equipment and vehicles. Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate where the Group is a lessee, Group has elected not to separate lease and non-lease components and instead accounts for these as a single lease component. Assets that represent right-of-use of the underlying leased assets are initially measured at the present value of the future lease payments.

Right-of-use assets are measured at cost at the commencement date of a lease, comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct (transaction) costs, and
- costs to restore the asset to the conditions required by lease agreements upon handover to the lessor at the end of the lease.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying assets' useful lives. Depreciation of the right-of-use assets or items is calculated using the straight-line method over their estimated useful lives as follows:

	Useful lives in years
Land	9 – 87 years
Office buildings	2 – 20 years
Energy equipment	5 – 20 years
Vehicles	2 – 6 years

2 Significant Accounting Policies (continued)

Loans provided. Loans provided are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

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 nominal value and subsequently measured at amortised cost using the effective interest method, net of allowance for ECL.

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".

Operating lease income. Where the Group is a lessor in a lease which does not transfer substantially all the risks and rewards incidental to ownership to the lessee (operating lease), the operating lease payments are recognised on a straight line basis as other income.

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.

Commodity contracts at fair value through profit or loss ("FVTPL"). Commodity contracts for the supply of commodities that may be settled net in cash and which are not for own use as a result of trading in the open market or those which entity so designates to avoid significant accounting mismatch are measured at fair value through profit or 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. In case that such a contract is settled by the delivery of the commodity, the revenue or expense related to the purchase of the commodity is accounted for at the market price of the commodity at the time of delivery of the commodity

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.

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.

2 Significant Accounting Policies (continued)

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.

Financial instruments – initial recognition. All the Group 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 amortised costs (“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 fair value through profit or loss (“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.

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.

2 Significant Accounting Policies (continued)

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 ageing of the receivables, recoverability of the receivables and the amount of receivables written off.

The amount of the loss allowance 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 as well as substantially all the related risks and rewards to an unrelated third party.

Financial liabilities – measurement categories. Financial liabilities are classified as subsequently measured at AC, except for 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.

Financial liabilities – derecognition. Financial liabilities are derecosgnised 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. 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.

2 Significant Accounting Policies (continued)

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 include 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 solely payments of principle and interest ("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.

Lease liabilities. Liabilities arising from a lease are initially measured on a basis of present value of future payments. Lease liabilities include the net present value of the following lease payments:

- fixed payments, less any lease incentives receivable,
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date,
- amounts expected to be payable by the Group under residual value guarantees,
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Extension and termination options are included in a number of property and equipment leases. These terms are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options are exercisable only by the Group and not by the respective lessor. Extension options (or period after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determinable, which is generally the case for leases of the Group, the Group's incremental borrowing rate is used, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of a value similar to the right-of-use asset in a similar economic environment with similar contract terms and conditions and collateral.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since the third party financing was received,
- uses a method adjusting risk-free interest rate by a credit risk margin, and
- makes adjustments specific to the lease, e.g. term, country, currency and collateral.

2 Significant Accounting Policies (continued)

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance costs. The finance costs are charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

To optimise lease costs during the contract period, the Group sometimes provides residual value guarantees in relation to equipment leases. The Group initially estimates and recognises amounts expected to be payable under residual value guarantees as part of the lease liability. Typically, the expected residual value at lease commencement date is equal to or higher than the guaranteed amount, and so the Group does not expect to pay anything under the guarantees. At the end of each reporting period, the expected residual values are reviewed, and adjusted if appropriate, to reflect actual residual values achieved on comparable assets and expectations about future prices.

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 6.54% per annum (2018: 8.712%). 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). The rate of special levy used for the calculation of the basis for special levy for 2017 and 2018 was 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.

2 Significant Accounting Policies (continued)

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.

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.

Contract liabilities from connection fees and customer contributions. 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.

Grants and contributions. Grants and other similar contributions are recognised at their fair value where there is reasonable assurance that the grant or contribution will be received, and the Group will comply with all attached conditions. Grants and similar contributions relating to the purchase of property, plant and equipment are accounted as deferred income and subsequently recognised in other operating income on a straight line basis over the expected lives of the related assets. Grants relating to costs are deferred and recognised in other operating income over the period necessary to match them with the costs that they are intended to compensate.

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.

Operating lease where the Group is a lessee until 31 December 2018. Leases, in which a significant portion of the risks and rewards incidental to ownership is 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.

Finance lease where the Group is a lessee until 31 December 2018. 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. Finance leases were recognized at the commencement date of the lease at the lower of the fair value of the leased assetand the present value of the minimum lease payments.

2 Significant Accounting Policies (continued)

Each lease payment was 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, were included in finance lease liabilities line item. The interest costs were charged to profit or loss over the lease term using the effective interest 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 was 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.

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.

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 2019. 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 2019 for all twelve billing cycles will be completed in December 2020. 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 2019 for all twelve billing cycles will be completed in December 2020.

Connection fees. The Group 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.

2 Significant Accounting Policies (continued)

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 the Group and as such are relatively difficult to collect.

Foreign currency translation. These financial statements are presented in thousands of EUR, which is the Group's presentation currency. The functional currency of all entities within the Group is EUR.

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

Segment information. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors that makes strategic decisions.

Segment result is measured in accordance with accounting policies that are consistent with those applied by the Group in preparing its consolidated statement of profit or loss and other comprehensive income.

Change in accounting policies. The Group applied the decision of IFRS Interpretations Committee "Physical Settlement of Contracts to Buy or Sell a Non-financial Item" issued in March 2019 and amended its accounting policy for presentation of revenue and costs of electricity supply contracts designated at fair value through profit or loss that ultimately resulted in physical delivery. As for these contracts, the related revenue and costs are now presented at fair value of the commodity at the time of its delivery rather than at the contracted prices. This change did not have any impact on profit or loss or equity.

The impact of the change on consolidated financial statements of the Group for the prior reporting period was as follows:

In thousands of EUR	**2018**
Increase in item „Revenue from electricity and other related revenue“	14,155
Increase in item „Purchases of electricity, natural gas for electricity production and related fees“	14,155

Correction of prior period errors. Upon implementation of new data warehouse and the long-term development of household billing based on the actual consumption as well as the long-term independent view of the market operator (OKTE, a.s.) from 1.1.2011 and continuous improvement of the Group's simulation tool predicting household consumption to the year-end, the Group identified that contract liability representing prepaid future revenue from the mass market segment customers was overstated at 31 December 2018 and 1 January 2018. These prepayments are estimated because the processes and systems do not allow household electricity consumption to be measured at year-end because the electrometeres are inspected gradually over the whole year. Management determined that the matter is a correction of an error rather than a change in an estimate because the adjustments are not attributable to new information or new developments but arise from calculations that reasonably could have been expected to have been performed and taken into account in the preparation of the expert opinion determining losses in the distribution system and presentation of financial statements for prior periods. Based on generally accepted accounting principles the Group has the obligation to disclose accrued revenues for the year reliably measured. The basic formula for revenue disclosure is the balance between volume of purchased electricity on one side and sum of measured consumption, non-measured consumption (estimate) and network losses in the distribution system (estimate by expert opinion). In addition, the Group also restated comparative information to present gross balances with customers who underpaid and customers who overpaid in the statement of financial position on a contract-by-contract basis rather than for the overall portfolio level, in order to comply with IFRS 15, *Revenue from contracts with customers*.

2 Significant Accounting Policies (continued)

The impact of the changes on consolidated financial statements of the Group for the prior reporting period was as follows:

In thousands of EUR	**31 December 2018**	**31 December 2017**
Increase in item „Trade and other receivables“	4,734	5,691
Decrease in item „Current income tax refund receivable“	(1,462)	-
Total increase in item „Total Assets“	**3,272**	**5,691**

In thousands of EUR	**31 December 2018**	**31 December 2017**
Decrease in item „Accumulated deficit“	22,702	21,317
Total increase in item „Total Equity“	**22,702**	**21,317**
Decrease in item „Trade and other payables“	(19,430)	(16,642)
Increase in item „Current income tax liabilities“	-	1,016
Total decrease in item „Total Liabilities“	**(19,430)**	**(15,626)**

As the correction was related to years prior 2018, the impact of the correction on profit or loss, movements in equity and statement of cash flows for year 2018 was not material.

Subsidiary, which is no longer held for sale. On 26 July 2018, the Group acquired, originally 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 Group had an intention to sell its subsidiary ZSE Elektrárne, s.r.o. during the year 2019 and therefore this Group's investment was classified as asset held for sale in its consolidated financial statements as at 31 December 2018. As ZSE Elektrárne, s.r.o. was acquired during the year 2018 with a view to resale, the Group, in accordance with the accounting standard IFRS 5, decided to present this investment using the short-cut method as at 31 December 2018.

As the Group's management reviewed the intention to sell ZSE Elektrárne, s.r.o. during 2019, the Group retrospectively changed recognition of assets and liabilities of this subsidiary, which were previously classified as held for sale, while comparatives were adjusted as if this subsidiary had never been held for sale. The impact of these changes on consolidated financial statements of the Group for the prior reporting period was as follows:

In thousands of EUR	**31 December 2018**
Increase in item „Property, plant and equipment“	32,545
Increase in item „Intangible assets“	2,769
Increase in item „Inventories“	223
Increase in item „Trade and other receivables“	228
Increase in item „Cash and cash equivalents“	914
Decrease in item „Assets held for sale and discontinued operations“	(36,868)
Total decrease in item „Total Assets“	**(189)**
Decrease in item „Accumulated deficit“	(1,011)
Total decrease in item „Total Equity“	**(1,011)**
Decrease in item „Trade and other payables“	(815)
Increase in item „Provisions for liabilities and charges“	1,637
Total increase in item „Total Liabilities“	**822**

The impact of the change in presentation on profit or loss, movements in equity and statement of cash flows for the year 2018 was not material.

2 Significant Accounting Policies (continued)

Changes in the presentation of the financial statements. The following prior reporting period data were amended to reflect the presentation in the current accounting period. These changes in presentation of comparatives had no impact on profit or loss nor on equity for the prior reporting period. The Group decided to present finance lease liabilities separately.

The impact of changes on the consolidated financial statements of the Group for the prior reporting period was as follows:

In thousands of EUR	**31 December 2018**	**31 December 2017**
Increase in item „Loans provided“	200	200
Decrease in item „Trade and other receivables“	(200)	-
Total increase in item “Total Assets“	**-**	**200**
Decrease in item „Trade and other payables“	(3,426)	(2,806)
Increase in long-term item “Lease liabilities (2018, 2017: Finance lease liabilities)“	1,874	1,853
Increase in short-term item “Lease liabilities (2018, 2017: Finance lease liabilities)“	1,552	1,153
Total increase in item „Total Liabilities“	**-**	**200**

3 Adoption of New or Revised Standards and Interpretations

The following amended standards became effective for the Group from 1 January 2019:

IFRS 16, Leases (issued on 13 January 2016 and effective in 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 commencement date of a lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates classification of leases as either operating leases or finance leases as was required by IAS 17 *Leases*, and, instead, introduces a single lessee accounting model. Lessees are 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 recognized as an expense. 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 decided to apply the new standard from its mandatory adoption date of 1 January 2019 using the modified retrospective method and applying a simplified transition approach when the initial right-of-use assets is equal to the lease liability adjusted for all accrued lease payments or provisions. Comparatives for the previous reporting period that ended before the date of initial adoption of the standard were not adjusted. This means that the data presented in the financial reporting periods 2019 and 2018 are not comparable. The Group also decided to apply some practical simplifications.

In accordance with the requirements of the standard, the Group applied a simplified transition approach consistently to all leases in which it is a lessee.

After the adoption of IFRS 16, the Group recognised lease liabilities that were previously (i.e. under IAS 17) classified as operating leases. These liabilities were measured at the present value of the remaining lease payments discounted by the Group’s incremental borrowing rate that would be applicable to new borrowings at 1 January 2019. The weighted average discount rate applied on 1 January 2019 to the lease liabilities was 1.697% p.a.

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

An explanation of the difference between future lease payments for non-cancellable operating leases as at 31 December 2018 when IAS 17 was applied, and the lease liabilities reported as at 1 January 2019 is presented in the following table:

In thousands of EUR	**31 December 2018 / 1 January 2019**
Total future minimum lease payments for non-cancellable* operating leases as at 31 December 2018 (Note 34)	14,200
- Reclassification of finance lease liabilities	3,426
- Future lease payments that are a result of a different assessment of lease extension or termination options	11,418
- Effect of discounting to present value	(3,130)
Total lease liabilities recognised as at 1 January 2019	**25,914**
Of which:	
Current lease liabilities	3,067
Non-current lease liabilities	22,847

* Non-cancellable leases include those cancellable only: (a) upon the occurrence of some contingency, (b) with the permission of the lessor, (c) if the lessee enters into a new lease for the same or an equivalent asset with the same lessor; or (d) upon payment by the lessee of such an additional amount that, at inception of the lease, continuation of the lease is reasonably certain.

Right-of-use assets were measured at the amount of the lease liabilities adjusted for all accrued lease payments for those leases that were recognized on the balance sheet as at 1 January 2019. There were no onerous lease contracts for which it was necessary to adjust the amount of right-of-use asset as at 1 January 2019. The initial application of IFRS 16 did not have an impact on deferred tax on 1 January 2019, because the Group considers a lease to be a single transaction with an asset and liability being connected and thus not resulting in any temporary difference at the date of initial application of IFRS 16. In Slovakia, rent is tax deductible when paid.

Upon the initial application of IFRS 16, the Group has applied the following practical simplifications permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics,
- relying on previous assessments whether leases are onerous in accordance with IAS 37,
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases,
- excluding initial direct costs from the measurement of the right-of-use asset as at 1 January 2019.

The Group has also decided not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17, *Leases*, and IFRIC 4, *Determining whether an Arrangement contains a Lease*.

The impact of application of IFRS 16 on the statement of financial position as at 1 January 2019 is set out in the following table:

In thousands of EUR	**1 January 2019**
Increase in item „Right-of-use assets” (Note 8)	25,294
Decrease in item „Property, plant and equipment“ (Note 6)	(2,806)
Increase in item non-current „Lease liabilities“ (Note 8)	22,847
Increase in item current „Lease liabilities“ (Note 8)	3,067
Decrease in long term item „Finance lease liabilities“ (Note 29)	(1,874)
Decrease in short term item „Finance lease liabilities“(Note 29)	(1,552)

The following amended standards and interpretations became effective for the Group from 1 January 2019 but did not have a material impact on the Group:

- IFRIC 23 “Uncertainty over Income Tax Treatments” (issued on 7 June 2017 and effective in EU for annual periods beginning on or after 1 January 2019).

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

- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective in EU for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures" (issued on 12 October 2017 and effective in EU 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 in EU 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 in EU for annual periods beginning on or after 1 January 2019).

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 2020, and which the Group has not early adopted:

- 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).
- IFRS 17 "Insurance Contracts"(issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021).
- 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).
- Interest rate benchmark reform - Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020).
- Classification of liabilities as current or non-current – Amendment to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022).

The above stated standards, interpretations and amendments are not expected to have any material impact on the Group's consolidated financial statements.

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 22.

5 Critical Accounting Estimates and Judgements in Applying Accounting Policies (continued)

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 (2018: 10 GWh), with other parameters unchanged, the revenues for commodity and distribution services would increase by EUR 999 thousand (2018: EUR 902 thousand).

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

Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the 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 2019, the Group would have recognised an additional depreciation of network assets of EUR 4,666 thousand (2018: EUR 4,400 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 ageing of receivables, recoverability of receivables 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 expected loss allowance for trade receivables based on historical data is sufficient, as the development of the forward looking 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.

Lease extension and termination options. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of land, buildings, energy equipment and vehicles, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Group is typically reasonably certain to extend (or not terminate) the lease.
- If any leasehold improvements are expected to have a significant residual value, the Group is typically reasonably certain to extend (or not terminate) the lease.

The Group also other factors including historical lease term and the costs and business disruption required to replace the leased asset. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

As at 31 December 2019, potential future cash outflows of EUR 0 thousand (undiscounted) have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated).

The lease term is reassessed if an option is really exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee. The estimated lease term was not revised during the current accounting period.

Residual value guarantees. The Group estimated that residual value guarantees of the leased assets are not significant.

6 Property, Plant and Equipment

Movements in the carrying amount of property, plant and equipment were as follows during 2019:

In thousands of EUR	Land	Network buildings	Power lines	Switching stations and network equipment	Gas-steam power plant	Other assets – for own use*	Other assets – leased to other parties	Capital work in progress	Total
Cost at 1 January 2019	22,571	115,823	705,271	393,775	32,359	119,182	30,258	68,014	**1,487,253**
Accumulated depreciation and impairment losses	-	(51,829)	(267,443)	(201,055)	(776)	(76,965)	(22,610)	-	**(620,678)**
Carrying amount at 1 January 2019	22,571	63,994	437,828	192,720	31,583	42,217	7,648	68,014	**866,575**
Initial adoption of IFRS 16	-	(133)	(2,333)	(340)	-	-	-	-	**(2,806)**
Additions	-	-	-	-	-	-	-	101,259	**101,259**
Capitalised borrowing costs**	-	-	-	-	-	-	-	1,691	**1,691**
Transfers	400	7,076	46,915	24,058	-	5,591	577	(84,617)	**-**
Depreciation charge	-	(3,366)	(17,944)	(20,336)	(1,863)	(4,813)	(1,060)	-	**(49,382)**
Disposals	(8)	(2)	-	(24)	-	(22)	-	(24)	**(80)**
Termination of the lease by the purchase of an asset	-	54	813	136	-	-	-	-	**1,003**
Cost at 31 December 2019	**22,963**	**122,148**	**748,946**	**414,296**	**32,359**	**114,969**	**30,777**	**86,323**	**1,572,781**
Accumulated depreciation and impairment losses	**-**	**(54,525)**	**(283,667)**	**(218,082)**	**(2,639)**	**(71,996)**	**(23,612)**	**-**	**(654,521)**
Carrying amount at 31 December 2019	**22,963**	**67,623**	**465,279**	**196,214**	**29,720**	**42,973**	**7,165**	**86,323**	**918,260**

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

** Capitalisation rate of borrowing costs was approximately 3.07% p.a. for 2019 (2018: 3.59% p.a.).

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	**2019**	**2018**
Net book value of disposals	80	825
Transfer of emission quotas to National registry of emission quotas	1,639	-
Usage of provision for CO_2 emissions	(1,639)	-
Gain/(Loss) on sale of property, plant and equipment (Note 26)	305	(201)
Other	(24)	(73)
Proceeds from disposals	**361**	**551**

The Group holds insurance against damages caused by natural disasters up to EUR 661,742 thousand for buildings and up to amount of EUR 932,050 thousand for machinery, equipment, fixtures, fittings and other assets (2018: EUR 575,127 thousand and 804,034 thousand, respectively).

Rental income from the property, plant and equipment leased to other parties, which includes optical lines and related technology, is presented in Note 26. Future rental income from non-cancellable leases is due as follows:

In thousands of EUR	**2019**
Due:	
- within 1. Year	980
- within 2. Year	980
Total rental income	**1,960**

At 31 December 2018, the future rental income from non-cancellable leases due within one year was in amount of EUR 980 thousand, due from two to five years in amount of EUR 1,960 thousand and due after five years in amount of EUR 0 thousand.

6 Property, Plant and Equipment (continued)

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	Gas-steam power plant	Other assets – for own use*	Other assets – leased to other parties	Capital work in progress	Total
Cost at 1 January 2018	21,608	103,370	663,739	375,380	-	90,317	30,117	51,323	**1,335,854**
Accumulated depreciation and impairment losses	-	(49,135)	(252,573)	(183,804)	-	(48,138)	(21,406)	-	**(555,056)**
Carrying amount at 1 January 2018	21,608	54,235	411,166	191,576	-	42,179	8,711	51,323	**780,798**
Additions	-	-	-	-	-	-	-	97,686	**97,686**
Capitalised borrowing costs**	-	-	-	-	-	-	-	1,614	**1,614**
Transfers	438	12,496	43,576	21,012	-	4,892	142	(82,556)	**-**
Depreciation charge	-	(2,946)	(16,888)	(19,438)	-	(4,766)	(1,205)	-	**(45,243)**
Disposals	(6)	-	(26)	(630)	-	(90)	-	(73)	**(825)**
First time consolidation of ZSE Elektrárne, s.r.o.	531	209	-	200	31,583	2	-	20	**32,545**
Cost at 31 December 2018	**22,571**	**115,823**	**705,271**	**393,775**	**32,359**	**119,182**	**30,258**	**68,014**	**1,487,253**
Accumulated depreciation and impairment losses	**-**	**-51,829**	**-267,443**	**-201,055**	**-776**	**-76,965**	**-22,610**	**-**	**-620,678**
Carrying amount at 31 December 2018 (restated)	**22,571**	**63,994**	**437,828**	**192,720**	**31,583**	**42,217**	**7,648**	**68,014**	**866,575**

* Other assets for own use 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.

7 Intangible Assets

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

In thousands of EUR	**Emission quotas**	**Software and similar assets**	**Assets not yet available for use**	**Total**
Cost at 1 January 2018	-	57,529	4,592	**62,121**
Accumulated amortisation and impairment losses	-	(48,983)	-	**(48,983)**
Carrying amount at 1 January 2018	**-**	**8,546**	**4,592**	**13,138**
Additions	-	-	6,969	**6,969**
Transfers	-	4,514	(4,514)	**-**
Amortisation charge	-	(4,431)	-	**(4,431)**
First time consolidation of ZSE Elektrárne, s.r.o.	2,676	93	-	**2,769**
Cost at 31 December 2018	2,676	61,488	7,047	**71,211**
Accumulated amortisation including impairment charge	-	(52,766)	-	**(52,766)**
Carrying amount at 31 December 2018	**2,676**	**8,722**	**7,047**	**18,445**
Additions	24,337	-	7,590	**31,927**
Transfers	-	6,466	(6,466)	**-**
Amortisation charge	-	(4,638)	-	**(4,638)**
Disposals	(1,639)	-	-	**(1,639)**
Cost at 31 December 2019	25,374	66,657	8,171	**100,202**
Accumulated amortisation and impairment losses	-	(56,107)	-	**(56,107)**
Carrying amount at 31 December 2019	**25,374**	**10,550**	**8,171**	**44,095**

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 Right-of-use Assets and Lease Liabilities

The Group leases various land, office buildings, energy equipment and vehicles. Rental contracts are usually made for fixed periods of 2 to 20 years (rental periods are presented in Note 2) but may have extension options. For assets, where the contract is concluded for indefinite period, the useful life was determined based on estimated rental period.

Until 31 December 2018, leases of land, office buildings, energy equipment and vehicles where the Group was lessee, were classified as either finance leases or operating leases. Since 1 January 2019, leases are recognised as a right-of-use assets and a corresponding lease liability from the date when the leased asset becomes available for use by the Group. Movements of right-of-use assets are as follows:

In thousands of EUR	**Land**	**Office buildings**	**Energy equipment**	**Vehicles**	**Total**
Carrying value at 1 January 2019	**623**	**7,483**	**11,609**	**5,579**	**25,294**
Additions	-	1,608	1,847	1,598	**5,053**
Disposals	-	-	-	(79)	**(79)**
Depreciation charge	(17)	(818)	(543)	(1,683)	**(3,061)**
Decrease in carrying value	(11)	(60)	-	(225)	**(296)**
Termination of the lease by the purchase of an asset (Note 6)	-	(54)	(949)	-	**(1,003)**
Carrying value at 31 December 2019	**595**	**8,159**	**11,964**	**5,190**	**25,908**

The Group recognised lease liabilities as follows:

In thousands of EUR	**At 31 December 2019**	**At 1 January 2019**
Short-term lease liabilities	3,383	3,067
Long-term lease liabilities	22,720	22,847
Total lease liabilities	**26,103**	**25,914**

Interest expense on lease liabilities included in finance expenses for 2019 was EUR 407 thousand.

Expenses relating to short-term leases and to leases of low-value assets that are not shown as short-term leases (included in other operating expenses):

In thousands of EUR	**2019**
Expense relating to short-term leases	378
Expense relating to leases of low-value assets that are not shown above as short-term leases	826

8 Right-of-use Assets and Lease Liabilities

Total cash outflows for leases were as follows:

In thousands of EUR	**2019**
Short-term lease payments	378
Payments for leases of low-value assets other than short-term leases	826
Repayment of principal of lease liabilities	4,120
Interest expense on lease liabilities paid	407
Total cash outflows for leases	**5,731**

The lease agreements do not impose any covenants other than the security interests on the leased assets that are held by the lessor. Leased assets may not be used as collateral for borrowings.

9 Equity Method Investments

In thousands of EUR	**2019**	**2018**
Energotel, a.s. - 20% investment in joint venture	525	525
SPX, s.r.o.	33	33
Total equity method investments	**558**	**558**

10 Inventories

In thousands of EUR	**2019**	**2018 (restated)**
Natural gas	12,281	10,555
Materials and spare parts	1,084	1,104
Merchandise	527	374
Total inventories	**13,892**	**12,033**

The inventory items are shown net of provision for slow-moving materials and spare parts of EUR 10 thousand (2018: EUR 101 thousand).

Natural gas is held in an underground gas storage facility controlled by a related party under significant influence of the Slovak Government.

11 Trade and Other Receivables

In thousands of EUR	**2019**	**2018 (restated)**
Trade receivables	177,145	167,179
Less impairment provision for trade receivables	(24,861)	(26,074)
Trade receivables, net	**152,284**	**141,105**
Commodity contracts at FVTPL	-	858
Contract assets - dealers commission costs	1,818	1,004
Prepayments	3,152	2,097
Total trade and other receivables	**157,254**	**145,064**

11 Trade and Other Receivables (continued)

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

In thousands of EUR	2019	2018
Provision for impairment at 1 January	**26,074**	**29,232**
Impairment loss expense (Note 25)	(195)	(615)
Amounts written off during the year as uncollectible	(1,018)	(1,139)
Receivables sold*	-	(1,404)
Provision for impairment at 31 December	**24,861**	**26,074**

* In 2019, the Group sold trade receivables with a gross carrying value of EUR 0 thousand (2018: EUR 1,433 thousand) with an impairment provision of EUR 0 thousand (2018: EUR 1,404 thousand) at the date of sale, while the proceeds from the sale of these receivables amounted to EUR 0 thousand (2018: EUR 202 thousand).

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

More details of ECL in relation to trade receivables at the balance sheet date:

	31 December 2019				**31 December 2018 (restated)**			
In thousands of EUR	**Loss rate**	**Gross carrying amount**	**ECL**	**Net carrying amount**	**Loss rate**	**Gross carrying amount**	**ECL**	**Net carrying amount**
Not past due	1.65%	150,076	2,471	147,605	1.64%	138,748	2,278	136,470
Past due:								
- 1 to 30 days	5.61%	4,366	245	4,121	4.89%	3,702	181	3,521
- 31 to 60 days	16.17%	402	65	337	9.84%	894	88	806
- 61 to 90 days	31.62%	117	37	80	40.51%	237	96	141
- 91 to 120 days	61.19%	67	41	26	51.77%	141	73	68
- 121 to 180 days	69.13%	149	103	46	52.91%	172	91	81
- 181 to 360 days	80.29%	350	281	69	94.21%	311	293	18
- over 360 days	100.00%	21,618	21,618	-	100.00%	22,974	22,974	-
Trade receivables, net		**177,145**	**24,861**	**152,284**		**167,179**	**26,074**	**141,105**

Movements in contract assets, which represents the deferred sales commissions, are as follows:

In thousands of EUR	2019	2018
At 1 January	**1,004**	**712**
Additions	1,852	785
Amortization	(1,038)	(493)
Total contract assets at 31 December	**1,818**	**1,004**

Out of the carrying value of contract assets EUR 638 thousand (2018: EUR 628 thousand) will be amortized over the next year and the rest has a remaining amortization period of up to 5 years. The impairment allowance calculated based on the expected loss rate for the above asset was immaterial.

11 Trade and Other Receivables (continued)

Financial effect of collateral and other credit enhancements on trade receivables is presented as follows:

	31 December 2019		31 December 2018 (restated)	
In thousands of EUR	**Carrying value**	**Insured value**	**Carrying value**	**Insured value**
Trade receivables covered by insurance	71,175	71,175	55,975	55,975
Trade receivables not secured	81,109	-	85,130	-
Trade receivables, net	**152,284**	**71,175**	**141,105**	**55,975**

12 Cash and Cash Equivalents

In thousands of EUR	**2019**	**2018 (restated)**
Current accounts with banks	47,216	44,697
Short-term bank deposits	35,000	-
Total cash and cash equivalents in the statement of financial position	**82,216**	**44,697**
Less restricted cash balances	-	(133)
Total cash and cash equivalents in the statement of cash flows	**82,216**	**44,564**

The Group has a concentration of cash and cash equivalents balances towards five banks (2018: five banks).

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

In thousands of EUR	**2019**	**2018 (restated)**
Neither past due nor impaired		
Credit rating Aa3 by Moody's	342	-
Credit rating A1 by Moody's	-	589
Credit rating A2 by Moody's	49,582	5,575
Credit rating A3 by Moody's	31,014	35,668
Credit rating Baa1 by Moody's	1,278	2,443
Credit rating A- by Fitch	-	422
Total cash and cash equivalents	**82,216**	**44,697**

As at 31 December 2019, the Group has agreements with banks about revolving credit facilities amounting to EUR 75,000 thousand (2018: EUR 75,000 thousand). As at 31 December 2019 the Group has drawn EUR 0 thousand from these facilities (2018: 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.

13 Share Capital

The Company issued and has outstanding 5,934,594 ordinary shares (2018: 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 jointly 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 63,829 thousand or EUR 10.76 per share (2018: dividends of EUR 70,490 thousand or EUR 11.88 per share). Slovak legislation identifies distributable reserves as retained earnings reported in the separate financial statements of the Company which amount to EUR 118 995 thousand (2018: EUR 108,614 thousand).

14 Legal Reserve Fund

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

15 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.

Amortized cost carrying value of the bonds is as follows:

In thousands of EUR	**2019**	**2018**
Issued bonds – non-current	627,363	626,911
Accrued interest payable within one year and amortized transaction costs	6,881	6,882
Total carrying value of the bonds	**634,244**	**633,793**

16 Income Taxes

Income tax expense comprises the following:

In thousands of EUR	**2019**	**2018**
Current tax at standard rate of 21% (2018: 21%)	22,638	20,290
Income tax related to prior periods	-	(1,271)
Special levy on profits from regulated activities	5,525	5,692
Deferred tax	11,561	7,722
Income tax expense/(credit) for the year	**39,724**	**32,433**

16 Income Taxes (continued)

In 2019, the applicable standard income tax rate was 21% (2018: 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 was 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.

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

	2019	2018
Standard income tax rate for the year	21.000%	21.000%
Special levy rate	6.540%	8.712%
Effect of deductibility of special levy from standard rate*	(1.691%)	(2.381%)
Tax rate applicable on profits generated by regulated industry operations	**25.849%**	**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 25.849% rate (2018: 27.331%) applicable to regulated industry operations. The applicable tax rate of 23.118% (2018: 23.542%) 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	2019	2018
Profit before tax	**159,575**	**130,467**
Theoretical tax charge at applicable tax rate of 23.118% (2018: 23,542%)	36,891	30,715
Non-deductible expenses /(non-taxable income) for which deferred tax was not recognised		
- income from equity method investees not subject to standard tax	(59)	(54)
- expenses not deductible for standard tax but deductible for special levy purposes	777	1,106
Other	2,115	666
Income tax expense for the reporting period	**39,724**	**32,433**

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 2019, that will become current tax in 2020, will be settled in 2021 upon filing the 2020 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.

16 Income Taxes (continued)

Deferred taxes are attributable to the following temporary differences:

In thousands of EUR	**2019**	**2018**
Differences between tax base and carrying value of property, plant and equipment	53,719	46,313
Differences between tax base and carrying value of property, plant and equipment (deferred tax related to special levy)	(573)	(635)
Post-employment defined benefit obligation and other long-term and short-term employee benefits	(3,527)	(2,759)
Other liabilities	(3,851)	(8,432)
Allowance for credit losses on trade receivables	(1,679)	(187)
Other	(749)	(221)
Total net deferred tax liability	**43,340**	**34,079**

In thousands of EUR	**2019**	**2018**
Differences between tax base and carrying value of property, plant and equipment	(2)	(2,441)
Differences between tax base and carrying value of property, plant and equipment (deferred tax related to special levy)	3,871	5,241
Post-employment defined benefit obligation and other long-term and short-term employee benefits	567	809
Other liabilities	1,489	2,190
Allowance for credit losses on trade receivables	667	591
Other	(151)	1,864
Total net deferred tax asset	**6,441**	**8,254**

The movements in deferred taxes for temporary differences were recognised in profit or loss except for EUR 487 thousand (2018: EUR (297) thousand) for actuarial remeasurements of post-employment defined benefit obligation, which was recognised in other comprehensive income.

In November 2016, 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.

17 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:

	2019	2018
Present value of unfunded post-employment defined benefit obligations at the beginning of the year	**8,692**	**9,752**
Current service cost	502	588
Interest cost	127	124
Past service costs due to changes in the defined benefit plan rules	-	-
Total expense (Note 24)	629	712
Actuarial remeasurements:		
- attributable to changes in financial assumptions	1,613	(1,100)
- attributable to changes in demographic assumptions	385	(865)
- attributable to experience adjustments	320	552
Total actuarial remeasurements recognised in other comprehensive income	2,318	(1,413)
Benefits paid during the year	(483)	(359)
Present value of unfunded post-employment defined benefit obligations at the end of the year	**11,156**	**8,692**

The principal actuarial assumptions were as follows:

	2019	2018
Number of employees at 31 December	1,978	1,929
Staff turnover	4.87% p.a.	5.29% p.a.
Expected salary increases short-term	4.00% p.a.	4.00% p.a.
Expected salary increases long-term	2.00% p.a.	2.00% p.a.
Discount rate	0.70% p.a.	1.50% 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.

18 Other Long Term Employee Benefits

The Group makes EUR 1,400 (2018: EUR 1,400) payment to each employee at the age of 50, subject to 5 year service vesting condition (2018: 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 (2018: between EUR 400 to EUR 1,250). The liability for other long-term employee benefits was estimated using the Projected Unit Credit Method.

19 Provisions for Liabilities and Charges

In thousands of EUR	**2019**	**2018 (restated)**
Provisions for legal proceedings	21,666	19,972
Provisions for released CO_2 emissions	11,808	1,637
Total current provisions for liabilities and charges	**33,474**	**21,609**

As of 31 December 2019 and 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. The increase in the provisions for legal proceedings represents an increased risk of legal action by the business partner due to a short-term outage caused by substation work attributed by the business partner to the conduct of the Group, which the Group considers to be unfounded. Of the above-mentioned provisions for legal proceedings at 31 December 2019 and 2018, the amount of EUR 3,450 thousand. was recognized as decrease of revenue in 2018.

Movements in provisions for liabilities and charges are as follows:

	2019			**2018 (restated)**		
In thousands of EUR	Provisions for legal proceedings	Provisions for CO_2 emissions	**Total provisions**	Provisions for legal proceedings	Provisions for CO_2 emissions	**Total provisions**
At 1 January	19,972	1,637	**21,609**	-	-	**-**
Additions recognized in profit or loss	2,946	11,808	**14,754**	19,972	1,637	**21,609**
Usage of provision	-	(1,637)	**(1,637)**	-	-	**-**
Release of provision	(1,252)	-	**(1,252)**	-	-	**-**
At 31 December	21,666	11,808	**33,474**	19,972	1,637	**21,609**

Refer to Note 34.

20 Contract Liabilities from Connection Fees and Customer Contributions

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

In thousands of EUR	**2019**	**2018**
Non-current		
Contract liabilities - customer contributions	33,215	33,020
Contract liabilities - connection fees	67,387	65,858
Total non-current contract liabilities	**100,602**	**98,878**

20 Contract Liabilities from Connection Fees and Customer Contributions (continued)

In thousands of EUR	**2019**	**2018**
Current		
Contract liabilities - customer contributions	2,179	1,678
Contract liabilities - connection fees	5,292	5,365
Total current contract liabilities	**7,471**	**7,043**

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.

Movements in contract liabilities to customers from connection fees and customer contributions are as follows:

	Non-current			**Current**		
In thousands of EUR	Customer contributions	Connection fees	**Total**	Customer contributions	Connection fees	**Total**
At 1 January 2018	31,533	63,931	**95,464**	1,678	4,742	**6,420**
Additions	3,577	6,872	**10,449**	-	-	**-**
Transfers	(2,090)	(4,945)	**(7,035)**	1,678	5,357	**7,035**
Recognized in revenue	-	-	**-**	(1,678)	(4,734)	**(6,412)**
At 31 December 2018	33,020	65,858	**98,878**	1,678	5,365	**7,043**
Additions	2,374	6,821	**9,195**	-	-	**-**
Transfers	(2,179)	(5,292)	**(7,471)**	2,179	5,292	**7,471**
Recognized in revenue	-	-	**-**	(1,678)	(5,365)	**(7,043)**
At 31 December 2019	33,215	67,387	**100,602**	2,179	5,292	**7,471**

The maturity analysis of contract liabilities to customers is as follows:

	At 31 December 2019			**At 31 December 2018**		
In thousands of EUR	Customer contributions	Connection fees	**Total**	Customer contributions	Connection fees	**Total**
At 31 December due						
Current:						
Less than 12 months	2,179	5,292	**7,471**	1,678	5,365	**7,043**
Non-current:						
From 12 months to 5 years	8,121	21,845	**29,966**	6,758	20,293	**27,051**
Over 5 years	25,094	45,542	**70,636**	26,262	45,565	**71,827**
Total non-current	33,215	67,387	**100,602**	33,020	65,858	**98,878**
Total at 31 December	35,394	72,679	**108,073**	34,698	71,223	**105,921**

21 Trade and Other Payables

In thousands of EUR	**2019**	**2018 (restated)**
Trade payables	114,430	92,909
Other accrued liabilities	12,133	18,547
Commodity contracts at FVTPL	-	3,127
Other financial liabilities	4,349	2,578
Total financial instruments within trade and other payables	**130,912**	**117,161**
Contract liabilities – electricity and natural gas and related distribution fees	43,583	26,962
Employee benefits payable	2,820	2,651
Social security on employee benefits	2,319	2,205
Accrued staff costs	9,991	10,288
Advance payments	20,759	26,878
Value added tax payable	6,100	951
Other payables	8,509	4,738
Grants*	4,850	-
Excise duty payable	331	97
Total trade and other payables	**230,174**	**191,931**

* From the total balance of grants at 31 December 2019 the amount EUR 4,534 thousand is related to project ACON. The maximum of a potential grant by the European Commission on the ACON project to support smart grid interconnection is EUR 46 million. The exact amount will only be known after preparation of technical documentation of all the project elements. The Group will recognise a government grant receivable against deferred income once it will have reasonable assurance that the grant will be received.

The Group had overdue trade payables of EUR 232 thousand (2018: EUR 305 thousand). None of the payables are overdue more than 30 days at 31 December 2019.

Movements in contract liabilities to customers for unbilled electricity, natural gas and related distribution fees are as follows:

In thousands of EUR	**2019**	**2018 (restated)**
At 1 January	26,962	26,146
Additions	43,583	26,962
Recognized in revenues	(26,962)	(26,146)
At 31 December 2019	**43,583**	**26,962**

The above presented contract liabilities to customers are due within one year.

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

Revenue from electricity and other related revenue and revenue from natural gas for 2019:

In thousands of EUR	Distribution	Supply	Production	Other	Total
Electricity to industrial and commercial customers	223,578	612,284	324	-	**836,186**
Electricity to residential customers	57,462	257,856	-	-	**315,318**
Natural gas	-	106,201	-	-	**106,201**
Other revenue	2,609	6,779	1,516	955	**11,859**
Revenue for reserved capacity	9,501	-	-	-	**9,501**
Revenues for connection work and testing fees	5,527	188	-	-	**5,715**
Total revenue from external customers	**298,677**	**983,308**	**1,840**	**955**	**1,284,780**

Revenue from electricity and other related revenue and revenue from natural gas for 2018 (restated):

In thousands of EUR	Distribution	Supply	Production	Other	Total
Electricity to industrial and commercial customers	242,406	494,265	-	-	**736,671**
Electricity to residential customers	55,246	233,184	-	-	**288,430**
Natural gas	-	94,364	-	-	**94,364**
Other revenue	2,359	4,716	-	659	**7,734**
Revenue for reserved capacity	6,143	-	-	-	**6,143**
Revenues for connection work and testing fees	5,315	-	-	-	**5,315**
Total revenue from external customers	**311,469**	**826,529**	**-**	**659**	**1,138,657**

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	2019	2018 (restated)
Revenue recognised at a point in time	11,183	7,478
Revenue recognised over time	1,273,597	1,131,179
Total revenue from electricity and other related revenue and revenue from natural gas	**1,284,780**	**1,138,657**

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

Revenue comprises the following:

In thousands of EUR	**2019**	**2018 (restated)**
Sales of electricity to industrial and other commercial customers	347,704	243,232
Sales of electricity to residential customers	113,228	88,983
Total sales of electricity	460,932	332,215
Distribution fees for electricity to industrial and other commercial customers	488,474	493,439
Distribution fees for electricity to residential customers	202,098	199,447
Revenue for reserved capacity	9,501	6,143
Total distribution fees	700,073	699,029
Revenue from natural gas	106,201	94,364
Revenues for connection work and testing fees	5,715	5,315
Other revenue	11,859	7,734
Total revenue from electricity and other related revenue and revenue from natural gas	**1,284,780**	**1,138,657**

The sale of electricity increased, among other reasons, due to its production in the acquisition of ZSE Elektrárne, s.r.o. (Note 2).

23 Purchases of Electricity, Natural Gas for Electricity Production and Related Fees

The following amounts have been charged to purchases of electricity, natural gas for electricity production and related fees:

In thousands of EUR	**2019**	**2018 (restated)**
Purchase of electricity from: Slovenské elektrárne ("SE")	96,584	80,138
Purchase of electricity from other domestic producers and traders	203,584	126,976
Purchase of electricity on the spot market	49,760	73,555
Purchase of natural gas for electricity production	73,209	11,465
Emission quotas consumption	11,810	1,336
Total purchases of electricity and natural gas for electricity production	**434,947**	**293,470**
Electricity transmission fees, system access and ancillary service charges and tariff for system operation and system services	413,494	434,780
Total purchases of electricity, natural gas for electricity production and related fees	**848,441**	**728,250**

24 Employee Benefits

In thousands of EUR	2019	2018
Wages and salaries	50,635	45,597
Defined contribution pension costs	9,041	8,249
Post-employment defined benefit plan expense (Note 17)	629	712
Other long-term employee benefit plans – current service and interest cost (Note 18)	181	177
Actuarial remeasurements of other long-term employee benefit plans (Note 18)	176	(183)
Other social costs	15,064	13 740
Total employee benefits expense	**75,726**	**68,292**

25 Other Operating Expenses

In thousands of EUR	2019	2018
Information technology and software maintenance costs	12,389	13,283
Repairs and maintenance costs	9,247	7,503
Operating lease expense	-	4,971
Expenses relating leases of low-value assets and short-term leases	1,204	-
Postal and telecommunication services	2,852	2,248
Call centre services	2,575	2,696
Security services	1,911	1,679
Advertising services	1,710	1,650
Travel expenses	1,107	1,113
Statutory audit	289	257
Other services	7,699	6,936
External dealers commission	789	561
Project management	851	1,109
Advisory services	1,734	1,694
Marketing	717	982
Operation and maintenance of telecommunication network	606	618
Provisions for legal proceedings	1,693	16,522
Facility management expenses	1,283	1,182
Impairment loss on trade and other receivables (Note 11)	(195)	(615)
Bad debt write-offs	-	1,202
Property and motor vehicle tax	664	624
Gifts	557	612
Insurance	1,262	626
Other operating expenses	1,190	8,519
Total other operating expenses	**52,134**	**75,972**

In year 2019, 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 the amount of EUR 88 thousand (2018: EUR 236 thousand),
- services in area of job grading and benchmarking in amount EUR 3 thousand (2018: EUR 14 thousand), which was not a cost control service,
- trainings in amount of EUR 2 thousand (2018: EUR 2 thousand).

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

26 Other Operating Income

In thousands of EUR	**2019**	**2018**
Customer contributions to their connection costs	1,678	1,678
Operating lease income (Note 6)	1,393	1,186
Gain/(loss) on disposal of fixed assets (Note 6)	305	(201)
Grants	875	1,067
Income from contractual penalties	629	630
Income from unauthorized consumption of electricity	231	249
Fees for payment reminders	1,109	1,427
Other	2,174	1,345
Total other operating income	**8,394**	**7,381**

27 Interest and Similar Expense

In thousands of EUR	**2019**	**2018**
Interest expense on bonds	18,113	24,302
Amortisation of bonds transaction costs and similar expense	586	868
Interest expense on leasing	407	-
Other interest expense	220	227
Less capitalised borrowing costs (Note 6)	(1,691)	(1,614)
Total interest and similar expense	**17,635**	**23,783**

28 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.

As a result of regulation of the distribution business and partial regulation of the supply business approximately 91% (2018: 94%) of the Group's EBITDA and 90% (2018: 92%) of the Group's EBIT were generated from sales to customers who are subject to the price regulation.

28 Segment Reporting (continued)

Electricity production. Electricity production in gas-steam power plant.

Other. Segment Other includes activities provided by the Company together with its subsidiaries ZSE Energy Solutions, s.r.o., ZSE MVE, s. r. o., ZSE Business Services, s. r. o. and ZSE Energetické služby, 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 2019 is as follows:

In thousands of EUR	**Distribution**	**Supply**	**Production**	**Other**	**Eliminations and consolidation adjustments**	**Total**
Revenue from external customers	298,677	983,308	1,840	955	-	**1,284,780**
Inter-segment revenues	191,397	35,242	102,869	17,929	(347,437)	**-**
Total segment revenues	490,074	1,018,550	104,709	18,884	(347,437)	**1,284,780**
Purchases of electricity, natural gas for electricity production and related fees	(213,555)	(864,472)	(96,601)	(3,977)	330,164	**(848,441)**
Purchases of natural gas for sale	-	(102,287)	-	-	27	**(102,260)**
Employee benefits expense	(54,096)	(11,270)	(1,174)	(9,188)	2	**(75,726)**
Other operating expenses	(44,420)	(15,252)	(2,602)	(8,990)	19,130	**(52,134)**
Share of profit of equity method investees	-	-	-	72,056	(71,774)	**282**
Other operating income	4,791	2,050	193	8,888	(7,528)	**8,394**
Income from subleases	-	-	-	188	(188)	**-**
Own work capitalized	18,420	-	-	425	512	**19,357**
Earnings before interest, taxes, depreciation and amortization (EBITDA)	**201,214**	**27,319**	**4,525**	**78,286**	**(77,092)**	**234,252**
Depreciation of property, plant and equipment	(66,210)	(20)	(1,736)	(3,113)	21,697	**(49,382)**
Amortization of intangible assets	(2,879)	(1,721)	(5)	(102)	69	**(4,638)**
Depreciation of right-of-use assets	(6,890)	(866)	-	(433)	5,128	**(3,061)**
Earnings before interest and taxes (EBIT)	**125,235**	**24,712**	**2,784**	**74,638**	**(50,198)**	**177,171**
Capital expenditures	**96,494**	**1,284**	**5,354**	**5,141**	**601**	**108,874**

Reconciliation of EBIT for all segments to profit before tax is as follows:

In thousands of EUR	**2019**	**2018**
Total EBIT for all operating segments	**177,171**	**153,893**
Interest income calculated using the effective interest method	39	357
Interest and similar expense	(17,635)	(23,783)
Profit before tax	**159,575**	**130,467**

28 Segment Reporting (continued)

Reportable segments information for 2018 (restated) is as follows:

In thousands of EUR	**Distribution**	**Supply**	**Production**	**Other**	**Eliminations and consolidation adjustments**	**Total**
Revenue from external customers	311,469	826,529	-	659	-	**1,138,657**
Inter-segment revenues	192,237	26,235	13,599	17,197	(249,268)	**-**
Total segment revenues	503,706	852,764	13,599	17,856	(249,268)	**1,138,657**
Purchases of electricity, natural gas for electricity production and related fees	(224,945)	(718,719)	(12,801)	(2,358)	230,573	**(728,250)**
Purchases of natural gas for sale	-	(88,381)	-	-	85	**(88,296)**
Employee benefits expense	(49,966)	(10,258)	-	(8,068)	-	**(68,292)**
Other operating expenses	(75,873)	(15,994)	(76)	(15,882)	31,853	**(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**	**722**	**69,613**	**(63,304)**	**203,567**
Depreciation of property, plant and equipment	(64,410)	(13)	(722)	(2,701)	22,603	**(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**	**32,638**	**4,774**	**(5,873)**	**134,710**

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

In thousands of EUR	**2019**	**2018 (restated)**
Total capital expenditures for all operating segments	**108,874**	**134,710**
Payments for emission quotas acquired	24,337	2,676
Assets acquired but not paid for	(28,527)	(31,654)
Payments for assets acquired in prior periods	22,576	11,178
Payments for purchases of property, plant and equipment and intangible assets	**127,260**	**116,910**

Entity wide information. Revenue is analysed by type of product or service in Note 22. 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.

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 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 ageing of receivables, recoverability of receivables 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.

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 11, as for trade receivables, the Group does not have a significant concentration of credit risk mainly due to a large number of diverse customers.

29 Financial Risk Management (continued)

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 12 and credit quality information about trade receivables is included in Note 11.

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 2019:

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	59,850	22,050	**100,013**
Trade payables (Note 21)	88,862	23,567	2,001	-	-	**114,430**
Other accrued liabilities (Note 21)	11,016	585	532	-	-	**12,133**
Lease liabilities	286	572	2,982	17,489	8,146	**29,475**
Other financial liabilities (Note 21)	4,349	-	-	-	-	**4,349**
Total future payments, including future principal and interest payments	**104,513**	**30,237**	**18,115**	**392,339**	**345,196**	**890,400**

29 Financial Risk Management (continued)

The maturity analysis is as follows at 31 December 2018 (restated):

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 21)	68,254	24,655	-	-	-	**92,909**
Other accrued liabilities (Note 21)	12,955	1,623	3,969	-	-	**18,547**
Finance lease liabilities	-	-	1,552	1,874	-	**3,426**
Other financial liabilities (Note 21)	2,578	-	-	-	-	**2,578**
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	**86,056**	**31,791**	**18,121**	**389,324**	**342,562**	**867,854**

* 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 155,480 thousand at 31 December 2019 (2018: EUR 101,289 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 Movements in Liabilities from Financial Activities

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

In thousands of EUR	**Issued bonds (Note 15)**	**Lease liabilities**	**Total**
At 1 January 2018	**633,510**	**3,006**	**636,516**
Non-cash movements			
Additions to leases	-	1,940	**1,940**
Interest expense on bonds (Note 27)	22,688	-	**22,688**
Capitalised interest costs (Note 6 and 27)	1,614	-	**1,614**
Amortisation of bonds transaction costs	761	-	**761**
Payments			
Interest expense paid	(21,656)	-	**(21,656)**
Repayment of finance leases	-	(1,520)	**(1,520)**
Issued bonds	312,556	-	**312,556**
Transaction costs related to issued bonds	(680)	-	**(680)**
Repayment of bonds issued	(315,000)	-	**(315,000)**
At 31 December 2018	**633,793**	**3,426**	**637,219**
Non-cash movements			
Recognition of lease liabilities upon initial application of IFRS 16 at 1 January 2019	-	22,488	**22,488**
Additions to leases (Note 8)	-	5,053	**5,053**
Interest expense (Note 27)	16,422	407	**16,829**
Termination and modifications of leases	-	(389)	**(389)**
Capitalised interest costs (Note 6 and 27)	1,691	-	**1,691**
Amortisation of bonds transaction costs	452	-	**452**
Other	(1)	(355)	**(356)**
Payments			
Interest expense paid	(18,113)	(407)	**(18,520)**
Lease liabilitz principal repayments	-	(4,120)	**(4,120)**
At 31 December 2019	**634,244**	**26,103**	**660,347**

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:

Commodity contracts carried at fair value. Certain commodity contracts are 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 2019			31 December 2018 (restated)		
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						
Loans provided	-	202	202	-	200	200
Trade receivables, net (Note 11)	-	152,284	152,284	-	141,105	141,105
Cash and cash equivalents (Note 12)	-	82,216	82,216	-	44,697	44,697
TOTAL ASSETS	**-**	**234,702**	**234,702**	**-**	**186,002**	**186,002**
LIABILITIES						
Issued bonds (Note 15)	702,762	-	634,244	675,732	-	633,793
Trade payables (Note 21)	-	114,430	114,430	-	92,909	92,909
Other accrued liabilities (Note 21)	-	12,133	12,133	-	18,547	18,547
Other financial liabilities (Note 21)	-	4,349	4,349	-	2,578	2,578
TOTAL LIABILITIES	**702,762**	**130,912**	**765,156**	**675,732**	**114,034**	**747,827**

The fair value of lease liabilities is not disclosed in accordance with paragraph 29 of IFRS 7. The fair value of issued bonds was determined at the quoted market price of the bonds (Note 15). The fair values of other financial assets and liabilities approximate their carrying values.

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 (d) 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. All financial assets and liabilities of the Group, except for commodity contracts at FVTPL, are measured at amortized cost ("AC"). Leases were measured and disclosed according with IFRS 16, *Leases*.

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 2015 to 2019 remain open to tax inspection, however, for transfer pricing issues of cross-border transactions, earlier periods are also subject 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 19).

Capital expenditure commitments. At 31 December 2019, the Group had outstanding contractual commitments for purchases of property, plant and equipment of EUR 74,510 thousand (2018: EUR 6,769 thousand). Outstanding contractual commitments for purchases of intangible assets were EUR 3,282 thousand (2018: EUR 1,692 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 over estimated lease term determined by taking into account the contractual right to extend a lease if the Group considers the extension as reasonably certain. Future minimum payments that cannot be avoided, for example, by not extending the lease term were EUR 11,154 thousand at 31 December 2018.

Operating lease expense for the year is disclosed in Note 25.

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 13: (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 2019:

In thousands of EUR	**Ministry of Economy of the Slovak Republic**	**E.ON Slovensko, a.s.**	**E.ON Group****	**Slovak Government***	**Joint venture (Note 9)**
Revenue, other operating income and interest income	34	269	326	231,348	1,048
Dividend income	-	-	-	-	282
Purchases and expenses	7	-	7,211	552,728	2,589
Receivables other than taxes	2	150	218	13,320	-
Payables other than taxes	-	-	3,261	51,291	1,221
Dividends declared and paid	32,553	24,893	6,383	-	-

* 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 16. Outstanding value added tax payable is presented in Note 21. Property and motor vehicle taxes are disclosed in Note 25.

35 Balances and Transactions with Related Parties (continued)

The income tax paid was as follows:

In thousands of EUR	**2019**	**2018 (restated)**
Current income tax expense at standard rate of 21% (2018: 21%) – refer to Note 16	22,638	19,019
Special levy on profits from regulated activities (Note 16)	5,525	5,692
Current income tax expense from correction of prior period errors, which was paid only after the end of the current accounting period (Note 3)	-	446
Income tax refund receivable/liability at the beginning of the period	6,441	(7,195)
Income tax refund receivable/liability at the end of the reporting period	(5,179)	6,441
Income tax paid	**(16,543)**	**(38,793)**

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***	**Joint venture (Note 9)**
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	1,151	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.

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	2019	2018
Board of directors and other key management personnel		
Salaries and other short-term employee benefits	2,106	1,615
Defined contribution pension costs	240	201
Total remuneration of board of directors and other key management personnel	**2,346**	**1,816**
Supervisory board		
Salaries and other short-term employee benefits	325	291
Defined contribution pension costs	48	44
Total remuneration of supervisory board	**373**	**335**

36 Events after the End of the Reporting Period

Due to the change in legislation in 2018, the clearing and disbursement of support for renewable energy sources ("OZE") and combined production of electricity and heat ("KVET") has been transferred from 1 January 2020 to company OKTE, a.s. By this change, all relations with OZE and KVET producers in the area of payment of support were transferred to OKTE, a.s. At the same time, in 2019 the Ministry of Economics of the Slovak republic announced a public auction for support in form of purchase for losses, from which on 1 January 2020 the authorized buyer was selected (the Company Slovenský plynárenský priemysel, a.s.), which is obligatory to purchase electricity from OZE and KVET producers with the right to obligatory purchase. The revenues and to the same extent related expenses of the Group may therefore decrease significantly in future periods, but it is currently not possible to reliably quantify this impact.

The Group is currently unable to assess the impact of COVID-19 virus on its future financial position and results of operations, however, depending on future developments, this impact may be negative and significant.

After 31 December 2019, no other significant events have occurred that would require recognition or disclosure in these consolidated financial statements.

Management authorised these financial statements for issue on 26 March 2020:

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Jochen Kley
Chairman of the Board of Directors and CEO

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Marian Rusko
Member of the Board of Directors